

\$2,250,000,000

STATE OF NEW JERSEY
Tax and Revenue Anticipation Notes,
Series Fiscal 2011A

Dated: Date of Delivery

Due: June 23, 2011

This Official Statement has been prepared by the State of New Jersey (the "State") to provide information on its Tax and Revenue Anticipation Notes, Series Fiscal 2011A (the "Series A Notes"). Selected information is presented on this cover page for the convenience of the user. To make an informed investment decision regarding the Series A Notes a prospective investor should read this Official Statement in its entirety.

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

Tax Matters In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the State, under existing statutes and court decisions and assuming compliance by the State with the Arbitrage and Use of Proceeds Certificate (as described herein), (i) interest on the Series A Notes is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Series A Notes is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax. In addition, in the opinion of Bond Counsel to the State, under existing statutes, interest on and any gain realized from the sale of any of the Series A Notes is not includable in gross income under the existing New Jersey Gross Income Tax Act. See "TAX MATTERS" herein.

Redemption The Series A Notes are not subject to redemption prior to maturity.

Security The Series A Notes do not constitute a general obligation of the State or a debt or liability within the meaning of the State Constitution. Neither the faith and credit nor the taxing power of the State is pledged for the payment of the principal of or interest on the Series A Notes. The Series A Notes constitute special obligations of the State payable solely from moneys of the State on deposit in the General Fund and Property Tax Relief Fund which are attributable to the State's fiscal year ending June 30, 2011 ("Fiscal Year 2011") and legally available for such payment, as more fully described herein. Payment of the Series A Notes is subject to appropriation and the required appropriations from the General Fund and the Property Tax Relief Fund sufficient to pay the principal of and interest on the Series A Notes have been made. See "SOURCES OF PAYMENT AND SECURITY" herein.

Purpose The proceeds of the Series A Notes will be used to (i) fund the timing imbalances of the revenue collections and expenditures of the General Fund and the Property Tax Relief Fund of the State during Fiscal Year 2011, and (ii) pay the costs of issuance of the Series A Notes. The timing imbalances of the revenue collections and expenditures of the General Fund and the Property Tax Relief Fund exist because the major portion of the disbursements for the State are made during the first half of the State's fiscal year, whereas a major portion of revenues are received during the last few months of the fiscal year. See "PURPOSE OF THE FINANCING" and "GENERAL FUND AND PROPERTY TAX RELIEF FUND CASH FLOWS" herein.

Interest Rate Per Annum 2.00% per annum.

Price or Yield The offering price to the public will vary from one underwriter of the Series A Notes to another.

Interest Payment Date Interest on the Series A Notes is payable at maturity on June 23, 2011.

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

Closing/Settlement On or about September 1, 2010

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

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

The Series A Notes are offered for delivery when, as and if issued and subject to the approving opinions of the Attorney General of the State of New Jersey and Hawkins Delafield & Wood LLP, Newark, New Jersey, Bond Counsel. It is expected that the Series A Notes will be available for delivery in definitive form through DTC in New York, New York, on or about September 1, 2010.

No dealer, broker, salesman or other person has been authorized by the State of New Jersey (the “State”) to give any information or to make any representation with respect to the State or the State’s Tax and Revenue Anticipation Notes, Series Fiscal 2011A (the “Series A Notes”) other than those contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon as having been authorized by the State. This Official Statement is not to be construed as a contract or agreement between the State and the purchasers or holders of any of the Series A Notes. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the State, or its agencies, authorities, instrumentalities or political subdivisions as described herein since the date hereof. This Official Statement is being distributed in connection with the sale of the Series A Notes referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. No representations are made or implied by the State as to any offering of any derivative instruments.

The information in this Official Statement concerning The Depository Trust Company, New York, New York (“DTC”) and DTC’s book-entry system has been obtained from DTC, and the State takes no responsibility for the accuracy thereof. Such information has not been independently verified by the State and the State makes no representation as to the accuracy or completeness of such information.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series A Notes by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Any representation to the contrary may be a criminal offense.

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OFFICIAL STATEMENT
of the
STATE OF NEW JERSEY

Relating to

\$2,250,000,000

TAX AND REVENUE ANTICIPATION NOTES, SERIES FISCAL 2011A

INTRODUCTION

General

This Official Statement, which includes the cover page and the Appendices attached hereto, has been prepared by the State of New Jersey (the “State”) to provide certain information relating to the State and to the sale and delivery of \$2,250,000,000 aggregate principal amount of its Tax and Revenue Anticipation Notes, Series Fiscal 2011A (the “Series A Notes”).

The Series A Notes are authorized under and being issued pursuant to Chapter 35 of the Laws of 2010 of the State (the “Act”) and a Resolution of the Treasurer of the State (the “Treasurer”) adopted on August 10, 2010 (the “Resolution”). The Resolution authorizes the issuance of notes of the State designated as “Tax and Revenue Anticipation Notes, Series Fiscal 2011” from time to time in one or more series (collectively, the “Notes”). Pursuant to the Resolution, the State reserves the right to issue additional Notes (the “Additional Notes”) during the State’s Fiscal Year ending June 30, 2011 (“Fiscal Year 2011”) upon compliance with the terms and conditions set forth in the Resolution. See “SOURCES OF PAYMENT AND SECURITY - Additional Notes” herein. Capitalized terms used herein and not otherwise defined have the meanings given to such terms in the Resolution.

The Act provides that the Notes may be issued to provide effective cash flow management for revenues and expenditures of the General Fund and the Property Tax Relief Fund of the State during Fiscal Year 2011 in the implementation of the Act and to pay costs of issuance of the Notes. The Series A Notes are being issued for the purposes of (i) funding the timing imbalances of the revenue collections and expenditures of the General Fund and the Property Tax Relief Fund of the State during Fiscal Year 2011, and (ii) paying the costs of issuance of the Series A Notes. See “PURPOSE OF THE FINANCING” and “GENERAL FUND AND PROPERTY TAX RELIEF FUND CASH FLOWS” herein.

The Series A Notes do not constitute a general obligation of the State or a debt or liability within the meaning of the State Constitution for which the faith and credit and taxing power of the State is pledged, but are special obligations of the State payable solely from moneys of the State on deposit in the General Fund and Property Tax Relief Fund which are attributable to Fiscal Year 2011 and legally available for such payment. The required appropriations from the General Fund and the Property Tax Relief Fund in an amount sufficient to pay the principal of and interest on the Series A Notes have been made pursuant to the Act. The State has covenanted under the Resolution to set aside with the Fiscal Agent, as hereinafter defined, for deposit on certain dates in the Note Payment Fund established under the Resolution (the “Note Payment Fund”) an amount sufficient (when taken with other funds made available by the State) to pay the principal of and interest on the Series A Notes when due. The Resolution pledges

for the benefit of the holders of the Notes all amounts held by the Fiscal Agent in the Note Payment Fund. See "SOURCES OF PAYMENT AND SECURITY" herein.

The information contained in this Official Statement, including in the Appendices to this Official Statement, regarding the Series A Notes and the State and its economic and financial condition is summarized herein and has been obtained from State officers, employees, records and other sources believed by the State to be reliable. Persons considering a purchase of the Series A Notes should read this Official Statement, including the Appendices hereto, in its entirety. Summaries of statutes and documents are not intended to be complete, and the reader is referred to such statutes and documents for a full explanation of the provisions thereof. Copies of the Resolution and other relevant documents are available upon request from the New Jersey Department of the Treasury, Office of Public Finance, 50 West State Street, 5th Floor, P.O. Box 005, Trenton, New Jersey 08625-0005.

Additional Notes

Pursuant to the Act and the Resolution, the State is authorized to issue Additional Notes. The Resolution does not limit the aggregate amount of Additional Notes that may be issued by the State to fulfill the purposes set forth in the Act. Additional Notes, if and when issued, may mature simultaneously with or prior to the maturity date for the Series A Notes. The State may issue Additional Notes in Fiscal Year 2011.

The proceeds of the Additional Notes will be used to provide effective cash flow management for revenues and expenditures of the General Fund and the Property Tax Relief Fund of the State during Fiscal Year 2011 and paying the costs of issuance of such Additional Notes. The Additional Notes, if and when issued, will constitute special obligations of the State, secured on a parity with the Series A Notes, payable solely from moneys of the State on deposit in the General Fund and the Property Tax Relief Fund which are attributable to Fiscal Year 2011 and legally available for such payment.

THE SERIES A NOTES

The Series A Notes will be dated their date of delivery, will bear interest at the rate of 2.00% per annum from their dated date to maturity and will be payable as to both principal and interest in immediately available funds on June 23, 2011. Interest on the Series A Notes is to be computed on the basis of a 360-day year consisting of twelve 30-day months.

The Series A Notes are not subject to redemption prior to maturity.

The Series A Notes are to be issued as fully registered notes, initially registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). See "BOOK-ENTRY-ONLY SYSTEM" herein. Purchases of beneficial interests in the Series A Notes will be made in book-entry-only form (without certificates) in denominations of \$5,000 or any integral multiple thereof.

PAYING AGENT AND FISCAL AGENT

U.S. Bank National Association, Morristown, New Jersey, will act as Paying Agent and Fiscal Agent for the Series A Notes. However, the State reserves the right to appoint one or more additional Paying Agents for the Series A Notes.

So long as Cede & Co. shall be the registered holder of the Series A Notes, principal and interest payments on the Series A Notes will be made by the Paying Agent to DTC or its nominee, Cede & Co., as

registered owner of the Series A Notes. Upon receipt of the moneys, DTC's current practice is to immediately credit the accounts of the DTC Participants in accordance with their respective holdings shown on the records of DTC. As is more fully described herein under "BOOK-ENTRY-ONLY SYSTEM," DTC shall be the only initial registered owner of the Series A Notes.

BOOK-ENTRY-ONLY SYSTEM

When the Series A Notes are issued, ownership interests will be available to purchasers only through a book-entry system (the "Book-Entry System") maintained by DTC, or such other depository institution designated by the State pursuant to the Resolution. Purchasers of beneficial interests in the Series A Notes will not receive certificates reflecting their interests in the Series A Notes.

DTC will act as securities depository for the Series A Notes. The Series A Notes 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. Fully-registered Series A Note certificates will be issued and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC'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, the National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission.

Purchases of the Series A Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series A Notes on DTC's records. The ownership interest of each actual purchaser of each Series A Note ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series A Notes 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 the Series A Notes, except in the event that use of the book-entry system for the Series A Notes is discontinued.

To facilitate subsequent transfers, all Series A Notes 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 A Notes 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 A Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series A Notes 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.

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

Principal and interest payments on the Series A Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State or the Paying Agent, on the payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State or the Paying Agent, 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 A Notes at any time by giving reasonable notice to the State or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, physical Series A Note certificates are required to be printed and delivered.

The State may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical Series A Note certificates will be printed and delivered to DTC.

THE STATE AND THE PAYING AGENT WILL HAVE NO RESPONSIBILITY OR OBLIGATION, EITHER SINGULARLY OR JOINTLY, TO DTC PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER 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 A NOTES 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 A NOTES; (IV) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF SERIES A NOTES; OR (V) ANY OTHER MATTER.

The information included under this caption concerning DTC and DTC's book-entry system (except for the preceding paragraph) has been obtained from DTC. No representation is made by the State as to the accuracy or adequacy of such information obtained from DTC or as to the absence of material adverse changes in such information subsequent to the date hereof.

SOURCES OF PAYMENT AND SECURITY

Sources of Payment and Security for the Series A Notes

The Series A Notes constitute special obligations of the State payable solely from moneys of the State on deposit in the General Fund and the Property Tax Relief Fund which are attributable to Fiscal Year 2011 and legally available for such payment as more fully described below. Moneys on deposit in the General Fund and the Property Tax Relief Fund available for such payment may be expended for other permitted purposes prior to the date when moneys are required to be set aside with the Fiscal Agent for deposit in the Note Payment Fund, as described below.

The Series A Notes do not constitute a general obligation of the State nor a debt or liability within the meaning of the State Constitution. Neither the faith and credit nor the taxing power of the State is pledged for the payment of the principal of or interest on the Series A Notes. Payment of the Series A Notes is subject to appropriation and the required appropriations from the General Fund and the Property Tax Relief Fund sufficient to pay the principal of and interest on the Series A Notes have been made pursuant to the Act.

Amounts legally available in the General Fund may be used to pay the principal of and interest on the Series A Notes. Such legally available amounts do not include moneys that are restricted by law from being used to pay principal of or interest on the Series A Notes. It is projected that a minimum of 87% of the General Fund will be legally available to pay the principal of and interest on the Series A Notes.

Amounts legally available in the Property Tax Relief Fund may be used to pay the principal of the Series A Notes, but not the interest thereon. Amounts in the Property Tax Relief Fund will only be available to the extent that Series A Note proceeds are used to pay a cost or expense of the State legally payable from amounts on deposit in such Fund.

For additional information on the General Fund and the Property Tax Relief Fund, see "FINANCIAL AND OTHER INFORMATION RELATING TO THE STATE OF NEW JERSEY – STATE FINANCES" in Appendix I attached hereto.

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.

Payment of the Series A Notes is subject to appropriation and the required appropriations from the General Fund and the Property Tax Relief Fund sufficient to pay the principal of and interest on the Series A Notes have been made pursuant to the Act. Should revenues be less than anticipated in the State Budget

for Fiscal Year 2011, the Governor may, pursuant to statutory authority, prevent any expenditure under any appropriation, including payment of the Series A Notes. The Governor's plenary executive powers also afford to the Governor additional means by which the Governor may ensure that the State is operated efficiently and does not incur a deficit. In the past, the exercise of these powers has led to the implementation of a hiring freeze for all State departments and the discontinuation of programs for which appropriations were budgeted but not yet spent. In addition, no supplemental appropriation may be enacted after adoption of an appropriations act except where there are sufficient revenues on hand or anticipated, as certified by the Governor, to meet such appropriation. For additional information concerning budget limitations under the State Constitution, see "FINANCIAL AND OTHER INFORMATION RELATING TO THE STATE OF NEW JERSEY – CERTAIN CONSTITUTIONAL PROVISIONS" in Appendix I attached hereto.

Note Payment Fund; Pledge

The Resolution creates and establishes with the Fiscal Agent, the Note Payment Fund. The State has covenanted under the Resolution to set aside with the Fiscal Agent for deposit in the Note Payment Fund on the dates set forth below an amount sufficient (when taken with other funds made available by the State) to pay the principal of and interest on the Notes when due at final maturity. Pursuant to the Resolution, the State is required to set aside amounts, together with other amounts then on deposit in the Note Payment Fund, such that the balances in the Note Payment Fund on June 9, 2011 and June 22, 2011 will equal 75% and 100%, respectively, of the principal of and interest on the Series A Notes, to become due on June 23, 2011, to the extent the State has not otherwise provided for such payment. The Resolution pledges for the benefit of the holders of the Notes all amounts held by the Fiscal Agent in the Note Payment Fund. Upon the final maturity of each Series of the Notes, the Fiscal Agent is required under the Resolution to transfer to the Paying Agent the amount then due and unpaid.

The Treasurer has covenanted under the Resolution that on or prior to April 15, 2011, the Treasurer, in consultation with the Director of the Office of Management and Budget of the State, shall prepare, or cause to be prepared, a statement of the amounts of Available General Fund Moneys and Available Property Tax Relief Fund Moneys projected to be available during the period beginning April 1, 2011 and ending on the maturity date of the Series A Notes. If such statement shows that the principal of and interest on the Series A Notes to become due on June 23, 2011 equals or exceeds fifty percent (50%) of the amount of Available General Fund Moneys and Available Property Tax Relief Fund Moneys projected to be available during such period, the Treasurer will take such action as may be necessary to ensure compliance with the set-aside requirements in the Resolution for such period, subject to the Governor's powers described in "Budget Limitations" above.

Use of Proceeds

The proceeds of the Series A Notes will be used to (i) fund the timing imbalances of the revenue collections and expenditures of the General Fund and the Property Tax Relief Fund of the State during Fiscal Year 2011, and (ii) pay the costs of issuance of the Series A Notes. The timing imbalances of the revenue collections and expenditures of the General Fund and the Property Tax Relief Fund exist because the major portion of the disbursements for the State are made during the first half of the State's fiscal year, whereas a major portion of revenues are received during the last few months of the fiscal year. See "PURPOSE OF THE FINANCING" and "GENERAL FUND AND PROPERTY TAX RELIEF FUND CASH FLOWS" herein.

Additional Notes

Pursuant to the Act and the Resolution, the State is authorized to issue Additional Notes. The Resolution does not limit the aggregate amount of Additional Notes that may be issued by the State to fulfill the purposes set forth in the Act. Additional Notes, if and when issued, may mature simultaneously with or prior to the maturity date for the Series A Notes. The State may issue Additional Notes in Fiscal Year 2011.

Amendments to Resolution

The Resolution may be amended without the consent of the Noteholders for the following purposes: (i) to close the Resolution against, or provide limitations and restrictions in addition to the limitations and restrictions contained in the Resolution on, the authentication and delivery of Notes; (ii) to add to the covenants and agreements of the State or the Treasurer in the Resolution, other covenants and agreements to be observed by the State or the Treasurer which are not contrary to or inconsistent with the Resolution theretofore in effect; (iii) to add to the limitations and restrictions in the Resolution, other limitations and restrictions to be observed by the State or the Treasurer which are not contrary to or inconsistent with the Resolution theretofore in effect; (iv) to authorize Notes of a Series, including Additional Notes, and to specify and determine the matters and things referred to in Article II of the Resolution, and also any additional terms, other matters and things relative to such Notes which are not contrary to or inconsistent with the Resolution as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first authentication and delivery of such Notes; (v) to confirm, as further assurance, any pledge or lien created or to be created by the Resolution and to pledge any additional revenues, moneys or securities as security for the payment of the principal or Redemption Price of and interest on the Notes, when due; (vi) to cure any ambiguity or defect or inconsistent provision in the Resolution or to insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable if any such modifications are not contrary to or inconsistent with the Resolution as theretofore in effect; and (vii) to modify any of the provisions of the Resolution in any other respect whatsoever, provided that such modification shall not materially adversely affect the rights of the Holders of the Notes then Outstanding under the Resolution. Each Supplemental Resolution or Series Certificate making any such amendment shall become effective upon the filing of a copy thereof with the Paying Agent, together with an Opinion of Bond Counsel as required by Section 9.3 of the Resolution and a Favorable Opinion of Bond Counsel. Any other amendments to the Resolution require the consent of Noteholders as provided in Articles IX and X of the Resolution.

Defeasance

If the State shall pay or cause to be paid, or there shall otherwise be paid, to the Holders of the Series A Notes the principal and interest due or to become due thereon, at the times and in the manner stipulated in the Series A Notes and in the Resolution or there shall have been deposited with the Paying Agent therefor either moneys in an amount which shall be sufficient, or any bonds, notes or other obligations, which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America and which are not callable at the option of the issuer thereof, the principal or redemption price of and the interest on which when due and without reinvestment thereof will provide moneys which, together with the moneys, if any, deposited with the Paying Agent at the same time, shall be sufficient, to pay when due, the principal of and interest due on such Series A Notes on or prior to the maturity date thereof, then and in that case the requirements of the Resolution with respect to the Series A Notes, including the pledge of the amounts on deposit in the Note Payment Fund and other moneys pledged under the Resolution, and all covenants, agreements and other obligations of the State and the Treasurer to the Holders of such Series A Notes shall thereafter cease, terminate and become void, discharged and satisfied and of no further force and effect.

Defaults and Remedies

If an Event of Default shall have occurred and be continuing, then, and in each such case, any Holder of the Notes may (i) sue to collect sums due under such Notes or to enforce and protect the rights of the Holders of such Notes and (ii) compel, to the extent permitted by law, by mandamus or otherwise, the performance by the State or the Treasurer of any covenant made in the Resolution or the Notes.

Nothing in the Resolution or in the Notes contained shall affect or impair the obligation of the State, which is absolute and unconditional, to pay, from the sources provided in the Resolution and appropriated therefor, at the respective due dates thereof and places therein expressed, the principal or Redemption Price of and interest on the Notes 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 Note.

No remedy by the terms of the Resolution conferred upon or reserved to the Noteholders under 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 every other remedy given under the Resolution or, except as otherwise provided in the Resolution, existing at law or in equity or by statute on or after the date of adoption of the Resolution.

PURPOSE OF THE FINANCING

The proceeds of the Series A Notes will be used to (i) fund the timing imbalances of the revenue collections and expenditures of the General Fund and the Property Tax Relief Fund of the State during Fiscal Year 2011, and (ii) pay the costs of issuance of the Series A Notes. The timing imbalances of the revenue collections and expenditures of the General Fund and the Property Tax Relief Fund exist because the major portion of the disbursements for the State are made during the first half of the State's fiscal year, whereas a major portion of revenues are received during the last few months of the fiscal year. See "GENERAL FUND AND PROPERTY TAX RELIEF FUND CASH FLOWS" herein.

GENERAL FUND AND PROPERTY TAX RELIEF FUND CASH FLOWS

The cash flow tables on the following pages show the actual monthly cash receipts and disbursements for July 2010 and the estimated monthly cash receipts and disbursements for the remainder of Fiscal Year 2011, based upon the Act, and the actual monthly cash receipts and disbursements for the State's Fiscal Year ending June 30, 2010. For additional information on the General Fund and the Property Tax Relief Fund, see "FINANCIAL AND OTHER INFORMATION RELATING TO THE STATE OF NEW JERSEY – STATE FINANCES" in Appendix I attached hereto.

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

**STATE OF NEW JERSEY
OFFICE OF MANAGEMENT AND BUDGET**

FISCAL YEAR 2011

	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	Post June	Total
	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Total
Beginning Balance	898.4	1,345.6	(355.7)	(678.4)	(594.8)	(1,446.3)	(2,143.6)	(1,205.4)	(2,298.8)	(2,352.1)	(347.7)	(185.5)	521.9	898.4
Receipts - Prior FY's	1,819.1	50.7	176.6	16.2	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	-	2,142.6
FY 2011 RECEIPTS:														
Gross Income Tax (PTRF)	18.7	474.0	950.0	622.8	535.1	1,054.5	1,363.9	333.1	532.2	1,563.0	683.9	930.3	793.6	9,855.1
Sales	20.4	653.7	666.2	685.0	588.0	590.3	797.8	548.8	515.9	704.6	638.8	685.8	733.7	7,829.0
Corporation Business	35.8	68.2	311.0	69.3	28.1	349.4	54.5	5.1	249.9	483.1	9.9	480.7	-	2,145.0
Taxes - Other	55.7	91.6	172.1	167.4	187.4	186.2	205.1	358.7	296.4	239.8	415.2	389.2	229.0	2,993.8
Treasury - TEFA	-	-	-	-	-	-	-	-	-	-	235.8	-	-	235.8
Interfund - Lottery	93.0	75.2	72.4	76.5	74.3	82.5	77.7	75.5	83.0	80.7	81.5	80.7	-	953.0
Interfund - Other	105.0	-	-	-	-	-	-	-	-	63.8	75.0	-	484.8	728.6
Casino Revenue	22.8	27.0	24.3	21.0	20.7	18.0	21.6	19.1	23.0	23.5	23.7	24.8	-	269.5
Federal Revenue	1,262.7	793.5	883.5	953.9	1,008.3	995.2	966.8	772.3	942.7	1,011.9	1,067.8	943.0	1,001.2	12,602.8
Ded: Human Services - NJ Health Care	59.2	70.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	53.4	10.8	-	673.4
Ded: Labor - Special Comp. Fund	15.5	32.3	-	19.4	32.7	0.7	17.9	4.8	1.8	2.8	40.7	-	-	168.6
Ded: Treas - Energy Relief	-	11.0	11.0	11.0	43.0	16.0	16.0	127.0	127.0	73.0	926.5	102.8	90.3	1,554.6
Transportation Trust Fund Auth	250.0	40.0	-	300.0	125.0	125.0	130.0	130.0	125.0	125.0	125.0	125.0	-	1,600.0
ST Notes / Internal Borrowing	300.0	-	-	-	-	-	-	-	-	-	-	-	-	300.0
All Other Receipts	864.4	353.8	338.4	934.9	579.6	292.0	779.0	371.5	481.8	1,349.8	285.4	256.7	468.4	7,355.7
Total FY 2011 Receipts	3,103.2	2,690.3	3,488.9	3,921.2	3,282.2	3,769.8	4,490.3	2,805.9	3,438.7	5,781.0	4,662.6	4,029.8	3,801.0	49,264.9
Total Resources	5,820.7	4,086.6	3,309.8	3,259.0	2,697.4	2,333.5	2,356.7	1,610.5	1,149.9	3,438.9	4,324.9	3,854.3	4,322.9	52,305.9

Disbursements - Prior FY's	773.7	149.1	125.6	63.3	45.7	46.0	32.7	24.2	26.3	23.9	20.9	18.6	-	1,350.0
FY 2011 DISBURSEMENTS:														
DSS Personal Services	307.9	401.4	403.3	444.9	395.1	451.1	401.8	508.6	457.1	402.1	480.3	389.5	(277.0)	4,766.1
DSS - Other	76.2	112.3	133.3	135.8	131.4	133.7	115.4	107.4	147.2	139.7	107.7	140.9	-	1,481.0
Grants-in-Aid-Health & Senior Serv.	20.8	87.0	89.6	101.6	83.6	92.5	93.5	84.2	83.6	102.7	88.7	79.8	-	1,007.6
Grants-in-Aid-Human Services	349.8	313.7	313.7	407.9	338.1	294.1	354.9	321.8	323.9	336.5	243.9	238.2	242.4	4,078.9
Grants-in-Aid-Higher Education	56.9	187.9	59.5	60.2	68.1	119.6	59.5	130.8	59.5	62.3	90.1	95.3	-	1,049.7
Grants-in-Aid-Other	90.4	156.4	154.0	139.9	179.6	137.9	132.5	162.2	161.7	171.7	166.1	161.5	53.2	1,867.1
State Aid - Education	18.6	136.6	102.5	58.4	58.4	58.4	58.4	58.4	58.4	58.4	58.4	38.8	-	763.7
State Aid - Human Services	45.6	53.8	62.9	44.7	62.6	103.9	38.6	29.1	44.7	38.7	30.5	49.4	-	604.5
State Aid - Treas.-Aid to County Colleges	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.6	-	134.8
State Aid - Other	2.0	138.6	28.4	31.7	23.0	39.7	25.0	27.4	29.1	27.1	28.2	35.2	11.6	447.0
Capital (Excl. STTF)	0.1	54.3	42.0	48.4	109.4	375.9	44.2	45.8	46.6	46.4	71.6	203.7	33.5	1,121.9
Debt Service	57.8	102.7	-	3.3	1.2	5.4	33.8	17.0	-	2.5	-	1.0	-	224.7
PTRF - Homestead Rebates/SAVER	131.5	34.1	-	-	-	-	-	-	-	-	268.2	-	-	433.8
PTRF - Education	887.3	126.5	840.6	840.6	840.6	840.6	840.6	840.6	840.6	840.6	724.0	125.8	51.7	8,640.1
PTRF - Other	37.1	318.3	217.8	165.0	135.7	93.4	64.4	63.4	76.7	62.2	62.8	66.7	43.5	1,407.0
Casino Control Fund	1.9	3.3	3.1	4.8	3.1	3.2	3.1	3.0	3.1	4.5	3.1	3.0	27.5	66.7
Casino Revenue Fund	10.7	18.1	20.7	21.3	18.7	19.2	31.7	15.6	15.4	29.4	14.0	16.2	38.9	269.9
Federal (Excl. STTF)	856.0	694.9	717.9	752.8	756.2	819.6	909.1	698.7	773.5	889.7	828.8	584.2	2,200.2	11,481.6
Dedicated - Treasury	28.5	328.8	236.6	118.3	39.4	36.9	-	-	-	-	-	-	-	788.5
Dedicated - Other	241.9	789.4	215.0	121.1	651.7	550.3	98.5	555.7	141.1	351.6	1,051.5	633.2	710.2	6,111.2
STTF Capital Program	169.2	223.9	210.5	278.6	190.9	244.5	213.2	204.2	202.3	185.4	160.4	439.8	-	2,722.9
ST Notes / Internal Borrowing	300.0	-	-	-	-	-	-	-	-	-	-	-	-	300.0
Total FY 2011 Disbursements	3,701.4	4,293.2	3,862.6	3,790.5	4,098.0	4,431.1	3,529.4	3,885.1	3,475.7	3,762.7	4,489.5	3,313.8	3,135.7	49,768.7
Total Disbursements	4,475.1	4,442.3	3,988.2	3,853.8	4,143.7	4,477.1	3,562.1	3,909.3	3,502.0	3,786.6	4,510.4	3,332.4	3,135.7	51,118.7

Ending Balance	1,345.6	(355.7)	(678.4)	(594.8)	(1,446.3)	(2,143.6)	(1,205.4)	(2,298.8)	(2,352.1)	(347.7)	(185.5)	521.9	1,187.2	1,187.2
Monthly Cash Flow	447.2	(1,701.3)	(322.7)	83.6	(851.5)	(697.3)	938.2	(1,093.4)	(53.3)	2,004.4	162.2	707.4	665.3	665.3
Cumulative Cash Flow	447.2	(1,254.1)	(1,576.8)	(1,493.2)	(2,344.7)	(3,042.0)	(2,103.8)	(3,197.2)	(3,250.5)	(1,246.1)	(1,083.9)	(376.5)	288.8	288.8
Cash Low Point	(169.0)	(355.7)	(1,344.6)	(1,372.2)	(1,454.3)	(2,143.6)	(2,041.9)	(2,303.3)	(2,796.6)	(2,657.9)	(928.4)	(517.6)		

**STATE OF NEW JERSEY
OFFICE OF MANAGEMENT AND BUDGET**

FISCAL YEAR 2010

	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	Post June	Total
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	
Beginning Balance	1,804.1	887.6	1,886.4	1,280.3	909.1	246.4	121.6	1,002.0	315.4	662.2	2,136.7	2,345.3	898.4	1,804.1
Receipts - Prior FY's	1,841.5	230.0	-	-	-	7.3	32.8	-	-	-	-	-	-	2,111.6
FY 2010 RECEIPTS:														
Gross Income Tax (PTRF)	20.4	505.7	1,012.8	664.5	570.1	1,124.0	1,454.6	355.4	567.4	1,666.3	728.9	992.4	844.7	10,507.2
Sales	19.2	625.6	637.9	655.7	562.9	564.6	763.4	525.4	493.4	674.1	611.4	656.0	702.8	7,492.4
Corporation Business	37.9	72.3	329.3	73.4	29.8	389.8	57.7	5.4	264.6	541.3	(19.5)	508.6	-	2,270.6
Taxes - Other	54.1	88.7	166.9	162.3	181.8	180.4	198.7	347.7	287.2	232.5	402.5	377.2	222.2	2,902.2
Treasury - TEFA	-	-	-	-	-	-	-	-	-	-	227.5	-	-	227.5
Interfund - Lottery	71.1	89.2	104.0	75.7	67.0	79.2	73.0	68.8	81.5	80.6	81.7	89.4	-	961.2
Interfund - Other	30.0	31.0	-	10.0	106.0	42.3	-	19.5	77.5	266.3	157.0	266.3	176.6	956.2
Casino Revenue	29.2	29.4	26.4	22.9	22.5	19.6	23.5	20.8	25.1	25.6	25.8	22.6	-	293.4
Federal Revenue	1,050.0	850.7	964.2	1,137.0	1,081.8	1,117.8	1,106.1	952.1	1,210.4	1,088.9	1,152.9	1,002.9	1,041.2	13,756.0
Ded: Human Services - NJ Health Care	71.5	61.3	22.5	53.1	47.4	48.5	43.7	41.8	43.9	51.9	47.7	53.8	50.7	637.8
Ded: Labor - Special Comp. Fund	15.8	28.4	-	17.2	28.9	0.6	15.8	4.2	1.6	2.5	33.9	-	-	148.9
Ded: Treas. - Energy Relief	-	12.8	13.4	14.3	14.5	13.9	17.0	41.4	99.3	38.8	856.8	89.2	145.6	1,357.0
Transportation Trust Fund Auth	100.0	150.0	100.0	100.0	25.0	150.0	150.0	160.0	170.0	120.0	100.0	150.0	-	1,475.0
ST Notes / Internal Borrowing	-	1,925.0	-	300.0	400.0	625.0	200.0	212.5	172.5	100.0	-	-	-	3,935.0
All Other Receipts	735.7	328.8	314.1	868.3	538.1	271.1	723.3	344.8	447.4	1,253.2	218.3	192.2	595.6	6,830.9
Total FY 2010 Receipts	2,234.9	4,798.9	3,691.5	4,154.4	3,675.8	4,606.8	4,826.8	3,099.8	3,941.8	5,915.7	4,624.9	4,400.6	3,779.4	53,751.3
Total Resources	5,880.5	5,916.5	5,577.9	5,434.7	4,584.9	4,860.5	4,981.2	4,101.8	4,257.2	6,577.9	6,761.6	6,745.9	4,677.8	57,667.0

