

PRELIMINARY OFFICIAL STATEMENT DATED MARCH 15, 2016

NEW ISSUE - BOOK-ENTRY ONLY

Fitch:
Moody's:
S&P:

(See "RATINGS" herein)

NEW JERSEY BUILDING AUTHORITY

\$96,705,000*

STATE BUILDING REVENUE REFUNDING BONDS,
2016 SERIES A

Dated: Date of Delivery

Maturity Date: June 15, as set forth on
the inside front cover

This Official Statement has been prepared by the New Jersey Building Authority (the "Authority") to provide information on its State Building Revenue Refunding Bonds, 2016 Series A (the "2016 Series A Bonds").

This cover page contains certain information for quick reference only. Investors should read this entire Official Statement, including all Appendices attached hereto, to obtain information essential to the making of an informed investment decision.

Tax Exemption: In the opinion of Bond Counsel to the Authority, assuming continuing compliance with the provisions of the Internal Revenue Code of 1986, as amended (the "Code") applicable to the 2016 Series A Bonds and subject to certain provisions of the Code which are described herein, under laws, regulations, rulings and judicial decisions existing on the date of the original delivery of the 2016 Series A Bonds, interest received by a holder of the 2016 Series A Bonds will be excludable from gross income for federal income tax purposes and will not be treated as a preference item for purposes of the alternative minimum tax imposed on individuals or corporations; however, such interest is included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax on such corporations. Under the laws of the State of New Jersey, as enacted and construed on the date of the original delivery of the 2016 Series A Bonds, interest on the 2016 Series A Bonds and gain from the sale thereof is excludable from gross income under the New Jersey Gross Income Tax Act. See "TAX MATTERS" herein for a description of certain other provisions of the Code that may affect the federal tax treatment of interest on the 2016 Series A Bonds.

Security: As described more fully herein, the 2016 Series A Bonds are special obligations payable from lease rental payments made by the State of New Jersey (the "State") to the Authority pursuant to a lease, as amended (the "Lease"), and other revenues and funds pledged under the Bond Resolution (as defined herein).

The 2016 Series A Bonds are not in any way a debt or liability of the State or of any political subdivision thereof other than the Authority (to the limited extent set forth in the Bond Resolution) and shall not create or constitute an indebtedness, liability or obligation of the State or of any political subdivision thereof other than the Authority (to the limited extent set forth in the Bond Resolution) or be or constitute a pledge of the faith and credit or the taxing power of the State or of any political subdivision thereof. The Authority has no taxing power.

Payments Subject to Appropriation: THE STATE'S OBLIGATION TO MAKE RENTAL PAYMENTS AND ANY OTHER OBLIGATION OF THE STATE UNDER THE LEASE ARE SUBJECT TO AND DEPENDENT UPON APPROPRIATIONS BEING MADE FROM TIME TO TIME BY THE NEW JERSEY STATE LEGISLATURE (THE "STATE LEGISLATURE") FOR SUCH PURPOSE. THE STATE LEGISLATURE HAS NO LEGAL OBLIGATION TO MAKE ANY SUCH APPROPRIATIONS.

Purposes: The 2016 Series A Bonds are being issued to (a) refund and legally defease the 2013 Series Notes (as defined herein) and the Bonds to be Refunded (as defined herein) in the amounts set forth herein, and (b) pay the costs of issuance of the 2016 Series A Bonds. See "PLAN OF REFUNDING" herein.

Interest Payment Dates: Interest on the 2016 Series A Bonds is payable on June 15 and December 15 of each year, commencing December 15, 2016.

Optional Redemption: The 2016 Series A Bonds maturing on and after June 15, 2027 are subject to redemption on or after June 15, 2026 at the option of the Authority. See "DESCRIPTION OF THE 2016 SERIES A BONDS - Redemption" herein.

Denominations: The 2016 Series A Bonds will be issued in denominations of \$5,000 or any integral multiple thereof.

Trustee: U.S. Bank National Association, Morristown, New Jersey.

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

The 2016 Series A Bonds are offered when, as and if delivered and subject to the receipt of the approving legal opinion of GluckWalrath LLP, Trenton, New Jersey, Bond Counsel to the Authority. Certain legal matters will be passed upon for the Authority by the Attorney General of the State, General Counsel to the Authority, and for the Underwriters by their counsel, Wilentz, Goldman & Spitzer, P.A., Woodbridge, New Jersey. It is expected that the 2016 Series A Bonds will be available for delivery to the Underwriters through DTC against payment therefor on or about March 31, 2016.

CITIGROUP

FTN Financial Capital Markets

Piper Jaffray & Co.

Ramirez & Co., Inc.

Official Statement dated: March __, 2016

* Preliminary, subject to change.

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

NEW JERSEY BUILDING AUTHORITY

\$96,705,000*

STATE BUILDING REVENUE REFUNDING BONDS, 2016 SERIES A

<u>Maturity*</u> <u>(June 15)</u>	<u>Principal</u> <u>Amount*</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u>	<u>Yield</u>	<u>CUSIP**</u>
2017	\$ 1,965,000	%		%	
2018	2,525,000				
2019	2,625,000				
2020	110,000				
2021	2,870,000				
2022	2,985,000				
2023	10,285,000				
2024	10,620,000				
2025	11,150,000				
2026	8,925,000				
2027	3,525,000				
2028	12,380,000				
2029	13,030,000				
2030	13,710,000				

* Preliminary, subject to change.

** Registered trademark of American Bankers Association. CUSIP numbers are provided by CUSIP Global Services, which is managed on behalf of the American Bankers Association by Standard & Poor's Capital IQ. The CUSIP numbers are being provided solely for the convenience of the holders of the 2016 Series A Bonds only and the Authority does not make any representation with respect to such numbers or undertake any responsibility for their accuracy. The CUSIP numbers are subject to being changed after the issuance of the 2016 Series A Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of the 2016 Series A Bonds.

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State of New Jersey

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Division of Budget and Accounting
Department of the Treasury
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Commission on Capital Budgeting and Planning, State of New Jersey

EXECUTIVE DIRECTOR

RAYMOND A. ARCARIO

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KIM GUADAGNO, Lt. Governor
FORD M. SCUDDER, Acting State Treasurer
ROBERT LOUGY, Acting Attorney General

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IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS SET FORTH ON THE FRONT COVER OF THIS OFFICIAL STATEMENT MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2016 SERIES A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE ORDER AND PLACEMENT OF MATERIALS IN THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, ARE NOT TO BE DEEMED TO BE A DETERMINATION OF RELEVANCE, MATERIALITY OR IMPORTANCE, AND THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, MUST BE CONSIDERED IN ITS ENTIRETY. THE OFFERING OF THE 2016 SERIES A BONDS IS MADE ONLY BY MEANS OF THIS ENTIRE OFFICIAL STATEMENT.

The following Official Statement contains a general description of the 2016 Series A Bonds, the New Jersey Building Authority (the "Authority"), the State of New Jersey (the "State") and the plan of refunding and sets forth summaries of certain provisions of the Act, the Bond Resolution, and the Lease (each as defined herein). The descriptions and summaries herein do not purport to be complete and are not to be construed as representations of the Authority. Persons interested in purchasing the 2016 Series A Bonds should carefully review this Official Statement (including the appendices attached hereto) as well as copies of such documents in their entirety, which are held by the Trustee at its corporate trust office. This Official Statement is submitted in connection with the sale and the issuance of the 2016 Series A Bonds and may not be reproduced, used or relied upon, in whole or in part, for any other purpose.

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy, nor shall there be any sale of the 2016 Series A Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Certain information contained herein has been obtained from the State and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and it is not to be construed as a representation of the Authority. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in such information since the date hereof, or the date as of which particular information is given, if earlier.

The 2016 Series A Bonds are not registered under the Securities Act of 1933, as amended, or listed on any stock or other securities exchange and the Bond Resolution has not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in such acts. In making an investment decision, investors must rely upon their own examination of the 2016 Series A Bonds and the security therefor, including an analysis of the risk involved. The 2016 Series A Bonds have not been recommended by any federal or state securities commission or regulatory authority. The registration or qualification of the 2016 Series A Bonds in accordance with applicable provisions of the securities laws of the states in which the 2016 Series A Bonds have been registered or qualified, if any, and the exemption from registration or qualification in other states cannot be regarded as a recommendation of the 2016 Series A Bonds. Neither these states nor any of their agencies have passed upon the merits of the 2016 Series A Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense. Neither the Securities and Exchange Commission nor any other federal, state, municipal or other governmental entity has passed upon the accuracy or adequacy of this Official Statement, or, except for the Authority and the State Treasurer, has approved the 2016 Series A Bonds for sale.

References in this Official Statement to statutes, laws, rules, regulations, resolutions, agreements, reports and documents do not purport to be comprehensive or definitive, and all such references are qualified by reference to the particular documents in their entirety, the full texts of which may contain qualifications of and exceptions to statements made herein. This Official Statement is distributed in connection with the offering of the 2016 Series A Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

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

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**OFFICIAL STATEMENT
of the**

NEW JERSEY BUILDING AUTHORITY

\$96,705,000*

**STATE BUILDING REVENUE REFUNDING BONDS,
2016 SERIES A**

INTRODUCTION

The purpose of this Official Statement, which includes the cover page, the inside cover and the Appendices, of the New Jersey Building Authority (the “Authority”) is to furnish information with respect to its State Building Revenue Refunding Bonds, 2016 Series A (the “2016 Series A Bonds”). The 2016 Series A Bonds are being issued pursuant to the provisions of the New Jersey Building Authority Act, constituting Chapter 120 of the Laws of 1981 of New Jersey, as amended (the “Act”), and the State Building Revenue Bond Resolution adopted by the Authority on December 4, 1985, as supplemented and amended to the date hereof, including with respect to the 2016 Series A Bonds, by the Twenty-Fifth Supplemental State Building Revenue Bond Resolution adopted by the Authority on February 9, 2016 and a Series Certificate for the 2016 Series A Bonds (the “2016 Series Certificate”) executed by an Authorized Authority Official, authorizing the 2016 Series A Bonds (together, the “Twenty-Fifth Supplemental Resolution”). The State Building Revenue Bond Resolution as so amended by other supplemental resolutions and the Twenty-Fifth Supplemental Resolution, is referred to herein as the “Bond Resolution.” Capitalized terms used but not defined in this Official Statement shall have the meanings given to them in “APPENDIX II – CERTAIN DEFINITIONS” hereto or in the Bond Resolution.