Disbursements - Prior FY's	1,041.3	60.7	190.6	51.8	40.2	46.5	45.8	25.1	25.5	27.8	22.0	28.3	-	1,605.6
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FY 2010 DISBURSEMENTS:														
DSS Personal Services	364.2	457.2	394.8	498.3	432.8	388.5	433.9	422.8	385.3	560.2	373.8	379.8	(376.8)	4,714.8
DSS - Other	76.2	117.7	145.3	147.8	143.4	142.3	127.2	117.7	163.0	156.6	116.9	158.4	-	1,612.5
Grants-in-Aid-Health & Senior Serv.	19.2	91.1	93.9	106.5	87.7	97.0	98.0	88.3	87.7	107.6	92.9	86.2	-	1,056.1
Grants-in-Aid-Human Services	310.5	300.5	300.4	390.9	324.1	281.9	339.8	308.3	310.2	322.2	233.6	228.1	257.2	3,907.7
Grants-in-Aid-Higher Education	63.9	65.8	163.9	139.0	123.1	99.1	78.3	68.5	201.1	15.2	114.4	64.5	-	1,196.8
Grants-in-Aid-Other	179.6	199.7	247.3	199.2	223.4	164.2	199.2	154.5	213.4	264.5	194.0	122.5	-	2,361.5
State Aid - Education	19.4	12.3	134.8	17.4	27.7	18.4	20.8	140.2	13.6	31.9	22.9	20.4	-	479.8
State Aid - Human Services	26.9	45.9	53.6	38.1	53.4	88.6	32.9	24.8	38.1	33.0	26.0	54.3	-	515.6
State Aid - Treas.-Aid to County Colleges	12.4	12.4	12.4	5.0	12.4	12.4	12.4	12.4	12.4	0.1	10.7	1.5	-	116.5
State Aid - Other	16.4	149.9	13.3	39.7	10.8	58.0	143.3	11.8	14.4	11.3	13.0	14.3	15.7	511.9
Capital (Excl. STTF)	3.2	38.7	35.2	42.7	114.6	369.8	37.8	39.7	40.6	40.4	70.1	198.9	-	1,031.7
Debt Service	160.3	10.9	-	3.4	1.2	5.6	36.0	18.7	-	12.4	1.2	13.9	-	263.6
PTRF - Homestead Rebates/SAVER	265.5	548.1	29.3	353.8	36.4	17.4	12.8	6.3	5.2	3.9	3.0	1.4	17.3	1,300.4
PTRF - Education	843.5	70.1	829.3	843.9	857.8	866.6	834.6	787.3	724.1	721.5	727.1	157.3	-	8,263.1
PTRF - Other	46.1	231.8	188.1	98.5	120.6	127.4	41.0	33.4	182.9	8.4	13.9	62.1	72.6	1,226.8
Casino Control Fund	2.2	3.4	3.2	4.9	3.2	3.3	3.2	3.1	3.2	4.6	3.2	3.1	27.7	68.3
Casino Revenue Fund	19.5	20.5	23.5	24.2	21.2	21.8	36.0	17.7	17.5	33.4	15.9	18.4	37.0	306.6
Federal (Excl. STTF)	556.4	700.2	792.8	1,015.1	819.6	897.3	986.4	802.3	875.3	995.3	953.0	641.8	2,063.0	12,098.5
Dedicated - Treasury	26.2	443.6	295.7	147.9	98.3	0.3	-	-	-	-	-	8.9	(223.5)	797.4
Dedicated - Other	712.8	227.2	253.6	114.5	620.1	522.9	95.5	525.2	126.7	329.1	993.2	585.1	664.7	5,770.6
STTF Capital Program (\$1104 Federal)	227.2	239.1	96.6	243.0	166.5	213.5	164.3	178.3	154.8	161.8	139.9	391.5	-	2,376.5
ST Notes / Internal Borrowing	-	(16.7)	-	-	-	296.1	200.0	-	-	600.0	275.6	2,606.8	-	3,961.8
Total FY 2010 Disbursements	3,951.6	3,969.4	4,107.0	4,473.8	4,298.3	4,692.4	3,933.4	3,761.3	3,569.5	4,413.4	4,394.3	5,819.2	2,554.9	53,938.5
Total Disbursements	4,992.9	4,030.1	4,297.6	4,525.6	4,338.5	4,738.9	3,979.2	3,786.4	3,595.0	4,441.2	4,416.3	5,847.5	2,554.9	55,544.1

Ending Balance	887.6	1,886.4	1,280.3	909.1	246.4	121.6	1,002.0	315.4	662.2	2,136.7	2,345.3	898.4	2,122.9	
Monthly Cash Flow	(916.5)	998.8	(606.1)	(371.2)	(662.7)	(124.8)	880.4	(686.6)	346.8	1,474.5	208.6	(1,446.9)	1,224.5	
Cumulative Cash Flow	(916.5)	82.3	(533.8)	(895.0)	(1,557.7)	(1,682.5)	(802.1)	(1,488.7)	(1,141.9)	332.6	541.2	(905.7)	318.8	
Cash Low Point	677.5	66.7	447.8	217.9	162.8	11.1	282.5	78.9	34.3	41.3	752.0	248.2		

LITIGATION

No litigation of any kind is now pending or, to the knowledge of the State Treasurer, threatened to restrain or enjoin the issuance, sale, execution or delivery of the Series A Notes or the contemplated uses of the proceeds of the Series A Notes or in any manner questioning the proceedings or authority under which the Series A Notes are issued, sold or delivered, or affecting the validity of the Series A Notes or the pledge of the security for the Series A Notes.

RATINGS

Fitch Ratings (“Fitch”), Moody’s Investors Service (“Moody’s”) and Standard & Poor’s Corporation (“Standard & Poor’s”) have given the Series A Notes the respective ratings appearing on the cover page of this Official Statement.

The State furnished Fitch, Moody’s and Standard & Poor’s with certain information and materials relating the Series A Notes and the State. Generally, Fitch, Moody’s and Standard & Poor’s base their ratings on such information and materials and also on such investigations, studies and assumptions that they may undertake independently. There is no assurance that any such rating will continue for any given period of time or that any such rating may not be suspended, lowered or withdrawn entirely by Fitch, Moody’s or Standard & Poor’s, if, in the judgment of Fitch, Moody’s or Standard & Poor’s, circumstances so warrant. Any such downward change in or withdrawal of the rating may have an adverse effect on the secondary market price of the Series A Notes.

Any explanation of the significance of the ratings may be obtained only from Fitch, Moody’s or Standard & Poor’s.

LEGAL OPINIONS

The approving opinions of the Attorney General of the State and of Hawkins Delafield & Wood LLP, Newark, New Jersey, Bond Counsel to the State, as to the due authorization, issuance, sale and delivery of the Series A Notes in substantially the form included in Appendix II attached hereto will be delivered at the closing for the Series A Notes.

CONTINUING DISCLOSURE

The Securities and Exchange Commission (the “SEC”), pursuant to the Securities Exchange Act of 1934, as amended has adopted its Rule 15c2-12 (“Rule 15c2-12”) which generally prohibits a broker, dealer or municipal securities dealer (“Participating Underwriter”) from purchasing or selling municipal securities, such as the Series A Notes, unless the Participating Underwriter has reasonably determined that an issuer of municipal securities or an obligated person has undertaken in a written agreement or contract for the benefit of holders of such securities to provide notices of certain events to the Municipal Securities Rulemaking Board (the “MSRB”).

The provisions of paragraph (b)(5) of Rule 15c2-12 (other than paragraph (b)(5)(i)(C)) do not apply to the Series A Notes, because the Series A Notes have a stated maturity of 18 months or less. Accordingly, in accordance with Rule 15c2-12, as it applies to the Series A Notes, the State will enter into an Agreement with Respect to Continuing Disclosure for the benefit of the beneficial owners of the Series A Notes prior to the issuance of the Series A Notes, pursuant to which the State will agree to provide notices of the occurrence of certain enumerated events, if material. The form of the Agreement with Respect to Continuing Disclosure is included as Appendix III to this Official Statement.

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

The annual report for the fiscal year ended June 30, 2009, due March 15, 2010, was filed on March 15, 2010.

TAX MATTERS

Exclusion of Interest on the Series A Notes from Gross Income for Federal Income Tax Purposes

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the State, under existing statutes and court decisions and assuming compliance by the State with the Arbitrage and Use of Proceeds Certificate, which will be executed by the State in connection with the issuance of the Series A Notes (but which does not constitute a covenant under the Resolution) (the "Arbitrage Certificate"), (i) interest on the Series A Notes is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Series A Notes is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax. In the Arbitrage Certificate, the State will represent that the State expects and intends to be able to comply with and will, to the extent permitted by law, comply with the provisions and procedures set forth in the Arbitrage Certificate and do and perform all acts and things necessary or desirable to assure that, under the Code as presently in force, interest on the Series A Notes will be excluded from gross income pursuant to Section 103 of the Code. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the State in connection with the Series A Notes, and Bond Counsel has assumed compliance by the State with the Arbitrage Certificate. The provisions of the American Recovery and Reinvestment Act of 2009 relating to the treatment of interest on certain tax-exempt bonds apply to the Series A Notes. The opinion of Bond Counsel to the State will be substantially in the form included in Appendix II attached hereto.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Series A Notes, except as described in the next succeeding paragraph. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Series A Notes, or under state and local tax law.

New Jersey Gross Income Tax

In the opinion of Bond Counsel to the State, under existing statutes, interest on and any gain realized from the sale of any of the Series A Notes is not includable in gross income under the existing New Jersey Gross Income Tax Act.

Certain Ongoing Federal Tax Requirements

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Series A Notes in order that interest on the Series A Notes be and remain excluded

from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Series A Notes, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Series A Notes to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Series A Notes. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Series A Note. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Series A Notes.

The Series A Notes are not taken into account (subject to certain limitations) in determining the portion of a financial institution's interest expense subject to the pro rata interest disallowance rule of Section 265(b) of the Code for costs of indebtedness incurred or continued to purchase or carry certain tax-exempt obligations. The Series A Notes, however, are taken into account in the calculation of the amount of a financial institution's preference items under Section 291 of the Code.

Prospective owners of the Series A Notes should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the Series A Notes may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Bond Premium

In general, if an owner acquires a Series A Note for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Series A Note after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Series A Note (a "Premium Series A Note"). In general, under Section 171 of the Code, an owner of a Premium Series A Note must amortize the bond premium over the remaining term of the Premium Series A Note, based on the owner's yield over the remaining term of the Premium Series A Note determined based on constant yield principles. An owner of a Premium Series A Note must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. If the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Series A Note may realize a taxable gain upon disposition of the Premium Series A Note even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Series A Notes should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the

acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Series A Notes.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Series A Notes. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Series A Note through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series A Notes from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Series A Notes under Federal or state law and could affect the market price or marketability of the Series A Notes.

Prospective purchasers of the Series A Notes should consult their own tax advisors regarding the foregoing matters.

OFFERING PRICES OF THE SERIES A NOTES

The Series A Notes were offered at public sale and awarded on the basis of bids received on August __, 2010. Such awards resulted in differing prices of the Series A Notes. The aggregate amount of the premiums to be paid to the State by the purchasers to whom the Series A Notes were awarded is \$_____. The offering price to the public will vary from one underwriter of the Series A Notes to another.

ADDITIONAL INFORMATION

The State is not required to file reports with the SEC, but will make available on request, copies of its most recent audited financial statements, official statements and the Resolution. Please contact the following for such information:

State of New Jersey
Department of the Treasury, Office of Public Finance
50 West State Street, P.O. Box 005
Trenton, New Jersey 08625
Telephone: (609) 984-4888
Facsimile: (609) 777-1987

MISCELLANEOUS

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

TREASURER, STATE OF NEW JERSEY

By: _____
ANDREW P. SIDAMON-ERISTOFF

Date: August __, 2010

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

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APPENDIX I

DATED AUGUST 11, 2010

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 April 15, 2010 and supplements thereto. The principal changes reflected in this Appendix I are the updates of information to reflect the enactment of the Fiscal Year 2011 Appropriations Act and certain financial and other activity which occurred during Fiscal Year 2010. The State intends to further update or supplement the information contained in this Appendix I upon the occurrence of any event that materially changes the information contained herein.

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

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

From time to time, State officials 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. 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, 2009 (the “2009 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 2009 CAFR on the following website at www.state.nj.us/treasury/omb. No statement on that website or any other website is included by specific cross-reference herein.

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

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

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THE STATE OF NEW JERSEY

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

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

There are 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 7,365,000 in 1980, 7,730,188 in 1990, and 8,414,350 in 2000, and is estimated at 8,707,739 as of July 2009. With an average of 1,174 persons per square mile, it is the most densely populated of all the states. New Jersey is located at the center of the megalopolis which extends from Boston to Washington and which includes over one-fifth of the country's population. The extensive facilities of the Port Authority of New York and New Jersey, the Delaware River Port Authority and the South Jersey Port Corporation augment the air, land and water transportation complex which has influenced much of the State's economy. This central location in the northeastern corridor, the transportation and port facilities and proximity to New York City make the State an attractive location for corporate headquarters and international business offices. A number of Fortune Magazine's top 500 companies maintain headquarters or major facilities in New Jersey, and many foreign-owned firms have located facilities in the State.

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

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

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

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

SELECTED INFORMATION RELATING TO NEW JERSEY'S ECONOMIC CONDITION

New Jersey's economy weakened significantly in 2009 along with the national economy and other states' economies. Payroll employment decreased at an average annual rate of 3.9% in 2009, following a decrease at an average annual rate of 0.7% in 2008. The New Jersey Department of Labor and Workforce Development's 2009 benchmarked data reflects the deterioration in the employment conditions in the State. Since November 2008, the level of employment has remained consistently below the 4.0 million mark for twenty months in a row. The State's level of payroll employment as of June 2010 was 3.867 million.

New Jersey's payroll employment declined by 0.5% (-19,400 jobs) in June 2010 compared to June 2009. Most of the job losses were in construction (-11,800 jobs), manufacturing (-8,500 jobs), financial services (-6,900 jobs) and other services (-6,100 jobs). The public sector reported the largest gain (+8,200 jobs), followed by leisure and hospitality services (+6,000 jobs) and education and health services (+5,200 jobs).

The generally declining labor market conditions have kept the State's unemployment rate above 5.0% for twenty-five months since June 2008. The State's unemployment rate averaged 9.8% for the first six months of 2010, after averaging approximately 9.2% in 2009. After peaking at 10% in December 2009, the State's unemployment rate appears to be declining slowly, but steadily, reflecting some improvements in the State's labor market conditions. The State's unemployment rate declined to 9.6% in June 2010, the third monthly decline in calendar 2010.

According to the United States Commerce Department, Bureau of Economic Analysis in a release dated June 22, 2010, the preliminary growth rate for New Jersey's personal income increased at a rate of 2.1% for the first quarter of 2010 and came in better than the revised growth rate of -1.8% for the fourth quarter of 2009. According to the June 2010 New Jersey economic forecasts from Global Insight and Moody's Economy.com, the average annual growth in personal income for New Jersey is expected to improve during 2010 and 2011.

The housing sector is expected to recover from the depressed 2009 level but may remain weak in the months ahead with housing permits in 2010 to stay below 20,000 units, in part due to the expiration of the federal homebuyer tax credit. New vehicle registrations declined in calendar year 2009 by 20%, following a 16% decline in 2008 but the trend appears to have reversed with three straight months of positive growth posted since April 2010. For the first six months of calendar year 2010, new vehicle registrations increased by 10.9% compared to the same period a year ago. New motor vehicle registrations are projected to remain below the 500,000 level in 2010 and then are projected to steadily improve in 2011.

The economic conditions in New Jersey and the nation are expected to continue to improve gradually in the months ahead. The minutes from the June 22-23, 2010 meeting of the Federal Reserve Board's Federal Open Market Committee which were released on July 14, 2010, reflect that despite some concern about potential downside risks to their economic outlook projections, overall the national economic recovery is expected to continue at a moderate pace in 2010 and continue to improve in 2011. New Jersey's economy is expected to follow the national trend for 2010. The June 2010 New Jersey economic forecasts from Global Insight and Moody's Economy.com expect economic conditions to continue to recover in 2010 and into 2011.

Employment is projected to decrease by an approximately 0.5% average annual rate in 2010 and increase by an average annual rate of approximately 1.0% in 2011.

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

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

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

CERTAIN CONSTITUTIONAL PROVISIONS

Budget Limitations

The State Constitution provides, in part, that no money shall be drawn from the State Treasury but for appropriations made by law and that no law appropriating money for any State purpose shall be enacted if the appropriations contained therein, together with all prior appropriations made for the same fiscal period, shall exceed the total amount of the revenue on hand and anticipated to be available to meet such appropriations during such fiscal period, as certified by the Governor (Article VIII, Sec. 2, para. 2). (For general information regarding the budget process, see “STATE FINANCES — New Jersey’s Budget and Appropriation System” herein; for the application of the budget process for Fiscal Year 2011, 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, 2009,” and the notes referred to therein (the “2009 CAFR”) which has been

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 2009 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 2009 CAFR which is incorporated by specific reference herein.

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

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

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

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

The Long-Term Obligation and Capital Expenditure Fund (the “LTOCEF”) was established as a separate, non-lapsing fund in the General Fund pursuant to P.L. 2008, c. 22, enacted on June 25, 2008. Such act provided that monies appropriated to the LTOCEF would be used for the purposes of paying for the costs of capital improvements, retiring and defeasing debt, making supplemental payments to reduce the unfunded pension liabilities of the State-administered pension plans and making supplemental payments to reduce the unfunded post-retirement health benefits liability for members of the State-administered pension plans and the Alternate Benefit Program described herein. There were no amounts on deposit in the LTOCEF as of June 30, 2010. See “SUMMARY OF REVENUES, APPROPRIATIONS AND UNDESIGNATED FUND BALANCES — BUDGETED STATE FUNDS” and “FINANCIAL RESULTS AND ESTIMATES — Appropriations” herein.

The Property Tax Relief Fund is used to account for revenues from the New Jersey Gross Income Tax and for revenues derived from a tax rate of 0.5% imposed under the Sales and Use Tax both of which are constitutionally dedicated toward property tax relief and reform, respectively. All receipts from taxes levied on personal income of individuals, estates and trusts must be appropriated exclusively for the purpose of reducing or offsetting property

taxes. Annual appropriations are made from the fund, pursuant to formulas established by the State Legislature, to counties, municipalities and school districts. The Property Tax Relief Fund was established by the New Jersey Gross Income Tax Act, N.J.S.A. 54A:9-25, approved July 8, 1976.

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

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

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

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

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

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

New Jersey’s Budget and Appropriation System

The State operates on a fiscal year beginning July 1 and ending June 30. For example, “Fiscal Year 2011” refers to the State’s fiscal year beginning July 1, 2010 and ending June 30, 2011.

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

New Jersey’s budget process is comprehensive and inclusive, involving every department and agency in the Executive Branch, the Legislature, the Judicial Branch, and through a series of public hearings, the citizens of the State. The budget process begins in the summer prior to the following fiscal year with preliminary projections of revenues and expenditures, which are the basis for development of budget targets for each branch, department and agency. Individual departments and agencies are required to prepare a funding plan or strategy for operating within the established target in the following fiscal year, which funding plan or strategy includes an analysis of the costs, benefits and priorities of every program. The funding plans and strategies are the foundations for revenue and spending decisions that are ultimately incorporated into the Governor’s Budget Message, as discussed below.

The New Jersey Statutes contain provisions concerning the budget and appropriation system. On or before October 1 in each year, each Department, Board, Commission, Office or other Agency of the State must file with the Budget Director a request for appropriation or permission to spend specifying all expenditures proposed to be made by such spending agency during the following fiscal year. The Budget Director then examines each request and determines the necessity or advisability of the appropriation request. The Budget Director may hold hearings, open to the public, during the months of October, November and December and review the budget requests with the agency heads. On or before December 31 of

each year or such other time as the Governor may request, after review and examination, the Budget Director submits the requests, together with his or her findings, comments and recommendations, to the Governor. It is then the responsibility of the Governor to examine and consider all requests and formulate his or her budget recommendations.

The Governor's budget message (the "Governor's Budget Message") is presented by the Governor during an appearance before a joint session of the State Legislature which, by law, is convened at 12 Noon on a date on or before the fourth Tuesday in February in each year. The Governor's Budget Message must include the proposed complete financial program of the State government for the next ensuing fiscal year and must set forth in detail each source of anticipated revenue and the purposes of recommended expenditures for each spending agency (N.J.S.A. 52:27B-20). After a process of legislative committee review (including testimony from the State Treasurer), the budget, in the form of an appropriations bill, must be approved by the Senate and Assembly and must be submitted to the Governor for review. Upon such submissions, the Governor may approve the bill, revise the estimate of anticipated revenues contained therein, delete or reduce appropriation items contained in the bill through the exercise of his or her line-item veto power, or veto the bill in its entirety. As with any gubernatorial veto, such action may be reversed by a two-thirds vote of each House of the State Legislature. In addition to anticipated revenues, the annual Appropriations Act also provides for the appropriation of non-budgeted revenue, including primarily federal funds and a portion of the Energy Tax Receipts, to the extent such revenue may be received and permits the corresponding increase of appropriation balances from which expenditures may be made. These amounts are excluded from all tables except for the table entitled "EXPENDITURES" on page I-28.

During the course of the fiscal year, the Governor may take steps to reduce State expenditures if it appears that revenues have fallen below those originally anticipated. There are additional means by which the Governor may ensure that the State does not incur a deficit. Under the State Constitution, no supplemental appropriation may be enacted after adoption of an Appropriations Act except where there are sufficient revenues on hand or anticipated, as certified by the Governor, to meet such appropriation.

If a general appropriation law is not enacted prior to the July 1 deadline, under Article VIII, Section 2, para. 2 of the State Constitution, no moneys can be withdrawn from the State treasury. In the one case where this occurred, for Fiscal Year 2007, the Governor declared a state of emergency and mandated the orderly shutdown of State government, other than services and functions of State government directly related to the preservation and protection of human life and safety, the protection of property, the adoption of the annual Appropriations Act and such functions of the Judicial Branch as determined by the Chief Justice. The State Treasurer and the Budget Director were authorized to obligate funds for such essential services. The Division of Lottery ceased selling tickets, parks and beaches were closed, and casinos, which by law could not operate without State regulators, were shutdown. An amendment to Section 63 of P.L. 1977, c.110 (C.5:12-63) was enacted on June 27, 2008, and provides for the ability of casinos and racetracks to operate for seven calendar days during a state of emergency, including a shutdown of State government for failure to enact the Appropriations Act, despite the absence of State regulators. If a shutdown occurs, no moneys, other than available amounts already held under bond financing documents will be available to make payments on obligations paid from State revenue subject to annual appropriation. See "STATE FINANCES — New Jersey's Budget and Appropriation System" and "OBLIGATIONS SUPPORTED BY STATE REVENUE SUBJECT TO ANNUAL APPROPRIATION" herein.

FINANCIAL RESULTS AND ESTIMATES

Fiscal Year 2010

As of the Fiscal Year 2011 Appropriations Act, the revenue estimates for Fiscal Year 2010 were \$27.75 billion, which represents a decrease from \$29.49 billion, which was the amount estimated in the Fiscal Year 2010 Appropriations Act. Actual Fiscal Year 2010 supplemental appropriations totaled \$779.6 million. A projected Fiscal Year 2010 opening surplus reduction of \$121.0 million and revenue declines of \$1,447.0 million resulted in a resource shortfall of approximately \$1,568.0 million. Together, these supplemental appropriations and resource declines resulted in a budget shortfall of \$2,347.6 million. On February 11, 2010, the Governor issued Executive Order No. 14 (Christie 2010) ("Executive Order 14") directing the Budget Director to identify and place into reserve items of appropriation pursuant to N.J.S.A. 52:27B-26. See "LITIGATION — *In re Appeal of Executive Order 14*" and "*Mid-Atlantic Solar Energy Indus. Ass'n v. Christie*" for a description of pending claims relating to Executive Order 14. To close this gap, as of the time of the Fiscal Year 2011 Appropriations Act, a total of \$2,350.4 million in Fiscal Year 2010 budget solutions, including \$170 million in revenue solutions, had been identified. Of this amount, approximately \$370 million required the enactment of legislation to be recognized as State revenue.

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 2009 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, 2007 through 2011, covering budgeted funds and the Surplus Revenue Fund. The Undesignated Fund Balances are available for appropriation in succeeding fiscal years. There have been positive Undesignated Fund Balances in the General Fund at the end of each year since the State Constitution was adopted in 1947.

Amounts shown for Fiscal Years 2007 through 2009 are actual and final. Amounts shown for Fiscal Year 2010 are based upon revised estimates for revenues, which are subject to adjustment pending completion of the annual audit, and appropriations, plus supplemental appropriations. Amounts shown for Fiscal Year 2011 are estimates as contained in the Fiscal Year 2011 Appropriations Act.

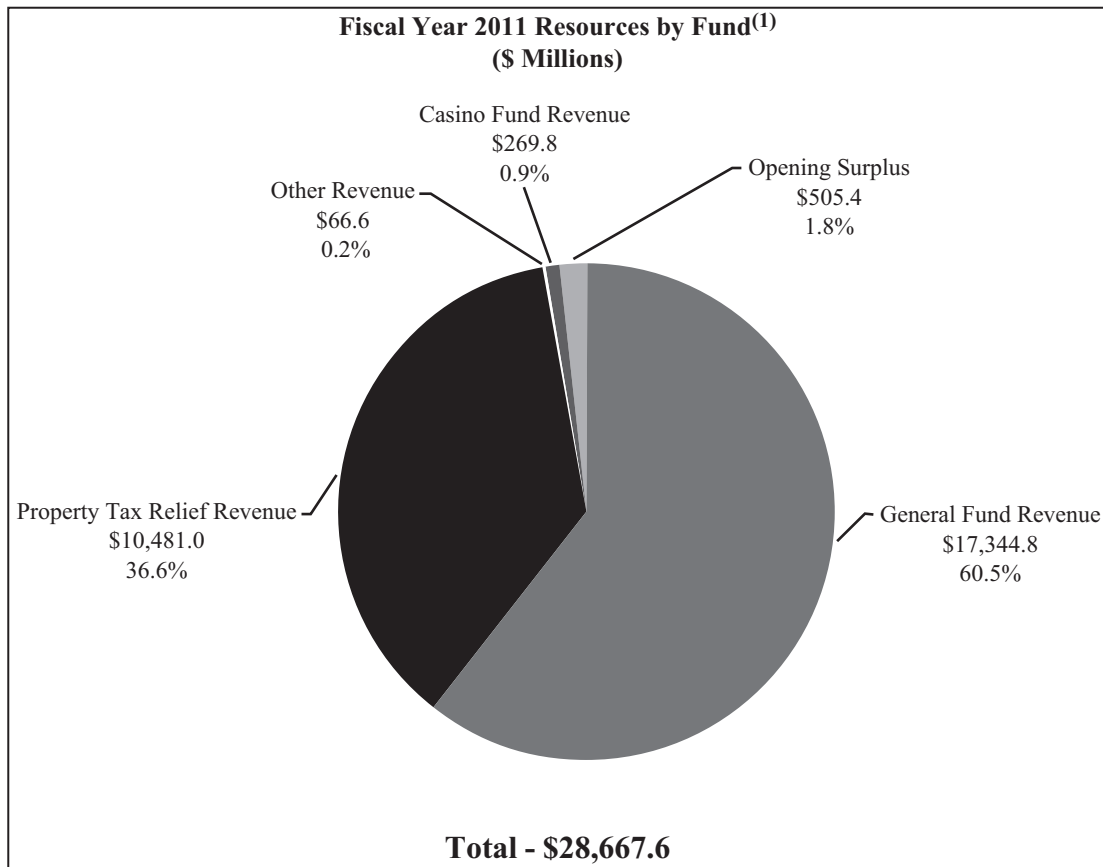
Budgeted funds include the General Fund, the Property Tax Relief Fund, the Casino Revenue Fund, the Casino Control Fund, and the Gubernatorial Elections Fund. The annual appropriations acts also provide for the appropriation of non-budgeted revenue, including primarily federal funds and a portion of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

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

	2011 Estimated	2010 Estimated	2009 Actual	2008 Actual	2007 Actual
July 1st Beginning Balances					
General Fund	504.6	\$ 614.2	\$ 469.8	\$ 1,410.4	\$ 1,216.7
Surplus Revenue Fund	—	—	734.7	484.6	559.8
Property Tax Relief Fund	—	—	99.0	690.7	2.6
Gubernatorial Elections Fund	—	—	1.1	0.5	—
Casino Control Fund	0.8	(0.4)	3.0	1.5	(1.6)
Casino Revenue Fund	—	—	—	1.0	1.0
Total Beginning Balance	505.4	613.8	1,307.6	2,588.7	1,778.5
Anticipated Revenue					
General Fund	17,344.8	16,546.4	17,381.2	18,826.1	18,305.9
Property Tax Relief Fund(2)	10,481.0	10,835.3	11,088.0	13,271.5	12,376.5
Gubernatorial Elections Fund	0.7	0.7	0.5	0.5	0.5
Casino Control Fund	65.9	69.8	64.5	73.0	75.6
Casino Revenue Fund	269.8	298.8	351.0	413.0	450.2
Total Revenues	28,162.2	27,751.0	28,885.2	32,584.1	31,208.7
Other Adjustments					
General Fund					
Balances Lapsed(3)	—	793.6	1,836.7	448.2	497.1
From (To) Surplus Revenue Fund	—	—	362.2	(250.1)	75.2
From (To) Property Tax Relief Fund	—	(35.8)	(273.9)	(132.0)	(103.5)
Budget vs. GAAP Adjustment	—	—	62.8	(2.5)	(37.3)
From (To) Casino Revenue Fund	—	(12.7)	(54.1)	(2.1)	—
From (To) Casino Control Fund	—	(2.0)	—	—	—
From (To) Gubernatorial Elections Fund	—	(8.1)	(3.9)	—	—
Corporation Business Tax — 4% Dedication	—	—	—	20.8	—
Surplus Revenue Fund					
From (To) General Fund	—	—	(362.2)	250.1	(75.2)
From (To) Property Tax Relief Fund	—	—	(372.5)	—	—
Property Tax Relief Fund					
Balances Lapsed(3)	—	99.9	1,175.9	216.6	94.8
From (To) General Fund	—	35.8	273.9	131.9	103.5
From (To) General Fund — Property Tax Dedication	—	—	—	—	(649.3)
From (To) Long-Term Obligation and Capital Expenditure Reserve(4)	—	—	378.7	—	—
Budget vs. GAAP Adjustment	—	—	8.2	—	—
From (To) Surplus Revenue Fund	—	—	372.5	—	—
Property Tax Relief Dedication					
From (To) Property Tax Relief Fund	—	—	—	—	649.3
Gubernatorial Elections Fund					
From General Fund	—	8.1	4.0	—	—
Balances Lapsed(3)	—	—	—	0.1	—
Miscellaneous	—	—	0.6	—	—
Casino Control Fund					
From (To) Casino Revenue Fund	—	2.0	—	—	—
Balances Lapsed(3)	—	—	7.5	2.6	0.9
Miscellaneous	—	—	—	(0.1)	—
Casino Revenue Fund					
From (To) General Fund	—	12.7	54.1	2.1	—
Balances Lapsed(3)	—	0.7	9.6	17.0	68.8
Miscellaneous	—	—	0.1	—	—
Total Other Adjustments	—	894.2	3,480.2	702.6	624.3
Total Available	28,667.6	29,259.0	33,673.0	35,875.4	33,611.5
Appropriations(5)					
General Fund	17,546.9	17,391.0	19,166.6	19,849.0	18,543.7
Property Tax Relief Fund	10,481.0	10,971.0	13,396.2	14,211.7	11,886.7
Gubernatorial Elections Fund	—	8.8	6.2	—	—
Casino Control Fund	66.7	70.6	75.4	74.0	73.4
Casino Revenue Fund	269.8	312.2	414.8	433.1	519.0
Total Appropriations	28,364.4	28,753.6	33,059.2	34,567.8	31,022.8
June 30th Ending Balances					
General Fund	302.5	504.6	614.2	469.8	1,410.4
Surplus Revenue Fund	—	—	—	734.7	484.6
Property Tax Relief Fund	—	—	—	99.0	41.4
Property Tax Reform Account(2)	—	—	—	—	649.3
Gubernatorial Elections Fund	0.7	—	—	1.1	0.5
Casino Control Fund	—	0.8	(0.4)	3.0	1.5
Casino Revenue Fund	—	—	—	—	1.0
Total Ending Balances	\$ 303.2	\$ 505.4	\$ 613.8	\$ 1,307.6	\$ 2,588.7