The 2016 Series A Bonds, together with all other bonds and notes outstanding under the Bond Resolution, and any additional parity bonds that may hereafter be issued under the Bond Resolution hereinafter are referred to, collectively, as the “Bonds.” As of February 29, 2016, the aggregate principal amount of all Bonds Outstanding under the Bond Resolution is \$458,460,000. Upon the issuance of the 2016 Series A Bonds, there will be \$_____ aggregate principal amount of Bonds Outstanding under the Bond Resolution.

The 2016 Series A Bonds are being issued to (a) refund and legally defease the Authority’s Outstanding \$47,620,000 aggregate principal amount of State Building Revenue Bond Anticipation Notes, 2013 Series (the “2013 Series Notes”), (b) refund and legally defease the Authority’s Outstanding Bonds more fully described in APPENDIX VI to this Official Statement (the “Bonds to be Refunded”), and (c) pay the costs of issuance of the 2016 Series A Bonds. See “PLAN OF REFUNDING” and “ESTIMATED SOURCES AND USES OF FUNDS” herein.

U.S. Bank National Association, Morristown, New Jersey is acting as trustee under the Bond Resolution (the “Trustee”).

The Authority was created by the Act in 1981 and is a public body corporate and politic constituting an instrumentality of the State of New Jersey (the “State”) to acquire, construct, reconstruct,

* Preliminary, subject to change

rehabilitate, or improve office buildings or related facilities necessary or convenient to the operation of any State agency. Amendments to the Act, constituting Chapter 174 of the Laws of 1992 of New Jersey, further authorized the Authority to renovate and to preserve historic public buildings and to construct and rehabilitate correctional facilities. The Authority obtains the capital resources necessary to conduct these activities through the issuance of bonds and notes.

The Authority previously has financed the costs of acquisition and construction of the Initial Project, and a portion of the costs of the State House Complex Project, the 1994 Additional Project, the 1997 Additional Project, the 1999 Series A Additional Project, the 1999 Series B Additional Project, the 2000 Series A Additional Project, the 2002 Series A Additional Project, the 2004 Series A Additional Project, the 2006 Series A Additional Project, the Security Command Center Additional Project, the State Capitol Complex, Cultural Campus and Other State Office Building Renovation Additional Projects, and the 2012 Series Additional Project, all as described herein. Such projects, together with any additions, enlargements, improvements, expansions, repairs, restorations, or reconstructions thereof or any other project authorized to be financed by the Authority under the Act, so long as Bonds of the Authority issued to fund such facilities or to refund such Bonds are Outstanding, constitute the "Project." The 2016 Series A Bonds are secured on a parity basis with all other Bonds of the Authority Outstanding under the Bond Resolution by a pledge of the revenues derived by the Authority from or attributable to ownership or leasing of all of the various facilities constituting the Project. See "THE PROJECTS" herein.

The Authority and the State have entered into a Lease and Agreement relating to the Project dated as of November 15, 1981, as amended by Lease and Agreement Amendment No. 1, dated as of January 1, 1983, by Lease and Agreement Amendment No. 2, dated as of December 15, 1985, by Lease and Agreement Amendment No. 3, dated as of April 1, 1989, by Lease and Agreement Amendment No. 4, dated as of October 1, 1991, by Lease and Agreement Amendment No. 5, dated as of January 1, 1994, by Lease and Agreement Amendment No. 6, dated as of September 1, 1997, by Lease and Agreement Amendment No. 7, dated as of October 1, 1999, by Lease and Agreement Amendment No. 8, dated as of February 1, 2000, by Lease and Agreement Amendment No. 9, dated as of November 15, 2002, by Lease and Agreement Amendment No. 10, dated as of November 15, 2002, by Lease and Agreement Amendment No. 11, dated as of August 15, 2003, by Lease and Agreement Amendment No. 12, dated as of December 1, 2004, by Lease and Agreement Amendment No. 13, dated as of March 1, 2005 and by Lease and Agreement No. 14, dated as of April 1, 2011 (such Lease and Agreement as so amended and as the same may be amended hereafter is called the "Lease" herein). The Lease covers certain facilities whose improvements have been financed with prior bonds and notes of the Authority and leased by the Authority to the State. The Lease provides for rental payments, subject to appropriations therefor by the New Jersey State Legislature (the "State Legislature") being made, from time to time, from the State equal to debt service on all Outstanding Bonds (as defined in the Bond Resolution), including the 2016 Series A Bonds, amounts owed by the Authority for Subordinated Debt, including without limitation, amounts under a letter of credit or other credit agreement facility, swap agreement or insurance or guaranty arrangement, if any, amounts necessary to fund the Yield Reduction Sinking Fund and certain Administrative Expenses of the Authority. The State Legislature has no legal obligation to make such appropriations. See "THE LEASE" herein.

With respect to the Initial Project described under the heading, "THE PROJECTS –The Initial Project" herein, the Authority holds fee simple title to the land on which the General Office Building and the State Commerce Building are situated and fee simple title to part of the land on which the Environmental Protection Building is situated. The Authority leases from the State the ground on which the Transportation Department Annex and the laboratory facility for breeding beneficial insects are located and part of the land on which the Environmental Protection Building is situated pursuant to ground leases between the Authority and the State, as amended (collectively, the "Initial Ground Lease").

The site and the existing facilities known as the State House and the State House Annex together with related facilities as more fully described under the heading "THE PROJECTS – The State House

Complex Project” and “THE PROJECTS – The 2012 Series Additional Project” have been leased by the State to the Authority pursuant to a Ground Lease between the Authority and the State dated as of April 1, 1989, as amended (the “State House Complex Ground Lease”).

The sites and existing facilities known as the Labor Building, the Education Building, the War Memorial, the Old Barracks and the Thomas Edison State College Row Homes, together with the site for the construction of the Bridgeton State Prison, except for a small parcel to which the Authority holds fee simple title, as more fully described under the heading “THE PROJECTS – The 1994 Additional Project”, have been leased by the State to the Authority pursuant to the State House Complex Ground Lease.

The site and existing facility known as the Richard J. Hughes Justice Complex as more fully described under the heading “THE PROJECTS – The 1999 Series A Additional Project” and “THE PROJECTS - The 2000 Series A Additional Project”, the site located in Hamilton Township, New Jersey on which the 1999 Series B Additional Project as amended by the 2002 Series A Additional Project was constructed as more fully described under the heading “THE PROJECTS – The 1999 Series B Additional Project” and “THE PROJECTS - The 2002 Series A Additional Project” and the site and existing facility known as the Transportation Department Annex as more fully described under the heading “THE PROJECTS – The 2000 Series A Additional Project” have been leased by the State to the Authority pursuant to separate ground leases between the Authority and the State dated as of October 1, 1999, as amended, with respect to the 1999 Series A Additional Project and the 2000 Series A Additional Project, and as of February 1, 2000, with respect to the 1999 Series B Additional Project.

The sites and the existing facilities known as the New Jersey State Museum and the State Police Office of Emergency Management and Emergency Operations Center, as more fully described under the heading “THE PROJECTS – The 2002 Series A Additional Project”, have been leased by the State to the Authority pursuant to separate ground leases between the Authority and the State each dated November 15, 2002.

The site and existing facility known as the Pinelands Commission Headquarters as are more fully described under the heading “THE PROJECTS – The 1997 Additional Project” have been leased by the State to the Authority pursuant to a ground lease dated as of November 15, 2002.

The site and existing facility known as the Public Health, Environmental and Agricultural Laboratories as are more fully described under the heading “THE PROJECTS – The 1997 Additional Project” and “THE PROJECTS – The 2006 Series A Additional Project” have been leased by the State to the Authority pursuant to a ground lease dated as of November 15, 2002, as amended.

An additional site and existing Finance and Administration Building of the Transportation Department Annex as are more fully described under the heading “THE PROJECTS – The 2004 Series A Additional Project” have been leased by the State to the Authority pursuant to an amendment of the Initial Ground Lease dated as of December 1, 2004.

The site and existing facility known as the Security Command Center as are more fully described under the heading “THE PROJECTS – Security Command Center Additional Project” have been leased by the State to the Authority pursuant to a ground lease dated as of November 15, 2002, as amended.

The site and facilities being improved as more fully described under the heading “THE PROJECTS – The Series 2012 Additional Project” are owned by the State and leased to the Authority pursuant and subject to, the State House Complex Ground Lease.

The sites more fully described under the “THE PROJECTS - State Capitol Complex, Cultural Campus and Other State Office Building Renovation Additional Projects” are all sites to which the Authority has previously obtained either fee simple title or a leasehold interest pursuant to ground leases for such sites.

Additionally, with respect to the existing facility known as the Taxation Building as more fully described under the “THE PROJECTS - The 1994 Additional Project” and the “THE PROJECTS - State Capitol Complex, Cultural Campus and Other State Office Building Renovation Additional Projects”, the State has assigned to the Authority its leasehold interest under the lease-purchase agreement the State has with the private owner of such facility.

DESCRIPTION OF THE 2016 SERIES A BONDS

General

The 2016 Series A Bonds will be dated the date of delivery thereof and will bear interest at the respective rates per annum and mature on the dates and in the principal amounts set forth on the inside cover page of this Official Statement. Interest on the 2016 Series A Bonds will be payable on December 15, 2016 and semi-annually thereafter on June 15 and December 15 of each year to and including their respective dates of maturity. The 2016 Series A Bonds will be payable as to principal upon presentation and surrender thereof at the corporate trust office of U.S. Bank National Association, Morristown, New Jersey, as Trustee.

The 2016 Series A Bonds will be issued as fully registered bonds, and, when issued, will be registered in the name of Cede & Co., as nominee for DTC (as defined herein). Purchases of beneficial interests in the 2016 Series A Bonds will be made in book-entry only form (without certificates) in the denomination of \$5,000 or any integral multiple thereof. Under certain circumstances, such beneficial interests may be exchangeable for one or more fully registered bonds of like principal amount, series and maturity in the denomination of \$5,000 or any integral multiple thereof. See “APPENDIX V - BOOK-ENTRY ONLY SYSTEM” hereto.