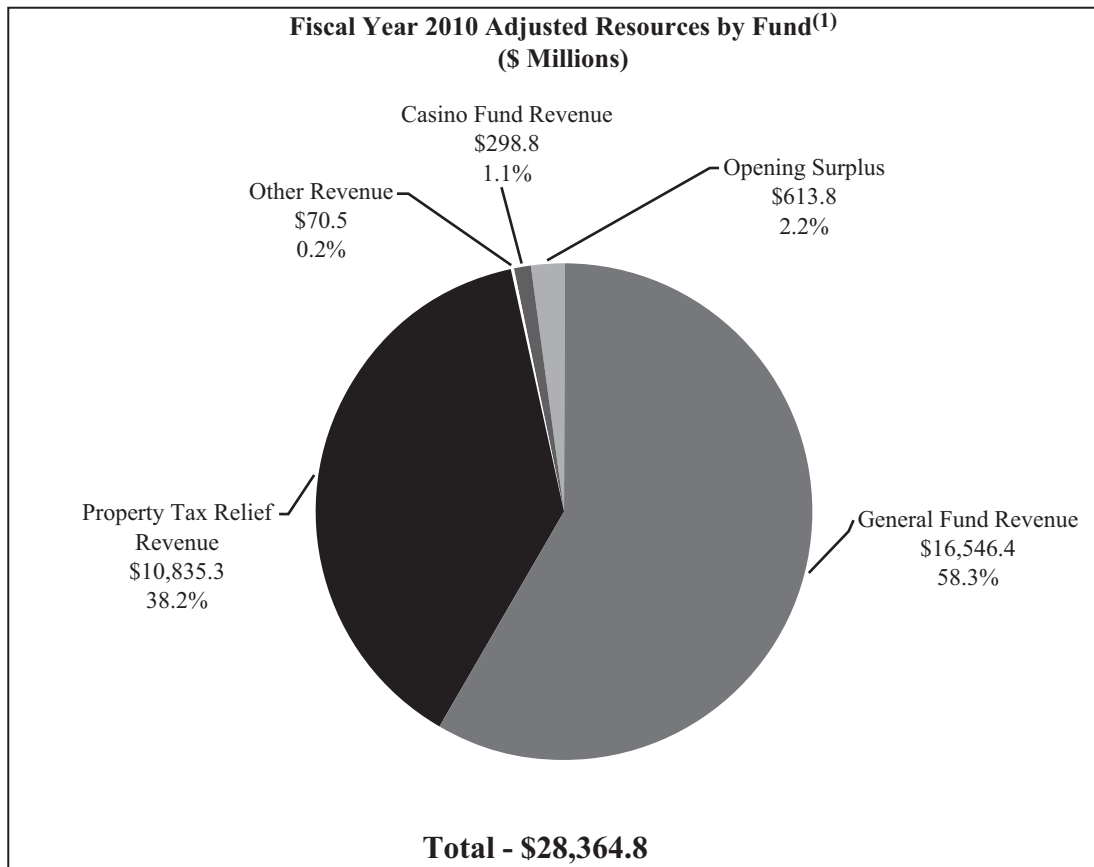
Notes:

- (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.
- (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.
- (4) Pursuant to P.L. 2008, c. 22, the LTOCEF was created. Funds were appropriated for retiring and defeasing debt, as well as for various capital improvements. However, as a result of the economic downturn, monies in the LTOCEF were appropriated for other purposes. There were no amounts on deposit in the LTOCEF as of June 30, 2010.
- (5) Appropriations include original, supplemental, and de-appropriations.



(1) Fiscal Year 2011 Resources represent the total amount of estimated revenues for Fiscal Year 2011 as set forth in the Fiscal Year 2011 Appropriations Act plus the total amount of undesignated fund balances as of July 1, 2010.

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



(1) Fiscal Year 2010 Adjusted Resources represents the total amount of Fiscal Year 2010 revenues, subject to adjustment pending completion of the annual audit, plus the total amount of undesignated fund balances as of July 1, 2009.

(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, 2007 through 2009, and estimated revenues for Fiscal Years 2010 and 2011 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 2010 estimates are as of June 30, 2010 and are subject to adjustment pending completion of the annual audit. The Fiscal Year 2011 estimates are as presented in the Fiscal Year 2011 Appropriations Act.

REVENUES (\$ Millions)

	2011 Estimated	2010 Estimated	2009 Actual	2008 Actual	2007 Actual
General Fund:					
Sales and Use Tax	\$ 8,335.3	\$ 7,853.3	\$ 8,264.2	\$ 8,915.5	\$ 8,609.6
Less: Property Tax Dedication	(608.0)	(575.0)	(611.8)	(666.0)	(649.3)
Net Sales and Use Tax	7,727.3	7,278.3	7,652.4	8,249.5	7,960.3
Motor Fuels Tax	572.6	533.3	538.2	563.3	561.5
Corporation Taxes	2,291.0	2,154.7	2,665.2	3,062.4	3,084.9
Motor Vehicle Fees(1)	398.5	370.0	361.7	401.3	280.3
Cigarette Tax	199.0	199.0	216.3	251.2	206.1
Other Major Taxes	1,819.0	1,661.8	1,768.3	1,953.5	1,919.1
Medicaid Uncompensated Care	500.7	534.5	493.9	505.4	375.1
Other Miscellaneous Taxes, Fees and Revenues	2,155.1	2,034.8	2,204.4	2,256.2	2,447.7
Lottery Funds	953.0	923.8	887.2	882.1	828.3
Tobacco Litigation Settlement(2)	55.5	57.0	69.3	117.6	15.7
Other Transfers	673.1	799.2	524.3	583.6	626.9
Total General Fund(3)	17,344.8	16,546.4	17,381.2	18,826.1	18,305.9
Property Tax Relief Fund:					
Gross Income Tax	9,855.1	10,243.0	10,476.2	12,605.5	11,727.2
Plus: Property Tax Dedication	625.9	592.3	611.8	666.0	649.3
Gross Property Tax Relief Fund	10,481.0	10,835.3	11,088.0	13,271.5	12,376.5
Gubernatorial Elections Fund	0.7	0.7	0.5	0.5	0.5
Casino Control Fund	65.9	69.8	64.5	73.0	75.6
Casino Revenue Fund	269.8	298.8	351.0	413.0	450.2
Total	\$28,162.2	\$27,751.0	\$28,885.2	\$32,584.1	\$31,208.7

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

(2) The State has transferred to the Tobacco Settlement Financing Corporation (the "Corporation"), a special purpose entity established pursuant to P.L. 2002, c. 32 (the "Act"), the State's right to receive a portion of each annual tobacco settlement receipt (the "TSRs") expected to be received by the State after December 1, 2003 from the settlement of the litigation with certain of the participating tobacco companies. The Corporation has pledged the TSRs as security for its bonds. In January 2007, the Corporation issued \$3,622,208,081.50 of its Tobacco Settlement Asset-Backed Bonds, Series 2007, the proceeds of which were used to refund in full, the prior Series 2002 and Series 2003 Tobacco Settlement Asset-Backed Bonds. In each of the years 2006 through and including 2010 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 and approximately \$27 million of a scheduled approximate \$266 million annual payment in 2010) primarily based on claims that the settling states, of which the State is one, did not diligently enforce a statute (the "Model Statute") in 2003, 2004 and 2005 which requires tobacco companies that did not enter into the settlement to make certain payments for in-state tobacco product sales. On April 18, 2006, the State filed suit against the participating tobacco companies seeking a declaratory judgment that the State is diligently enforcing the Model Statute. On September 27, 2007, the court ordered the parties to arbitrate the 2003 diligent enforcement action dispute, which ruling was upheld on appeal. A multi-state arbitration of the 2003 diligent enforcement action dispute began in July 2010 when a three-member panel was appointed. While 2004 through 2009 are not subject to the court's order, the diligent enforcement dispute between the parties for those years is also ripe. In the event that the State is determined to not have diligently enforced the Model Statute in any year, the State faces a reduction in the amount of annual payments it receives in the subsequent years. In no event can the reduction exceed the amount of the payment due in the year that it failed to diligently enforce the Model Statute. Fiscal Year 2007, 2008, 2009 and 2010 payments received by the State primarily reflect unpledged residual TSRs.

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

**Revenues
(% of Total)**

	<u>2011 Estimated</u>	<u>2010 Estimated</u>	<u>2009 Actual</u>	<u>2008 Actual</u>	<u>2007 Actual</u>
General Fund:					
Sales and Use Tax	29.6%	28.3%	28.6%	27.4%	27.6%
Less: Property Tax Dedication	(2.2)	(2.1)	(2.1)	(2.0)	—
Net Sales and Use Tax	27.4	26.2	26.5	25.4	27.6
Motor Fuels Tax	2.0	2.0	1.9	1.7	1.8
Corporation Taxes	8.1	7.8	9.2	9.4	9.9
Motor Vehicle Fees	1.4	1.3	1.3	1.2	0.9
Cigarette Tax	0.7	0.7	0.7	0.8	0.7
Other Major Taxes	6.4	6.0	6.1	6.0	6.1
Medicaid Uncompensated Care	1.8	1.9	1.7	1.5	1.2
Other Miscellaneous Taxes, Fees and Revenues	7.7	7.3	7.7	6.9	7.8
Lottery Funds	3.4	3.3	3.1	2.7	2.7
Tobacco Litigation Settlement	0.2	0.2	0.2	0.4	0.1
Other Transfers	2.4	2.9	1.8	1.8	2.0
Total General Fund	61.5	59.6	60.2	57.8	60.8
Property Tax Relief Fund:					
Gross Income Tax	35.1	36.9	36.3	38.7	37.6
Plus: Property Tax Dedication	2.2	2.1	2.1	2.0	—
Gross Property Tax Relief Fund	37.3	39.0	38.4	40.7	37.6
Gubernatorial Elections Fund	—	—	—	—	—
Casino Control Fund	0.2	0.3	0.2	0.2	0.2
Casino Revenue Fund	1.0	1.1	1.2	1.3	1.4
Total	<u>100.0</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Fiscal Year 2010 and Fiscal Year 2011 Estimated Revenues

Sales and Use Tax — The Sales and Use Tax collections for Fiscal Year 2010 are estimated to decrease 5.0% from Fiscal Year 2009. The Fiscal Year 2011 estimate of \$8,335.3 million is a 6.1% increase from Fiscal Year 2010.

Gross Income Tax — The Gross Income Tax collections for Fiscal Year 2010 are estimated to decrease 2.2% from Fiscal Year 2009. The Fiscal Year 2011 estimate is a 3.8% decrease from Fiscal Year 2010. The Fiscal Year 2011 estimate includes a change to the Gross Income Tax to take into account the reduction of the New Jersey Earned Income Tax Credit from 25% of the federal benefit to 20%. The Fiscal Year 2011 estimate also takes into account the fact that the temporary income tax for those earning over \$400,000 which expired December 31, 2009 was not renewed along with the one year Fiscal Year 2010 change to the property tax deduction.

Corporation Business Tax — The Corporation Business Tax collections for Fiscal Year 2010 are estimated to decrease 19.2% from Fiscal Year 2009. The Fiscal Year 2011 estimate is a 6.3% increase from Fiscal Year 2010. The Fiscal Year 2011 estimate reflects the expiration of the 4% surcharge, change in the throwout rule governing corporate profits and the elimination of the regular place of business rules. It assumes growth in payments for calendar year 2010 as pre-tax profitability is projected to improve and refunds are expected to decrease.

Casino Revenues — The Casino Revenue Fund accounts for the taxes imposed on the casinos and other related activities. They include casino parking fees, per room per day fee on casino hotel rooms, a tax on casino complimentaries, which expired on June 30, 2009, and a tax on multi-casino progressive slot machine revenue. Collections for Fiscal Year 2010 are estimated to decrease 14.9% from Fiscal Year 2009. The Fiscal Year 2011 estimate is a 9.7% decrease from Fiscal Year 2010. The Fiscal Year 2011 estimate reflects a weak economy and expanding competition from other forms of gambling originating both offshore and from facilities built in other states.

Other Revenues — The Fiscal Year 2011 Appropriations Act relies on non-recurring revenue totaling \$214.3 million. Of this amount, \$79.6 million is estimated from changes in the laws governing unclaimed property and the remaining \$135.0 million is from taking balances in other funds and transferring them to the General Fund. The Fiscal Year 2010 Appropriations Act included \$1.0 billion in non-recurring Gross Income Tax revenues, \$80 million in non-recurring Corporation Business Tax revenues and \$108.8 million in other fund diversions.

Federal Aid

Actual federal aid receipts in the General Fund and Special Transportation Fund for Fiscal Years 2007 through 2009, which are non-budgeted revenues, amounted to \$8,759.4 million, \$8,815.5 million and \$10,530.6 million, respectively. Federal receipts in the General Fund and the Special Transportation Fund for Fiscal Year 2010 are estimated at \$13,499.5 million and are subject to adjustment, pending the completion of the annual audit. Federal receipts in the General Fund and the Special Transportation Fund for Fiscal Year 2011 as contained in the Fiscal Year 2011 Appropriations Act are estimated to be \$12,755.4 million. Such federal aid receipts for Fiscal Year 2011 are composed of \$4,616.4 million for medical payments, \$49.2 million for social services block grants, \$752.4 million for welfare, \$2,238.3 million for other human services, \$847.4 million for Title I and other education, \$464.3 million for labor, \$1,297.2 million for transportation, and the remainder for all other federal aid programs.

The American Recovery and Reinvestment Act of 2009 (“ARRA”) provides for federal fiscal stimulus funding to the State for Fiscal Years 2010 and 2011. The funding across both fiscal years totals approximately \$3,322.1 million. Fiscal Year 2010 funding of \$2,289.0 million reflects \$1,034.5 million for enhanced Medicaid funding with the remainder primarily for fiscal stabilization which the State used as a resource for the General Fund. For Fiscal Year 2011, the total funding of \$1,033.1 million is primarily allocated for enhanced Medicaid funding.

Appropriations

Appropriations — Fiscal Year 2007 through Fiscal Year 2011

The following table sets forth the composition of annual appropriations, including supplemental appropriations, from the General Fund, which includes the LTOCEF, the Property Tax Relief Fund, the Gubernatorial Elections Fund, the Casino Control Fund, and the Casino Revenue Fund for the Fiscal Years 2007 through 2011. 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 2007 through 2009 are actual and final. The amounts for Fiscal Years 2010 are based on the Fiscal Year 2010 Appropriations Act, plus supplemental appropriations and de-appropriations, and are subject to adjustment pending completion of the annual audit. The amounts appropriated for Fiscal Year 2011 reflect the amounts provided in the Fiscal Year 2011 Appropriations Act.

The State has made appropriations for principal and interest payments for general obligation bonds for Fiscal Years 2007 through 2010 in the amounts of \$427.8 million, \$438.8 million, \$270.9 million and \$263.6 million, respectively. The Fiscal Year 2011 Appropriations Act includes an appropriation in the amount of \$224.7 million for Fiscal Year 2011, representing principal and interest payments for general obligation bonds. The Fiscal Year 2011 appropriation of \$224.7 million reflects the anticipated savings from restructuring of general obligation bonds.

The Fiscal Year 2011 Appropriations Act also appropriates \$2,274.9 million for obligations supported by State revenue subject to annual appropriation. The total Fiscal Year 2011 general obligation bonds and obligations supported by State revenue subject to annual appropriation debt service appropriations is \$2,499.6 million or approximately 8.8% of total State appropriations for Fiscal Year 2011. The total Fiscal Year 2011 general obligation bonds and obligations supported by State revenue subject to annual appropriation debt service appropriations in the Fiscal Year 2011 Appropriations Act takes into account projected increases in debt service due to planned future issuances of bonds and notes and is net of \$410 million in projected debt service savings due to planned restructurings of general obligation bonds and obligations supported by State revenue subject to annual appropriation.

Appropriations of Federal Aid

The Fiscal Year 2011 Appropriations Act assumes that an additional \$1,033.1 million in federal stimulus funding will be available in Fiscal Year 2011, including \$1,026.4 million for Medicaid programs. Of this amount, approximately \$580 million is contingent upon enactment of federal legislation. A bill that would provide approximately \$380 million of this funding passed the United States Senate on August 5, 2010, and is pending final action in the United States House of Representatives. The remaining \$200 million is contingent upon the enactment of other future federal legislation, the status of which is uncertain.

The Fiscal Year 2011 Appropriations Act also assumes the United States Congress will extend the Temporary Assistance for Needy Families (“TANF”) Emergency Fund for another year beyond its scheduled September 30, 2010 expiration. The State intends to use such funding to offset \$39 million of the State’s Earned Income Tax Credit program. Based on the latest guidance from the National Association of State Budget Officers (“NASBO”), it does not appear likely that the United States Congress will address the TANF Emergency Fund extension before it adjourns for the summer recess.

The Fiscal Year 2011 Appropriations Act also assumes the receipt of additional federal funds, including \$107.3 million of one-time Medicare revenue to offset State Medicaid expenses. This reimbursement by Medicare of expenses incurred by the State is contingent upon the enactment of federal legislation. The Fiscal Year 2011 Appropriations Act assumes the receipt of \$110.0 million from the expected approval of federal waivers that will enable the State to earn a Medicaid match on medical costs that are currently 100% State funded. Also subject to federal approval is the State’s plan to generate \$45 million of new federal Medicaid matching funds from a health care facility assessment to help fund hospital charity care. The Fiscal Year 2011 Appropriations Act also includes \$100.0 million of potentially non-recurring prior year federal reimbursements for costs incurred by the State.

In the absence of the availability of the funds discussed above, other budgetary actions will be necessary to balance the State budget.

APPROPRIATIONS FOR BUDGETED STATE FUNDS⁽¹⁾⁽²⁾
(\$ MILLIONS)

	For the Fiscal Year Ended June 30,				
	2011 Estimated	2010 Estimated	2009 Actual	2008 Actual	2007 Actual
General Fund:					
Legislative Branch	\$ 73.8	\$ 74.8	\$ 73.7	\$ 75.5	\$ 73.9
Chief Executive's Office	4.6	4.7	5.3	5.1	4.9
Department of:					
Agriculture	19.4	25.3	22.9	26.4	25.7
Banking and Insurance	59.7	67.7	70.3	70.3	68.9
Children and Families(3)	1,041.7	1,064.7	1,075.7	1,064.4	959.4
Community Affairs	224.4	290.4	304.9	145.4	253.7
Corrections	1,080.7	1,137.1	1,141.9	1,129.3	1,075.6
Education	993.1	943.3	1,075.8	751.1	940.0
Environmental Protection	381.7	377.3	428.6	466.2	460.9
Health and Senior Services	1,066.0	1,149.1	1,323.6	1,464.5	1,513.8
Human Services	4,429.3	4,406.6	4,789.3	4,665.9	4,510.8
Labor and Workforce Development(4)(5)	139.2	142.9	273.7	394.5	117.9
Law and Public Safety	496.7	525.9	547.7	592.2	574.2
Military and Veterans Affairs	88.7	90.0	93.7	93.7	91.0
Personnel(4)	—	—	—	22.4	24.0
Public Advocate(6)	—	15.8	17.0	19.2	19.4
State	1,155.4	1,279.4	1,243.1	1,291.4	1,225.9
Transportation	1,216.8	1,248.6	1,335.1	1,290.0	1,292.2
Treasury	1,122.0	929.1	1,386.7	1,488.2	1,454.4
Miscellaneous Executive Commissions	1.3	1.5	1.5	1.4	1.4
Inter-Departmental Accounts — Employee Benefits and Miscellaneous	3,296.0	2,967.4	3,320.6	4,197.5	3,288.0
Judicial Branch	656.3	656.3	635.5	594.4	567.7
Total General Fund	<u>\$17,546.9</u>	<u>\$17,390.9</u>	<u>\$19,166.6</u>	<u>\$19,849.0</u>	<u>\$18,543.7</u>
Property Tax Relief Fund:					
Department of:					
Community Affairs	\$ 511.9	\$ 819.7	\$ 847.5	\$ 1,160.3	\$ 1,061.4
Education	9,384.6	8,673.3	10,496.8	10,257.4	9,473.7
Environmental Protection	—	10.0	10.0	9.8	9.5
Human Services	—	—	—	148.1	—
Treasury	584.6	1,468.0	2,041.9	2,636.1	1,342.1
Total Property Tax Relief Fund	<u>10,481.0</u>	<u>\$10,971.0</u>	<u>\$13,396.2</u>	<u>\$14,211.7</u>	<u>\$11,886.7</u>
Gubernatorial Elections Fund	<u>\$ —</u>	<u>\$ 8.8</u>	<u>\$ 6.2</u>	<u>\$ —</u>	<u>\$ —</u>
Casino Control Fund					
Department of:					
Law and Public Safety	\$ 42.2	\$ 44.0	\$ 46.0	\$ 44.6	\$ 44.0
Treasury	24.4	26.6	29.4	29.4	29.4
Total Casino Control Fund	<u>\$ 66.7</u>	<u>\$ 70.6</u>	<u>\$ 75.4</u>	<u>\$ 74.0</u>	<u>\$ 73.4</u>
Casino Revenue Fund					
Department of:					
Health and Senior Services	\$ 108.0	\$ 149.3	\$ 248.8	\$ 280.8	\$ 317.8
Human Services	130.5	130.5	130.5	112.9	163.7
Labor and Workforce Development	2.2	2.2	2.4	2.4	2.5
Law and Public Safety	0.1	0.1	0.1	0.1	0.1
Transportation	29.0	30.2	33.0	36.9	34.9
Treasury	—	—	—	—	—
Total Casino Revenue Fund	<u>\$ 269.8</u>	<u>\$ 312.3</u>	<u>\$ 414.8</u>	<u>\$ 433.1</u>	<u>\$ 519.0</u>
Total Appropriations	<u><u>\$28,364.4</u></u>	<u><u>\$28,753.6</u></u>	<u><u>\$33,059.2</u></u>	<u><u>\$34,567.8</u></u>	<u><u>\$31,022.8</u></u>

Note:

- (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.
- (2) 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.

- (3) Pursuant to P.L. 2006, c. 47, the Department of Children and Families was established as a department of the Executive Branch of State Government, effective July 1, 2006. The amount listed as the Fiscal Year 2007 Appropriations for the Department of Children and Families represents the transfer of all Children Services programs from the Department of Human Services to the Department of Children and Families.
- (4) The Fiscal Year 2009 Appropriations Act assumed the elimination of the Department of Personnel and transfer of its functions, powers and duties, primarily to a new Civil Service Commission. Legislation was enacted which provided for the creation of the Civil Service Commission established in but not of the Department of Labor and Workforce Development. The Fiscal Year 2009 Appropriations Act also provided language provisions to effectuate the transfer of their respective appropriations to the corresponding departments.
- (5) During Fiscal Year 2008 and Fiscal Year 2009, \$260.0 million and \$150.0 million, respectively, was transferred from the General Fund to the Department of Labor and Workforce Development for deposit into the Unemployment Insurance Trust Fund ("Trust Fund"). This funding measure enabled the Trust Fund to meet federal solvency requirements.
- (6) Pursuant to P.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.

State Unemployment Insurance Trust Fund

In Fiscal Year 2009, the Unemployment Insurance Trust Fund (the "Fund"), which provides funding for unemployment benefits in the State, received approximately \$1.8 billion in annual contributions from employers and workers while paying out approximately \$3.2 billion in regular, annual State unemployment benefits (excluding benefits paid entirely by the federal government). As a result, the Fund was depleted and the State has borrowed approximately \$1.75 billion as of July 1, 2010 from the U.S. Department of Labor for cash advances to provide funding for unemployment insurance benefits.

The State expects to continue to borrow funds from the federal government as needed, the amount of which could be significant. Repayments of these advances are solely the obligation of the Fund and are not obligations of the State's General Fund.

Under current law, the unemployment tax rate imposed on employers during a Fiscal Year is determined by statutory formula based on the status of the Fund in relation to total taxable wages as of March 31st of the preceding Fiscal Year. Because the Fund is currently in deficit, the current law provides for an increase in the employer tax rate. While recently enacted legislation will reduce this increase, the employer tax rate to be calculated for Fiscal Year 2011 will be higher than the present rate, resulting in a total estimated revenue increase of approximately \$300 million. However, no change in the employee rate is anticipated. In addition, recent legislative changes related to benefits available in cases of employee misconduct are projected to save the Fund approximately \$175 million in Fiscal Year 2011.

The following tables set forth appropriations by department and by major category for Fiscal Year 2010 and 2011.

**STATE OF NEW JERSEY
APPROPRIATIONS FOR BUDGETED STATE FUNDS(1)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(\$ MILLIONS)**

<u>Government Branch</u>	<u>Direct State Services</u>	<u>Grants- In-Aid</u>	<u>State Aid</u>	<u>Capital Construction</u>	<u>Debt Service</u>	<u>Total</u>
Executive						
Chief Executive	\$ 4.6	\$ —	\$ —	\$ —	\$ —	\$ 4.6
Agriculture	6.8	6.9	5.6	—	—	19.4
Banking and Insurance	59.7	—	—	—	—	59.7
Children and Families	317.7	724.0	—	—	—	1,041.7
Community Affairs	37.2	22.6	676.5	—	—	736.3
Corrections	958.5	107.2	15.0	—	—	1,080.7
Education	64.9	4.7	10,308.1	—	—	10,377.7
Environmental Protection	200.6	17.6	8.1	92.5	63.0	381.7
Health and Senior Services	52.1	1,114.8	7.2	—	—	1,174.0
Human Services	469.8	3,485.4	604.5	—	—	4,559.7
Labor and Workforce Development	80.4	61.0	—	—	—	141.4
Law and Public Safety	521.7	17.2	—	—	—	539.0
Military and Veterans Affairs	85.7	3.1	—	—	—	88.7
Personnel	—	—	—	—	—	—
Public Advocate(2)	—	—	—	—	—	—
State	27.0	1,113.5	15.0	—	—	1,155.4
Transportation	45.6	276.2	29.1	895.0	—	1,245.9
Treasury	438.1	774.0	357.2	—	161.7	1,731.0
Miscellaneous Commissions	1.3	—	—	—	—	1.3
Interdepartmental	<u>2,212.8</u>	<u>948.8</u>	<u>—</u>	<u>134.4</u>	<u>—</u>	<u>3,296.0</u>
Subtotal	<u>5,584.5</u>	<u>8,676.9</u>	<u>12,026.3</u>	<u>1,121.9</u>	<u>224.7</u>	<u>27,634.3</u>
Legislature	73.8	—	—	—	—	73.8
Judiciary	<u>656.3</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>656.3</u>
Grand Total	<u>\$6,314.6</u>	<u>\$8,676.9</u>	<u>\$12,026.3</u>	<u>\$1,121.9</u>	<u>\$224.7</u>	<u>\$28,364.4</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 for Fiscal Year 2011 are as contained in the Fiscal Year 2011 Appropriations Act.

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

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

<u>Government Branch</u>	<u>Direct State Services</u>	<u>Grants- In-Aid</u>	<u>State Aid</u>	<u>Capital Construction</u>	<u>Debt Service</u>	<u>Total</u>
Executive						
Chief Executive	\$ 4.7	\$ —	\$ —	\$ —	\$ —	\$ 4.7
Agriculture	6.9	6.9	11.5	—	—	25.3
Banking and Insurance	67.7	—	—	—	—	67.7
Children and Families	322.1	742.7	—	—	—	1,064.8
Community Affairs	37.8	22.1	1,050.2	—	—	1,110.1
Corrections	987.0	127.7	22.4	—	—	1,137.1
Education	68.8	13.5	9,534.3	—	—	9,616.6
Environmental Protection	215.8	14.9	19.0	77.1	60.5	387.3
Health and Senior Services	60.2	1,228.6	9.6	—	—	1,298.3
Human Services	507.0	3,533.6	496.5	—	—	4,537.1
Labor and Workforce						
Development	79.9	65.2	—	—	—	145.1
Law and Public Safety	541.3	30.9	6.7	—	—	578.8
Military and Veterans Affairs	86.9	3.2	—	—	—	90.0
Personnel	—	—	—	—	—	—
Public Advocate	15.8	—	—	—	—	15.8
State	31.3	1,228.4	19.7	—	—	1,279.4
Transportation	57.4	296.2	30.2	895.0	—	1,278.8
Treasury	342.5	1,480.8	397.1	—	203.1	2,423.6
Miscellaneous Commissions	1.5	—	—	—	—	1.5
Interdepartmental	1,892.9	964.9	—	109.6	—	2,967.4
Subtotal	5,327.5	9,759.6	11,597.1	1,081.7	263.6	28,029.5
Legislature	74.8	—	—	—	—	74.8
Judiciary	649.3	—	—	—	—	649.3
Grand Total	\$6,051.6	\$9,759.6	\$11,597.1	\$1,081.7	\$263.6	\$28,753.6

- (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 reflect the addition of any supplemental appropriations made by the Legislature and approved by the Governor to the appropriations contained in the Fiscal Year 2010 Appropriations Act. Lapses in appropriations are not reflected in the table above. See "SUMMARY OF REVENUES, APPROPRIATIONS AND UNDESIGNATED FUND BALANCES GENERAL STATE FUNDS" herein.

The following table sets forth, by major category, the original and supplemental appropriations for Fiscal Year 2010 and the appropriations for Fiscal Year 2011 as contained in the Fiscal Year 2011 Appropriations Act.

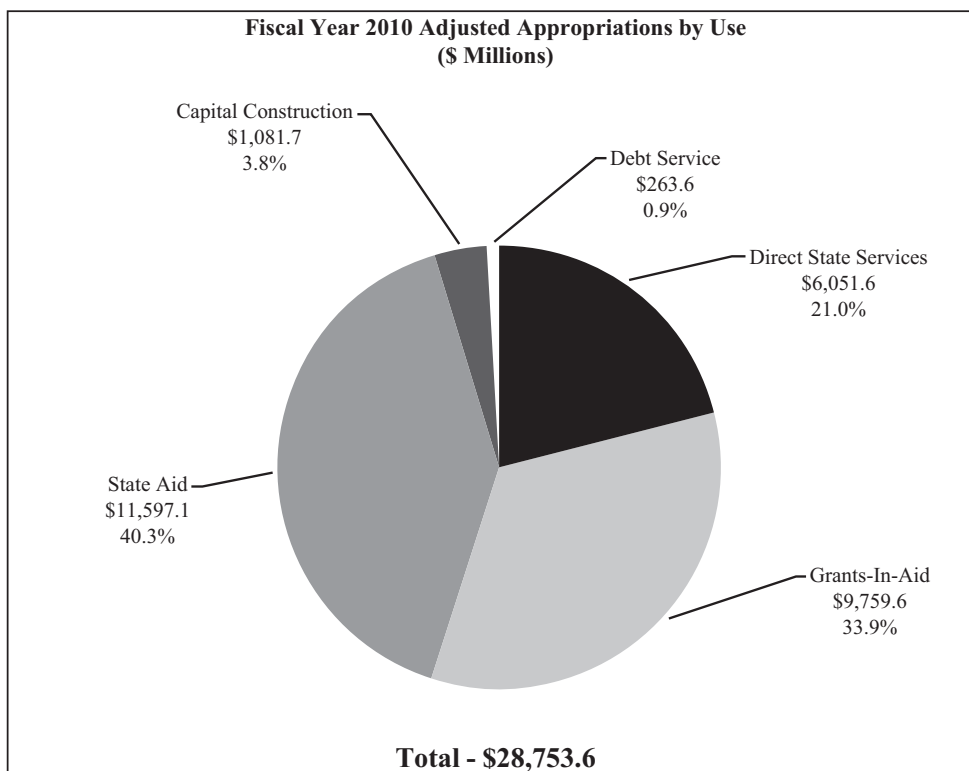
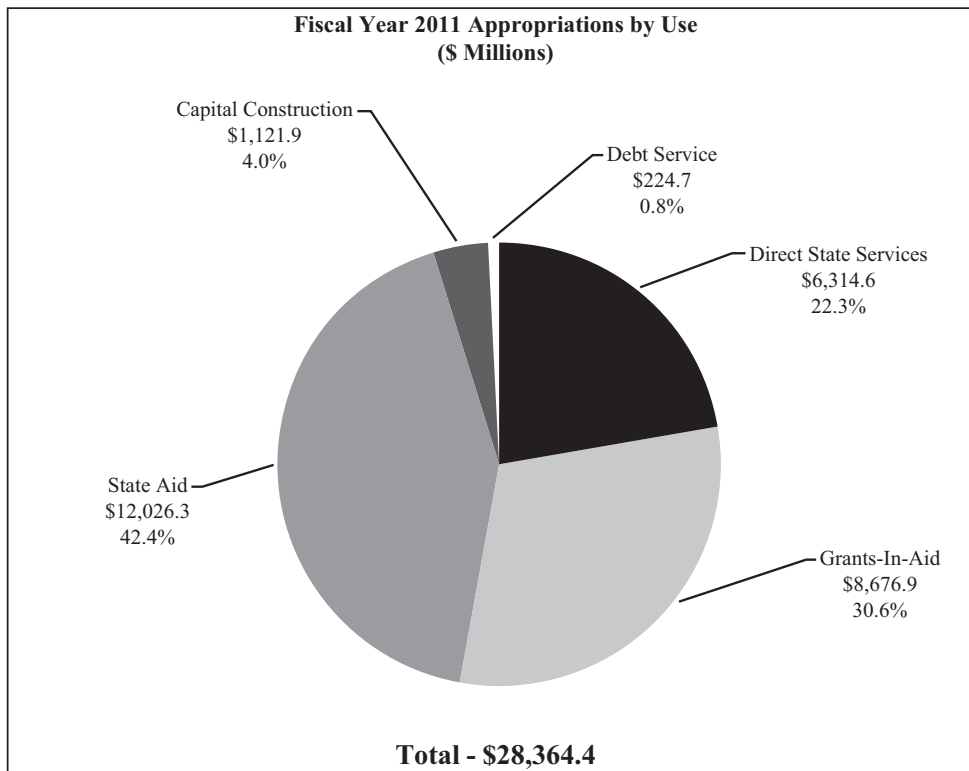
SUMMARY OF APPROPRIATIONS
(\$ Millions)

	<u>Fiscal Year 2011</u>	<u>Fiscal Year 2010(1)</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
State Aid	\$12,026.3	\$11,597.1	\$ 429.2	3.7%
Grants-in-Aid	8,676.9	9,759.6	(1,082.7)	(11.1)
Direct State Services	6,314.6	6,051.6	263.0	4.3
Capital Construction	1,121.9	1,081.7	40.2	3.7
Debt Service	224.7	263.6	(38.9)	(14.8)
Totals	<u>\$28,364.4</u>	<u>\$28,753.6</u>	<u>\$ (389.2)</u>	<u>(1.4)%</u>

(1) Adjusted appropriations reflect the addition of any supplemental appropriations made by the Legislature and approved by the Governor to the appropriations contained in the Fiscal Year 2010 Appropriations Act. Lapses in appropriations are not reflected in the table above. See "SUMMARY OF REVENUES, APPROPRIATIONS AND UNDESIGNATED FUND BALANCES GENERAL STATE FUNDS" herein.

The 3.7% increase in State Aid is predominantly due to increases in education for school aid and debt service on school construction bonds, and in human services to offset reduced federal funding for income maintenance programs, partially offset by reductions in State funding for municipal aid. The 11.1% reduction in Grants-in-Aid reflects decreases in property tax rebates, Medicaid, and operating aid reductions to colleges and universities. The 4.3% increase in Direct State Services reflects increased benefits costs for State employees. The 3.7% increase in Capital Construction reflects increases in the constitutional dedication of the Corporation Business Tax for hazardous material remediation, shore protection projects and capital improvement projects in parks, forests and wildlife management areas. The 14.8% recommended reduction in Debt Service reflects projected debt service growth of \$137.1 million offset by general obligation bond debt restructuring savings of \$176.0 million.

In 2009, the State entered into modified agreements with the Communications Workers of America, the International Federation of Professional and Technical Engineers, and the American Federation of State, County and Municipal Employees, which represent nearly 49,000 full-time Executive Branch employees out of a total of about 74,000 full-time State employees (including Judiciary Branch employees). The agreement was also imposed on the nearly 6,000 non-aligned employees in the Executive Branch. The terms of the agreements include a total of 10 unpaid furlough days to be taken prior to July 1, 2010, and postponement until January 1, 2011, of a 3.5% cost of living adjustment (COLA) that was scheduled to take effect on July 1, 2009. The agreement stipulates that no additional unpaid leaves may be imposed prior to June 30, 2011, and includes a no layoff pledge for represented workers through January 1, 2011. If a represented worker is laid off prior to this date, then the State must immediately pay to all employees the 3.5% COLA that was deferred and must suspend for all workers the unpaid furlough days proportionate to when the layoff occurred. The Fiscal Year 2011 Appropriations Act includes \$133.8 million to fund the July 1, 2010 and January 1, 2011 COLA increases, net of an anticipated \$50 million of privatization savings.



Programs Funded in Fiscal Year 2011

Of the \$28,364.4 million appropriated for Fiscal Year 2011 from the General Fund, the Property Tax Relief Fund, the Casino Control Fund, the Casino Revenue Fund and the Gubernatorial Elections Fund, \$12,026.3 million (42.4%) is appropriated for State Aid, \$8,676.9 million (30.6%) is appropriated for Grants-in-Aid, \$6,314.6 million (22.2%) is appropriated for Direct State Services, \$224.7 million (0.8%) is appropriated for Debt Service on State General Obligation Bonds and \$1,121.9 million (4.0%) is appropriated for Capital Construction. See “FINANCIAL RESULTS AND ESTIMATES — Appropriations” above.

State Aid

State Aid is the largest portion of Fiscal Year 2011 appropriations. These consist of payments to, or on behalf of, counties, municipalities and school districts, to assist them in carrying out their local responsibilities.

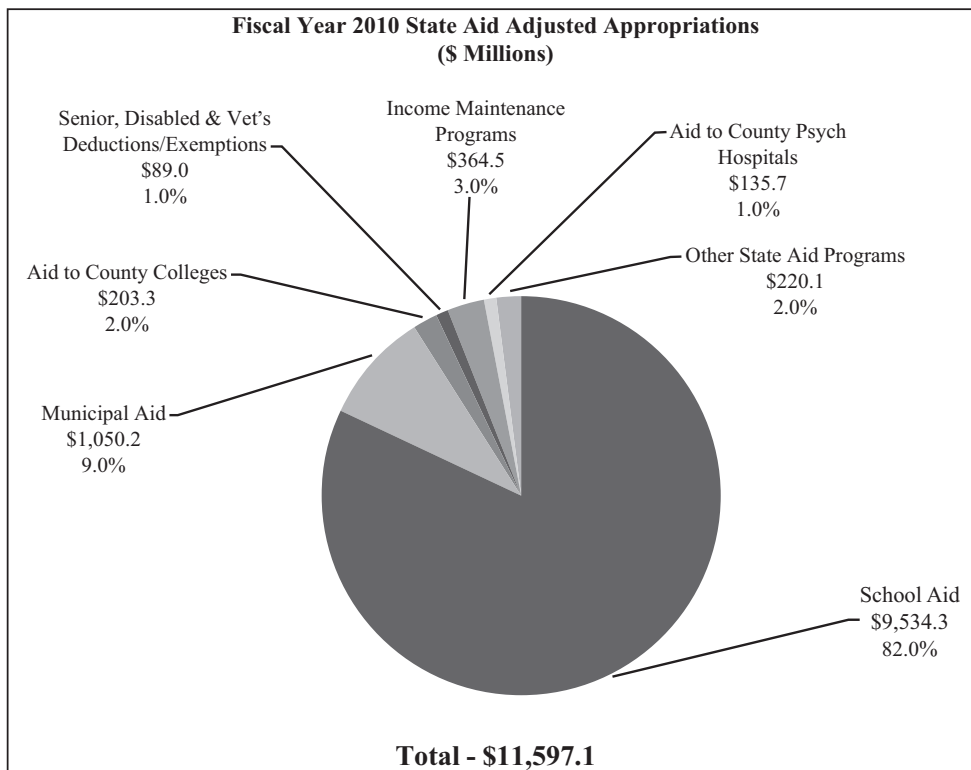
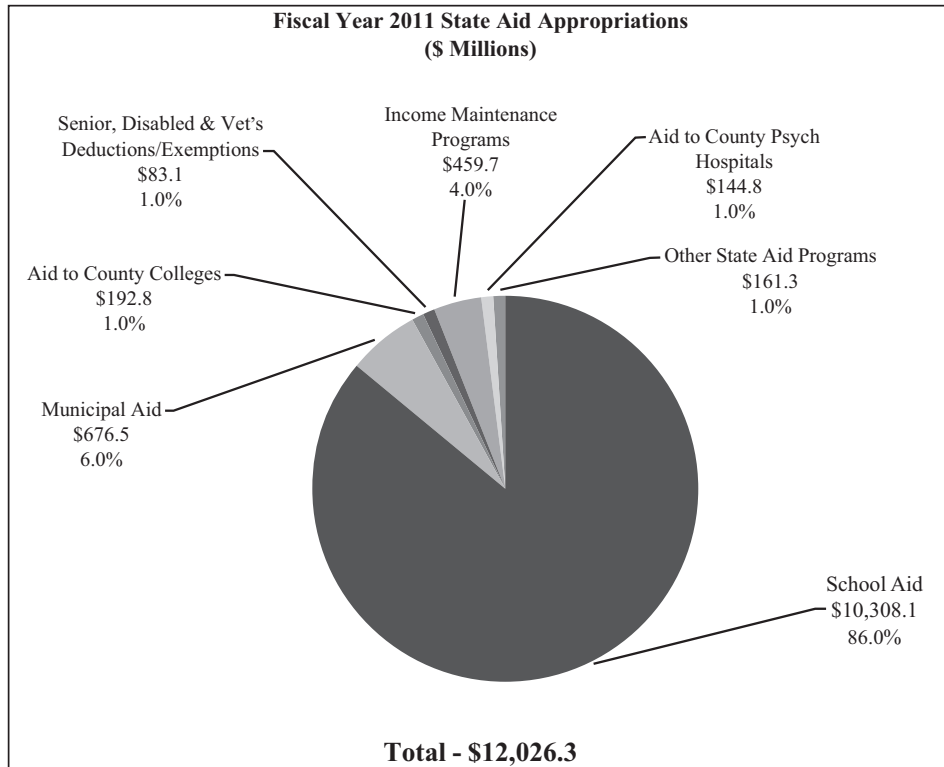
The largest State Aid appropriation, in the amount of \$10,308.1 million, is provided for local preschool, elementary and secondary education programs. Of this amount, \$7,462.1 million in formula aid for P-12 education will be distributed through the School Funding Reform Act of 2008, subject to the limitations of available funding. In Fiscal Year 2010, formula aid allocations to districts included \$1,056.9 million in federal stabilization funding which was a one-time source of revenue. Each district's Fiscal Year 2011 formula aid allocation reflects a reduction equal to approximately 5% of its Fiscal Year 2010 general fund budget. \$581.6 million is appropriated for the School Construction and Renovation Program, and \$81.3 million is appropriated in School Building Aid. This funding will service State school construction debt on new and existing bond issues, as well as provide aid for qualifying local debt issued for school construction. In addition, \$1,780.0 million is appropriated on behalf of school districts as the employers' share of the social security and teachers' pensions and benefits programs.

Appropriations to the Department of Community Affairs total \$676.5 million in State Aid monies for Fiscal Year 2011. Consolidated Municipal Property Tax Relief Aid is appropriated in the amount of \$505.4 million. These appropriations also include \$159.0 million for a new Transitional Aid to Localities program that replaces the Special Municipal Aid, Extraordinary Aid and Trenton Capital City Aid programs. This program will establish a competitive process to determine which temporarily distressed municipalities are in need of additional assistance.

Appropriations for the Department of Human Services total \$604.5 million in State Aid monies for Fiscal Year 2011. The principal programs funded by these appropriations are \$144.8 million for patients in county psychiatric hospitals and \$459.7 million for various income maintenance programs for the economically disadvantaged.

Appropriations for the Department of the Treasury total \$357.2 million in State Aid monies for Fiscal Year 2011. The principal programs funded by these appropriations are aid to county colleges (\$192.8 million) and the cost of senior citizens, disabled and veterans property tax deductions and exemptions (\$83.1 million). These appropriations also include \$16.2 million for County Solid Waste-Environmental Investment Aid.

\$15.0 million is appropriated for the Department of Corrections for inmate addiction services at county penal facilities.



Grants-in-Aid

The second largest portion of the appropriations in Fiscal Year 2011 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 2011 for Grants-in-Aid is \$8,676.9 million.

\$3,485.4 million is appropriated for programs administered by the Department of Human Services. Of that amount, \$2,209.0 million is for medical services provided under the Medicaid program (excluding FamilyCare), \$462.1 million is for community programs for the developmentally disabled, \$336.4 million is for community programs for the mentally ill, \$200.9 million is for assistance programs for the economically disadvantaged and homeless, \$223.8 million is for health insurance for adults and children through the FamilyCare program, and \$40.5 million is for addiction services.

\$774.0 million is appropriated for the Department of the Treasury. Included in this amount is \$268.2 million for the Fiscal Year 2011 Homestead Property Tax Credits, which will provide credits directly on local property tax bills for eligible homeowners. Seniors earning up to \$150,000 and non-seniors earning up to \$75,000 will receive the first credit in May 2011. Savings of \$804.6 million were achieved by initiating these direct credits in the last quarter of Fiscal Year 2011. Funding the same level of credits for an entire fiscal year in Fiscal Year 2012 will necessitate an increase in appropriations for this program. Also included in the appropriation is \$175.0 million for Business Employment Incentive Program grants, \$165.6 million for the Senior and Disabled Citizen's Property Tax Freeze, and \$68.9 million for energy assistance programs in the Board of Public Utilities.

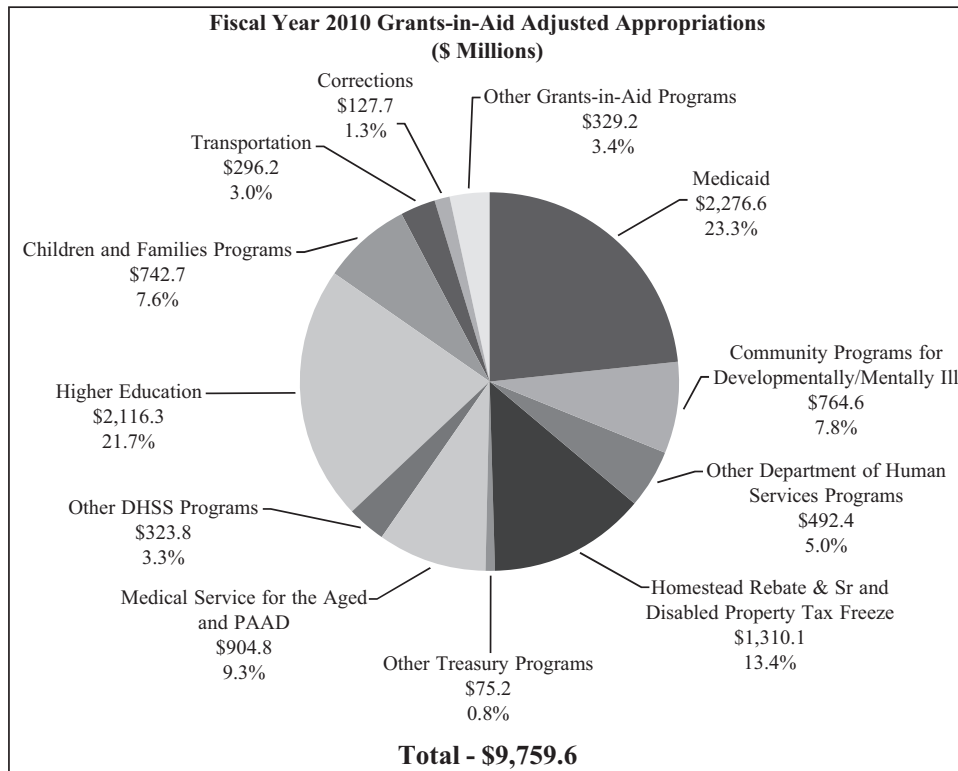
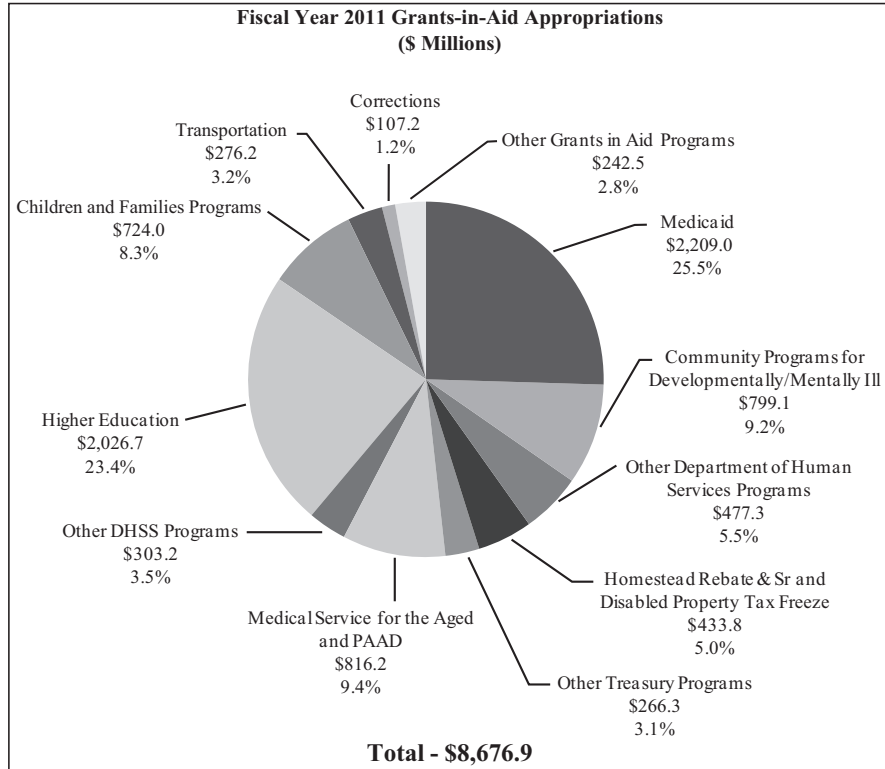
\$1,114.8 million is appropriated for programs administered by the Department of Health and Senior Services. Of that amount, \$639.2 million is for medical services for the aged, \$177.0 million is for pharmaceutical assistance to the aged and disabled, \$86.6 million is for the Early Childhood Intervention Program, \$38.9 million is for AIDS services, and \$45.1 million is for other programs for the aged.

\$714.2 million is appropriated for State colleges and universities. Other higher education appropriations are \$448.3 million for various grant programs including \$372.5 million for student financial assistance, \$28.8 million for debt service for the Dormitory Safety Trust Fund, the Equipment Leasing Fund and the Higher Education Facilities Trust Fund, and \$43.9 million for debt service on the Higher Education Capital Improvement Program. In addition, \$864.2 million is appropriated for fringe benefit costs of State college and university employees.

\$724.0 million is appropriated for programs administered by the Department of Children and Families. Of that amount, \$422.8 million is for child protective and permanency services, \$242.4 million is for child behavioral health services, and \$58.8 million is for community programs intended to prevent child abuse and neglect.

\$276.2 million is appropriated for the Department of Transportation for bus and railroad subsidies.

\$107.2 million is appropriated for the Department of Corrections (including the State Parole Board). The largest items of appropriation in this Department are \$6.5 million for payments to county penal facilities to house State inmates, \$64.6 million for the purchase of community services and \$36.1 million for alternative parole programs.



Direct State Services

The third largest portion of the appropriations in Fiscal Year 2011 is applied to Direct State Services, which supports the operation of State government's departments, the Executive Office, several commissions, the State Legislature and the Judiciary. In Fiscal Year 2011, appropriations for Direct State Services aggregate to \$6,314.6 million. Some of the major appropriations for Direct State Services during Fiscal Year 2011 are described below.

\$1,783.5 million is appropriated in the Interdepartmental Accounts for fringe benefits for active and retired State employees, including pensions other than defined benefit pensions and non-contributory insurance (\$41.1 million), health benefits (\$1,218.0 million), employer taxes (\$426.1 million), and a portion of the debt service on State Pension Funding bonds (\$98.3 million) issued by the New Jersey Economic Development Authority. In addition, \$133.8 million is appropriated for the cost of negotiated salary increases. This amount is net of an anticipated \$50 million in savings from various privatization initiatives.

\$958.5 million is appropriated for the Department of Corrections (including the State Parole Board) and \$521.7 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.

\$469.9 million is appropriated for programs administered by the Department of Human Services. Of that amount, \$366.5 million is appropriated for mental health and developmentally disabled programs, including the operation of five psychiatric institutions (\$281.2 million) and seven developmental centers (\$62.1 million); \$39.6 million is appropriated for administration of the various income maintenance programs, including Work First New Jersey; and \$28.9 million is appropriated for administration of the Medicaid program.

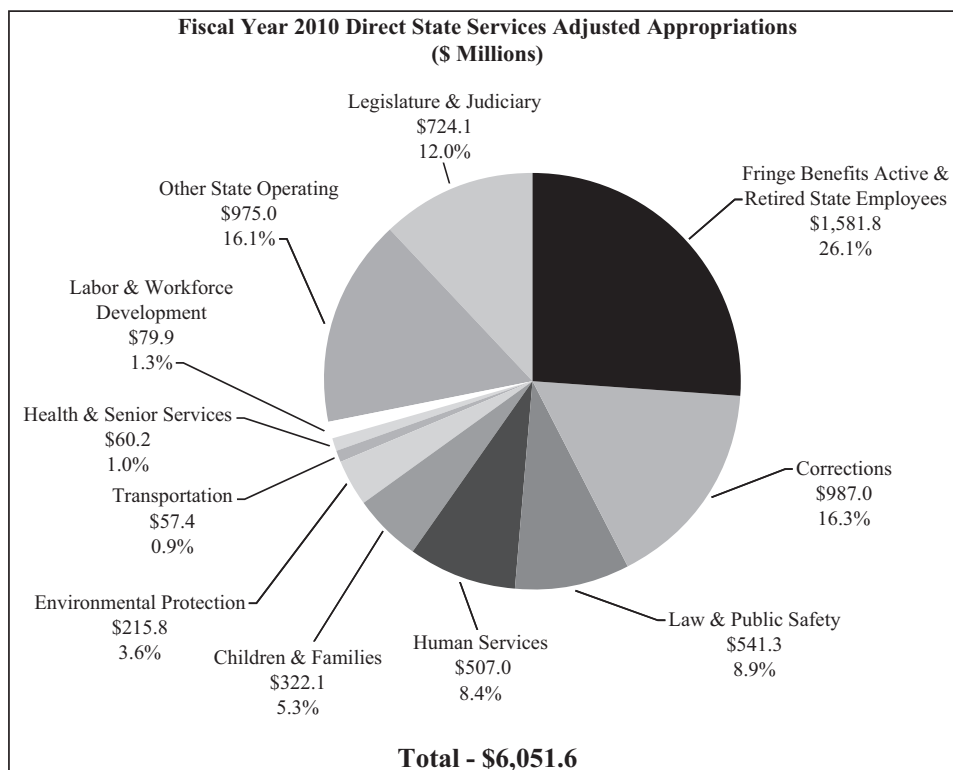
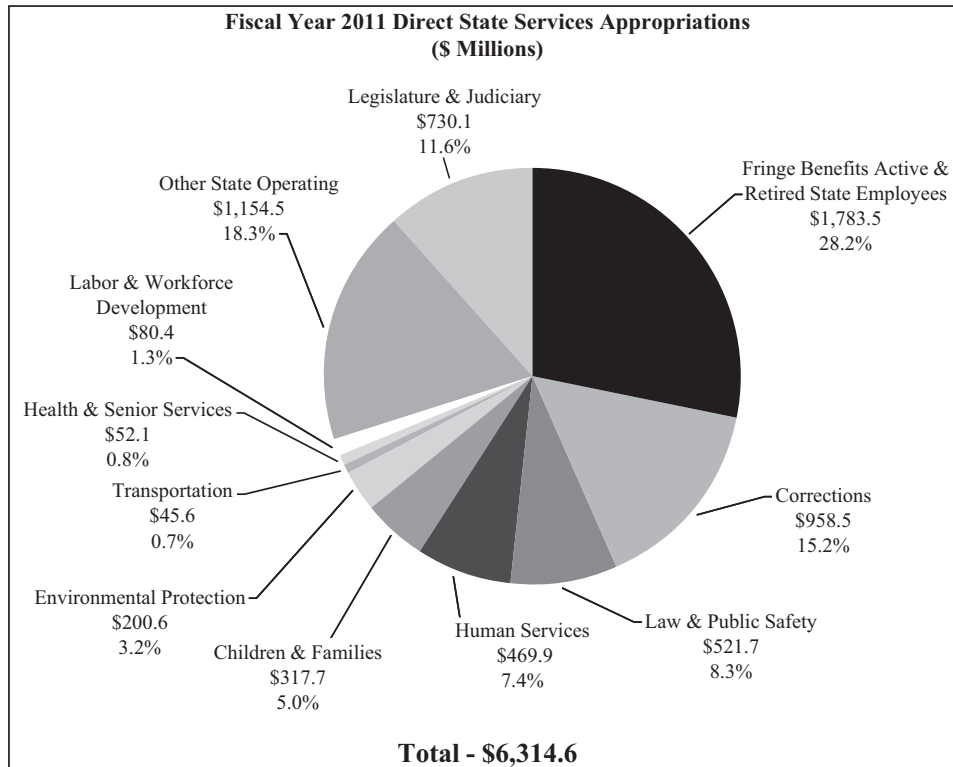
\$317.7 million is appropriated for programs administered by the Department of Children and Families for various children's services programs.

\$200.6 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.

\$80.4 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.

\$52.1 million is appropriated for the Department of Health and Senior Services for the prevention and treatment of diseases, regulation of health care facilities, the uncompensated care program and senior services programs.

\$45.6 million is appropriated for the Department of Transportation for the various programs it administers, such as the maintenance and improvement of the State highway system and winter operations.



Capital Construction

Capital construction is funded by a combination of appropriation of current revenues on a pay-as-you-go basis and bond proceeds. The Fiscal Year 2011 Appropriations Act appropriates \$1,121.9 million for this purpose. This amount includes \$895.0 million for transportation projects and debt service, which is being credited to the Transportation Trust Fund Account of the General Fund. Of the remainder, \$98.0 million is for payments to cover debt service on bonds issued for open space and farmland preservation and is being credited to the Garden State Preservation Trust Fund Account of the General Fund, \$45.5 million is for hazardous substance remediation and brownfields, \$31.5 million is for shore protection and flood control projects, \$26.4 million is for debt service on New Jersey Building Authority bonds, \$15.5 million is for capital improvements for parks, forestry and wildlife management areas, and \$10.0 million is for energy efficiency projects.

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

For Fiscal Year 2011, 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 2011 Appropriations Act are largely based on the recommendations of the Commission. There can be no assurance that the amounts appropriated are sufficient to maintain or improve the State’s capital facilities and infrastructure assets.

Debt Service on General Obligation Bonds

The State finances certain capital projects through the sale of general obligation bonds of the State. These bonds are backed by the faith and credit of the State. Certain state tax revenues and certain other fees are pledged to meet the principal payments, interest payments, and redemption premium payments, if any, required to fully pay the bonds. For a listing of bonded indebtedness that was authorized and outstanding as of June 30, 2010, see “OUTSTANDING BONDED INDEBTEDNESS OF THE STATE” herein. The appropriation for debt service on the State’s general obligation bonds is \$224.7 million for Fiscal Year 2011. This assumes a savings of \$176 million from restructuring of certain general obligation bonds and the application of other available moneys for the payment of 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 2007 through 2009.