The information in APPENDIX V - BOOK-ENTRY ONLY SYSTEM to this Official Statement concerning The Depository Trust Company (“DTC”) and DTC’s book-entry only system has been provided by DTC. Accordingly, the Authority takes no responsibility for the accuracy thereof and neither the DTC Participants nor the Beneficial Owners (as such terms are defined in APPENDIX V) should rely on such information with respect to such matters but should instead confirm the same with DTC or the DTC Participants, as the case may be.

THE AUTHORITY AND THE TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC WILL DISTRIBUTE TO THE DIRECT PARTICIPANTS OR THAT THE DIRECT PARTICIPANTS OR THE INDIRECT PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE 2016 SERIES A BONDS, (I) PAYMENTS OF PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE 2016 SERIES A BONDS, (II) CERTIFICATES REPRESENTING AN OWNERSHIP INTEREST OR OTHER CONFIRMATION OF BENEFICIAL OWNERSHIP INTEREST IN 2016 SERIES A BONDS OR (III) NOTICES SENT TO DTC OR CEDE & CO., ITS NOMINEE, AS THE HOLDER OF THE 2016 SERIES A BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT ON THE MANNER DESCRIBED IN APPENDIX V TO THIS OFFICIAL STATEMENT. NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO ANY DIRECT PARTICIPANTS, ANY PERSON CLAIMING A BENEFICIAL OWNERSHIP INTEREST IN THE 2016 SERIES A BONDS UNDER OR THROUGH DTC OR ANY DIRECT PARTICIPANT, OR ANY OTHER PERSON WHICH IS NOT SHOWN ON THE REGISTRATION BOOKS OF THE AUTHORITY KEPT BY THE TRUSTEE AS BEING A BONDHOLDER. THE AUTHORITY AND THE TRUSTEE SHALL HAVE NO RESPONSIBILITY WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, CEDE & CO., ANY DTC PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (II) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE 2016 SERIES A BONDS UNDER THE BOND RESOLUTION; (III) THE PAYMENT BY DTC OR ANY

DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST DUE WITH RESPECT TO THE 2016 SERIES A BONDS; (IV) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF 2016 SERIES A BONDS; OR (V) ANY OTHER MATTER.

SO LONG AS CEDE & CO. IS THE HOLDER OF THE 2016 SERIES A BONDS, AS NOMINEE OF DTC, REFERENCES IN THIS OFFICIAL STATEMENT TO THE BOND OWNERS OR HOLDERS OF THE 2016 SERIES A BONDS SHALL MEAN CEDE & CO. OR DTC AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE 2016 SERIES A BONDS.

In the event that the 2016 Series A Bonds are no longer subject to the book-entry only system, the Authority shall immediately advise the Trustee in writing of the procedures for transfer of the 2016 Series A Bonds from such book-entry only form to a fully registered form. Thereafter, bond certificates will be printed and delivered as described in the Bond Resolution and Beneficial Owners will become the registered owners of the 2016 Series A Bonds.

Redemption

Optional Redemption

The 2016 Series A Bonds maturing on or before June 15, 2026 are not subject to optional redemption prior to their stated maturities. The 2016 Series A Bonds maturing on and after June 15, 2027 are subject to redemption prior to their stated maturity dates at the option of the Authority, on any date on or after June 15, 2026, either in whole or in part, by lot within a maturity from maturities selected by the Authority, at a Redemption Price equal to 100% of the principal amount thereof, without premium, plus accrued interest thereon to the date fixed for redemption.

Selection of 2016 Series A Bonds to be Redeemed

If less than all of the 2016 Series A Bonds of like maturity are called for redemption, the portions of the 2016 Series A Bonds of like maturity to be redeemed shall be selected at random by the Trustee in such a manner as the Trustee in its discretion may deem fair and appropriate. However, the portion of any 2016 Series A Bonds of a denomination of more than \$5,000 to be redeemed must be in the principal amount of \$5,000 or a multiple thereof, and in selecting portions of such 2016 Series A Bonds, the Trustee must treat each such 2016 Series A Bond as representing that number of 2016 Series A Bonds of \$5,000 denomination which is obtained by dividing by \$5,000 the principal amount of such 2016 Series A Bonds which are to be redeemed in part.

Notice of Redemption

When the Trustee shall receive notice from the Authority of its election or direction to redeem the 2016 Series A Bonds, and when redemption of the 2016 Series A Bonds is authorized or required pursuant to the Bond Resolution, the Trustee shall give notice, in the name of the Authority, of the redemption of such 2016 Series A Bonds, which notice shall specify the maturities of the 2016 Series A Bonds to be redeemed, the redemption date and the place or places where amounts due upon such redemption will be payable and, if less than all of the 2016 Series A Bonds of the same maturity are to be redeemed, and, in the case of 2016 Series A Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. Such notice shall further state that on the redemption date there shall become due and payable upon each 2016 Series A Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of 2016 Series A Bonds to be redeemed in part only, together with interest accrued to the redemption date, and that from and after such date interest thereon shall cease to accrue and be payable. Such notice shall be mailed by the Trustee, postage prepaid, not less than twenty-five (25) days prior to the redemption date, to the registered owners of any 2016 Series A Bonds or portions of 2016 Series A Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry

books. Failure of the registered owner of any 2016 Series A Bonds which are to be redeemed to receive any such notice shall not affect the validity of the proceedings for the redemption of 2016 Series A Bonds.

So long as DTC is acting as securities depository for the 2016 Series A Bonds, all notices of redemption required to be given to the registered owners of the 2016 Series A Bonds will be given to DTC.

SOURCES OF PAYMENT AND SECURITY FOR THE 2016 SERIES A BONDS

General

Under the terms of the Bond Resolution, the 2016 Series A Bonds are special obligations of the Authority payable solely from, and secured solely by, but in all events equally and ratably: (i) the proceeds of the sale of the 2016 Series A Bonds; (ii) the Revenues defined below; and (iii) all funds established by the Bond Resolution, other than the Rebate Fund and the Purchase and Remarketing Fund, including any investments, if any, thereof, subject only to the application of such amounts for the purposes authorized in the Bond Resolution. The Bond Resolution defines "Revenues" as: (i) all revenues, income, rents and receipts derived by the Authority from or attributable to the ownership, sale, or leasing of the Project (see "Remedies in Event of Nonappropriation or Default" below); (ii) the proceeds of any insurance covering business interruption loss relating to the Project; and (iii) interest received on the monies or the securities held pursuant to the Bond Resolution and required to be paid into the Revenue Fund pursuant to the Bond Resolution.

Pursuant to the Lease, the State will make rental payments, subject to appropriation of moneys therefor, from time to time, by the State Legislature, at the times and in the amounts sufficient to pay debt service on the Bonds (including bond anticipation notes) and to pay certain amounts, including, Subordinated Debt and Administrative Expenses of the Authority. See "THE LEASE" and "THE BOND RESOLUTION" herein. The rental payments representing debt service on the 2016 Series A Bonds are irrevocably pledged by the Authority pursuant to the Bond Resolution for the payment of principal of and interest on the 2016 Series A Bonds, and for that purpose are required to be deposited into the Revenue Fund held by the Trustee for transfer to the Debt Service Fund held by the Trustee. The Lease provides that such rental payments will be made directly to the Trustee. Any facility financed by a series of Bonds may be released from the Lease and thereafter may cease to be part of the Project (as that term is defined in the Lease and in the Bond Resolution) when Bonds of such series, Bonds of any other series the proceeds of which were used to finance such facility and any Bonds issued to refund any such Bonds are no longer deemed to be Outstanding (as defined in the Bond Resolution).

The Lease provides that the State's obligation to make the rental payments is absolute and unconditional, subject only to and dependent upon appropriations being made from time to time by the State Legislature for such purposes, and that each rental payment is payable without any set-off, recoupment or counterclaim, regardless of contingencies and whether the State occupies or uses the Project. The State's obligation to make the rental payments will continue until the later of January 1, 2025 or thirty (30) days after the final maturity date of any Bonds secured by the Lease, unless sooner terminated in accordance with the provisions of the Lease.

THE STATE'S OBLIGATION TO MAKE RENTAL PAYMENTS AND ANY OTHER OBLIGATION OF THE STATE UNDER THE LEASE ARE SUBJECT TO AND DEPENDENT UPON APPROPRIATIONS BEING MADE FROM TIME TO TIME BY THE STATE LEGISLATURE FOR SUCH PURPOSE. THE STATE LEGISLATURE HAS NO LEGAL OBLIGATION TO MAKE ANY SUCH APPROPRIATIONS. THE 2016 SERIES A BONDS ARE NOT IN ANY WAY A DEBT OR LIABILITY OF THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF OTHER THAN THE AUTHORITY (TO THE LIMITED EXTENT SET FORTH IN THE BOND RESOLUTION) AND

SHALL NOT CREATE OR CONSTITUTE AN INDEBTEDNESS, LIABILITY OR OBLIGATION OF THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF OTHER THAN THE AUTHORITY (TO THE LIMITED EXTENT SET FORTH IN THE BOND RESOLUTION) OR BE OR CONSTITUTE A PLEDGE OF THE FAITH AND CREDIT OR THE TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF. THE AUTHORITY HAS NO TAXING POWER.

Additional Series of Bonds may be issued by the Authority from time to time under the Bond Resolution to pay the cost of any project authorized to be financed by the Authority, including the cost of completion of such projects or to refund Bonds. See “-Additional Bonds and Refunding Bonds” under the heading “THE BOND RESOLUTION” herein.

One or more series of Refunding Bonds may be issued at any time to refund any or all Outstanding Bonds of the Authority. Such Refunding Bonds shall be issued in a principal amount sufficient, together with other moneys available therefor, to accomplish such refunding and to make the deposits in the Funds and the Accounts under the Bond Resolution required by the provisions of the Supplemental Resolution authorizing such Refunding Bonds. See “THE BOND RESOLUTION - Additional Bonds and Refunding Bonds” herein.

The State is not obligated to finance State buildings through the Authority, and it has leased in the past and may lease in the future buildings through agencies or parties other than the Authority. Nothing obligates the State to give greater priority to buildings leased from the Authority than those leased from some other party.