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

EXPENDITURES
(\$ Millions)

	For the Fiscal Year Ended June 30		
	2009	2008	2007
General Fund:			
Legislative Branch	\$ 78.4	\$ 77.5	\$ 77.8
Chief Executive's Office	5.6	5.7	5.9
Department of:			
Agriculture	345.9	314.9	309.0
Banking and Insurance	66.4	73.4	93.6
Children and Families	1,509.3	1,469.7	1,336.9
Community Affairs	952.7	719.2	806.4
Corrections	1,174.6	1,204.8	1,201.1
Education	1,872.4	1,537.0	1,771.4
Environmental Protection	541.0	538.8	530.2
Health and Senior Services	3,345.9	3,263.8	3,156.2
Human Services	10,124.3	9,608.1	9,210.0
Labor and Workforce Development	911.3	1,001.2	696.7
Law and Public Safety	1,033.2	1,078.1	1,045.2
Military and Veterans Affairs	131.9	168.3	127.7
Personnel	—	26.3	27.5
Public Advocate	18.3	19.6	16.8
State	1,337.1	1,380.7	1,306.2
Transportation	1,758.6	1,666.4	1,648.9
Treasury	2,596.1	2,835.5	2,742.2
Miscellaneous Executive Commission	1.5	1.4	1.4
Inter-Departmental Accounts	2,970.3	4,017.4	3,102.0
Judicial Branch	762.6	749.4	718.1
Total General Fund	<u>\$31,537.4</u>	<u>\$31,757.2</u>	<u>\$29,931.2</u>
Property Tax Relief Fund:			
Department of:			
Community Affairs	\$ 663.2	\$ 1,010.7	\$ 976.8
Education	9,380.0	10,224.4	9,411.1
Environmental Protection	9.7	9.8	9.1
Human Services	—	148.0	—
Treasury	1,999.3	2,461.0	1,299.1
Total Property Tax Relief Fund	<u>\$12,052.2</u>	<u>\$13,853.9</u>	<u>\$11,696.1</u>
Gubernatorial Elections Fund	<u>\$ 5.6</u>	<u>\$ —</u>	<u>\$ 1.8</u>
Casino Control Fund			
Department of:			
Law and Public Safety	\$ 40.6	\$ 43.5	\$ 43.6
Treasury	27.2	28.1	29.5
Total Casino Control Fund	<u>\$ 67.8</u>	<u>\$ 71.6</u>	<u>\$ 73.1</u>
Casino Revenue Fund			
Department of:			
Health and Senior Services	\$ 274.2	\$ 276.3	\$ 259.6
Human Services	130.5	112.9	163.0
Labor and Workforce Development	2.4	2.4	2.4
Law and Public Safety	0.1	0.1	0.1
Transportation	33.0	36.9	34.9
Total Casino Revenue Fund	<u>\$ 440.2</u>	<u>\$ 428.6</u>	<u>\$ 460.0</u>
Total Expenditures	<u><u>\$44,103.2</u></u>	<u><u>\$46,111.3</u></u>	<u><u>\$42,162.2</u></u>

Balance Sheets

The comparative balance sheets for the General Fund as of June 30, 2008 and 2009 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, 2009 are set forth below:

GENERAL FUND COMPARATIVE BALANCE SHEETS (Audited)

	As of June 30	
	2009	2008
ASSETS		
Cash and Cash Equivalents	\$ 67,740,804	\$ 45,603,027
Investments	1,910,941,276	3,057,213,911
Receivables, Net of Allowances for Uncollectibles		
Federal Government	661,461,461	431,444,949
Departmental Accounts	1,868,539,872	1,941,974,322
Loans	22,174,096	22,183,281
Other	194,772,306	200,374,040
Advances to Other Funds	7,000,000	8,000,000
Other Assets		
Due from Other Funds	891,656,405	1,346,743,638
Deferred Charges	—	—
Other	19,692,387	23,479,791
Total Assets	<u><u>\$5,643,978,607</u></u>	<u><u>\$7,077,016,959</u></u>
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts Payable	\$1,667,594,314	\$1,787,322,891
Deferred Revenue	238,547,680	287,442,887
Due to Other Funds	482,193,013	375,542,359
Other	155,586,223	85,406,430
Total Liabilities	<u><u>\$2,543,921,230</u></u>	<u><u>\$2,535,714,567</u></u>
Fund Balances		
Reserved:		
Reserved for Encumbrances	\$ 868,404,612	\$ 923,852,981
Reserved — Other	46,156,341	65,805,449
Reserved — Surplus Revenue	—	734,706,805
Unreserved:		
Designated for Unrealized Gains	—	—
Designated for Continuing Appropriations	1,526,784,922	2,347,110,195
Undesignated	658,711,502	469,826,962
Total Fund Balances	<u><u>\$3,100,057,377</u></u>	<u><u>\$4,541,302,392</u></u>
Total Liabilities and Fund Balances	<u><u>\$5,643,978,607</u></u>	<u><u>\$7,077,016,959</u></u>

See the 2009 CAFR incorporated herein by reference, for the notes which are an integral part of these financial statements and for further information concerning the other funds of the State.

**BALANCE SHEETS
AS OF JUNE 30, 2009
(Audited)**

	Casino Control Fund(1)	Casino Revenue Fund(2)	Gubernatorial Elections Fund(3)	Property Tax Relief Fund(4)
ASSETS				
Cash and Cash Equivalents	\$ 51,000	\$ —	\$ —	\$ —
Investments	—	—	—	—
Receivables, Net of Allowances for Uncollectibles				
Departmental Accounts	10,013,850	37,385,168	469,560	568,539,305
Other Assets Due from Other Funds	8,308,340	34,711,466	—	11,753,111
Total Assets	<u>\$18,373,190</u>	<u>\$72,096,634</u>	<u>\$469,560</u>	<u>\$580,292,416</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ 4,936,101	\$28,975,846	\$104,609	\$ 55,970,752
Deferred Revenue	11,539,000	7,000	—	—
Due to Other Funds	—	—	364,951	369,074,932
Other	—	—	—	153,050,057
Total Liabilities	<u>\$16,475,101</u>	<u>\$28,982,846</u>	<u>\$469,560</u>	<u>\$578,095,741</u>
Fund Balances				
Reserved for Encumbrances	\$ 987,197	\$43,113,788	\$ —	\$ 2,196,675
Unreserved:				
Designated for Continuing Appropriations	910,892	—	—	—
Undesignated	—	—	—	—
Total Fund Balances	<u>\$ 1,898,089</u>	<u>\$43,113,788</u>	<u>\$ —</u>	<u>\$ 2,196,675</u>
Total Liabilities and Fund Balances	<u>\$18,373,190</u>	<u>\$72,096,634</u>	<u>\$469,560</u>	<u>\$580,292,416</u>

- (1) The Casino Control Fund is used to account for fees from the issuance and annual renewal of casino licenses. Appropriations are made to fund the operations of the Casino Control Commission and the Division of Gaming Enforcement. The Casino Control Fund was established by N.J.S.A. 54:12-143, approved June 2, 1977.
- (2) The Casino Revenue Fund is used to account for the tax on gross revenues generated by the casinos. Gross revenue refers to the total of all sums actually received by a licensee from gaming operations, less the total sums paid out as winnings to patrons. Appropriations from this fund must be used for reductions in property taxes, utility charges and other expenses of eligible senior citizens and disabled residents. The Casino Revenue Fund was established by N.J.S.A. 54:12-25, approved June 2, 1977.
- (3) The Gubernatorial Elections Fund is used to account for receipts from the dollar designations on New Jersey Gross Income Tax returns. When indicated by the taxpayer, one dollar of the tax is reserved from Gross Income Tax revenues and credited to the Gubernatorial Elections Fund. These funds are available for appropriation pursuant to The New Jersey Campaign Contributions and Expenditures Reporting Act (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, 2010 and has not been modified for subsequent activity. See also “OBLIGATIONS SUPPORTED BY STATE REVENUE SUBJECT TO ANNUAL APPROPRIATION” and “MORAL OBLIGATION FINANCING” herein.

<u>Name</u>	<u>Year Authorized</u>	<u>Final Maturity</u>	<u>Amount Authorized</u>	<u>Amount Unissued</u>	<u>Amount Retired(1)</u>	<u>Amount Outstanding</u>
Clean Waters Bonds	1976	2030	\$ 120,000,000	\$ 3,400,000	\$ 115,115,000	\$ 1,485,000
State Land Acquisition and Development Bonds . . .	1978	2027	200,000,000	—	197,895,000	2,105,000
Natural Resources Bonds	1980	2024	145,000,000	9,600,000	121,620,000	13,780,000
Energy Conservation Bonds	1980	2024	50,000,000	1,600,000	48,100,000	300,000
Water Supply Bonds	1981	2030	350,000,000	73,150,000	256,600,000	20,250,000
Hazardous Discharge Bonds	1981	2012	100,000,000	43,000,000	56,375,000	625,000
New Jersey Green Acres Bonds	1983	—	135,000,000	14,500,000	120,500,000	—
Pinelands Infrastructure Trust Bonds	1985	2030	30,000,000	6,750,000	22,000,000	1,250,000
Resource Recovery and Solid Waste Disposal Facility Bonds	1985	2011	85,000,000	—	83,730,000	1,270,000
Hazardous Discharge Bonds	1986	2012	200,000,000	48,000,000	144,170,000	7,830,000
Green Acres, Cultural Centers and Historic Preservation Bonds	1987	2027	100,000,000	1,000,000	89,780,000	9,220,000
Jobs, Education & Competitiveness Bonds	1988	2015	350,000,000	—	347,010,000	2,990,000
New Jersey Open Space Preservation Bonds	1989	2030	300,000,000	22,600,000	269,325,000	8,075,000
Public Purpose Buildings and Community-Based Facilities Construction Bonds	1989	2015	125,000,000	5,000,000	116,230,000	3,770,000
Stormwater Management and Combined Sewer Overflow Abatement Bonds	1989	2030	50,000,000	13,000,000	26,900,000	10,100,000
New Jersey Bridge Rehabilitation and Improvement and Railroad Right-of-way Preservation Bonds . .	1989	2012	115,000,000	—	111,725,000	3,275,000
New Jersey Green Acres, Clean Water, Farmland & Historic Preservation Bonds	1992	2030	345,000,000	12,880,000	288,625,000	43,495,000
Developmental Disabilities Waiting List Reduction and Human Services Facilities Construction Bonds	1994	2027	160,000,000	—	137,280,000	22,720,000
Green Acres, Farmland and Historic Preservation, and Blue Acres Bonds	1995	2027	340,000,000	21,000,000	265,230,000	53,770,000
Port of New Jersey Revitalization, Dredging, Environmental Cleanup, Lake Restoration, and Delaware Bay Area Economic Development Bonds	1996	2030	300,000,000	116,500,000	64,460,000	119,040,000
Statewide Transportation and Local Bridge Bonds . .	1999	2024	500,000,000	—	380,065,000	119,935,000
Dam, Lake, Stream, Flood Control, Water Resources, and Wastewater Treatment Project Bonds	2003	2030	200,000,000	42,250,000	14,920,000	142,830,000
Green Acres, Farmland, Blue Acres, and Historic Preservation Bonds	2007	2030	200,000,000	59,000,000	—	141,000,000
Green Acres, Water Supply and Floodplain Protection, and Farmland and Historic Preservation Bonds	2009	—	400,000,000	400,000,000	—	—
Refunding Bonds(2)	1985	2023	<u>5,370,619,598</u>	<u>—</u>	<u>3,502,994,598</u>	<u>1,867,625,000</u>
Totals			<u>\$10,270,619,598</u>	<u>\$893,230,000</u>	<u>\$6,780,649,598</u>	<u>\$2,596,740,000</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, 2010 and does not reflect subsequent activity.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 278,810,000	\$136,049,351	\$ 414,859,351
2012	287,470,000	112,822,534	400,292,534
2013	296,135,000	99,684,171	395,819,171
2014	217,110,000	83,780,539	300,890,539
2015	228,360,000	72,241,850	300,601,850
2016	235,830,000	59,895,106	295,725,106
2017	192,440,000	48,717,175	241,157,175
2018	181,740,000	39,263,553	221,003,553
2019	178,565,000	30,001,722	208,566,722
2020	158,700,000	21,320,725	180,020,725
2021	50,235,000	16,024,594	66,259,594
2022	52,780,000	13,527,969	66,307,969
2023	55,380,000	10,955,881	66,335,881
2024	43,900,000	8,765,525	52,665,525
2025	29,530,000	6,649,400	36,179,400
2026	31,010,000	5,172,900	36,182,900
2027	32,560,000	3,622,400	36,182,400
2028	14,700,000	1,994,400	16,694,400
2029	15,435,000	1,259,400	16,694,400
2030	16,050,000	642,000	16,692,000
Totals	<u>\$2,596,740,000</u>	<u>\$772,391,195</u>	<u>\$3,369,131,195</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 August 10, 2010 the State Treasurer adopted a resolution authorizing the issuance of TRANs for Fiscal Year 2011. The State anticipates issuing \$2.25 billion of TRANs in September 2010. The State may issue additional TRANs during Fiscal Year 2011.

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 2011. The amount of such obligations issued in the future could be significant. The amendment to the Debt Limitation Clause, described under “CERTAIN CONSTITUTIONAL PROVISIONS — Debt Limitations” herein, may reduce future authorizations of obligations supported by State revenues subject to appropriation. The State Legislature is not legally obligated to appropriate amounts for the payment of such debt service in any year, and there can be no assurance that the State Legislature will make any such appropriations. Future legislative action may depend in part on various factors including the financial condition of the State.

The following tables set forth the bond obligations that are supported by State revenues subject to appropriation by the State Legislature. The first table summarizes by issuer and by program the principal amount outstanding on June 30, 2010 and the estimated Fiscal Year 2011 debt service on such obligations. The second table depicts the aggregate estimated future debt service as of June 30, 2010 on all such obligations subject to annual appropriation as described herein. The data contained in the tables has not been adjusted to reflect subsequent activity. The tables include certain data that are (1) for governmental entities or programs that are not considered part of the State’s long-term obligations for financial reporting purposes under generally accepted accounting principles or (2) a component unit of the State. These items are therefore not reflected in Note 10 — Long-Term Obligations and the Schedule of Long-Term Debt in the 2009 CAFR.

SUMMARY OF OBLIGATIONS SUBJECT TO ANNUAL APPROPRIATION AS OF JUNE 30, 2010

<u>Issuer</u>	<u>Type of Agreement</u>	<u>Principal Amount Outstanding(1)</u>	<u>Fiscal Year 2011 Debt Service(2)</u>
Garden State Preservation Trust	Contract	\$ 1,109,749,410	\$ 97,990,158
New Jersey Building Authority	Lease	661,625,000	67,211,954
New Jersey Economic Development Authority			
Trenton Office Complex	Lease	18,905,000	10,202,513
Economic Recovery Fund	Contract	160,479,646	21,601,704
Liberty State Park — Park Projects	Lease	12,290,892	1,327,493
Liberty State Park — Science Center Projects	Lease	88,415,000	6,845,544
Market Transition Facility	Contract	111,105,000	71,631,000
Green Lights Energy Conservation Program	Lease	300,000	315,000
New Jersey Performing Arts Center	Lease	26,920,000	1,234,382
State Pension Funding	Contract	2,530,467,412	249,171,677
Department of Human Services Programs	Service Contract	21,935,000	3,154,269
New Jersey Transit Light Rail System	Lease	364,300,000	53,406,155
State Office Buildings Projects	Lease	40,445,000	5,262,713
School Facilities Construction	Contract	8,156,009,000	303,883,408
Municipal Rehabilitation	Contract	160,715,000	14,113,793
Motor Vehicle Commission(3)	Contract	159,998,107	—
Business Employment Incentive Program	Contract	146,850,000	33,532,740
Designated Industries Economic Growth and Development	Contract	16,625,000	5,979,225
Motor Vehicle Surcharges Revenue	Contract	807,502,356	37,763,281
Motor Vehicle Surcharges Revenue- Special Needs Housing	Contract	206,508,197	5,546,175
Cigarette Tax Revenue	Contract	1,138,610,000	117,307,863
Lafayette Yard Hotel Project	Lease	16,300,000	1,738,064
New Jersey Educational Facilities Authority			
Facilities Trust Fund	Contract	20,460,000	20,971,500
Capital Improvement Fund	Contract	432,680,000	43,881,731
Dormitory Safety Trust Fund	Contract	34,520,000	7,284,576
Equipment Leasing Fund	Contract	940,000	511,750
Public Library Project Grant Program	Contract	35,670,000	3,773,870
New Jersey Health Care Facilities Financing Authority			
Greystone Park Psychiatric Hospital Project	Contract	192,110,000	15,622,094
Hospital Asset Transformation Program	Contract	444,430,000	28,452,157
New Jersey Sports and Exposition Authority(4)	Contract	610,320,000	93,486,493
New Jersey Transportation Trust Fund Authority . . .	Contract	11,090,470,716	781,723,817
State of New Jersey Certificates of Participation			
James J. Howard Marine Science Laboratory	Lease	3,835,000	1,147,350
New Jersey Transit, Transportation Equipment . . .	Lease	911,785,000	92,488,219
State-Supported County College Bonds	Statutory	213,971,108	33,668,976
State Equipment Line of Credit	Lease	26,710,720	14,931,345
TOTALS		\$29,973,957,564	\$2,247,162,990

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

(2) For variable rate obligations, interest amounts were calculated using the rates in effect on June 30, 2010. (See "OBLIGATIONS SUPPORTED BY STATE REVENUE SUBJECT TO ANNUAL APPROPRIATION — Variable Rate obligations" herein).

(3) These bonds consist of capital appreciation bonds with no maturities or payments due in Fiscal Year 2011.

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

**ESTIMATED FUTURE DEBT SERVICE SUBJECT TO ANNUAL APPROPRIATION
AS OF JUNE 30, 2010**

Fiscal Year	Principal(1)	Estimated Interest(1)(2)	Total
2011	\$ 870,110,751	\$ 1,374,614,485	\$ 2,244,725,236
2012	899,286,358	1,350,270,559	2,249,556,916
2013(3)	891,645,490	2,101,258,935	2,992,904,425
2014	1,162,161,184	1,311,482,359	2,473,643,543
2015	1,197,435,033	1,276,293,282	2,473,728,315
2016	1,280,069,885	1,211,465,039	2,491,534,924
2017	1,421,606,460	1,194,081,373	2,615,687,833
2018	1,513,146,535	1,161,868,472	2,675,015,007
2019	1,529,280,356	1,144,025,313	2,673,305,670
2020	1,432,423,181	1,111,840,506	2,544,263,687
2021	1,427,515,533	1,034,221,670	2,461,737,203
2022	1,369,363,064	1,003,501,988	2,372,865,052
2023	1,433,796,195	947,040,180	2,380,836,375
2024	1,069,013,097	904,969,211	1,973,982,308
2025	932,803,201	1,005,657,115	1,938,460,316
2026	1,244,560,764	810,720,674	2,055,281,439
2027	1,373,729,055	704,543,021	2,078,272,076
2028	1,340,411,994	642,098,580	1,982,510,574
2029	1,313,355,214	618,042,608	1,931,397,821
2030	811,114,162	499,691,819	1,310,805,981
2031	572,329,239	485,816,929	1,058,146,168
2032	512,779,382	477,320,724	990,100,105
2033	555,404,086	442,855,528	998,259,614
2034	565,671,831	423,556,240	989,228,071
2035	496,144,809	403,552,956	899,697,765
2036	335,989,570	504,873,133	840,862,703
2037	300,814,324	472,952,901	773,767,225
2038	262,206,526	488,959,999	751,166,525
2039	242,838,420	565,850,892	808,689,313
2040	343,610,782	452,010,780	795,621,563
2041	523,341,082	149,576,418	672,917,500
	<u>\$29,223,957,564</u>	<u>\$26,275,013,688</u>	<u>\$55,498,971,252</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, 2010. (See "OBLIGATIONS SUPPORTED BY STATE REVENUE SUBJECT TO ANNUAL APPROPRIATION — Variable Rate Obligations" herein).
- (3) The principal amount excludes \$750,000,000 NJEDA School Facilities Construction Notes, 2010 Series B that mature June 15, 2013. It is anticipated that these Notes will be refunded prior to their maturity. Estimated interest on the Notes is included in this table.

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. After July 1, 2009, only refunding bonds can be issued. The bonds issued by the GSPT are special obligations of the GSPT payable from amounts paid to it under a contract between the GSPT and the State Treasurer, subject to appropriation by the State Legislature.

New Jersey Building Authority

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

New Jersey Economic Development Authority

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

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

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

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

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

The Educational Facilities Construction and Financing Act, P.L. 2000, c. 72 (“EFCFA”) authorizes the NJEDA to issue bonds to finance the State share of costs for school facilities construction projects. EFCFA originally provided that the aggregate principal amount of bonds, notes or other obligations issued by NJEDA shall not exceed: \$100,000,000 for the State share of costs for county vocational school district school facilities projects, \$6,000,000,000 for the State share of costs for “Abbott District” school facilities projects, and \$2,500,000,000 for the State share of costs for school facilities projects in all other districts. Debt service on the bonds issued pursuant to EFCFA is paid pursuant to a contract between the State Treasurer and the NJEDA, subject to appropriation by the State Legislature.

EFCFA was amended in July 2008 to increase the amount of bonds, notes or other obligations authorized to be issued by the NJEDA in an additional aggregate principal amount not to exceed: \$2,900,000,000 for the State share of costs for “SDA Districts” (formerly “Abbott Districts”) school facilities projects, \$1,000,000,000 for the State share of costs for school facilities projects in all other districts, and \$50,000,000 for the State share of costs for

county vocational school district facilities projects. In regard to this increase in the amount of bonds authorized to be issued by NJEDA pursuant to this amendment, debt service on these bonds or refunding bonds issued by NJEDA and any additional costs authorized pursuant to Section 14 of EFCFA shall first be payable from revenues received from the New Jersey Gross Income Tax except that debt service on bonds issued to pay for administrative, insurance, operating and other expenses of the NJEDA and the Schools Development Authority in connection with school facilities projects shall be payable from the General Fund. The additional bonds issued pursuant to this amendment are also payable pursuant to the contract between the State Treasurer and the NJEDA, mentioned above, subject to appropriation by the State Legislature.

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

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

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

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

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

P.L. 2006, c.102 authorized the issuance of \$270 million of bonds by the NJEDA to fund various State capital construction projects, including stem cell research facilities in New Brunswick and Newark, biomedical research facilities, blood collection facilities and cancer research facilities. Debt service on the bonds shall be paid pursuant to a contract to be entered into between the NJEDA and the State Treasurer, subject to appropriation by the State Legislature. No bonds have been issued.

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

In addition, the State has entered into a number of leases with the NJEDA relating to the financing of certain real property, office buildings and equipment. The rental payments required to be made by the State under these lease agreements are sufficient to pay debt service on the bonds issued by the NJEDA to finance the acquisition and

construction of such projects and other amounts payable to the NJEDA, including certain administrative expenses of the NJEDA. Amounts payable under the lease agreements are subject to appropriation by the State Legislature.

New Jersey Educational Facilities Authority

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

New Jersey Health Care Facilities Financing Authority

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

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

New Jersey Sports and Exposition Authority

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

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

The Standby Deficiency Bonds are supported by a letter of credit from The Bank of New York Mellon, which expires in December 2010. The NJSEA anticipates obtaining a new letter of credit prior to the expiration date. The reimbursement obligation to The Bank of New York Mellon under the Letter of Credit and Reimbursement Agreement is secured by a State Contract Bond Equity Termination Value Standby Deficiency Agreement Series of 2008 in the maximum amount of \$65,640,492.15.

New Jersey Transportation Trust Fund Authority

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

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

\$895 million was appropriated to the TTFA for Fiscal Year 2010. That amount includes \$483 million from the Motor Fuels Tax, \$200 million from the Petroleum Gross Receipts Tax, \$200 million from the Sales Tax, and a contribution of \$12 million from the State’s toll road authorities pursuant to agreements between such authorities and the TTFA. Although the State Legislature has always provided appropriations to the TTFA in each Fiscal Year which exceeded the annual debt service on all of the TTFA’s outstanding indebtedness in such Fiscal Year, in several Fiscal Years those appropriations have been less than the minimum amounts specified in the State Contract for such Fiscal Year.

In Fiscal Year 2011, it is projected that substantially all appropriated funds that are currently provided to the TTFA will be needed to pay debt service on outstanding debt, further limiting the ability of the TTFA to fund transportation projects under the current appropriation level. Additional sources of funding to support debt issuances by the TTFA and/or funding on a pay-as-you-go basis will need to be the subject of future discussions between the Executive and Legislative branches of the State.

State of New Jersey Certificates of Participation

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

State Supported County College Bonds

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

Lines of Credit

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

Variable Rate Obligations

As of June 30, 2010 several of the independent State authorities described herein had in aggregate \$2,270,495,000 of variable rate demand bonds outstanding, with interest rates that reset daily or weekly. Such variable rate demand bonds are secured by respective Agreements, and are further supported by bank-issued letters of credit. Additionally, as of June 30, 2010 there are \$750 million of floating rate notes outstanding, which bear interest at a rate that resets quarterly based on the London InterBank Offering Rate ("LIBOR") plus a fixed spread. There is no letter of credit in support of these notes.

The following table provides a summary of the State-supported variable rate obligations outstanding as of June 30, 2010. The data has not been adjusted to reflect subsequent activity. There is no assurance that the interest rates on variable rate obligations will not rise in the future.

SUMMARY OF VARIABLE RATE OBLIGATIONS AS OF JUNE 30, 2010

Issuer	Series	Type-Reset Period	Amount Outstanding (\$) as of 06/30/10	Interest Rate (%) as of 6/30/10	Letter of Credit Bank
NJBA	2003 Series A-1	VRDB-Weekly	\$ 51,350,000	0.17%	Bank of New York
	2003 Series A-2	VRDB-Weekly	51,550,000	0.17	Bank of New York
	2003 Series A-3	VRDB-Weekly	34,375,000	0.17	Bank of Nova Scotia
	2003 Series A-4	VRDB-Weekly	34,375,000	0.17	Bank of Nova Scotia
NJEDA (School Facilities Construction)	2006 Series R-1	VRDB-Daily	262,540,000	0.12	Bank of Nova Scotia
	2006 Series R-2	VRDB-Daily	87,515,000	0.10	Bank of Nova Scotia
	2006 Series R-3	VRDB-Daily	87,515,000	0.14	Bank of Nova Scotia
	2008 Series V-1	VRDB-Weekly	63,945,000	1.18	Allied Irish Bank
	2008 Series V-2	VRDB-Weekly	301,470,000	0.28	Dexia Credit Local
	2008 Series V-3	VRDB-Weekly	231,000,000	0.18	Bank of Nova Scotia
	2008 Series V-4	VRDB-Weekly	250,635,000	0.22	Bank of America
	2008 Series V-5	VRDB-Weekly	284,975,000	0.18	Wachovia Bank
	2008 Series X	VRDB-Weekly	231,750,000	0.18	Bank of America
	2010 Series B	FRN-Quarterly	750,000,000	1.48	None
NJTTFA	2009 Series C	VRDB-Weekly	150,000,000	0.20	JP Morgan Chase Bank
	2009 Series D	VRDB-Weekly	147,500,000	0.21	Sumitomo Mitsui Bank
Total			<u>\$3,020,495,000</u>		

Swap Agreements

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

The following table sets forth for each swap agreement: the issuer, counterparty, outstanding notional amount, effective date, termination date, fixed rate and floating index as of June 30, 2010. The table has not been modified to reflect subsequent activity. The table reflects certain line items that are (1) for governmental entities or programs that are not considered part of the State's long-term obligations for financial reporting purposes under generally accepted accounting principles or (2) are a component unit of the State. These items are therefore not reflected in Note 12 — "DERIVATIVES" in the 2009 CAFR. For more information, see Note 12 — "DERIVATIVES" in the 2009 CAFR.

State of New Jersey
Interest Rate Swap Agreement Summary
As of June 30, 2010

<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	\$ 72,095,000	8/20/2003	6/15/2023	3.64000%	62% 1-Month LIBOR+20 bps
	Citibank, N.A., New York	30,895,000	8/20/2003	6/15/2023	3.64000%	62% 1-Month LIBOR+20 bps
	Goldman Sachs Mitsui Marine Derivative Products, L.P.	24,025,000	8/20/2003	6/15/2023	3.64000%	62% 1-Month LIBOR+20 bps
	Goldman Sachs Mitsui Marine Derivative Products, L.P.	10,305,000	8/20/2003	6/15/2023	3.64000%	62% 1-Month LIBOR+20 bps
	Morgan Stanley Capital Services, Inc.	24,025,000	8/20/2003	6/15/2023	3.64000%	62% 1-Month LIBOR+20 bps
	Morgan Stanley Capital Services, Inc.	10,305,000	8/20/2003	6/15/2023	3.64000%	62% 1-Month LIBOR+20 bps
		\$ 171,650,000				
NJEDA (School Facilities Construction)						
	Variable-to-Fixed Swaps					
	Bank of America, N.A	\$ 198,480,000	9/1/2006	9/1/2031	4.40740%	71.98% 1-Month LIBOR
	Bank of Montreal*	250,000,000	11/1/2009	11/1/2012	3.15250%	No Floating Payment
			11/1/2012	9/1/2034	4.54850%	62% 1-Month LIBOR+40 bps
	Deutsche Bank AG - New York Branch	79,860,000	11/1/2006	11/1/2016	4.32375%	75% 1-Month LIBOR+5.25 bps
	Goldman Sachs Mitsui Marine Derivative Products, L.P.	179,042,500	3/1/2006	3/1/2031	4.29590%	70.8% 1-Month LIBOR
	Goldman Sachs Mitsui Marine Derivative Products, L.P.	198,480,000	9/1/2006	9/1/2031	4.40740%	71.98% 1-Month LIBOR
	Goldman Sachs Mitsui Marine Derivative Products, L.P.	195,582,500	9/1/2007	9/1/2032	4.39900%	71.57% 1-Month LIBOR
	IXIS Financial Products, Inc.	250,000,000	11/1/2008	9/1/2033	4.48900%	62% 1-Month LIBOR+40 bps
	Merrill Lynch Capital Services, Inc.	500,000,000	5/1/2010	3/1/2035	4.25100%	62% 1-Month LIBOR+40 bps
	Royal Bank of Canada	250,000,000	5/1/2009	3/1/2034	4.51240%	62% 1-Month LIBOR+40 bps
	UBS AG, Stamford Branch	172,310,000	9/1/2004	9/1/2029	4.06250%	71.13% 1-Month LIBOR
	UBS AG, Stamford Branch	223,417,500	3/1/2005	3/1/2030	4.17625%	74.24% 1-Month LIBOR
	UBS AG, Stamford Branch	195,582,500	9/1/2007	9/1/2032	4.39900%	71.57% 1-Month LIBOR
	Wachovia Bank, N.A	172,310,000	9/1/2004	9/1/2029	4.06250%	71.13% 1-Month LIBOR
	Wachovia Bank, N.A	223,417,500	3/1/2005	3/1/2030	4.17625%	74.24% 1-Month LIBOR
	Wachovia Bank, N.A	179,042,500	3/1/2006	3/1/2031	4.29590%	70.8% 1-Month LIBOR
	Fixed-to-Variable Swap					
	UBS AG, Stamford Branch	\$ 380,515,000	5/1/2008	9/1/2015	3.03590%	75% 1-Month LIBOR
		\$3,648,040,000				
NJTTEA						
	Goldman Sachs Mitsui Marine Derivative Products, L.P.	\$ 85,000,000	1/30/2003	12/15/2017	3.56500%	67% 1-Month LIBOR
	Goldman Sachs Mitsui Marine Derivative Products, L.P.	50,000,000	1/30/2003	12/15/2018	3.63000%	67% 1-Month LIBOR
	Goldman Sachs Mitsui Marine Derivative Products, L.P.	85,000,000	1/30/2003	12/15/2018	3.53700%	67% 1-Week LIBOR
	Goldman Sachs Mitsui Marine Derivative Products, L.P.	62,500,000	1/30/2003	12/15/2019	3.67500%	67% 1-Week LIBOR
	Goldman Sachs Mitsui Marine Derivative Products, L.P.	62,500,000	1/30/2003	12/15/2019	3.67500%	67% 1-Week LIBOR
		\$ 345,000,000				
Totals		\$4,164,690,000				

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

Various independent State authorities have entered into swap agreements with eleven different counterparties. The outstanding notional amount of swap agreements with any single counterparty does not exceed 23.0% of the total outstanding notional amount. As of June 30, 2010, the mark-to-market value of the swap agreements are negative, indicating that the independent State authorities have no credit exposure to the swap counterparties. If the ratings of a counterparty were to be reduced below levels specified in the documentation relating to the swap agreements with the independent State authority and at such time the independent State authority did have in excess of a specified amount of credit exposure to such counterparty, the counterparty would be required to provide collateral to support all or a portion of the independent State authority's credit exposure. No assurance can be given that the ratings of the counterparties will be maintained at current levels or that the mark-to-market value of the swaps will not change to create credit exposure by the independent State authority to one or more counterparties. The various independent State authorities are not required to post collateral under any of the swap agreements listed in the above table. If ratings on the Bonds relating to the swaps generally fall below BBB or Baa2 by one or more rating agencies, then the counterparty may have the option to terminate the swaps. In some cases, the independent State authority may have the option to post collateral to prevent a termination. If a termination were to occur at a time where the swaps had a negative mark-to-market value, then the independent State authority would be required to make a termination payment in the amount of the negative mark to market. At June 30, 2010, the aggregate negative mark-to-market on the swaps listed in the above table was \$711.3 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, 2010. Amounts have not been modified to reflect subsequent activity.

	<u>Principal Amount Outstanding</u>	<u>Fiscal Year 2011 Debt Service</u>
New Jersey Housing and Mortgage Finance Agency	\$ 33,745,000	\$ 7,141,131
South Jersey Port Corporation	296,245,000	23,070,203
Higher Education Student Assistance Authority	<u>2,217,145,000</u>	<u>127,269,334</u>
	<u>\$2,547,135,000</u>	<u>\$157,480,668</u>

New Jersey Housing and Mortgage Finance Agency

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

South Jersey Port Corporation

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

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

<u>Fiscal Year</u>	<u>Amounts paid for debt service</u>
2006	\$ 6,455,167
2007	6,878,287
2008	6,881,543
2009	7,459,997
2010	11,534,236

Higher Education Student Assistance Authority

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

STATE EMPLOYEES

Public Employer-Employee Relations Act

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

Negotiation Process

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

Contract Status

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

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

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

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

The State has entered into a four-year contract for Fiscal Years 2008-2011 with the New Jersey Investigators Association, Inc, FOP Lodge 174 (“NJIA”). NJIA represents approximately 100 employees. The contract provides for a total salary increase of 11.0%, comprising increases of 3.5% in Fiscal Year 2008, 3.5% in Fiscal Year 2009, 0.00% in Fiscal Year 2010 and 4.0% in Fiscal Year 2011, split 2.0% in the first full pay period in July 2010 and 2.0% in the first full pay period in January 2011. The contract also provided that increments shall not be paid to employees eligible for increments for a full calendar year.

The New Jersey Law Enforcement Supervisors Association (“NJLESA”) representing approximately 700 employees has completed interest arbitration and an award was issued on December 28, 2009 providing for salary increases of 3.5% in Fiscal Year 2008, 3.5% in Fiscal Year 2009, 0.00% in Fiscal Year 2010 and 4.0% in Fiscal Year 2011, split 2.0% in the first full pay period in July 2010 and 2.0% in the first full pay period in January 2011. The award also provided that increments shall not be paid to employees eligible for increments for a full calendar year.

The State has entered into a four-year contract for Fiscal Years 2008-2011 with the New Jersey Superior Officers Law Enforcement Association (“NJSOLEA”). NJSOLEA represents approximately 450 employees. The contract provides for a total salary increase of 11.0%, comprising increases of 3.5% in Fiscal Year 2008, 3.5% in Fiscal Year 2009, 0.00% in Fiscal Year 2010 and 4.0% in Fiscal Year 2011, split 2.0% in the first full pay period in July 2010 and 2.0% in the first full pay period in January 2011. The contract also provided that increments shall not be paid to employees eligible for increments for a 1 year term — twenty-six (26) bi-weekly pay periods.

The State has entered into a four-year contract for Fiscal Years 2008-2011 with the New Jersey Law Enforcement Commanding Officers Association (“NJLECOA”). NJLECOA represents approximately 60 employees. The contract provides for a total salary increase of 11.0%, comprising increases of 3.5% in Fiscal Year 2008, 3.5% in Fiscal Year 2009, 0.00% in Fiscal Year 2010 and 4.0% in Fiscal Year 2011, split 2.0% in the first full pay period in July 2010 and 2.0% in the first full pay period in January 2011. The contract also provided that increments shall not be paid to employees eligible for increments for a 1 year term — twenty-six (26) bi-weekly pay periods.

The negotiations process for developing new four-year contracts for the remaining law enforcement units, including the State Police, is in the interest arbitration process for the approximately 3,100 State employees represented by a Union.

FUNDING PENSION PLANS

General. Almost all of the public employees of the State and its counties, municipalities and political subdivisions are members of pension plans administered by the State. The State operates seven defined benefit pension plans (collectively, the “Pension Plans”). Public Employees’ Retirement System (“PERS”) and Teachers’ Pension and Annuity Fund (“TPAF”) are the largest plans, which as of June 30, 2009, the date of the latest actuarial valuations for all systems covered 316,849 and 157,109 active members, respectively, and 138,619 and 78,782 retired members, respectively. The other systems are Police and Firemen’s Retirement System (“PFRS”) (as of June 30, 2009, 45,150 active members and 34,364 retired members), Consolidated Police and Firemen’s Pension Fund (“CP&FPF”) (as of June 30, 2009, no active members and 446 retired members), State Police Retirement System (“SPRS”) (as of June 30, 2009, 3,016 active members and 2,585 retired members), Judicial Retirement System (“JRS”) (as of June 30, 2009, 422 active members and 485 retired members) and Prison Officers’ Pension Fund (“POPF”) (as of June 30, 2009, no active members and 155 retired members). From June 30, 2004 to June 30, 2009, the total number of active members and retired members of all of the State-administered plans increased by 23,174 and 41,618, respectively, which represented increases of 4.6% and 19.5%, respectively.

The State is not the only employer participating in PERS and PFRS. Local governments within the State participate as employers as well. In both of these Pension Plans, the assets that the State and the local governments contribute are invested together and generate one investment rate of return. However, both of these Pension Plans segregate the active and retired members and the related actuarial liabilities between the State on one hand and the local governments on the other hand. As experience with the State’s active and retired members changes, these Pension Plans adjust the actuarial

liabilities of the State without affecting the actuarial liabilities of the local governments, and the same occurs with the experience with the local governments' active and retired members. As of June 30, 2009, those members of the PERS and PFRS for which the State is responsible for making contributions were, with respect to PERS, 93,283 active members and 44,248 retired members and, with respect to PFRS, 7,915 active members and 4,227 retired members.

Although PERS and PFRS segregate the active and retired members of the State and the local governments, under certain State statutes, the State is responsible for making certain contributions to PFRS and PERS on behalf of local employers. With respect to PERS, the normal cost portion of the actuarially recommended contribution relating to the retirement benefit increase provided to the local governmental members of PERS under Chapter 133, P.L. 2001 continues to be charged against the Benefit Enhancement Fund that was established for the local governmental employer component of PERS (the "Local Governmental BEF"). The Local Government BEF is a special reserve fund which assets are included in the actuarial value of assets of the local government portion of PERS and PFRS. The PERS actuarial valuation as of June 30, 2009 valued the Local Governmental BEF in the local governmental portion of PERS at approximately \$342.6 million. Although local governmental employers participating in the PERS are, for the most part, responsible for funding the normal cost and the unfunded actuarial accrued liability relating to the local governmental members of PERS, Chapter 133 stipulates that if the assets in the Local Governmental BEF are insufficient to pay the normal cost portion of these increased retirement benefits for a valuation period, the State will pay that amount of this normal cost portion for the local employers not covered by the assets in the Local Governmental BEF. With respect to PFRS, the State also makes a contribution with respect to active and retired members of the local governments to cover certain benefit enhancements. For Fiscal Year 2010, the State did not make a pension contribution to the Pension Plans, so no amount was contributed by the State on behalf of local PFRS participants. For Fiscal Year 2009, the State made a \$13.0 million contribution of which \$5.8 million was applied toward the cost of such enhanced benefits, See "FUNDING PENSION PLANS — *Current and Historical Contributions and Funding Status*", herein. For the Fiscal Year ending June 30, 2008, the State contributed \$60.0 million toward enhanced benefits on behalf of local PFRS members.

State law regulates the administration of the Pension Plans. State law requires that all Pension Plans must conduct an actuarial valuation as of the end of each Fiscal Year. Buck Consultants, an ACS Company, serves as consulting actuary for the PERS, PFRS, SPRS, JRS, CP&FPF and POPF, while Milliman Consultants and Actuaries 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 is available on the Division of Pensions and Benefits' website at: <http://www.state.nj.us/treasury/pensions/financial-rpts-home.htm>. No information contained on the website of the Division of Pensions and Benefits is deemed incorporated herein by reference.

The purpose of an actuarial valuation is to calculate the actuarial accrued liability in each of the Pension Plans, which estimates on the basis of demographic and economic assumptions the present value of benefits each of the Pension Plans will pay to its retired members and active members upon retirement. The State contracts with the independent actuaries that provide annual actuarial valuations for each of the Pension Plans, performed in accordance with State statutes and generally recognized and accepted actuarial principles and practices. The actuarial valuation compares the actuarial accrued liability with the actuarial value of assets and any excess of that liability over the assets forms an unfunded actuarial accrued liability ("UAAL") of the applicable Pension Plan. An actuarial valuation will express the percentage that a Pension Plan is funded through a "Funded Ratio" which represents the quotient obtained by dividing the actuarial value of assets of the Pension Plan by the actuarial accrued liability of the Pension Plan. An actuarial valuation will also state an actuarially recommended contribution rate, which is a recommended rate of covered payroll that the State and other sponsoring employers contribute to the applicable Pension Plan. The actuarially recommended contribution consists of two components: (1) normal cost, which represents the portion of the present value of retirement benefits that are allocable to active members' current year service, and (2) an amortized portion of the UAAL. The amount that the State actually contributes to the Pension Plans is subject to the Governor's budget request and annual appropriations by the State Legislature. In adopting the budget, the State Legislature is not required to follow the recommendations of the actuaries or the Governor in determining the appropriation for the State's contribution to the Pension Plans.

Ordinarily, the actuarial valuations of the Pension Plans are completed approximately 6-8 months after the end of a Fiscal Year. As a result, the actuarially recommended contribution rates of the actuarial valuations of the Pension Plans (other than for the PFRS) apply not to the Fiscal Year immediately following the Fiscal Year covered

by the actuarial valuations but the second immediately following Fiscal Year. For example, the actuarially recommended rates of contribution in the actuarial valuations of the Pension Plans as of June 30, 2009 are applicable to Fiscal Year 2011. For PFRS, however, the contributions specified in an actuarial valuation apply to the third Fiscal Year following the Fiscal Year covered by the actuarial valuation.

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

In the case of the expected rate of return of assets, the actual rate of return on the Pension Plans depends on the performance of their respective investment portfolios. The investment portfolios of the respective Pension Plans can be highly volatile. The value of the securities in the investment portfolios can dramatically change from one Fiscal Year to the next, which could, in turn, cause substantial increases or decreases in the applicable UAAL. For Fiscal Year 2009, the rate of return of the assets of the Pension Plans was negative 14.2%, causing the UAAL of the Pension Plans to increase between Fiscal Year 2008 and Fiscal Year 2009. For Fiscal Year 2010, the estimated year-end return is 14.36%.

In addition, the actuarial valuations of the Pension Plans use several actuarial methods to calculate the actuarial value of assets and actuarial accrued liability of the Pension Plans. For example, the Pension Plans use an asset valuation method of smoothing the difference between the market value of assets and the actuarial value of assets over a five-year period to prevent extreme fluctuations that may result from temporary or cyclical economic and market conditions. As of June 30, 2009, the aggregate market value of all of the assets of the Pension Plans, as determined by the Pension Plans' actuaries, was approximately \$66.2 billion, which amount included contribution receivables from the State and local employers. To the extent these receivables do not materialize, adjustments will be made by the actuaries in the next year's valuations. As of June 30, 2009, the aggregate actuarial value of all assets of the Pension Plans was \$89.1 billion. Based on these figures, the Pension Plans have a net unsmoothed loss of approximately \$22.9 billion.

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

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

State law provides that any changes in the retirement benefits of the Pension Plans or any changes in the funding methods of the Pension Plans must be approved by the State Legislature, and that each bill submitted to the State Legislature must be accompanied by a fiscal note stating the cost of the proposal. The State Legislature is under no requirement to adopt the recommendations of an actuary in determining the funding of the Pension Plans. State law provides that the retirement benefits of the Pension Plans are not subject to negotiations between the State and other public employers and the employee members of the Pension Plans. Since the Pension Plans are governed

by State law, any increases or decreases to the retirement benefits paid by the Pension Plans must be authorized by the State Legislature and approved by the Governor. The State's annual contribution to the Pension Plans is contingent upon the annual Appropriations Act, which is also subject to the approval of the State Legislature and the Governor. Due to budgetary constraints, the amounts appropriated as the State's contribution to the Pension Plans for a Fiscal Year are expected to be less than the actuarially recommended contributions.

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

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

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

Benefits. Nearly all State employees participate in one of the Pension Plans, with eight to ten years of employment required before retirement benefits become vested. Upon retirement, members of PERS and TPAF 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 participants is an early retirement benefit after 25 years of service and a veteran's retirement benefit after 20 and 25 years of service, if age requirements for those retirement benefits are met.

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

From Fiscal Year 2004 to Fiscal Year 2009 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 \$2.6 billion from \$70.1 billion to \$67.5 billion and the annual total expenditures incurred by the Pension Plans over the same period increased by \$2.3 billion from \$4.7 billion to \$7.0 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 6.76% for Fiscal Year 2004 to 10.38% for Fiscal Year 2009. 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.

For the first time in the actuarial valuations of the Pension Plans dated June 30, 2009, the actuaries included 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 designed 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 2009 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 makes the aggregation of such individual data in a single combined presentation inappropriate. For PERS-State, as of June 30, 2009, the ratio of market assets to the prior year’s benefit payment is 8.2. This ratio decreased by 29.3% from the previous year’s ratio of 11.6. For TPAF, as of June 30, 2009, the ratio of market assets to the prior year’s benefit payment is 8.9. This ratio decreased by 28.2% from the previous year’s ratio of 12.4.

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

In addition, the State Legislature has in the past adopted laws that limited future retirement benefits payable by the Pension Plans. These laws are expected to limit the future growth of the actuarial accrued liability of the affected Pension Plans which also has the effect of limiting the growth of the actuarially recommended contributions for the State for the affected Pension Plans in future plan years. For example, the State Legislature recently adopted laws affecting PERS and TPAF members enrolling on or after May 22, 2010 which limits membership in those plans 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 previously adopted laws for the Fiscal Year ending June 30, 2009 which raised the minimum annual salary required to establish eligibility for membership under certain Pension Plans and increased the retirement age at which full pension benefits are payable from 60 to 62 for certain employees hired on or after November 2, 2008. The State Legislature also adopted laws in 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. The State Legislature may from time to time in the future adopt additional legislation limiting the future retirement benefits payable under the Pension Plans.

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

Current and Historical Contributions and Funding Status. From Fiscal Year 1997 through Fiscal Year 2003, the State made minimal contributions to the Pension Plans because the actuarial value of the assets in each of the Pension Plans exceeded the actuarial accrued liability and the State used that excess as a credit against the actuarially recommended contributions. Beginning with the actuarial valuations of the Pension Plans as of June 30, 2002, several of the Pension Plans (including PERS and TPAF) suffered from adverse market conditions and the Funded Ratio of these Pension Plans declined rapidly. As a result, the actuarial recommended contributions in those actuarial valuations steeply increased and the State was not financially in the position to absorb the entire amount of the actuarially recommended contributions. For Fiscal Years 2004, 2005, 2006, 2007, and 2008, the State paid approximately 20.0%, 30.0%, 40.0%, 57.5%, and 50.1%, respectively, of the total actuarially recommended contributions of all of the Pension Plans.

However, for PERS and TPAF, State’s Appropriation Acts for Fiscal Years 2004, 2005 and 2006 authorized the use of the Benefit Enhancement Fund (the “State BEF”) to offset the State’s contributions to PERS and TPAF for

those years. The State BEF is a special reserve fund within PERS and TPAF, and which assets are included in the actuarial value of assets of PERS and TPAF, to which the required normal contributions to provide retirement benefit increases under P.L. 2001, Chapter 353 and P.L. 2001, Chapter 133, was charged. The fund was established in Fiscal Year 2002 and credited with excess assets equivalent to member contributions for Fiscal Years 2000 and 2001 by transferring reserves in the Contingent Reserve Fund to the State BEF. Amounts in the State BEF for each of PERS and TPAF were calculated within the respective actuarial value of assets and the related retirement benefits were calculated within the respective actuarial accrued liabilities. Therefore, because the State used amounts from the State BEF to satisfy its contributions in Fiscal Years 2004 through 2006, from an actuarial perspective, the State did not contribute any funds to PERS or TPAF in Fiscal Years 2004 and 2005 and the State contributed minimal amounts in Fiscal Year 2006. Amounts in the State BEF available to be used to make the State contributions became fully depleted in Fiscal Year 2006 and the State made a contribution to PERS and TPAF representing approximately 57.5% of the actuarially recommended contributions of those Pension Plans for Fiscal Year 2007 and approximately 50% of the actuarially recommended contributions for Fiscal Year 2008.

For Fiscal Year 2009, although \$1.047 billion was included in the Fiscal Year 2009 Appropriations Act as the State's pension contribution to the Pension Plans, the actual contribution made by the State was \$106.3 million, representing only 4.8% of the total actuarially recommended contribution to the Pension Plans of \$2.231 billion. This contribution, which was due on June 30, 2009, was paid by the State on September 14, 2009. For Fiscal Year 2010, although \$100 million was included in the Fiscal Year 2010 Appropriations Act as the State's contribution to the Pension Plans, the State did not make a contribution due to ongoing budgetary constraints. The \$100 million contribution originally expected to be made for Fiscal Year 2010 represented only 4% of the total actuarially recommended contribution for the State to the Pension Plans of \$2.519 billion. Based on the Fiscal Year 2011 Appropriations Act, no pension contribution will be made by the State to the Pension Plans for Fiscal Year 2011. The recommended contribution as determined by the actuaries for the Pension Plans for Fiscal Year 2011 is \$3.060 billion. The reduced contribution made by the State in Fiscal Year 2009, the zero contribution made by the State in Fiscal Year 2010 and an expected zero contribution by the State in Fiscal Year 2011, absent significant improvement in investment returns or actions resulting in changes to liabilities of the Pension Plans, are expected to cause the UAAL of the Pension Plans to increase significantly, which would lower the overall funded ratio of the Pension Plans and increase the need for future State pension contributions to ensure the fiscal integrity of the Pension Plans. No assurances can be given as to the level of the State's pension contributions in future fiscal years.

FUNDING STATUS
PENSION FUND ACTUARIAL LIABILITIES AND ASSETS(1)
Actuarial Valuations as of June 30, 2009
(In Millions)

<u>Pension Plan</u>	<u>Actuarial Value of Assets(2)</u>	<u>Actuarial Accrued Liability(3)</u>	<u>Unfunded Actuarial Accrued Liability(4)</u>	<u>Funded Ratio(5)</u>	<u>Market Value of Assets(6)</u>
State					
PERS	\$10,692.6	\$ 18,947.2	\$ 8,254.6	56.4%	\$ 7,973.8
TPAF	34,838.2	54,576.1	19,737.9	63.8%	24,973.9
PFRS	2,254.8	3,993.3	1,738.5	56.5%	1,742.7
CP&FPF	13.5	14.0	0.5	96.4%	11.7
SPRS	2,064.0	2,825.5	761.5	73.0%	1,564.2
JRS	354.4	594.0	239.6	59.7%	261.8
POPF	12.0	6.1	(5.9)	196.7%	12.0
Subtotal	<u>50,229.5</u>	<u>80,956.2</u>	<u>30,726.7</u>	<u>62.0%</u>	<u>36,540.1</u>
Local					
PERS	18,165.6	25,523.2	7,357.6	71.2%	13,395.1
PFRS	20,724.5	28,448.9	7,724.4	72.8%	16,283.7
Subtotal	<u>38,890.1</u>	<u>53,972.1</u>	<u>15,082.0</u>	<u>72.1%</u>	<u>29,678.8</u>
Total	<u>\$89,119.6</u>	<u>\$134,928.3</u>	<u>\$45,808.7</u>	<u>66.0%</u>	<u>\$66,218.9</u>

Source: New Jersey Department of the Treasury, Division of Pensions and Benefits. Information was derived from the actuarial valuation reports as of June 30, 2009 for each of the indicated Pension Plans.

- (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 2009 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.
- (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.
- (4) The UAAL of each of the Pension Plans is set forth in the actuarial valuation relating to a Pension Plan and reflects the amount of the excess of the actuarial accrued liability of a Pension Plan over its actuarial value of assets. The indicated amounts reflect the UAAL as calculated pursuant to the requirements of the Government Accounting Standards Board ("GASB") for purposes of presentation in the Comprehensive Annual Financial Report of the State. These amounts differ immaterially from the UAAL of the Pension Plans calculated strictly pursuant to the actuarial methods required by State statutes and the actuarial assumptions adopted by the applicable Pension Plan boards.
- (5) The Funded Ratio of each of the Pension Plans is presented in the actuarial valuation relating to a Pension Plan and reflects the quotient obtained by dividing the actuarial value of assets of the Pension Plan by the actuarial accrued liability of the Pension Plan. The indicated percentages reflect the Funded Ratio as calculated pursuant to the requirements of the Governmental Accounting Standards Board ("GASB") for purposes of presentation in the Comprehensive Annual Financial Report of the State. These percentages differ immaterially from the Funded Ratios of the Pension Plans calculated strictly pursuant to the actuarial methods required by State statutes and the actuarial assumptions adopted by the applicable Pension Plan boards.

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

HISTORICAL FUNDING STATUS
AGGREGATE PENSION FUND ACTUARIAL LIABILITIES AND ASSETS(1)
Actuarial Valuations as of June 30, 2003 through June 30, 2009
(In Millions)

<u>Valuation Year Ending June 30,</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Market Value of Assets</u>
State					
2003	49,673.6	53,914.2	4,240.6	92.1%	38,340.0
2004	49,574.1	58,017.6	8,443.5	85.4%	41,414.1
2005	49,755.1	62,796.5	13,041.4	79.2%	42,918.2
2006	50,659.2	67,266.3	16,607.1	75.3%	45,780.2
2007	52,433.4	71,655.8	19,222.4	73.2%	50,720.1
2008	52,718.2	75,763.2	23,045.0	69.6%	46,999.9
2009	50,229.5	80,956.2	30,726.7	62.0%	36,540.1
Local					
2003	32,853.9	34,145.9	1,292.0	96.2%	25,935.2
2004	33,176.5	36,846.9	3,670.4	90.0%	28,284.3
2005	33,854.1	39,730.9	5,876.8	85.2%	29,786.4
2006	34,981.1	43,181.5	8,200.4	81.0%	31,988.1
2007	37,190.7	46,326.3	9,135.6	80.3%	36,282.1
2008	38,655.2	50,044.3	11,389.1	77.2%	35,022.9
2009	<u>38,890.1</u>	<u>53,972.1</u>	<u>15,082.0</u>	<u>72.1%</u>	<u>29,678.8</u>

Source: New Jersey Department of the Treasury, Division of Pensions and Benefits. Information was derived from the actuarial valuation reports as of June 30, 2003 through June 30, 2009 for all the Pension Plans.

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

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

<u>Pension Plan</u>	<u>Actuarially Recommended Contributions(1)</u>	<u>Actual Contributions(2)</u>	<u>Amount Unfunded(3)</u>
State			
PERS	\$ 580.4	\$ 0.0	\$ 580.4
TPAF	1,527.5	0.0	1,527.5
PFRS(4)	299.1	0.0	299.1
CP&FPF	0.4	0.0	0.4
SPRS	82.5	0.0	82.5
JRS	28.9	0.0	28.9
POPF	0.0	0.0	0.0
Subtotal	<u>2,518.8</u>	<u>0.0</u>	<u>2,518.8</u>
Local			
PERS	566.4	566.4	—
PFRS	714.7	714.7	—
Subtotal	<u>1,281.1</u>	<u>1,281.1</u>	<u>—</u>
Total	<u>\$3,799.9</u>	<u>\$1,281.1</u>	<u>\$2,518.8</u>

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

- (1) The actuarially recommended contributions to the indicated Pension Plans in Fiscal Year 2010 were based on the information contained in the actuarial valuations for the Pension Plans as of June 30, 2008, except in the PFRS where the contribution will be based on the actuarial valuation prepared as of June 30, 2007. The PERS and PFRS local employer pension contribution excludes early retirement incentive (ERI) contributions payable in Fiscal Year 2010 by local government employers who have adopted ERI programs for their employees.
- (2) Due to ongoing budgetary concerns, the State decided not to make a contribution to the Pension Plans in Fiscal Year 2010. Originally, it was expected that the State would make a total contribution of \$100 million to the various Pension Plans. For local participating employers, full contributions based on the actuarially recommended amounts are expected.
- (3) Represents the difference between the actuarially recommended pension contribution and the expected contribution from the State and the local participating employers.
- (4) The actuarially recommended contribution of the PFRS includes contributions on behalf of local active and retired members to cover certain benefit enhancements. Of the total actuarially recommended amount of \$299.1 million for the Fiscal Year ending June 30, 2010, \$132.0 million represents contributions on behalf of local participants.

SCHEDULE OF STATE AND LOCAL EMPLOYER CONTRIBUTIONS TO PENSION PLANS
For the Fiscal Year Ending June 30, 2011
(In Millions)

<u>Pension Plan</u>	<u>Actuarially Recommended Contributions(1)</u>	<u>Expected Contributions(2)(5)</u>	<u>Amount Unfunded(3)(5)</u>
State			
PERS	\$ 754.2	\$ 0.0	\$ 754.2
TPAF	1,828.3	0.0	1,828.3
PFRS(4)	339.5	0.0	339.5
CP&FPF	0.1	0.0	0.1
SPRS	103.7	0.0	103.7
JRS	34.7	0.0	34.7
POPF	0.0	0.0	0.0
Subtotal	<u>3,060.5</u>	<u>0.0</u>	<u>3,060.5</u>
Local			
PERS	756.7	756.7	—
PFRS	854.6	854.6	—
Subtotal	<u>1,611.3</u>	<u>1,611.3</u>	<u>—</u>
Total	<u>\$4,671.8</u>	<u>\$1,611.3</u>	<u>\$3,060.5</u>

Source: New Jersey Department of the Treasury, Division of Pensions and Benefits. Information regarding the actuarially recommended contributions was derived from the June 30, 2009 actuarial valuation reports for all of the Pension Plans except with respect to PFRS for which the information was derived from the actuarial valuation report as of June 30, 2008. Information regarding the expected contributions for the State is based on the Fiscal Year 2011 Appropriations Act. Information with respect to the expected contributions of local governments was derived from the actuarial valuation report of PERS as of June 30, 2009 and the actuarial valuation report of PFRS as of June 30, 2008.

- (1) The actuarially recommended contributions to the indicated Pension Plans in Fiscal Year 2011 are based on the information contained in the actuarial valuations for the Pension Plans as of June 30, 2009, except in the PFRS where the contribution will be based on the actuarial valuation prepared as of June 30, 2008. The PERS and PFRS local employer pension contribution excludes early retirement incentive (ERI) contributions payable in Fiscal Year 2011 by local government employers who have adopted ERI programs for their employees.
- (2) Based on the Fiscal Year 2011 Appropriations Act, no contribution will be made to the Pension Plans by the State in Fiscal Year 2011. For local participating employers, full contributions based on the actuarially recommended amounts are expected.
- (3) Represents the difference between the actuarially recommended pension contribution and the expected contribution from the State and the local participating employers.
- (4) The State's actuarially recommended contribution to the PFRS includes contributions on behalf of local active and retired members to cover certain benefit enhancements. Of the total actuarially recommended amount of \$339.5 million for Fiscal Year 2011, \$144.7 million represents contributions on behalf of local participants.
- (5) Estimated.

AGGREGATE STATE AND LOCAL EMPLOYER CONTRIBUTIONS TO PENSION PLANS
For the Fiscal Years Ending June 30, 2005 through June 30, 2011 (1)
(In Millions)

<u>Fiscal Year Ending June 30,</u>	<u>Actuarially Recommended Contributions(2)</u>	<u>Actual and Expected Contributions</u>	<u>Amount Unfunded</u>
State			
2005	\$ 1,066.2	\$ 61.1	\$ 1,005.1
2006	1,450.8	164.4	1,286.4
2007	1,778.6	1,023.2	755.4
2008	2,089.8	1,046.1	1,043.7
2009	2,230.7	106.3	2,124.4
2010	2,518.8	0.0	2,518.8
2011	3,060.5	0.0	3,060.5
Subtotal	<u>\$14,195.4</u>	<u>\$2,401.1</u>	<u>\$11,794.3</u>
Local			
2005	484.0	158.9	325.1
2006	678.1	353.8	324.3
2007	842.5	605.6	236.9
2008	1,089.1	993.4	95.7
2009	1,168.7	1,043.9	124.8
2010	1,281.1	1,281.1	—
2011	1,611.3	1,611.3	—
Subtotal	<u>7,154.8</u>	<u>6,048.0</u>	<u>1,106.8</u>
Total	<u><u>\$21,350.2</u></u>	<u><u>\$8,449.1</u></u>	<u><u>\$12,901.1</u></u>

Source: New Jersey Department of the Treasury, Division of Pensions and Benefits. Information regarding the actuarially recommended contributions of the State was derived from the actuarial valuation reports as of June 30, 2003 through June 30, 2009 for all of the Pension Plans except for PFRS for which the information was derived from the actuarial valuation reports of PFRS as of June 30, 2002 through June 30, 2008. Information regarding the actual contributions of the State for Fiscal Years 2005 through 2010 was provided by the Division of Pensions and Benefits. Information regarding expected contributions of the State for Fiscal Year 2011 is as set forth in the Fiscal Year 2011 Appropriations Act. Information regarding the actuarially recommended contributions and the actual and estimated contributions of local governments was derived from the actuarial valuation reports of PERS as of June 30, 2003 through June 30, 2009 and the actuarial valuation reports of PFRS as of June 30, 2002 through June 30, 2008.

- (1) Please refer to the footnotes of the immediately preceding table for an explanation of the categories set forth in the columns of this table. Each of the columns of this table reflects an aggregate of all of the Pension Plans. Thus, each of indicated categories reflects a sum of that category of all of the Pension Plans (except with respect to the Funded Ratio which is a weighted average Funded Ratio of all of the Pension Plans).
- (2) For all pension plans except PFRS, the State and local employer contributions relating to an actuarial valuation as of the end of a Fiscal Year are made in the second succeeding Fiscal Year. For example, the State and local employers' contributions relating to the actuarial valuation as of June 30, 2009 will be made in Fiscal Year 2011. For PFRS, the State and local employer contributions are made in the third succeeding Fiscal Year. For example, the State and local employers' contributions relating to the June 30, 2008 actuarial valuation will be made in Fiscal Year 2011.

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

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

While the State had increased its contributions to more significant levels for Fiscal Years 2007 and 2008, as a result of deteriorating economic conditions, for Fiscal Year 2009, the State only contributed \$106.3 million representing 4.8% of the actuarially recommended contributions. For Fiscal Year 2010, although \$100 million was included in the Fiscal Year 2010 Appropriations Act as the State's contribution to the Pension Plans, the State did not make a contribution due to ongoing budgetary constraints. For Fiscal Year 2011, based on the Fiscal Year 2011 Appropriations Act, the State will again make no contribution to the Pension Plans. The Pension Plans have experienced increasing deterioration in their funded status as a result of these low levels of State funding which has been exacerbated by recent declines in the valuations of fund assets. The aggregate Funded Ratio of the Pension Plans has declined from approximately 92.1% as of June 30, 2003 to 62.0% as of June 30, 2009, and absent an unanticipated increase in the value of fund assets will decline further for Fiscal Years 2010 and 2011. In order to maintain the long-term fiscal integrity of the Pension Funds and their ability to pay required benefits to the members of the Pension Plans, a combination of some or all of the following will be required: (i) substantially increased contributions by the State, (ii) significantly increased investment returns, or (iii) actions resulting in changes to liabilities of the Pension Plans. Any significant increase in State contributions would in turn create a significant burden on all aspects of the State's budget. No assurances can be given as to the level of the State's pension contributions in future fiscal years.