Remedies in Event of Nonappropriation or Default

Whenever there is an event of default as described in the Lease including the failure by the State to pay rent required thereunder (other than by reason of the failure of the State Legislature to make an appropriation therefor), the Authority (1) may reenter and may take possession of the Project without terminating the Lease and may sublease it for the account of the State, (2) may terminate the Lease, exclude the State from possession of the Project and may use its best efforts to lease the Project to another party for the account of the State, or (3) to the extent permitted by law, may terminate the Lease, exclude the State from possession of the Project and sell the Project, in each case holding the State liable for all rent and other amounts due under the Lease and not paid by another party. In the event the State Legislature fails to make an appropriation so that the State is unable to make payments when due under the Lease, the Authority may terminate the Lease upon notice as provided therein. Thereupon the Authority must exclude the State from possession of the Project and must use its best efforts to lease the Project to another party or, to the extent permitted by law, to sell the Project. Any amounts collected pursuant to the preceding sentence shall be applied to the payment of Bonds in accordance with the Bond Resolution.

The ability of the Authority to lease or to sell facilities comprising the Project is dependent upon the real property interest of the Authority in such facilities. The Authority holds fee simple title to the land on which the General Office Building and the State Commerce Building are situated and fee simple title to part of the land on which the Environmental Protection Building is situated. The Authority leases from the State pursuant to the Initial Ground Lease, the ground on which the Transportation Department Annex and the laboratory facility for breeding beneficial insects are situated and part of the land on which the Environmental Protection Building is situated. The Authority leases from the State pursuant to the State House Complex Ground Lease the land and buildings renovated as part of the State House Complex Project and the 2012 Series Additional Project. The Authority has also leased, pursuant to various ground leases with the State, all of the sites and facilities relating to the 1994 Additional Project, the 1997 Additional Project, the 1999 Series A Additional Project, the 1999 Series B Additional Project, the 2000 Series A Additional Project, the 2002 Series A Additional Project, the 2004 Series A Additional Project,

the 2006 Series A Additional Project, the Security Command Center Additional Project and the State Capitol Complex, Cultural Campus and Other State Office Building Renovation Additional Projects, all as described below, with the exception of the Taxation Building, in which the Authority has been assigned the State's leasehold interest under a lease-purchase agreement with a private owner. These sites and facilities are described in "THE AUTHORITY - The 1994 Additional Project," "THE AUTHORITY - The 1997 Additional Project," "THE AUTHORITY - The 1999 Series A Additional Project," "THE AUTHORITY - The 1999 Series B Additional Project," "THE AUTHORITY - The 2000 Series A Additional Project," "THE AUTHORITY - The 2002 Series A Additional Project," "THE AUTHORITY - The 2004 Series A Additional Project," "THE AUTHORITY - The 2006 Series A Additional Project," "THE AUTHORITY - Security Command Center Additional Project," "THE AUTHORITY - State Capitol Complex, Cultural Campus and Other State Office Building Renovation Additional Projects," "THE AUTHORITY - The State House Complex Project," and "THE AUTHORITY - The 2012 Series Additional Project" herein.

UPON AN EVENT OF DEFAULT, THERE IS NO ASSURANCE THAT THE LEASE OR THE SALE OF THE FACILITIES CONSTITUTING THE PROJECT IS FEASIBLE OR WILL PRODUCE ANY SIGNIFICANT REVENUES. See "THE BOND RESOLUTION - Events of Default and Remedies" herein.

PLAN OF REFUNDING

The 2016 Series A Bonds are being issued to (a) refund and legally defease the 2013 Series Notes and the Bonds to be Refunded, and (b) pay the costs of issuance of the 2016 Series A Bonds.

Simultaneously with the issuance of the 2016 Series A Bonds, U.S. Bank National Association (the "Escrow Agent") and the Authority will enter into an Escrow Deposit Agreement, to be dated the date of issuance and delivery of the 2016 Series A Bonds (the "Escrow Deposit Agreement"), pursuant to which the Escrow Agent shall create a special and irrevocable escrow fund (the "Escrow Fund") to be held by the Escrow Agent for the payment of the Redemption Price of, including all accrued interest on, the 2013 Series Notes and the Bonds to be Refunded on their respective redemption dates. A portion of the proceeds from the sale of the 2016 Series A Bonds, together with other funds of the Authority, if any, will be paid to the Escrow Agent for deposit to the Escrow Fund established pursuant to the Escrow Deposit Agreement, and will be applied to the purchase of Defeasance Securities the principal of and interest on which, together with other funds on deposit in such Escrow Fund, will be sufficient to pay when due the Redemption Price of, including all accrued interest on (i) the Series 2013 Notes, which will be redeemed on May __, 2016 at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date, and (ii) the Bonds to be Refunded, which will be redeemed on June 15, 2016 at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date. See "ESTIMATED SOURCES AND USES OF FUNDS" and "VERIFICATION" herein.

The holders of the 2013 Series Notes and the Bonds to be Refunded will have a lien on the cash and Defeasance Securities on deposit in the Escrow Fund. Upon execution and delivery of the Escrow Deposit Agreement and deposit of the cash and Defeasance Securities into the Escrow Fund, the 2013 Series Notes and the Bonds to be Refunded shall be legally defeased and shall no longer be deemed to be Outstanding under, or entitled to the benefits of, the Bond Resolution.

ANNUAL DEBT SERVICE SCHEDULE

The following table sets forth the annual debt service requirements on the 2016 Series A Bonds.

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2017	\$	\$	\$
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
TOTALS	\$ _____	\$ _____	\$ _____

ESTIMATED SOURCES AND USES OF FUNDS

The sources and uses of funds in connection with the issuance of the 2016 Series A Bonds are expected to be as follows:

Sources of Funds:

Principal Amount of 2016 Series A Bonds.....	\$
[Net]Original Issue Premium.....	
Other Available Funds.....	_____
Total Sources of Funds	\$ _____

Uses of Funds:

Deposit to Escrow Fund.....	\$
Underwriters' Discount.....	
Costs of Issuance ⁽¹⁾	_____
Total Sources of Funds	\$ _____

⁽¹⁾ Includes fees for bond ratings, printing, legal, trust and escrow, and other estimated fees and expenses relating to the sale and issuance of the 2016 Series A Bonds.

THE AUTHORITY

The Authority was created by the Act in 1981 and is a public body corporate and politic constituting an instrumentality of the State to acquire, construct, reconstruct, rehabilitate or improve office buildings or related facilities necessary or convenient to the operation of any State agency including the executive, legislative, or judicial branches of the State government or any office, department, board, commission, bureau, division, public authority or corporation, agency or instrumentality of the State. Amendments to the Act, constituting Chapter 174 of the Laws of 1992 of New Jersey, further authorized the Authority to renovate and to preserve historic public buildings and to construct and rehabilitate correctional facilities.

The Authority is governed by a twelve-member Board, consisting of the State Treasurer, the Director of the Division of Budget and Accounting and the Chairman of the Commission on Capital Budgeting and Planning, who are members *ex-officio*, two persons appointed by the Governor upon the recommendation of the President of the Senate, two persons appointed by the Governor upon the recommendation of the Speaker of the Assembly, of whom no more than one of each group of two is of the same political party, and five members appointed by the Governor with the advice and consent of the Senate, of whom no more than three are of the same political party. Action may be taken and motions and resolutions may be adopted by the Authority at any meeting by the affirmative vote of at least seven members. The *ex-officio* members occupy their positions at the pleasure of the Governor. There are currently three vacancies on the Authority Board.

The Authority is established in the Department of the Treasury. Under the Act, when the Authority proposes to construct a building that is estimated to cost in excess of \$100,000 it must first submit a project report to the Commission on Capital Budgeting and Planning of the State for its review and its findings, among other things, as to whether the project is necessary and convenient to meet the needs of the State agencies that are to utilize the project. The Commission on Capital Budgeting and Planning is made up of four representatives from both political parties, the State Treasurer, three other members of the executive branch appointed by the Governor and four members of the public appointed by the Governor and confirmed by the State Senate.

The Authority also must conduct a public hearing in the municipality in which the project is to be located, except that this requirement does not apply in the case of the reconstruction, rehabilitation, repair, or improvement of an existing building owned by the State that will be used subsequently for substantially the same purpose. If timely objections to the project are filed by the governing body of the county or municipality in which the project is to be located, the Authority must respond in writing to any such objection with specific responses to the data, the views and the arguments contained in the objection.

The Authority also must submit to both houses of the State Legislature its project report, the findings of the Commission on Capital Budgeting and Planning, the transcript of the public hearing, if any, and its responses to any objections filed by a municipality or county. Unless the project as described in the submission is approved by a concurrent resolution of the General Assembly and the Senate within 45 days after submission, the project shall be deemed disapproved and the Authority shall not undertake the project. The Act also requires that no lease agreement shall be executed for space in any project without the approval of the Space Utilization and Leasing Committee.

The Act provides that a certified copy of minutes of every meeting of the Authority shall be delivered forthwith to the Governor of the State, and no action taken at such meeting by the Authority shall have force or effect until 15 days thereafter unless approved by the Governor during such 15-day period. Such action shall be null and void and of no effect if the minutes are vetoed by the Governor within such period. The Act further provides that the powers referred to in this paragraph shall be exercised with due regard for the rights of the holders of Outstanding Bonds and Notes of the Authority.

Upon the issuance of the 2016 Series A Bonds, the Authority will have \$ _____ aggregate principal amount of Bonds Outstanding under the Bond Resolution.

THE PROJECTS

The Initial Project

In 1981, the official approvals required under the Act were received for the acquisition and/or construction of five buildings, which constituted and which are referred to herein as the Initial Project. The five buildings, consisting of a laboratory facility for breeding beneficial insect parasites, the Transportation Department Annex (a 7-story office building of approximately 270,000 square feet), the Environmental Protection Building (a 7-story office building of approximately 400,000 square feet), the Mary Roebling Building (a 12-story office building of approximately 300,000 square feet) and the Community Affairs Building (an 8-story building of approximately 160,000 square feet), are complete and occupied.

The State House Complex Project

The New Jersey State House is the State's Capitol Building. It contains the Senate and Assembly Chambers, the Offices of the Governor and the Governor's Staff, and the Offices of the State Treasurer and space for other legislative and executive operations. Immediately adjoining the State House is the State House Annex, which provides space for Legislative committee, conference, and staff use. A power house facility is located on land adjacent to the State House and the State House Annex.

Phase one of the State House Complex Project ("Phase One") included the historical renovation of the Legislative portion of the State House (including both Legislative chambers but excluding the executive wing of the State House), the renovation and the refitting of the power house facility, which provides energy for buildings in the Capitol Complex, the reconstruction of the rear of the State House to provide additional Legislative staff space, and the renovation of the State House Annex to comply with life-safety codes and to upgrade mechanical systems.

Phase two of the State House Complex Project ("Phase Two") was comprised of additional components for the Legislative portion of the State House, restoration of historical and architectural elements of the State House Annex, certain life-safety and structural improvements to the Executive portion of the State House, improvements to site utilities, construction of a 4-level parking facility at the rear of the State House Annex, and landscaping of areas then used for surface parking. Phase One and Phase Two have been completed.

The 1994 Additional Project

The 1994 Additional Project consisted of the completion of Phase Two of the State House Complex Project described above, the Bridgeton Prison Project, the State Office Buildings Renovation Project and the Capitol Complex Historic Project, as described below.

Bridgeton Prison Project

The Bridgeton Prison Project was comprised of the construction of a 1,355,000 square foot medium security prison including a poultry processing plant and a central kitchen which services prison facilities throughout the State. The project added approximately 3,000 beds to the State prison system in response to a judicial mandate to alleviate overcrowding in State prisons and county jails. Construction was implemented in three phases and was completed within budget. The facilities have been occupied since 1997 and are fully functional.

The State Office Buildings Renovation Project

The State Office Buildings Renovation Project was comprised of improvements and renovation to three office buildings in the City of Trenton: the Education Building, the Labor Building, and the Taxation Building. Each building has been occupied exclusively by the State since the 1960's. The renovation work on each building was completed within budget.

The Capitol Complex Historic Project

The Capitol Complex Historic Project was comprised of the renovation and historic preservation of three historic facilities adjoining the State House Complex in the City of Trenton. This project included the restoration of the Old Barracks, the only surviving military barracks from the British colonial period; renovation of the 86,000 square foot War Memorial, a public event and theater hall; and reconstruction of the historic row homes adjoining Thomas Edison State College for administrative use by such college. The work at each of the three facilities was completed within budget.

The 1997 Additional Project

The 1997 Additional Project consisted of (i) completing the 1994 Additional Project (as described above), (ii) the 1997 Labor Building Project (as described below), (iii) the State House Dome Project (as described below) and (iv) the Pinelands Commission Headquarters Project (as described below). In addition, proceeds of the 1997 Series Bonds were used to start the 2006 Series A Additional Project as described under "THE AUTHORITY-The 2006 Series A Additional Project".

The 1997 Labor Building Project

The 1997 Labor Building Project was comprised of the removal and disposal of the existing marble facade panels on the exterior of the Labor Building and the replacement thereof with new granite panels, the removal and replacement of the existing windows with an energy efficient, double glazed window system, and the washing of the building. This work was completed within budget.

The State House Dome Project

The State House Dome Project was comprised of the replacement of the copper roof at the dome and cupola, the gilding of the new copper dome and cupola, the disassembly, repair and reassembly of the cast iron lantern and drum, the provision of diagonal bracing at the steel columns within the cast iron drum, the restoration of the interior finishes and the provision of fire alarm and fire suppression systems as necessary. Work on the State House Dome Project was completed within budget.

Pinelands Commission Headquarters Project

The Pinelands Commission Headquarters Project was comprised of renovations to four existing buildings that serve as the headquarters of the New Jersey Pinelands Commission. The buildings include a main building, a carriage house, a barn and a historic outhouse. The renovations addressed code, safety and environmental issues, including structural repairs, weather proofing and site improvements, and updates to the heating, air conditioning, electrical, plumbing and telecommunications systems. Since the existing buildings are listed on the National Register of Historic Places, all repairs and renovations comply with historical standards where possible. The Department of Community Affairs issued the Certificate of Acceptance on December 12, 2005. This project was completed within budget.

The 1999 Series A Additional Project

The 1999 Series A Additional Project was comprised of the acquisition of the Richard J. Hughes Justice Complex by the State from the Mercer County Improvement Authority. This complex, located in Trenton, New Jersey, is an eight-story, L-shaped office building of approximately one million square feet and houses the State Supreme Court, Appellate Court and Tax Court and contains a two-story below-grade parking garage. The acquisition was completed.

The 1999 Series B Additional Project

The 1999 Series B Additional Project was comprised of: (i) the acquisition of a site in Hamilton, New Jersey and construction of a new facility to house the Department of the Treasury, Division of Revenue operations and (ii) the acquisition of a site in Hamilton, New Jersey, and construction of the State Police Troop “C” Headquarters and Communications Center. When the Division of Revenue project was halted, construction and management contracts were terminated for convenience. The architect was retained to provide assistance in redesigning the site for the State Police multi-purpose building. In addition, proceeds of the 2002 Series A Bonds were used to complete the construction of the State Police Troop “C” Headquarters and Communications Center. See “THE AUTHORITY – The 2002 Series A Additional Project - Multi-Purpose State Police Facility and Troop “C” Headquarters and Communications Center Project” below.

The 2000 Series A Additional Project

The 2000 Series A Additional Project was comprised of the 2000 Justice Complex Project and the 2000 State Department of Transportation Project (each as described below).

2000 Justice Complex Project

The 2000 Justice Complex Project was comprised of upgrades and renovations to the safety, security, HVAC, electrical, structural and operational components of the Justice Complex building. All components of this project have been completed and include the construction of new entrance vestibule and exit, enhanced security upgrades (i.e. new security desk and badging areas, package scanners, magnetometers, new visitor management system and installation of anti-ram barriers at the parking garage entrances). Other work included the remodeling of 34 public area bathrooms and installation of new public area furniture.

2000 State Department of Transportation Project

The 2000 State Department of Transportation Project was comprised of improvements to the New Jersey Department of Transportation Engineering and Operations Building (“Transportation Department Annex”), including upgrades to the HVAC system and data/communications cabling. Work on this project was completed within budget.

The 2002 Series A Additional Project

The 2002 Series A Additional Project consisted of three components as described below.

State Museum Project

This component of the 2002 Series A Additional Project (the “State Museum Project”) consisted of renovations to the New Jersey State Museum in Trenton, New Jersey (the “Museum”). Renovations included the redesign of the Museum’s heating, ventilation and air-conditioning systems, the installation of new windows, the replacement of the existing roof, the installation of a new suspended tile ceiling,

upgrades to the electrical system, and the redesign of the building's vestibule. This project was completed.

Multi-Purpose State Police Facility and Troop "C" Headquarters and Communications Center Project

This component of the 2002 Series A Additional Project consisted of two parts. The first was the construction of a Multi-Purpose State Police Facility in Hamilton, New Jersey (the "Multi-Purpose Facility"). The Multi-Purpose Facility was a substitution for the Division of Revenue facility originally intended to be constructed on the same site. See "THE AUTHORITY – The 1999 Series B Additional Project." The Multi-Purpose Facility includes office space for the Information Technology Bureau, Records and Identification Section, space utilized by various investigative units, forensic laboratory space and common facilities. This project is completed. An official ribbon cutting ceremony unveiled the Multi-Purpose Facility on May 17, 2004. The remaining 40,000 square feet interior fit-out was completed under budget and is being utilized by the FBI, the Office of Counter-Terrorism, the Department of Law and Public Safety and the Department of the Treasury.

The other component of the 2002 Series A Additional Project consisted of the completion of the construction of a new headquarters and communications center for Troop "C" of the State Police. The new headquarters includes barracks and a firearms range, fueling station, emergency generator, transformer, heliport, communications tower, surface parking and other amenities. These projects were completed and were within budget. See "THE AUTHORITY – The 1999 Series B Additional Project".

State Police Office of Emergency Management and Emergency Operations Center

The final component of the 2002 Series A Additional Project consisted of the construction of a facility to accommodate the State Police Emergency Management Section and Emergency Operations Center in Ewing, New Jersey. The Emergency Operations Center includes (i) a 47,500 square foot building with office space and crisis management centers for State Police and Governor's Office personnel, as well as bunk and shower facilities, pre-packaged meal cafeteria, and back-up water, power and communications provisions and (ii) a 120-space parking area. This project was completed within budget.

The 2004 Series A Additional Project

The 2004 Series A Additional Project consisted of (i) modernization of the elevators in the New Jersey Department of Transportation Engineering and Operations Building, the New Jersey Department of Transportation Main Office Building and the New Jersey Department of Transportation Finance and Administration Building, (ii) flooring repairs in the main lobby and first floor corridors of the New Jersey Department of Transportation Engineering and Operations Building and (iii) upgrading the fire alarm systems in the New Jersey Department of Transportation Engineering and Operations Building, the New Jersey Department of Transportation Main Office Building and the New Jersey Department of Transportation Finance and Administration Building. This project was completed within budget.

The 2006 Series A Additional Project

New Jersey Public Health Environmental Agricultural Laboratory

The 2006 Series A Additional Project consists of the construction of an approximately 200,000 square foot public health, agricultural and environmental laboratory ("NJPHEAL"), located in Ewing Township, New Jersey. The costs of the 2006 Series A Additional Project were financed with the

proceeds of the Authority's 2007 Series A Bonds, a portion of the proceeds of the 1997 Series Bonds and the 2006 Series A Bonds. See "THE AUTHORITY – The 1997 Series Additional Project".

The Early Bid Package for Structural Steel was awarded and a Notice to Proceed issued on December 19, 2007. Additionally, the Early Bid Package for Site, Civil, and Foundations was signed on January 30, 2008 and a Notice to Proceed was issued on February 5, 2008. The Early Bid Package work for Site, Civil and Foundations was completed within budget.

By August 2012, Bovis Lend Lease ("BLL"), the general contractor for the NJPHEAL, completed the punch list as well as "Day 2" activities. Day 2 activities consisted of capital work in addition to the original plans and specification that were requested by the using agency post-occupancy of the NJPHEAL. BLL has completed construction and closeout of all subcontractor contracts. Close-out of the BLL contract is underway. Once the BLL contract is closed out, the contract with the architect/engineer, HOK, will be closed out.

The BLL guaranteed maximum price ("GMP") purchasing process is complete and shows approximately \$1.2 million in buyout savings which was transferred to the BLL construction contingency. All of the base contract change orders have been negotiated and completed. The savings from the purchasing process as well as change order negotiations has been utilized to fund the Day 2 activities requested by the using agency.

Construction of the NJPHEAL project was completed in September 2011 within the project budget. The Day 2 activities were completed in March 2013.

A separate contract has been issued to a contractor to perform work on the laboratory fume hoods to address operational needs for the Department of Health. That work is anticipated to be complete by mid-2016.