Recent Developments on Pension Plans and on the State's Financial Condition. The UAAL of the Pension Plans as of June 30, 2009 experienced a substantial increase as a result of losses on their investment portfolio. For the period from July 1, 2008 through June 30, 2009, the investment portfolio of the Pension Plans declined by approximately 14.2% to \$63.2 billion from \$78.2 billion at June 30, 2008. As a result, this contributed to a substantial increase in the UAAL of the Pension Plans.

As discussed above, the UAAL of the Pension Plans has also consistently risen since Fiscal Year 2004 as a result of the State not contributing the full actuarially recommended contribution. Since no contribution was made by the State in Fiscal Year 2010 and no contribution is expected to be made in the current Fiscal Year, based on the Fiscal Year 2011 Appropriations Act, this element of the increase in the UAAL is also expected to continue to increase in Fiscal Years 2011 and possibly beyond.

Beginning in Fiscal Year 2012, it is anticipated that State pension contributions will resume as a result of recently passed legislation (P.L. 2010, c.1). This legislation requires the State to make the full contributions to the Pension Plans, but permits the State to resume making such contributions on a gradual basis over a period of seven years with a contribution of at least 1/7th of the full actuarially recommended contribution amount due beginning in Fiscal Year 2012. In each subsequent fiscal year, the State's contribution must increase by at least an additional 1/7th of the full recommended contribution so that full contributions are made beginning in Fiscal Year 2018 and each year thereafter. However, the actual provision of the contribution each fiscal year is subject to appropriation by the State Legislature and, therefore, there can be no assurance that the State Legislature will make such appropriations in accordance with this law. Resuming State contributions to the Pension Plans on a phased-in basis beginning in Fiscal Year 2012 and not making full actuarially recommended contributions until Fiscal Year 2018, absent actions resulting in changes to the liabilities of the Pension Plans or investment returns significantly above the 8.25% assumed rate of return, is expected to cause the UAAL of the Pension Plans to continue to increase in the future.

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

The deterioration of the financial condition of the Pension Plans reflected by the increasing UAAL may have two consequences. First, the deterioration increases the amount of future actuarially recommended contributions of

the State which has the effect of deferring a substantial portion of the State's funding responsibilities to future Fiscal Years. Second, the deterioration reduces the amount of assets the Pension Plans have to pay benefits to their members. As discussed above, as the financial condition of the Pension Plans has deteriorated, the Pension Plans' Annual Expenditures to Net Assets Ratio has steadily increased and for the Fiscal Year ended June 30, 2009 was 10.38%. Although the accumulation of assets in the Pension Plans does not jeopardize the payment of pension benefits in the short term, the long-term impact of continuation of a funding policy that allows the State to contribute less than the aggregate actuarially recommended contributions could impact, at some point, the Pension Plans' ability to meet their obligations absent significant additional contributions by the State, increased investment returns or actions resulting in changes to liabilities of the Pension Plans. Future increased contributions by the State in future Fiscal Years, depending on the magnitude, would likely create a significant burden on all aspects of the State's budget. No assurances can be given as to the level of the State's pension contributions in future fiscal years.

Alternate Benefit Program. In addition to these defined benefit programs, the State also maintains the Alternate Benefit Program ("ABP"), which is a defined contribution plan for eligible employees of the public institutions of higher education in the State. Employer and employee contributions under the ABP are paid to authorized investment carriers who offer participants a variety of investment choices. The six investment carriers for this program are ING Life Insurance and Annuity Company, Met Life (formerly Travelers/CitiStreet), TIAA-CREF, AIG VALIC, AXA Financial (Equitable) and The Hartford. The State pays the employer pension contribution to the ABP at a rate equal to 8.0% of the member's base salary. In addition, the State provides funding to cover the cost of noncontributory group life insurance and long-term disability insurance coverage for ABP participants. For Fiscal Year 2009 and 2010, the State appropriated \$166.5 million and \$174.7 million, respectively, to cover pension contributions and to provide funding for noncontributory group life insurance and long-term disability benefits. For Fiscal Year 2011, the Fiscal Year 2011 Appropriations Act includes \$178.0 million as the State's contribution to the ABP to cover pension, noncontributory group life insurance, and long-term disability benefit costs. Since the ABP is a defined contribution plan and not a defined benefit plan, the State's sole obligation with respect to the ABP is to make the annual contributions and the State has no responsibility to ensure that the participating employees ultimately receive a level of benefit.

Defined Contribution Retirement Program. The State Legislature adopted legislation in Fiscal Year 2007, P.L. 2007, c. 92, amended by P.L. 2007, c. 103, P.L. 2008, c. 89, and P.L. 2010, c.1, which required the establishment of the Defined Contribution Retirement Program (the "DCRP"). The DCRP includes a defined contribution plan providing pension benefits for elected and appointed officials and for certain PERS, TPAF, PFRS and SPRS employees with pensionable wages in excess of the Social Security wage base limit and certain part-time employees ineligible for membership in the PERS and TPAF. The DCRP also includes noncontributory group life insurance and long-term disability benefits for participants. The employee pension contribution rate for the DCRP is 5.5%. Employers are required to contribute an additional 3.0% of base salary on behalf of employees enrolled in the plan to fund pension benefits. With regard to PERS, TPAF, PFRS and SPRS members enrolled in the DCRP because their pensionable wages exceed the Social Security wage base limit, contributions are based on compensation in excess of the Social Security wage base limit.

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

For Fiscal Year 2009 and 2010, the State contributed \$65,968 and \$188,185, respectively, on behalf of enrolled State employees to cover pension benefit costs. The Fiscal Year 2011 Appropriations Act includes \$219,000 as the State's contribution to the DCRP to cover pension benefit costs. No State contributions were required to be made for Fiscal Years 2009 and 2010 for noncontributory life insurance and long-term disability benefits costs. The Fiscal Year 2011 Appropriations Act includes \$124,000 as the State's contribution to cover such benefit costs.

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

Noncontributory Life Insurance. The State funds noncontributory insurance benefit costs for active and retired State employees. State appropriations are received on a monthly basis to cover actual benefit charges

incurred and payable to beneficiaries of active and retired State employees plus administrative fees charged by the insurance providers. The State funds these benefit costs on a pay-as-you-go basis and does not actuarially determine the future liability of these benefit costs. The State expended \$69.9 million to cover noncontributory insurance benefit costs of the Pension Plans for Fiscal Year 2010. The Fiscal Year 2011 Appropriations Act includes \$77.0 million for noncontributory insurance benefits for the Pension Plans. The State expects that its noncontributory insurance benefit costs will increase in future fiscal years.

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

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

FUNDING POST-RETIREMENT MEDICAL BENEFITS

In addition to the pension benefits, the State provides post-retirement medical (“PRM”) benefits for certain State and other retired employees meeting the service credit eligibility requirements. This includes retired State employees of PERS, TPAF, PFRS, SPRS, JRS and ABP; local retired TPAF and other school board employees; and some local PFRS retirees. To become eligible for this State-paid benefit, a member of these Pension Plans must retire with 25 or more years of pension service credit or on a disability pension. These benefits are provided through the State Health Benefits Program (“SHBP”) and the School Employees’ Health Benefits Program (“SEHPB”), created under the provisions of P.L. 2007, Chapter 103 to provide medical and prescription drug coverage to active and retired education employees beginning July 1, 2008. The SHBP and the SEHPB are administered by the Division of Pensions and Benefits. The benefits provided include medical, prescription drug, mental health/substance abuse and Medicare Part B reimbursement for covered retirees, spouses and dependents. In Fiscal Year 2010, the State paid PRM benefits for 112,344 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 2010, the State expended \$1.136 billion to pay for PRM benefits for the eligible retirees in these groups mentioned above. The Fiscal Year 2011 Appropriations Act appropriates \$1.293 billion to cover anticipated pay-as-you-go PRM costs.

In accordance with the provisions of GASB Statements No. 43 and 45, the State is required to quantify and disclose its obligations to pay PRM to current and future retirees. Based on the most recent valuation of these benefits and as summarized in the report, “Postemployment Benefits Other Than Pension Actuarial Valuation,” submitted to the Division of Pensions and Benefits by AON Consulting (AON) in July 2010, the Fiscal Year 2010 actuarial accrued liability of the State to provide PRM to active and retired members of the pension plans has been measured to be \$56,782.5 million. GASB 45 does not impose any requirement on the State to pre-fund its PRM actuarial accrued liability.

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

	GASB 43 Results (\$ millions) as of July 1, 2009		
	State	Education-State	Total
Actuarial Accrued Liability*			
Active	\$13,039.4	\$22,844.7	\$35,884.1
Retired	7,422.0	13,476.4	20,898.4
Total	\$20,461.4	\$36,321.1	\$56,782.5

* Assuming no pre-funding of obligations

The amounts set forth in this table exclude the actuarial accrued liability of the Local Governmental Employers who are participating in the State Health Benefits Program. The PRM actuarial accrued liability for the local governmental employers is \$10,010.4 million. The State has no legal responsibility with respect to the PRM obligations of Local Governmental Employers.

AON calculated the State PRM actuarial accrued liability based on plan provisions, as provided by the State, along with certain demographic and economic assumptions recommended by AON and approved by the State, and which conform to the requirements of GASB 43 and 45. AON used the Projected Unit Credit Actuarial Method to calculate the PRM actuarial accrued liability of the State and local participating employers. Many of the actuarial assumptions used to project the PRM actuarial accrued liability are the same as those used to determine the accrued actuarial liabilities of the Pension Plans. The discount rate used to determine the retiree healthcare liabilities is 4.5%, which is the maximum discount rate that GASB 43 and 45 permit when employers do not pre-fund their PRM actuarial accrued liabilities. When projecting the growth of expected claims of the lifetimes of the qualifying retirees, (1) AON assumed that healthcare expenses would increase at rates ranging from 8.5% to 9.5% in Fiscal Year 2010 and decrease to a 5.0% long-term trend for all medical benefits after 9 years and (2) AON assumed that prescription drug expenses would increase at a rate of 10.5% in Fiscal Year 2010 and decrease to a 5.0% long-term rate after 11 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, 2009 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-rpts-home.htm>, as soon as it is available. No information contained on the website of the Division of Pensions and Benefits is deemed incorporated herein by reference.

SCHEDULE OF FUNDING PROGRESS FOR POST-RETIREMENT MEDICAL BENEFITS

Actuarial Valuations as of July 1, 2006 through July 1, 2009

(In millions)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability(1)	Unfunded Actuarial Accrued Liability (UAA)	Funded Ratio	Covered Payroll	UAA as a Percentage of Covered Payroll
State & Education						
07/01/2006	\$0	\$58,059.0	\$58,059.0	0%	n/a	0%
07/01/2007	\$0	\$50,649.5	\$50,649.5	0%	n/a	0%
07/01/2008	\$0	\$55,913.5	\$55,913.5	0%	\$20,180.2	277.1%
07/01/2009	\$0	\$56,782.5	\$56,782.5	0%	\$20,794.4	273.1%
Local						
07/01/2006	\$0	\$10,774.6	\$10,774.6	0%	n/a	0%
07/01/2007	\$0	\$ 9,096.6	\$ 9,096.6	0%	n/a	0%
07/01/2008	\$0	\$ 8,840.5	\$ 8,840.5	0%	\$2,411.7	366.6%
07/01/2009	\$0	\$10,010.4	\$10,010.4	0%	\$2,607.2	384.0%

Source: New Jersey Department of the Treasury, Division of Pensions and Benefits. Information was derived from the Postemployment Benefits Other Than Pension Actuarial Valuation Reports dated July 1, 2006 through July 1, 2009.

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

LITIGATION

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

J.D., J.G., v. Lucille E. Davy, Commissioner of the New Jersey Department of Education. In late January 2007, plaintiffs filed a complaint in the New Jersey Superior Court, Chancery Division, Essex County for injunctive and declaratory relief striking down provisions of State law, specifically *N.J.S.A. 18A:36A-10*, *N.J.S.A. 18A:36A-12* and *N.J.A.C. 6A:10A-1.2*, that plaintiffs alleged unconstitutionally discriminate against children attending Newark public charter schools. The action is styled as a class action for all students currently attending public charter schools in Newark. The complaint further states that the disparity between *Abbott* funding in Newark's district schools and the public charter schools in Newark is \$9,600 annually per pupil and \$37,000 per pupil in facilities funding. By not allowing Newark's public charter schools access to *Abbott* funding and State facilities funding, plaintiffs allege the State is violating the Equal Protection Clause of the New Jersey Constitution. The State filed a motion to dismiss the complaint on April 10, 2007. On September 29, 2008, the Chancery Division granted the State's motion to dismiss the complaint. On November 13, 2008, the plaintiffs' filed a notice of appeal with the Appellate Division. Upon the filing of the notice of appeal, the plaintiffs sought a stay of the appeal pending the outcome of *Abbott v. Burke (Review of Constitutionality of School Funding Reform Act)* ("*Abbott XX*") remand. The Appellate Division granted the stay. After inquiry by the court given the passage of time, on November 10, 2009, the plaintiffs filed a brief in support of their appeal. Subsequently, the State filed its brief and oral argument was held on May 2, 2010. On July 16, 2010, the Appellate Division affirmed the dismissal of the complaint with prejudice, thereby dismissing the plaintiffs' constitutional challenges. Specifically, the Appellate Division held that the current funding scheme represents a "deliberate and deliberative legislative design intended as a reform measure to enhance public education for all students in traditional public schools and charter schools." The Appellate Division found no violation of the Equal Protection Clause of the New Jersey Constitution and that the plaintiffs had not alleged a violation of their right to a thorough and efficient education under the New Jersey Constitution.

Abbott v. Burke (Challenge to Proposed Fiscal Year 2011 School Aid Funding Levels). On June 8, 2010, the Education Law Center ("ELC") filed with the New Jersey Supreme Court a motion in aid of litigants' rights challenging the proposed levels of Fiscal Year 2011 school aid funding in the Governor's Fiscal Year 2011 Budget Message. The ELC argues that the State's failure to propose full funding of the School Funding Reform Act ("SFRA") is a violation of the Court's express mandates in *Abbott XX*. The ELC is seeking to enjoin the State from funding school districts in Fiscal Year 2011 at a level below that anticipated by the SFRA and from conducting the three-year review of the SFRA formula until such time as the SFRA is fully implemented. The State filed its opposition to ELC's motion in aid of litigants' rights on July 9, 2010. The State is vigorously defending this matter.

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

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

seeks community placements for the people that Plaintiff alleges are in State-operated developmental centers while awaiting community placement. The State filed its answer on December 5, 2005.

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

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

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

FiberMark claims it is the successor to a 1991 landfill agreement ("1991 Agreement"), by which FiberMark was obligated to receive and treat leachate from the neighboring landfill in FiberMark's waste water treatment lagoons before discharge into the Musconetcong River. FiberMark claims that as part of a voluntary Chapter 11 bankruptcy petition for reorganization filed in the State of Vermont, the bankruptcy court granted FiberMark's motion to reject the 1991 Agreement on June 23, 2005. FiberMark claims it has had no responsibility to treat the leachate from the neighboring landfill since that date and has suffered damages from DEP's alleged illegal discharges of leachate onto Warren Glen, but that DEP forced FiberMark to continue treating leachate discharged from the neighboring landfill from March 2006 through September 13, 2007. In April 2007, DEP successfully rerouted the leachate so that it no longer runs onto Warren Glen and is permanently enjoined, on a prospective basis, from allowing leachate to run onto Warren Glen pursuant to a partial consent judgment entered into by the parties on

September 12, 2007 in a related case, *FiberMark North America Inc. v. Jackson*, previously filed in the United States District Court. The State filed its answer to FiberMark's complaint filed in State court on June 23, 2008. The trial on this matter began on May 4, 2009. At the conclusion of FiberMark's presentation of its case on May 7, 2009, DEP moved to dismiss the matter, which the court granted. On May 26, 2009, Fibermark filed several motions with the court. Fibermark has also filed a notice of appeal with the Appellate Division. On July 6, 2009, Fibermark filed a motion with the Appellate Division requesting the Appellate Division compel the court to decide the motions previously filed with the court. 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 is now back before the Appellate Division. The State is vigorously defending this matter.

New Jersey Department of Environmental Protection et al. v. Occidental Chemical Corporation, et al. In December 2005, the NJDEP, the Commissioner of NJDEP, and the Administrator of the New Jersey Spill Compensation Fund (collectively, "Plaintiffs") filed suit in the Superior Court, Law Division, Essex County against Occidental Chemical Corporation ("Occidental"), Maxus Energy Corporation ("Maxus"), Tierra Solutions, Inc. ("Tierra"), Repsol YPF, S.A., YPF, S.A., YPF Holdings, Inc. and CLH Holdings, Inc. seeking costs and damages relating to the discharge of dioxin into the Passaic River and its environs by Diamond Shamrock Corporation, a predecessor of defendant Occidental. In November 2008, Maxus and Tierra filed counterclaims against the Plaintiffs seeking, among other things, (a) contribution under the New Jersey Spill Compensation and Control Act, N.J.S.A. 58:10-23.11 to -23.24 (the "Spill Act"), for an equitable share of any Passaic River cleanup and removal costs and damages for which Maxus and Tierra may be found liable, (b) claims under the Environmental Rights Act, N.J.S.A. 2A:35A-1 to 35A-14, and an injunction against the issuance of permits issued in violation of N.J.S.A. 58:14-7 and -8; (c) the abatement of discharges of untreated or inadequately treated wastewater in the Newark Bay Complex; the abatement of pollution sources from outside the Newark Bay Complex; and an order removing NJDEP as trustee for natural resources within the Newark Bay Complex, (d) a judgment finding NJDEP liable for aiding and abetting discharges of polluting matter into the Passaic River, and an injunction prohibiting NJDEP from permitting or condoning the further discharge of polluting matter into the Passaic River or its tributaries, (e) the reduction or extinction of any judgment rendered against Maxus and Tierra under the doctrine of recoupment, (f) a judgment that NJDEP is liable for public nuisance in the event that all or part of the Newark Bay Complex is determined to be a public nuisance; an order imposing on the Plaintiffs' an equitable share of any relief the court might order on the Plaintiffs' public nuisance claims, (g) an order setting off the Plaintiffs' share of liability for discharges of hazardous substances into the Newark Bay Complex and an order setting off any benefits that the Plaintiffs' have received from activities that contaminated the Newark Bay Complex against any liability that Maxus and Tierra may have, and (h) contribution for a proportionate share of cleanup and removal costs, damages or other losses for which Maxus and Tierra may be held liable or that they have incurred or may incur for the Newark Bay Complex. In February 2009, Maxus and Tierra filed third party complaints against the State, the Department of Agriculture, New Jersey Transit and the Department of Transportation ("NJDOT") seeking contribution from each of these third party defendants. With respect to NJDOT, Maxus and Tierra allege that hazardous substances were discharged into the Newark Bay Complex from the Kearny Oil Lake Site while NJDOT owned and operated that site and that NJDOT is a discharger under the Spill Act. With respect to the Department of Agriculture, Maxus and Tierra allege that mosquito spraying conducted by the Department of Agriculture in the vicinity of the Passaic River or its tributaries contributed to the contamination in the Passaic River. The State is vigorously defending this matter.

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

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

On April 28, 2004, the State moved to dismiss the complaint for failure to state a claim upon which relief can be granted. Oral argument on the motion was held on June 11, 2004. On July 15, 2004, the court issued its decision granting the State's motion to dismiss as to claims of violation of the constitutional principles of uniformity and fairness in taxation, violation of the Internal Revenue Code of 1986 and *N.J.S.A. 43:3C-9.1*, and breach of promissory estoppel. The court denied the State's motion on the other claims. On or about June 28, 2004, the plaintiffs filed an amended complaint which included allegations of underfunding the TPAF for the Fiscal Year 2005 and which sought an additional payment of \$675 million into the TPAF. On November 23, 2004, the State moved to dismiss the amended complaint which motion was denied. The State then moved for leave to appeal to the Appellate Division seeking review of the court's denial of the State's motion to dismiss. On January 13, 2005, the Appellate Division denied the State's motion. On February 2, 2005, the State moved for leave to appeal to the Supreme Court of New Jersey seeking review of the court's order declining to dismiss the amended complaint against the State. By order dated September 12, 2005, the Supreme Court denied the State's motion for leave to appeal. On April 2, 2008, the trial court held that the plaintiffs had failed to prove a substantial impairment of a contractual right and dismissed the complaint in its entirety. On May 22, 2008, the plaintiffs filed a notice of appeal. Oral argument on this matter in the Appellate Division was held on December 15, 2009. On March 4, 2010, the Appellate Division affirmed the trial court's decision on the grounds that there is no constitutionally-protected contract right to systematic funding of the TPAF. Having so concluded, the Appellate Division stated that it need not determine the prospective effect of the appropriation shortfalls in FY 2004-2007, and whether they constitute a "substantial impairment" in any constitutional sense. On March 22, 2010, the Plaintiffs filed a notice of petition for certification with the Supreme Court challenging the Appellate Division's decision affirming the trial court's dismissal of the Plaintiffs' complaint. On June 22, 2010, the Supreme Court denied the plaintiffs' petition for certification.

Professional Firefighters Association of New Jersey et al. v. State of New Jersey et al. This matter was filed in the New Jersey Superior Court, Law Division, Mercer County, on October 4, 2005 and was served on the State on October 20, 2005. The plaintiffs' complaint alleges that the State violated various constitutional provisions (federal and State), statutes and common law by failing to fund the Police and Firemen's Retirement System ("PFRS") for Fiscal Year 2004 and Fiscal Year 2005 in the amount required by law. The plaintiffs also challenge the constitutionality of P.L. 2003, c. 108, which reduces the PFRS contributions required of local employers for Fiscal Year 2004 through Fiscal Year 2007. In addition to a judgment declaring that the defendants' failure to properly and adequately fund PFRS in Fiscal Year 2004 and Fiscal Year 2005 violates various constitutional provisions, statutes and common law, the plaintiffs seek an order requiring the State "to make a payment to PFRS for FY2004 and FY2005 to properly fund the PFRS, in accordance with fiscally responsible actuarial calculations." On January 26, 2007, the court heard arguments on motions made by the State to dismiss the complaint. On March 13, 2007, the court granted the State's motion to dismiss three counts of the seven count complaint and to merge the other counts. The only count before the court is the plaintiffs' claim that the State's funding decisions constitute an unconstitutional impairment of contract. Discovery in the case is stayed. The plaintiffs filed a motion for summary judgment in August 2008. The State filed a cross-motion for summary judgment to dismiss the complaint, or in the alternative, a stay of the proceedings pending resolution of the *New Jersey Education Association et al. v. State of New Jersey et al.* matter. On May 9, 2009, the court granted the plaintiffs' motion for an order allowing the plaintiffs' to amend their complaint to assert claims based on L. 2009, c. 19, which allows for local governments to defer certain of their pension contributions for Fiscal Year 2009. On June 10, 2009, the State filed its answer to the amended complaint. In light of the Appellate Division's March 4, 2010 decision in *New Jersey Education Association et al. v. State of New Jersey et al.*, the trial court informed the parties that the complaint would be dismissed on summary judgment without the need for oral argument. On April 8, 2010, the trial court dismissed the complaint on summary judgment for the same reasons enunciated in the Appellate Division's March 4, 2010 decision in *New Jersey Education Association et al. v. State of New Jersey et al.* The plaintiffs have filed an appeal of the trial court's decision in the Appellate Division. The State is vigorously defending this matter.

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

In May 2009, the court heard oral argument on NJ Transit’s motion for summary judgment. As a result of the summary judgment motion, TFC and Frontier-Kemper conceded to the dismissal of their unjust enrichment/quantum meruit claims against NJ Transit. The court also issued a case management order, with the consent of all parties, which provides for limited document discovery and for mediation of this matter to take place in October 2009. Mediation occurred in October 2009, but did not result in a settlement. On December 4, 2009, the court entered an order providing that the TFC and Frontier-Kemper may not seek damages due to negligent performance of architectural services. On February 18, 2010, NJ Transit filed a motion to dismiss TFC’s and Frontier-Kemper’s claims pursuant to the statute of limitations under the New Jersey Contractual Liability Act. In March 2010, the court denied NJ Transit’s motion to dismiss. Frontier-Kemper filed a motion to disqualify the Design Consultant’s attorneys based on an alleged conflict of interest. On May 21, 2010, the court issued an order denying Frontier-Kemper’s motion to disqualify the Design Consultant’s attorneys. Frontier-Kemper has filed a motion for leave to appeal from court’s May 21, 2010 order. The State is vigorously defending this matter.

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

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

Section 1983 claim, Horizon filed a cross motion to compel discovery; which cross motion has been subsequently withdrawn. On June 9, 2006, the Tax Court dismissed Horizon's Section 1983 claim. On February 2, 2009, Horizon filed a motion for summary judgment. The State filed its opposition and a cross-motion to Horizon's motion for summary judgment on March 30, 2009. Argument was heard by the Tax Court on April 27, 2009. On December 15, 2009, the Tax Court upheld the State's assessment of the insurance premiums tax and the constitutionality of the insurance premiums tax "cap" statute as amended. On January 13, 2010, Horizon filed a notice of appeal with the Appellate Division. The State is vigorously defending this matter.

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

Pfizer Inc. et al. v. Director, Division of Taxation. Two taxpayers, Pfizer Inc. ("Pfizer") and Whirlpool Properties, Inc. ("Whirlpool"), challenge the New Jersey Tax Court's affirmance of the facial constitutionality of the Corporation Business Tax ("CBT") "Throw-Out Rule," which affects the amount of taxable income taxpayers "allocate" to the State. In pursuit of their facial challenges, the taxpayers asserted that the Throw-Out Rule (which requires the exclusion of certain receipts from the CBT "allocation formula") violates the Due Process and Commerce Clauses of the United States Constitution as well as various equitable principles. Two amici curiae further claimed that the Throw-Out Rule violates the Supremacy Clause of the United States Constitution. On May 29, 2008, the Tax Court granted the Division's cross-motion to sustain the facial constitutionality of the Throw-Out Rule. The Tax Court found that, on its face, this rule did not violate any of the constitutional provisions raised. Taxpayers' "as-applied" challenges remain. The taxpayers sought interlocutory review in the Appellate Division, which was denied. In August 2008, Pfizer and Whirlpool sought leave for interlocutory review in the New Jersey Supreme Court. The New Jersey Supreme Court granted interlocutory review, but concurrently remanded to the Appellate Division for review on the merits. All parties briefed the facial constitutionality issue and the Appellate Division heard oral argument on November 16, 2009. On July 12, 2010, the Appellate Division affirmed the Tax Court's decision on the facial constitutionality of the Throw-Out Rule. The State intends to vigorously defend this matter.

Praxair Technology, Inc., v. Director, Division of Taxation. Praxair Technology, Inc. ("Praxair") challenges the New Jersey Tax Court's affirmance of the Division's application of the *Lanco v. Division of Taxation* ruling on the issue of "economic nexus" in connection with Praxair's 1994-1996 tax years. Praxair appealed that ruling as well as the constitutionality of the 2002 Tax Amnesty penalty. On December 15, 2008, the Appellate Division reversed the Tax Court decision and struck the Division's 1994-1996 assessment, finding that a 'clarifying example' in N.J.A.C. 18:7-1.9 was required before the Division could impose Corporation Business Tax ("CBT") on Praxair. The Appellate Division did not address the 2002 Tax Amnesty penalty in its decision. The Division filed a petition for certification with the New Jersey Supreme Court and, in response, Praxair filed a cross-petition for certification regarding the constitutionality of the 2002 Tax Amnesty penalty. On April 2, 2009, the Supreme Court granted both petitions. The Supreme Court heard oral argument in this matter on October 26, 2009. On December 15, 2009, the Supreme Court reversed the Appellate Division's decision and reinstated the Tax Court's ruling in favor of the Division on the underlying CBT liability of Praxair for the 1994-1996 tax years. The Supreme Court remanded the penalties and interest determinations to the Appellate Division. The parties have fully briefed these issues on remand and await the Appellate Division's decision. The State intends to vigorously defend this matter.

In re Appeal of Executive Order 14. On February 11, 2010, the Governor issued Executive Order No. 14 ("EO 14"), which declared that a state of fiscal emergency exists in the State due to a budget shortfall in excess of \$2.2 billion. In EO 14, the Governor also ordered the Director of the Division of Budget and Accounting (the "Budget Director") to identify and place into reserve, pursuant to *N.J.S.A. 52:27B-26*, funds in an amount sufficient to ensure that the State budget for Fiscal Year 2010 remains balanced. In response to the Governor's mandate, the Budget Director then placed into reserve, among other monies, \$475 million from State aid payments to school

districts. On March 24, 2010, the Perth Amboy and East Orange school districts filed an emergent relief application and Notice of Appeal challenging paragraphs three through six of EO 14. The appellants claim that the Governor's mandate to the Budget Director is without sufficient constitutional and statutory authority and violates principles of separation of powers. The relief the appellants seek is a court order invalidating paragraphs three through six of EO 14. The court, in response to the application for emergent relief, established a briefing schedule. Perth Amboy filed a brief on April 5, 2010, while on the same date East Orange advised that it had withdrawn from the appeal. The State's opposition brief was filed on April 14, 2010; and the appellant's reply brief was subsequently filed. On June 14, 2010, the court denied the appellants application and upheld EO 14. On June 24, 2010, the remaining appellant filed a motion for reconsideration. On July 22, 2010, the Appellate Division denied the remaining appellant's, Perth Amboy, motion for reconsideration. The State is vigorously defending this matter.

Mid-Atlantic Solar Energy Indus. Ass'n v. Christie. On February 11, 2010, the Governor issued EO 14, which declared that a state of fiscal emergency exists due to a budget shortfall in excess of \$2.2 billion. In EO 14, the Governor also ordered the Budget Director to identify and place into reserve, pursuant to *N.J.S.A. 52:27B-26*, funds in an amount sufficient to ensure that the State budget for Fiscal Year 2010 remains balanced. In response to the Governor's mandate, the Budget Director then placed into reserve, among other monies, \$158 million from the Clean Energy Trust Fund. On March 24, 2010, Mid-Atlantic Solar Energy Industries Association (the "Appellant"), a trade and advocacy organization comprised of solar manufacturers, filed a Notice of Appeal challenging the transfer of \$158 million of Clean Energy Trust Funds into the General Fund. The Appellant claims that the Governor's mandate to the Budget Director violates the State Constitution and was without legislative authorization. The Appellant is seeking a court order directing the State Treasurer to return the \$158 million to the Clean Energy Trust Fund. All briefs were filed by June 1, 2010, and the Appellant moved on June 23, 2010 to accelerate oral argument. On June 29, 2010, a supplemental appropriations bill, *L. 2010, c. 19*, was enacted providing that notwithstanding any law or regulation to the contrary, transfer of an amount not in excess of \$158 million may be transferred from the Clean Energy Fund into the General Fund as State revenue, subject to the approval of the Budget Director. On June 29, 2010, the State filed a motion to dismiss this appeal as moot. The State is vigorously defending this matter.