Security Command Center Additional Project

Upgrades to the Campus Security system were included in the overall NJPHEAL project. These upgrades include a new perimeter fence project which was completed and a Security Command Center ("SCC") project. The SCC project consists of reconfiguration of Trooper Drive and Cosey Road entrances, new guard booths, cameras and anti-ram barriers. Included in this project is the purchase of Trooper Road, the existing Wilburtha Station building and the surrounding property and improvements. The building will be occupied by New Jersey State Police Security personnel and be used to badge visitors and monitor operations throughout the campus. The property was acquired in August 2011. The architect and engineering firm has been engaged and is completing the plans and specifications for the project. The project was submitted for code review and permit approval was received in 2012. A contract for construction was awarded in September 2013 and construction was substantially completed in September 2014.

State Capitol Complex, Cultural Campus and Other State Office Building Renovation Additional Projects

On January 11, 2010, the State Legislature approved, by concurrent resolution, the project report for the above-referenced projects to be financed from balances remaining in the Authority's 1994, 1997, 2000, 2002 and 2004 Construction Funds. A more detailed description of the projects funded from balances of these various Construction Funds follows below.

The 2002 Construction Fund

State House Parking Garage Structural Repair

The State House Parking Garage, which is part of the Capitol Complex, was adversely affected by three 50-year flood events which resulted in millions of dollars of restoration costs to equipment and materials. A 2007 structural investigation of the State House Parking Garage prompted by the flood events identified structural damage to the State House Parking Garage that needs to be repaired in order to avoid future, more serious level of repairs to the State House Parking Garage. The project included the repair of open column base and wall cracks, overhead concrete cracking, CMU spalling, unsealed concrete floors, open slab and retaining wall cracking, concrete spalling and corroded reinforcing steel at column bases, missing or deteriorated joint sealants at expansion joints and repairs to localized patching failures. A construction contract was awarded in June 2013 and construction was completed under budget in 2014.

New Jersey State Museum Auditorium HVAC Upgrades

The New Jersey State Museum Auditorium (“Auditorium”) was built in approximately 1964. The Auditorium still has much of the original HVAC systems in place and has only received minor ductwork modifications during its operational history. The HVAC systems within the Auditorium facility were originally equipped with a pneumatic automatic temperature control system and are in various states of failure and disrepair. The Auditorium project scope included the replacement of the existing automatic temperature control system with a new digital control system. The outside air (ventilation) control sequence was repaired to control carbon dioxide levels in the return air. Repairs made to the system connected to units AHU-8 and HV-1 included ductwork modifications and system rebalancing to both air and fluid systems serving the Auditorium. Fan motors were replaced with premium efficiency motors. The construction phase commenced August 1, 2012. The project was substantially completed on February 28, 2013.

Richard J. Hughes Justice Complex Skylight Replacement

The skylight system was integrated in the original design of the Justice Complex when it was constructed over thirty years ago. The normal life expectancy of the skylight system is approximately fifteen years. The skylight system had been reported to be leaking for several years and water infiltration was visible. The project included replacement of 256 insulated glass units; removal of the entire extruded aluminum crossbar cap in the skylight system and replaced using “Dow Corning 795” structural sealant. Other work included removal of all caulking within the extruded aluminum bar framework which was replaced with new structural sealants and replacement of the flashings at the ridge and eave of the skylight system. This project was completed in 2013 within budget.

1997, 2002 & 2004 Construction Funds

Taxation Building Water Infiltration Repair

The exterior joint sealants throughout the façade of the Taxation Building were in poor condition and allowed water to enter the building envelope. Exterior joint sealants are the primary seal for window and spandrel panel frames and between granite and concrete panels. The fourth floor bridge from the Taxation Building to 33 West State Street was no longer utilized, was leaking and was removed and the wall and fenestration were reconstructed at both buildings. The project scope included replacement of joint sealants and glazing sealants throughout the exterior; cutting of glazing gaskets, removal of repair sealants and the installation of new structural glazing sealants at the third through tenth floors; removal of

the bridge to 33 West State Street and reconstruction of the exterior walls; re-pointing of the brick veneer and the replacement of cracked brick at the south end of the east façades. This project was completed in 2012 within budget.

2000 Construction Fund

Richard J. Hughes Justice Complex Elevator Modernization

All 14 elevators at the Richard J. Hughes Justice Complex were installed in 1979. The elevators were upgraded in 1994 with the exception of elevator 13, which is a hydraulic lift. An elevator consulting firm assessed the current condition of the elevators at the Justice Complex to be in fair condition, but noted that none of the elevators comply with current American with Disabilities Act (“ADA”) requirements or Firefighter’s Service codes. The project included a full modernization and upgrade to the elevators at the Justice Complex in accordance with current safety code standards and the installation of new controllers, hoist machine with VVVF, cab enclosure, platform, buffers, new entrances, fire control operations, car and floor operating and signal fixtures, hoist way and machine room wiring, complete new door packages, ADA compliance repairs and infrared detector edges.

Work has been completed and a certificate of substantial completion was issued to the contractor on October 29, 2013. The contractor was obligated to provide a twenty-four month period of scheduled preventative maintenance to ensure proper operation of the elevators, which was completed in October 2015.

1994 & 1997 Construction Fund

New Jersey State House Welcome Center Plaza Membrane Repair

This project addressed continual water infiltration in the State House Atrium Welcome Center Lobby located below the State House Plaza Park (“Plaza Park”). The Plaza Park is directly above an operational parking garage serving the Capitol Complex and above the State House Atrium Welcome Center lobby. It consists of paved surfaces with drainage and waterproofing system below. Some areas of the waterproofing membrane had been leaking since 2002, causing water infiltration into the State House Atrium Welcome Center lobby and allowing mold growth within the drywall finishes. Water was frequently found on the floor of level 3 of the State House Atrium creating hazardous conditions at one of the main entrances to the Capitol Complex. The project consisted of the removal of the overburden at the Plaza Park area above the State House Atrium Welcome Center lobby to include railings, cap blocks and pavers in order to allow access for the replacement of the waterproofing membrane and the reinstallation of the permanent structures.

The Authority’s architect and engineering firm for this project completed its investigation of the waterproof membrane assembly and submitted its recommendations for replacement of the system. Construction commenced on May 15, 2012. The project was substantially completed on October 19, 2012.

1997 Construction Fund

State House Annex AHU #4 Replacement

This project consists of replacement of State House Annex air handling unit (“AHU”) #4; installation of hard ducted connections from the return air transfer, installation of a new return fan, mixed air damper and exhaust damper. Testing, balancing and system certification are also included. The

replacement of AHU #4 will correct health, safety and environmental deficiencies and address complaints of odors and respiratory discomfort.

The architect and engineering firm developed construction documents to address the mechanical needs and the operational concerns of the using agency. The project construction work has been completed and final balancing adjustments to the air handling units are on-going.

State House Annex East Wing Basement Water Infiltration Repair

The moisture and mold mitigation plan for the State House Annex East Wing basement addressed exterior and interior conditions that cause elevated humidity and mold growth in the State House Annex Library. Exterior waterproofing around the electrical and mechanical rooms, the Legislative library and Legislative computer rooms was included in this project in order to prevent water damage which could severely compromise day-to-day legislative operations. The interior spaces and use of the State House Annex East Wing basement were sensitive to moisture and humidity levels, and resulted in the closing of the library and relocation of most library staff as well as responding to health complaints from staff that remained in some sections of the State House Annex East Wing basement. The State House Annex Library could not be reopened and library staff could not return to this area until the water infiltration was corrected. The project included braced excavation, repair of damaged concrete and re-pointing of stone wall joints. Work also included the installation of a rubberized waterproof membrane with mechanical termination, drainage boards and a plastic impermeable sheet under the landscape stone. Trench drains were also installed at the stone to brass interface.

The architect and engineering firm, Whitman, was issued a notice to proceed in December 2011. Design development followed and monitoring wells were installed to check water table levels over a 4 season period for fluctuations (one year) and to determine whether water infiltration was due to ground water or surface water through August 2013. Final design phase submissions were modified and submitted to DPMC Code Review for review and permitting. A construction contract was awarded in September 2014 and substantial completion was achieved in 2015. This project was completed within budget.

The 2012 Series Additional Project

The 2012 Series Additional Project consists of two components as described below.

Exterior Envelope Restoration and Repairs for the New Jersey Executive State House

The Exterior Envelope Restoration and Repairs for the New Jersey Executive State House project consists of preserving the structural viability of the Executive State House by repairing the ongoing water infiltration issues, permanently fixing the various areas of temporary repairs, performing deferred maintenance and restoring the entire exterior envelope of the Executive State House.

The design team of Nelson/PDP (the “Design Team”) was selected to provide the architect and engineering services for this project. The Design Team undertook a comprehensive investigation of the existing conditions at the Executive State House and has recommended changes to the proposed Scope of Work for this project. Discussions of the proposed changes to the Scope of Work are ongoing.

Relocation of the Mechanical and Electrical Equipment Room in the New Jersey State House Garage

The Relocation of the Mechanical and Electrical Equipment Room in the New Jersey State House Garage project consists of relocating electrical and mechanical equipment currently residing in a part of the State House Parking Garage adversely affected by prior 50-year flood events to an area within the State House complex that is above the 100-year floodplain level.

A contract for design services was awarded in April 2013. Following the completion and permitting of the construction documents, a general construction contract was awarded in June 2013. Construction work is in the final phase and substantial completion is anticipated to occur by March 2016.

Additional Projects

The Authority may, in connection with certain previously issued Bonds, add Additional Projects (as defined in the Bond Resolution) and pay all or a portion of the estimated costs of any Additional Project from the proceeds of the applicable Series of Bonds. Such proceeds may only be dedicated to such Additional Projects by transfer to an account within the Construction Fund upon receipt by the Trustee of (A) evidence that the project for which the account is being established has been approved by the Authority and by the State Legislature as required pursuant to the Act; (B) an executed copy of an amendment to the Lease, if required, in connection with the use of proceeds of the applicable Series of Bonds, to pay for Costs of the applicable Additional Project, certified by an Authorized Authority Representative and an Authorized State Representative as being in full force and effect, or an Opinion of Counsel to the effect that an amendment to the Lease is not required; (C) an executed copy of an amendment to the applicable Ground Lease, if required, certified by an Authorized Authority Representative and an Authorized State Representative as being in full force and effect, or an Opinion of Counsel to the effect that an amendment to such Ground Lease is not required; and (D) an opinion of Bond Counsel stating that the use of proceeds of the applicable Series of Bonds to pay for Costs of the applicable Additional Project shall not cause interest on such Bonds to be includable in the gross income of the holders of the Series of Bonds for federal income tax purposes.

For information relating to the release of facilities comprising a project from the Lease when all of the applicable Series of Bonds are no longer Outstanding under the Bond Resolution, see “SOURCES OF PAYMENT AND SECURITY FOR THE 2016 SERIES A BONDS” herein.

THE LEASE

General

The Lease provides for a lease of the Project, consisting of the Initial Project and any Additional Project financed by the Authority, for a term commencing on January 14, 1982 and terminating on the later of January 1, 2025 or thirty (30) days after the final maturity of any Bonds secured by the Lease, unless sooner terminated in accordance with the provisions of the Lease (**Section 2.2**).

The following is a summary of certain provisions of the Lease. The summary does not purport to be complete and comprehensive and reference is made to a copy of the Lease which is on file with the Trustee.

Rental Payments and Assignment

The State will pay to the Authority the following Basic Rent for the Project in the amounts and on the dates as follows:

(1) A sum sufficient, together with the balance on deposit in the Debt Service Fund and available therefor, to pay (i) on or before each June 1, the Aggregate Debt Service on all Series of Bonds except Bonds Subject to a Swap Agreement for the period from June 15 to December 14 of each Bond Year and (ii) on or before each December 1, the Aggregate Debt Service on all Series of Bonds except Bonds Subject to a Swap Agreement for the period from December 15 to June 14 of each Bond Year.

(2) A sum sufficient to pay (i) on or before each June 1, the principal amount on all Bonds Subject to a Swap Agreement for the period from June 15 to December 14 of each Bond Year and (ii) on or before each December 1, the principal amount on all Bonds Subject to a Swap Agreement for the period from December 15 to June 14 of each Bond Year.

(3) The amounts, if any, as shall be necessary to pay any and all amounts of Subordinated Debt, whether constituting debt or contractual liabilities, including without limitation, Swap Payments, on such date or dates as the same become due and payable, all as shall be provided in the debt instrument or contract relating to such Subordinated Debt.

(4) In the event that the amount of the interest payments due on the Bonds Subject to a Swap Agreement exceeds the Swap Provider Payments, the amounts, if any, as shall be necessary to pay such excess on such date or dates as the same becomes due and payable in accordance with the provisions of the Bond Resolution.

(5) The amounts, if any, as shall be necessary to fund the Yield Reduction Sinking Fund on such date or dates as the same is required to be funded in accordance with the provisions of the Bond Resolution.

In addition to the options of the State under the Lease to purchase the Project, the State will have the option to prepay from time to time all or a portion of the aforesaid Basic Rent, together with interest accrued and to accrue and premium, if any, to be paid on the Bonds, if such prepayment is to be used for the purchase or the redemption of such Bonds and provided such payments are consistent with the provisions of the Bond Resolution. The Trustee will apply such prepayments in such manner consistent with the provisions of the Bond Resolution as may be specified in writing by an Authorized State Representative at the time of making such prepayment.

In the event that (i) any such partial prepayment be applied by the Trustee to the purchase or the redemption of Bonds pursuant to the Bond Resolution, or (ii) Bonds are presented and surrendered by the State or the Authority to the Trustee for cancellation, the State will be entitled to receive a credit for the principal amount of the Bonds so purchased, redeemed or cancelled against the amount or amounts due under the provisions of the Lease to the extent such principal amount of Bonds is similarly credited pursuant to the Bond Resolution against payments required to be made to any fund or account under the Bond Resolution, all as shall be provided in the Bond Resolution.

The State will pay to the Authority or directly to the provider of such service, with evidence of the payment thereof to the Authority, all Administrative Expenses within ten days of the submission thereof to an Authorized State Representative of vouchers or invoices detailing the nature thereof.

Any rentals that are not paid by the State on or before their due date will bear interest until paid at the highest rate per annum borne by any of the Bonds or Notes of the Authority. The obligation to pay Basic Rent shall remain until all Outstanding Bonds are deemed paid within the meaning of the Bond Resolution.

On June 20 of each year, the Authority will cause the Trustee, pursuant to the Bond Resolution, to pay to the State the amount on deposit in the Debt Service Fund in excess of the amounts required to pay the Debt Service, with respect to the Bonds, for the remaining portion of the then current period beginning on the preceding December 15 and ending on the following December 14, so long as the cash and the principal when due on investments on deposit in the Debt Service Fund is sufficient to pay or to provide for the payment of the required Debt Service for such period (**Section 4.1**).

The State acknowledges that pursuant to the Bond Resolution, the Authority has assigned to the Trustee all payments to be made to it by the State under the Lease except for certain payments of Administrative Expenses of the Authority, indemnification, and payments in respect to the Notes. The State has agreed to pay all assigned payments directly to the Trustee (**Section 4.5**).

Failure to Sell Bonds or Notes

If the Authority shall fail to issue and to sell Bonds or Notes to pay when due any Notes that may be issued in the future, the State has agreed to pay to the Authority on a date not later than the earliest date on which such Notes become due, (i) if Bonds are outstanding, as additional rent, an amount equal to

the difference between the amount of principal, premium, if any, and all interest accrued on such Notes on their maturity date or earliest redemption date and the amount of Note proceeds available for the payment of such principal, premium, if any, and interest, and (ii) if no Bonds are then outstanding, as the purchase price of the Project by the State from the Authority, an amount sufficient to provide for payment in full of all Notes in conformity with any Note Resolution (**Section 4.6**).

Legislative Appropriation

Except as provided in the next paragraph, the obligation of the State to pay rent and all other amounts provided for in the Lease and to perform its obligations under the Lease is absolute and unconditional. Such amounts are payable without any rights of set-off, recoupment, or counterclaim against the Authority, the Trustee, or any other person and whether or not the Project is used or occupied or is available for use or occupancy by the State.

Notwithstanding anything in the Lease to the contrary, the cost and expense of the performance by the State of its obligations under the Lease and the incurrence of any liabilities of the State under the Lease including, without limitation, the payment of all rent and amounts payable under the Lease, is subject to and dependent upon yearly appropriations being made from time to time by the State Legislature for such purpose (**Section 4.3**).

Maintenance of the Project

During the Lease Term, the State will be responsible for and will pay all costs of operating the Project, maintaining the Project in good condition, and making all necessary repairs and replacements to the Project (**Section 5.1**).

Damage and Condemnation

In the event of fire or casualty damage to the Project, the State will promptly restore the Project to substantially the same condition as existed prior to the event causing such damage and will have the net proceeds of insurance payable as a result of such damage applied to the restoration of the Project or, at its option if the damage to the Project exceeds \$250,000, may have the net proceeds of insurance payable as a result of such damage applied to the prepayment of the rent under the Lease for use in the redemption or purchase of Bonds. If the Project is condemned in whole or in part, the State, at its option, will apply the net proceeds of the condemnation award to repair or to improve the Project or to prepay rent under the Lease for the purchase or redemption of Bonds (**Sections 5.6 and 5.7**).

Insurance

At all times during construction of each building of the Project and until such building is available for use by the State, the State or the Authority, as applicable, has agreed to maintain with responsible insurers the following kinds of insurance with respect to the Project with such variations as shall reasonably be required to conform to customary insurance practice: (i) builder's risk insurance that will protect against loss or damage resulting from fire or lightning, the standard extended coverage perils and vandalism and malicious mischief in an amount equal to 100% of the insurable value of the Project, and (ii) comprehensive general liability insurance as broad as the standard coverage form currently in use in New Jersey with liability limits of not less than a combined limit of \$1,000,000 per occurrence.

Immediately upon the availability of the Project or any building thereof for use by the State and thereafter during the term of the Lease, the State agrees to provide: (i) comprehensive general liability coverage as broad as the standard form currently in use in New Jersey with liability limits of not less than a combined limit of \$1,000,000 per occurrence, and (ii) property insurance in an amount equal to 100% of the full replacement cost of each building and providing for protection against loss resulting from fire and

the standard extended coverage insurance perils on the Project with a deductible amount of not more than \$100,000.

The State also agrees to provide use and occupancy insurance for the Project in an amount equal to 200% of the average annual debt service estimated by the Authority for the then current twelve month period beginning on December 15 and ending on December 14.

Notwithstanding any of the foregoing, the State is not required to obtain or to maintain any class or type of insurance required by the Lease for which it is authorized and able to obtain and to maintain an appropriate substitute arrangement under which the Authority would be fully protected from general public liability arising from its ownership or interest in the Project, or under which assurance will be provided that funds will be available to repair, restore, rebuild, or replace the Project upon damage, loss, or destruction of the Project, or under which moneys would be available to the State from a lawful source to pay the rent and other payments required under the Lease in the event of the damage, loss, or destruction of the Project. No such arrangement or arrangements shall be substituted by the State for the insurance required to be obtained and maintained pursuant to the foregoing provisions of Section 5.5 of the Lease, unless and until such arrangement shall have been approved in writing by the Authority and the Trustee. In lieu of separate policies, the State may maintain a single policy, blanket or umbrella policies, or a combination thereof, having the coverage required in the Lease, in which event it shall deposit with the Authority and the Trustee a certificate or certificates of the respective insurers as to the amount of coverage in force upon the Project.

In addition, the State agrees to require each contractor engaged in the acquisition, construction and installation of the Project to provide a performance bond in an amount equal to its contract price as security for the faithful performance of its contract and a payment bond in an amount that is not less than 100% of its contract price as security for the payment of all persons performing labor or furnishing materials in connection with such contract (**Sections 3.1 and 5.5**).

Assignment, Sale, and Subletting of the Project and Lease

The Lease may be assigned in whole or in part by the State upon written consent of the Authority (which consent shall not be unreasonably withheld) but no assignment will relieve the State from primary liability for any of its obligations under the Lease. The State may rent or may sublease space in any of the facilities comprising any part of the Project in excess of the requirements of State departments, agencies, and employees with the consent of the Authority (which consent shall not be unreasonably withheld). The State will not rent, sublease, or otherwise dispose of all or any portion of the Project if such rental, sublease, or disposition would cause the interest on any of the Bonds or Notes then outstanding to lose their exemption from federal income taxation (**Sections 6.7 and 6.8**).