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

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

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

At any given time, there are various numbers of claims and cases pending against the University of Medicine and Dentistry and its employees, seeking recovery of monetary damages that are primarily paid out of the Self Insurance Reserve Fund created pursuant to the New Jersey Tort Claims Act (*N.J.S.A. 59:1-1 et seq.*). An independent study estimated an aggregate potential exposure of \$138,500,000 for tort and medical malpractice claims pending as of December 31, 2009. In addition, at any given time, there are various numbers of contract and other claims against the University of Medicine and Dentistry, seeking recovery of monetary damages or other relief which, if granted, would require the expenditure of funds. The State is unable to estimate its exposure for these claims.

APPENDIX I-A
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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, 2009 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
2009

<u>Company</u>	<u>New Jersey Employees</u>
Wakefern Food Corporation	34,356
Verizon	18,000
The Great Atlantic & Pacific Tea Co., Inc. (A&P).	17,406
Wal-Mart Stores, Inc.	16,868
United Parcel Service (UPS).	15,035
Harrah's Entertainment, Inc.	14,773
Continental Airlines	14,000
Johnson & Johnson	14,000
The Home Depot	11,300
Bank of America	11,000
Public Service Enterprise Group, Inc. (PSEG).	10,300
AT&T, Inc.	10,200
CVS Caremark.	9,600
Target Corporation	8,927
Trump Entertainment Resorts, Inc.	8,622
Prudential Financial, Inc.	8,119
Macy's, Inc.	8,000
TD Bank	7,967
FedEx Corporation	7,600
The Stop & Shop Supermarket Co.	7,348
Wawa, Inc.	7,154
Merck & Company, Inc.	7,000
Borgata Hotel Casino & Spa.	6,896
Wachovia, A Wells Fargo Company	6,631
Lockheed Martin	6,600
Bristol-Myers Squibb Company	6,495
Acme Markets, Inc.	6,186
Citigroup, Inc.	6,131
ARAMARK.	5,943
Rite Aid.	>5,400

Source: New Jersey Business Magazine, September 2009

TABLE II
POPULATION CHANGES

	Population (Thousands)				Population Per Square Mile 2000	Annual Rate of Growth (Percent)		
	Census 1980	Census 1990	Census 2000	Estimate 2009		1970 to 1980	1980 to 1990	1990 to 2000
United States	226,546	248,710	281,422	307,007	80	1.09	0.94	1.24
Northeast	49,135	50,809	53,594	55,284	308	0.02	0.34	0.54
New England	12,348	13,207	13,923	14,430	222	0.42	0.67	0.53
Middle Atlantic	36,787	37,602	39,672	40,854	357	(0.12)	0.22	0.54
New York	17,558	17,990	18,976	19,541	402	(0.38)	0.24	0.54
New Jersey	7,365	7,730	8,414	8,708	1,134	0.27	0.49	0.85
Pennsylvania	11,864	11,882	12,281	12,605	274	0.05	0.01	0.33

Source: U.S. Census Bureau; release date December 2009.

TABLE III
TOTAL PERSONAL INCOME
NEW JERSEY, SELECTED NEIGHBORING STATES AND THE UNITED STATES
2000-2009
(\$ Millions)

Calendar Years	Total Personal Income			
	New Jersey	New York	Pennsylvania	United States
2000	\$325,986	\$657,894	\$369,919	\$ 8,554,866
2001	336,916	676,825	377,189	8,878,830
2002	341,590	678,647	387,491	9,054,781
2003	347,910	695,479	399,421	9,369,072
2004	365,571	741,124	417,588	9,928,790
2005	379,876	786,571	432,040	10,476,669
2006	411,746	851,635	462,402	11,256,516
2007	434,948	925,063	485,103	11,879,836
2008	445,928	950,210	499,669	12,225,589
2009	436,892	917,473	499,798	12,004,310

Calendar Years	Total Personal Income As a Percent of 2000 Base			
	New Jersey	New York	Pennsylvania	United States
2000	100.0%	100.0%	100.0%	100.0%
2001	103.4	102.9	102.0	103.8
2002	104.8	103.2	104.8	105.8
2003	106.7	105.7	108.0	109.5
2004	112.1	112.7	112.9	116.1
2005	116.5	119.6	116.8	122.5
2006	126.3	129.4	125.0	131.6
2007	133.4	140.6	131.1	138.9
2008	136.8	144.4	135.1	142.9
2009	134.0	139.5	135.1	140.3

Source: U.S. Department of Commerce, Bureau of Economic Analysis, June 18, 2010.

Table IV

**2009 PER CAPITA PERSONAL INCOME FOR
NEW JERSEY, SELECTED NEIGHBORING STATES AND THE UNITED STATES**

	<u>2008 Amount</u>	<u>2009 Amount</u>	<u>2009 Percent of National Average</u>	<u>Rank United States</u>	<u>Percent Change 2008-2009</u>
United States	40,166	39,138	100.0%	—	(2.6)%
New Jersey	51,473	50,313	128.6	2	(2.3)
New York	48,809	46,957	120.0	5	(3.8)
Pennsylvania	39,762	39,578	101.1	18	(0.5)

Source: U.S. Department of Commerce, Bureau of Economic Analysis, March 25, 2010.

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

Table V

**PER CAPITA PERSONAL INCOME
NEW JERSEY, SELECTED NEIGHBORING STATES AND THE UNITED STATES
2000-2009**

<u>Calendar Years</u>	<u>Per Capita Personal Income</u>			
	<u>New Jersey</u>	<u>New York</u>	<u>Pennsylvania</u>	<u>United States</u>
2000	\$38,666	\$34,630	\$30,110	\$30,318
2001	39,686	35,456	30,667	31,145
2002	39,980	35,417	31,436	31,462
2003	40,532	36,164	32,322	32,271
2004	42,451	38,404	33,708	33,881
2005	44,060	40,690	34,791	35,424
2006	47,746	43,997	37,078	37,698
2007	50,364	47,628	38,738	39,392
2008	51,473	48,809	39,762	40,166
2009	50,313	46,957	39,578	39,138

<u>Calendar Years</u>	<u>Per Capita Personal Income As A Percent of United States</u>			
	<u>New Jersey</u>	<u>New York</u>	<u>Pennsylvania</u>	<u>United States</u>
2000	127.5%	114.2%	99.3%	100.0%
2001	130.9	116.9	101.2	102.7
2002	131.9	116.8	103.7	103.8
2003	133.7	119.3	106.6	106.4
2004	140.0	126.7	111.2	111.8
2005	145.3	134.2	114.8	116.8
2006	157.5	145.1	122.3	124.3
2007	166.1	157.1	127.8	129.9
2008	169.8	161.0	131.1	132.5
2009	166.0	154.9	130.5	129.1

Source: U.S. Department of Commerce, Bureau of Economic Analysis, March 25, 2010.

TABLE VI

WAGE AND SALARY WORKERS IN NONAGRICULTURAL ESTABLISHMENTS*
ANNUAL AVERAGES BY NAICS INDUSTRY DIVISIONS, NEW JERSEY,
2000-2009
(\$ thousands)

Year	Total Non-farm Employment	Manufacturing	Natural Resources & Mining	Construction	Trade, Transportation & Utilities	Information	Financial Activities	Services and Miscellaneous***	Government
2000	3,994.4	421.6	2.0	149.6	899.0	126.9	266.9	1,539.6	588.9
2001	3,997.0	401.3	1.8	158.6	890.7	126.4	269.8	1,545.8	602.6
2002	3,983.9	367.5	1.6	162.6	881.4	113.2	276.7	1,567.4	613.5
2003	3,978.7	350.5	1.6	160.4	876.2	102.0	276.2	1,590.0	621.9
2004	3,999.0	338.3	1.6	165.9	874.7	98.0	276.9	1,610.3	633.4
2005	4,039.1	330.4	1.7	169.1	877.3	97.1	279.7	1,642.1	641.6
2006	4,070.9	323.8	1.7	174.9	874.8	97.4	279.2	1,671.7	647.4
2007	4,078.9	311.3	1.7	172.3	874.4	96.0	275.7	1,699.8	647.8
2008	4,048.7	298.8	1.7	164.5	862.0	91.3	270.3	1,712.8	647.5
2009**	3,891.5	267.2	1.5	138.8	817.3	84.0	255.4	1,679.1	648.3

Note:

* Seasonally adjusted.

** 2009 numbers are preliminary.

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

Source: U.S. Department of Labor, Bureau of Labor Statistics, March 9, 2010.

Table VII

Construction Contracts Awarded, New Jersey
1999-2008
(\$ Millions)

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

Note:

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

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

TABLE VIII
AVERAGE ANNUAL UNEMPLOYMENT RATES*
NEW JERSEY AND UNITED STATES
2000-2009

<u>Calendar Years</u>	<u>New Jersey</u>	<u>United States</u>
2000	3.7%	4.0%
2001	4.3	4.7
2002	5.8	5.8
2003	5.9	6.0
2004	4.9	5.5
2005	4.5	5.1
2006	4.7	4.6
2007	4.3	4.6
2008	5.5	5.8
2009**	9.2	9.3

* Seasonally adjusted.

** 2009 numbers are preliminary.

Source: U.S. Department of Labor, Bureau of Labor Statistics, Data Base & Tables, Unemployment, March 2010.

TABLE IX
AVERAGE HOURLY WAGES (NAICS)*
PRODUCTION WORKERS ON MANUFACTURING PAYROLLS
NEW JERSEY AND SELECTED NEIGHBORING STATES
2000-2009

<u>Calendar Years</u>	<u>New Jersey</u>	<u>New York</u>	<u>Pennsylvania</u>
2000	\$15.47	\$14.24	\$14.60
2001	14.74	16.24	14.37
2002	15.19	16.75	14.75
2003	15.45	16.78	14.99
2004	15.89	17.29	15.16
2005	16.33	17.77	15.26
2006	16.56	18.29	15.38
2007	17.22	18.49	15.48
2008	17.89	18.58	15.61
2009**	18.30	18.54	16.28

Note:

* Not seasonally adjusted.

** 2009 numbers are preliminary.

Source: U.S. Department of Labor, Bureau of Labor Statistics, March 2010.

TABLE X
NEW VEHICLE REGISTRATIONS*
NEW JERSEY
2000-2009

<u>Calendar Years</u>	<u>Car</u>	<u>Light Truck/Van</u>	<u>Total Vehicles</u>		<u>% Change</u>
			<u>Annual</u>	<u>Monthly Average</u>	
2000	397,435	245,153	642,588	53,549	19.7
2001	381,254	275,093	656,347	54,696	(1.1)
2002	362,151	284,306	646,457	53,871	(1.5)
2003	336,774	304,279	641,053	53,421	(0.8)
2004	319,181	323,126	642,307	53,526	0.2
2005	314,632	303,514	618,146	51,512	(3.8)
2006	318,466	287,159	605,625	50,469	(2.0)
2007	321,413	286,903	608,316	50,693	0.4
2008	299,594	229,987	529,581	44,132	(12.9)
2009	248,610	178,973	427,583	35,632	(19.3)

Note:

* Not Seasonally adjusted data.

** 2009 numbers are preliminary.

Source: New Jersey Department of Labor, Division of Labor Market and Demographic Research, Economic Indicators, data updated as of June 22, 2010.

TABLE XI
NAICS COMPOSITION OF NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT
NEW JERSEY AND THE UNITED STATES-2009*

	<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	3,891.5	100.0%	130.9	100.0%
Manufacturing	267.2	6.9	11.9	9.1
Natural Resources & Mining	1.5	0.0	0.7	0.5
Construction	138.8	3.6	6.0	4.6
Trade, Transportation and Utilities	817.3	21.0	24.9	19.1
Information	84.0	2.2	2.8	2.1
Financial Activities	255.4	6.6	7.8	5.9
Services	1,679.1	43.1	54.2	41.4
Government	648.3	16.7	22.6	17.2

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

*2009 numbers are preliminary.

Source: U.S Department of Labor, Bureau of Labor Statistics, March 5, 2010.

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APPENDIX I-C
SUMMARY OF PRINCIPAL
STATE TAXES

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SUMMARY OF PRINCIPAL STATE TAXES

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Summary of Principal State Taxes

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

Alcoholic Beverage Tax

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

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

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

Casino Control Tax

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

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

As of August 25, 2004, the 4.25% tax imposed on complimentary amenities was phased for elimination as of June 30, 2009. In this regard, the rate shall be as follows: in State fiscal years 2004 through 2006, 4.25%; in State fiscal year 2007, 3.1875%; in State fiscal year 2008, 2.125%; and in State fiscal year 2009, 1.0625%. Furthermore, with respect to each year the tax is to be collected, the State will issue a rebate or assessment, as appropriate, to the casinos if the amount of tax collected is more or less than the following: in State fiscal years 2004 through 2006, \$26 million; in State fiscal year 2007, \$19.5 million; in State fiscal year 2008, \$13 million; and in State fiscal year 2009, \$6.5 million. *P.L. 2004, c. 128.*

Cigarette Tax and Tobacco Products Wholesale Tax

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

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

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

collected annually from Cigarette Tax is deposited into the Dedicated Cigarette Tax Revenue Fund. For fiscal years beginning on or after July 1, 2009, \$241,500,000.00 of revenue collected from the Cigarette Tax shall be deposited annually into the Dedicated Cigarette Tax Revenue Fund. *L. 2009, c. 70.*

Clean Communities and Recycling Grant User Fee (User Fee)

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

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

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

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

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

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

For privilege periods beginning on or after January 1, 2001 and ending before January 1, 2002, a domestic or foreign limited liability company or a domestic or foreign limited partnership classified as a partnership for federal

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

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

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

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

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

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

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

<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

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

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

On November 5, 1996, Article VIII, Section II of the New Jersey Constitution was amended to provide that an amount equivalent to 4% of the revenue annually derived from the CBT (or any other law of similar effect) be

deposited in a special account for appropriation only for the following purposes and in the following manner: 1) a minimum of 1/2 for funding State costs relating to hazardous discharge remediations; 2) a minimum of 1/3, dedicated until December 31, 2008, for funding loans and grants for underground storage tank upgrades and replacements; and 3) a minimum of 1/6 or \$5 million, whichever is less, for funding costs related to water quality monitoring, watershed planning, and nonpoint source water pollution prevention.

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

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

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

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

Cosmetic Medical Procedures Gross Receipts Tax

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

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

Energy Tax Receipts

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

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

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

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

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

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

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

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

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

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

Gross Income Tax (GIT)

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

The GIT includes many of the same taxable additions as the federal income tax, but allows only certain deductions such as for personal exemptions, medical expenses, alimony payments, property taxes on principal residences and qualified contributions of certain real property interests. Gross income does not include employer-provided commuter transportation benefits for employees who participate in ride-sharing programs; beginning in 1993, \$720 of such benefits is excludible from income (*P.L. 1993, c. 108*) and beginning January 1, 1997, \$1,000 is deductible, with this amount annually adjusted based on relevant C.P.I.'s. *P.L. 1996, c. 121*. Gross income also does

not include earnings on or distributions from an individual trust account or savings account established pursuant to the New Jersey Educational Savings Trust Program (*P.L.* 1997, c. 237); or contributions to or distributions from a medical savings account excluded from federal gross income under 26 U.S.C. § 220 (*P.L.* 1997, c. 414). Roth IRA's also receive favorable tax treatment. *P.L.* 1998, c. 57. Additionally, under the "New Jersey Limited Liability Company Act," for State tax purposes, members or assignees of members of the newly created limited liability companies are treated as partners in a partnership and single member limited liability companies are treated as sole proprietorships, unless treated otherwise for federal income tax purposes. *P.L.* 1993, c. 210; *P.L.* 1998, c. 79. Beginning January 1, 2001 military pension and survivor benefits respecting service in the United States Armed Forces are included. *P.L.* 2001, c. 84. However, for taxable years beginning on or after January 1, 2004, *P.L.* 2005, c. 63 excludes from taxable income housing and subsistence allowances received by New Jersey National Guard members on State Active duty, and by members of the U.S. Armed Forces' active and reserve components (effective April 7, 2005).

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

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

P.L. 2000, c. 80 created an Earned Income Tax Credit ("EITC") program in New Jersey. Effective January 1, 2007, an eligible New Jersey resident can claim a credit based upon a percentage of the individual's federal EITC, which is allowed and applied for, under section 32 of the federal Internal Revenue Code of 1986 (26 U.S.C. 32). *P.L.* 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 *c. 127* will not apply to gross receipts from qualifying production property manufactured or produced by the taxpayer. The uncoupling will apply to the other activities described above and that are set forth under the American Jobs Creation Act of 2004, will apply to qualified production property that was grown or extracted by the taxpayer (*P.L. 2005, c. 127*, effective July 6, 2005).

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

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

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

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

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

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

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

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

Hazardous Substance Transfer Tax and Hazardous Substance Cleanup and Remediation Fees

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

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

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

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

Homestead Property Tax Credit Act

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

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

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

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

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

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

P.L. 2008 *c.* 35 provides that for the 2007 tax year, resident tenants who are not 65 years of age or older, or who are not blind or disabled are eligible for rebates of \$80. Resident tenants who are 65 years of age or older, or who are

blind or disabled are eligible for rebates between \$160 and \$860 if their gross income is \$70,000 or less, or rebates of \$160 if their gross income is in excess of \$70,000 but not in excess of \$100,000.

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

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

Hotel and Motel Occupancy Fee

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

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

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

Insurance Premiums Tax

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

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

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

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

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

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

Litter Control Tax

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

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

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

Local Tire Management Program Fee

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

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

Motor Fuels Tax

The Motor Fuels Tax is a tax imposed upon the sale of motor fuel, liquefied petroleum, and aviation gasoline, for use or consumption in the State. While fuel taxes are imposed upon the ultimate consumer, *P.L. 2010, c. 22* requires that the tax be pre-collected by the fuel supplier, permissive supplier, importer, exporter, blender, distributor, aviation fuel

dealer, and liquefied petroleum gas dealer; *P.L. 2010 c. 22* changes the point of motor fuel taxation from the retail and distribution system of refineries, pipelines, ships and barges, at a terminal. A reduction in the administrative costs for both taxpayers and tax administrators is expected from changing the point of taxation. *P.L. 2010, c. 22*.

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

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

Nursing Home Quality of Care Improvement Fund Act

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

Petroleum Products Gross Receipts Tax

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

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

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

Public Community Water System Tax

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

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

Realty Transfer Tax

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

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

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

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

In addition, the grantee (buyer) of real property zoned residential, whether improved or not, for consideration in excess of \$1,000,000 is required to pay a separate fee equal to 1% of the full amount of the consideration. The fee imposed by subsection a. of *P.L. 2004 c. 66 § 8 (C.46:15-7.2)* shall not apply to a deed if the transfer of real property is incidental to a corporate merger or acquisition if the equalized assessed value of the real property transferred is less than 20% of the total value of all assets exchanged in the merger or acquisition. *P.L. 2006 c. 66*. Pursuant to Section 9 of *P.L. 2004, c. 66*, the 2004 RTT amendments apply to deeds presented for recording that evidence real property transfers occurring on or after August 1, 2004. Effective February 1, 2005, *P.L. 2005, c. 19*, amended the one percent fee so that it only applies to the purchase of certain types of residentially-zoned property for consideration in excess of \$1,000,000, including real property that: (1) is classified for assessment purposes as Class 2 (residential); (2) includes certain property classified for assessment purposes as Class 3A (farm property (regular)) and other real property sold in conjunction with such property; or (3) that is a cooperative unit; or (4) that is classified pursuant to the requirements of *N.J.A.C. 18:12-2.2* as Class 4A (commercial properties). *P.L. 2006 c. 66*. If a transfer includes property classified pursuant to the requirements of *N.J.A.C. 18:12-2.2* as Class 4 property or any type, the parties to the transaction shall file affidavits of consideration indicating the consideration, the county and municipality in which the property is situated, and the block and lot description of the real property conveyed.

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

Roadside Sign Control and Outdoor Advertising Fee

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

Sales and Use Tax

The Sales and Use Tax is imposed on the receipts from: (a) the retail sale, rental or use of tangible personal property not specifically exempted by statute; (b) the retail sale of services, except for resale, including producing, fabricating, processing, installing, maintaining, repairing, storing and servicing tangible personal property and certain advertising services; (c) sales of food and drink by restaurants and other similar establishments; and (d) the

sale, except for resale, of telecommunications. This tax is also imposed on the rental of hotel and motel rooms, and certain admission charges including those for professional wrestling. Effective July 1, 1992, retail sales of alcoholic beverages are also subject to this tax. *P.L.* 1990, c. 40, § 11.

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

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

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

Qualified businesses engaged in making retail sales in designated urban enterprise zones are authorized to collect sales tax equal to 50% of the tax in effect but not on sales of alcoholic beverages, cigarettes, motor vehicles, restaurant meals, room rentals, catalog sales and services. *P.L.* 1983, c. 303; *P.L.* 1993, c. 40. As of July 1, 2006, *P.L.* 2006 c. 34 amended *P.L.* 1983 c. 303 § 20 (C.52:27H-79). *P.L.* 2006, c. 34 limits the types of business purchases included in the exemptions for business and contractors under the Urban Enterprise Zone (“UEZ”) program. Chapter 34 of *P.L.* 2006, however, does not affect the reduced tax rates on retail sales made in these zones. Rather, *P.L.* 2006, c. 34 provides that the goods purchased for the building of a commercial structure for a qualified business and the physical expansion of a qualified business are exempt purchases. In addition, purchases for the initial equipping of the business and for equipping the business in relation to a physical expansion of the business are exempt. Chapter 34 of *P.L.* 2006 excludes energy, motor vehicles and supplies from the exemption, and it does not exempt services. Notably, *P.L.* 2006, c. 34 requires qualified businesses to obtain their UEZ sales tax exemptions savings in rebate form, rather than exempting the sales tax at the point of sale. *P.L.* 2008, c. 118, broadens the qualified business sales tax exemptions from businesses with annual gross receipts of under \$3 million to businesses with gross receipts under \$10 million. *P.L.* 2001, c. 347 provides for the extension of urban enterprise zone designations and for the new designation of an urban enterprise zone-impacted district.

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

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

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

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

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

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

Sanitary Landfill Facility Taxes

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

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

Savings Institution Tax

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

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

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

Solid Waste Recycling Facility Tax

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

Former Rate: \$1.50/ton

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

Current Rate (2008): \$3.00/ton

Spill Compensation and Control Tax

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

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

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

Sports and Entertainment District Urban Revitalization Taxes

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

Transfer Inheritance and Estate Tax

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

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

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

Tourism Tax

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

Current Rate: not to exceed 2%.

Voice Grade Access Line and Service Number Fees

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

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

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

APPENDIX II

PROPOSED FORMS OF LEGAL OPINIONS

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[Upon initial issuance of the Series A Notes, each of the Attorney General of the State of New Jersey and Hawkins Delafield & Wood LLP, Bond Counsel to the State of New Jersey, are expected to render their respective Approving Legal Opinions in substantially the following form]

September 1, 2010

State Treasurer
State of New Jersey
Trenton, New Jersey

Dear State Treasurer:

We have examined the record of the proceedings taken by the State of New Jersey (the “State”) in connection with the issuance and sale of its Tax and Revenue Anticipation Notes, Series Fiscal 2011A (the “Series A Notes”) in the aggregate principal amount of \$2,250,000,000, which are being issued in accordance with the Resolution (as hereinafter defined). The Series A Notes are issued pursuant to the provisions of Chapter 35 of the Laws of 2010 of the State (the “Act”), a resolution of the Treasurer of the State (the “Treasurer”) entitled “Resolution Authorizing the Issuance of Tax and Revenue Anticipation Notes, Series Fiscal 2011, of the State of New Jersey, Providing for the Securing of Such Notes and Authorizing the Taking of Certain Actions Relating Thereto,” adopted on August 10, 2010 (the “Resolution”). Capitalized terms used but not defined herein shall have the respective meanings ascribed thereto in the Resolution.

The Series A Notes are dated the date of their delivery and bear interest from their date, payable at maturity. The Series A Notes will mature on June 23, 2011. The Series A Notes are issuable as fully registered notes in the denomination of \$5,000 and integral multiples thereof.

The Series A Notes are issued to (i) fund the timing imbalances of the revenue collections and expenditures of the General Fund and the Property Tax Relief Fund of the State during the State’s Fiscal Year ending June 30, 2011 and (ii) pay the costs of issuance of the Series A Notes. The Series A Notes are secured under the provisions of the Resolution and are payable from moneys deposited in the Note Payment Fund created and established under the Resolution.

Payment of the Series A Notes is subject to appropriation and the required appropriations from the General Fund and the Property Tax Relief Fund in an amount sufficient to pay the principal of and interest on the Series A Notes have been made pursuant to the Act.

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

1. The Treasurer has the right and power under the Act to adopt the Resolution. The Resolution has been duly and lawfully adopted by the Treasurer, is in full force and effect and is a valid and binding obligation of the State and the Treasurer, enforceable in accordance with its terms. No other authorization for the Resolution is required.

2. The Resolution creates the valid pledge which it purports to create of the amounts on deposit in the Note Payment Fund, including the investment earnings, if any, thereon, subject to the provisions of the Resolution permitting the application of the amounts on deposit in the Note Payment Fund for the purposes and on the terms and conditions set forth in the Resolution.

3. The Treasurer is duly authorized and entitled to issue the Series A Notes on behalf of the State and the Series A Notes have been duly and validly authorized and issued by the State in accordance with the Act and the Resolution. The Series A Notes constitute valid and binding obligations of the State, as provided in the Resolution, are enforceable in accordance with their terms and the terms of the Resolution, and are entitled to the benefits of the Act and the Resolution, except that the enforceability thereof may be limited by bankruptcy, insolvency, reorganization or other laws now or hereafter enacted affecting the enforceability of creditors' rights generally, and by the application of general principles of equity from time to time in effect.

We have examined the first numbered Series A Note and, in our opinion, the form of said Series A Note and its execution are regular and proper.

Very truly yours,

[Upon initial issuance of the Series A Notes, Hawkins Delafield & Wood LLP, Bond Counsel to the State of New Jersey, is expected to render its Tax Opinion in substantially the following form]

September 1, 2010

State Treasurer
State of New Jersey
Trenton, New Jersey

Dear State Treasurer:

We have acted as bond counsel to the State of New Jersey (the “State”) in connection with the issuance and sale by the State of its Tax and Revenue Anticipation Notes, Series Fiscal 2011A (the “Series A Notes”) in the aggregate principal amount of \$2,250,000,000, which are being issued in accordance with the Resolution (as hereinafter defined). The Series A Notes are issued pursuant to the provisions of Chapter 35 of the Laws of 2010 of the State (the “Act”), a resolution of the Treasurer of the State (the “Treasurer”) entitled “Resolution Authorizing the Issuance of Tax and Revenue Anticipation Notes, Series Fiscal 2011, of the State of New Jersey, Providing for the Securing of Such Notes and Authorizing the Taking of Certain Actions Relating Thereto”, adopted on August 10, 2010 (the “Resolution”). Capitalized terms used but not defined herein shall have the respective meanings ascribed thereto in the Resolution.

The Series A Notes are issued to (i) fund the timing imbalances of the revenue collections and expenditures of the General Fund and the Property Tax Relief Fund of the State during the State’s Fiscal Year ending June 30, 2011 so as to implement the Act and (ii) pay the costs of issuance of the Series A Notes. The Series A Notes are secured under the provisions of the Resolution and are payable from moneys deposited in the Note Payment Fund created and established under the Resolution.

In connection with the opinions set forth below, we have examined such documents and records of the State and other instruments, including original counterparts or certified copies of the Resolution and the other documents listed in the record of proceedings relating to the issuance of the Series A Notes, and such matters of law and other proofs, as we deemed necessary to enable us to express the opinions set forth below. In our examination, we have assumed the legal capacity of all natural persons, the genuineness of all signatures, the authenticity of all documents tendered to us as originals and the conformity to original documents of all documents submitted to us as certified, conformed or photostatic copies.

The Internal Revenue Code of 1986, as amended (the “Code”), establishes certain requirements that must be met subsequent to the issuance and delivery of the Series A Notes in order that interest on the Series A Notes be and remain excluded from gross income for federal income tax purposes under Section 103 of the Code. In the Arbitrage and Use of Proceeds Certificate, dated the date hereof, of the State (the “Arbitrage and Use of Proceeds Certificate”), which is delivered in connection with the issuance of the Series A Notes, the State represents that the State expects and intends to be able to comply with and will, to the extent permitted by law,

comply with the provisions and procedures set forth in the Arbitrage and Use of Proceeds Certificate and do and perform all acts and things necessary or desirable to assure that, under the Code as presently in force, interest on the Series A Notes will be excluded from gross income pursuant to Section 103 of the Code. Non-compliance with the requirements of the Code may require inclusion of interest on the Series A Notes in gross income for federal income tax purposes retroactive to the date of issuance, irrespective of the date on which such noncompliance occurs or is ascertained.

In rendering the opinion in paragraph (1) below, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectations, and certifications of fact contained in the Arbitrage and Use of Proceeds Certificate with respect to matters affecting the exclusion of interest on the Series A Notes from gross income for federal income tax purposes under Section 103 of the Code, and (ii) compliance by the State with the applicable provisions of the Arbitrage and Use of Proceeds Certificate as to such tax matters.

Based upon and subject to the foregoing and the assumptions and qualifications set forth herein, we are of the opinion that:

1. Under existing statutes and court decisions, (a) interest on the Series A Notes is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code and (b) interest on the Series A Notes is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax.

2. Under existing statutes, interest on and any gain realized from the sale of any of the Series A Notes is not includable in gross income under the New Jersey Gross Income Tax Act.

Except as stated in paragraphs (1) and (2) above, we express no opinion as to any other federal or state tax consequences with respect to the Series A Notes. We render our opinion under existing statutes and court decisions as of the issue date, and assume no obligation to update this opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. We express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Series A Notes, or under state and local tax law.

Very truly yours,

APPENDIX III

FORM OF AGREEMENT WITH RESPECT TO CONTINUING DISCLOSURE

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AGREEMENT WITH RESPECT TO CONTINUING DISCLOSURE

The State of New Jersey (the “State”) hereby undertakes for the benefit of the beneficial owners of the \$2,250,000,000 Tax and Revenue Anticipation Notes, Series Fiscal 2011A (the “Notes”), to provide notices of certain material events pertaining to the Notes as set forth in paragraph (b)(5)(i)(C) of Rule 15c2-12 promulgated pursuant to the Securities Exchange Act of 1934 (as such paragraph is now in effect) (hereinafter, the “Rule”), while the Notes are outstanding. In connection therewith, to the extent such events may be applicable to the Notes, notice of the occurrence of the events listed in paragraph (b)(5)(i)(C) of the Rule, which include principal and interest payment delinquencies, non-payment related defaults, unscheduled draws on debt service reserves or credit enhancements reflecting financial difficulties, substitution of credit or liquidity providers or their failure to perform, adverse tax opinions or events affecting the tax-exempt status of the Notes, modifications to the rights of the owners of the Notes, Note calls (other than scheduled Note calls), defeasances, release, substitution or sale of property securing repayment of the Notes and rating changes, in each case, if material, will be provided, in a timely manner, to the Municipal Securities Rulemaking Board (the “MSRB”) subject to customary disclaimers regarding the transmission of electronic copies, in an electronic format as prescribed by the MSRB. The sole and exclusive remedy for any failure of the State to provide the information in the manner specified in this paragraph shall be the right to obtain specific performance of such obligation to provide such information in a judicial proceeding instituted in accordance with applicable legislation pertaining to suits against the State, provided, however, that the State shall have received written notice of any such failure at least sixty (60) days prior to the commencement of any judicial proceeding.

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

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

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

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

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

IN WITNESS WHEREOF, I have hereunto set my hand as State Treasurer of and on behalf of the State of New Jersey this 1st day of September, 2010.

TREASURER, STATE OF NEW JERSEY

By: _____
Andrew P. Sidamon-Eristoff

[Signature Page to Agreement with Respect to Continuing Disclosure]