Events of Default and Remedies

The following are events of default under the Lease: (i) failure by the State to pay when due rentals to provide debt service on any Bonds or Notes or to pay or cause to be paid any and all amounts of Subordinated Debt; (ii) failure by the State to pay when due any payment other than payments under subsection (i) above, which failure continues for a period of thirty days after written notice, unless the State is unable to perform due to certain events beyond its control; (iii) failure by the State to observe and to perform any covenant, condition, or agreement on its part to be observed or performed, other than as referred to in subsection (i) or (ii) which failure continues for a period of ninety days after written notice, unless the State is unable to perform due to certain events beyond its control; or (iv) the entering of an order or decree appointing a receiver of the Project, or any part thereof, or of the revenue thereof if such order or decree is not vacated, discharged, or stayed within ninety days of entry.

A failure by the State to pay when due any payment required to be made under the Lease or a failure by the State to observe and to perform any covenant, condition, or agreement on its part to be

observed or performed under the Lease resulting from a failure by the State Legislature to appropriate monies for such purposes, will not constitute an event of default under the Lease (**Section 7.1**).

Whenever any event of default referred to above has happened and is continuing, any one or more of the following remedial steps may be taken provided that written notice of the default has been given to the State by the Authority or by the Trustee and the default has not been cured: (i) the Authority may re-enter and may take possession of the Project without terminating the Lease and may sublease the Project to another party, holding the State liable for all rent and other amounts due under the Lease and not paid by such other party; (ii) the Authority may terminate the Lease, exclude the State from possession of the Project and lease or, to the extent permitted by law, sell the Project to another party, holding the State responsible for all rent and other amounts due under the Lease and not paid by such other party; and (iii) the Authority may take whatever action at law or in equity may appear necessary or desirable to collect payments due or to enforce performance and observance of any obligation, agreement, or covenant of the State under the Lease (**Section 7.2**).

However, if as a result of the failure of the State Legislature to appropriate monies for such purposes, the State is unable to pay when due the payments required by the Lease or the State is unable to observe and to perform any covenant or agreement under the Lease, the Authority will have the right to terminate the Lease, to exclude the State from possession of each building constituting the Project and to use its best efforts to lease the Project to another party or, to the extent permitted by law, sell the Project. In order to exercise such right to terminate the Lease, the Authority shall, at least 30 days prior to the exercise of such right, notify the State in writing of the exercise of its right to terminate the Lease and the date fixed for such termination (**Sections 9.1 and 9.2**).

Option to Purchase Project and Removal of Project from Lease Upon Payment of Bonds Issued to Finance the Project

The State has the option to purchase the Project or any facility comprising a portion of the Project financed with a Series of Bonds upon payment to the Authority of the purchase price. The purchase price is an amount equal to the sum of one dollar plus such additional amount that will be sufficient to provide for payment in full of all Bonds and Notes then Outstanding and the purchase price for any facility comprising a portion of the Project is an amount equal to the sum of one dollar plus such additional amount equal to the Bonds and Notes then Outstanding the proceeds of which financed such facility or which Refunded Bonds and Notes that were used for such purpose. The Lease provides that, upon payment in full of all Bonds and Notes then Outstanding, the Project may be removed from the Lease and the Lease shall terminate. In addition, any facility comprising a part of the Project may be released from the Lease provided that there are no longer any Bonds and Notes then Outstanding the proceeds of which financed such facility or which Refunded Bonds and Notes that were used for such purpose (**Sections 8.1 and 8.3**).

Covenant Not to Affect the Tax-Exempt Status of the Bonds

The State agrees that so long as it leases the Project under the Lease, it will take no action that will impair the exemption of interest on Outstanding Bonds from federal income taxes (**Section 6.12**).

Amendments and Modifications of the Lease

Except as otherwise provided in the Lease or the Bond Resolution, subsequent to the issuance of the Bonds and prior to payment or provision for payment of the Bonds in full and any other obligations incurred by the Authority to pay the Cost of the Project including interest, premiums, and other charges, if any, thereon, and payment or provision for the payment of Administrative Expenses, the Lease may not be amended, changed, modified, altered, or terminated so as to adversely affect the interests of the holders of the Bonds without the prior written consent of (a) the holders of at least fifty-one percent (51%) in aggregate principal amount of the Bonds then Outstanding, or (b) in case less than all of the several Series

of Bonds then Outstanding are affected by the modifications or amendments, the holders of not less than fifty-one percent (51%) in aggregate principal amount of the Bonds of each Series so affected then Outstanding; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified Series remain Outstanding, the consent of the holders of such Bonds shall not be required and such Bonds shall not be deemed to be outstanding for the purpose of any calculation of Outstanding Bonds; provided, further, that no such amendment, change, modification, alteration, or termination will reduce the percentage of the aggregate principal amount of the Outstanding Bonds the consent of the holders of which is required for any such amendment, change, modification, alteration, or termination or decrease the amount of any payment required to be made under the Lease or extend the time of payment thereof. The Lease may be amended, changed, modified, or altered without the consent of the holders of the Bonds (i) to provide necessary changes in connection with the issuance of Additional Bonds which will not adversely affect the interests of the holders of the Bonds, (ii) to cure any ambiguity or to correct or to supplement defective or inconsistent provisions, (iii) to add or to delete real property under the Lease if the purposes for which the Project is used are not impaired, or (iv) to provide other changes which will not adversely affect the interests of the holders of the Bonds. No amendment, change, modification, alteration, or termination of the Lease shall be made other than pursuant to a written instrument signed by the Authority and the State and consented to in writing by the Trustee in accordance with the Bond Resolution (**Section 10.4**).

THE BOND RESOLUTION

The following is a summary of certain provisions of the Bond Resolution. The summary does not purport to be complete and comprehensive and reference is made to a copy of the Bond Resolution which is on file with the Trustee. Section references refer to sections of the General Bond Resolution unless otherwise indicated.

Pledge of Revenues

The Bonds will be special obligations of the Authority. Principal of, premium, if any, and interest on the Bonds are payable solely from and are secured by: (i) the proceeds of sale of the Bonds; (ii) all revenues, income, rents, and receipts derived by the Authority from or attributable to the ownership, sale or leasing of the Project (other than certain payments of Administrative Expenses of the Authority, indemnification, and payments in respect of Notes under the Lease) received or receivable by the Authority under the Lease; (iii) the proceeds of any insurance covering business interruption loss relating to the Project; (iv) interest received on any monies or securities held pursuant to the Bond Resolution and required to be paid into the Revenue Fund; and (v) all funds established by the Bond Resolution, including the investments, if any, thereof other than the Rebate Fund and the Purchase and Remarketing Fund. The Bond Resolution pledges and assigns the same to the Trustee for the benefit of the Bondholders and, with respect to Reimbursement Obligations of the Authority to a Credit Provider under a Credit Facility Agreement, each Credit Provider, subject only to the provisions of the Bond Resolution permitting the application thereof for the purposes and on the terms and the conditions set forth therein (**Section 501**); and (**Section 8(e) of the 2008 Series Certificate**).

Application of Revenues

The Bond Resolution establishes, among others, the following Funds for the application of Revenues (defined as the amounts described in clauses (ii), (iii), and (iv) under “Pledge of Revenues” under the foregoing caption):

<u>Fund</u>	<u>Held By</u>
Construction Fund	Trustee
Revenue Fund	Trustee
Debt Service Fund	Trustee
Subordinated Debt Fund	Trustee
Bond Retirement Fund	Trustee
Rebate Fund*	Trustee
Yield Reduction Sinking Fund	Trustee
2003 Administrative Expense Fund	Trustee

* Pledged for payment of any “rebate” amount (as such term is defined in Section 148 of the Code) to the United States of America.

All Revenues are to be deposited promptly in the Revenue Fund. The Trustee will withdraw from the Revenue Fund and deposit in the following Funds in the following order of priority the amounts set forth below:

(1) In the Debt Service Fund, a sum sufficient, together with the balance then on hand in such Fund and available therefor, to pay (i) on or before June 1 of each year the sum of the amounts of Debt Service payable from the period from June 15 to December 14 of each Bond Year with respect to all Series of Bonds, and (ii) on or before December 1 of each year, the sum of the amounts of Debt Service payable for the period from December 15 to June 14 of each Bond Year with respect to all Series of Bonds.

(2) In the Subordinated Debt Fund, after the payment for the entire twelve month period beginning December 15 and ending on the following December 14 required by (1) above is made, on or prior to the dates necessary to make payments therefor, the amount, if any, required to pay principal or sinking fund installments of and interest on each issue of Subordinated Debt and reserves therefor and the amounts if any, to pay tendered Subordinated Debt in accordance with the resolution or other instrument authorizing such issue of Subordinated Debt and the amount, if any, required to pay the contractual liability which constitutes Subordinated Debt in accordance with a contract relating thereto.

(3) In the Bond Retirement Fund, such amounts as shall be directed by an Authorized Authority Representative or by an Authorized State Representative.

(4) In the Yield Reduction Sinking Fund the following amounts: (a) all Other Swap Provider Payments, (b) all amounts required by the Bond Supplemental Resolution and (c) from the Revenue Fund, after the transfer of the amounts required pursuant to (1), (2) and (3) above, any other amounts deemed necessary by the Yield Consultant pursuant to a written report delivered to the Authority and the State (the “Yield Report”). Amounts in the Yield Reduction Sinking Fund shall be invested at the rates and for the duration as directed by an Authorized Authority Official in accordance with the requirements of the Yield Report.

(5) In the 2003 Administrative Expense Fund, amounts from the Revenue Fund, after the transfer of the amounts required pursuant to (1), (2), (3) above and any amounts necessary for costs incurred in connection with the Conversion and remarketing of the 2003 Series A Bonds.

For purposes of clause (1) above, Debt Service with respect to the 2003 Series A Bonds shall be determined without regard to the Credit Facility and shall include for purposes thereof any and all Reimbursement Obligations.

So long as there shall be held in the Debt Service Fund an amount sufficient to pay in full all Outstanding Bonds in accordance with their terms (including principal or applicable sinking fund Redemption Price and interest thereon), no deposits shall be required to be made into the Debt Service Fund (**Sections 502, 504 and 505**) (**Section 2.11 of the Sixteenth Supplemental Bond Resolution**); and (**Section 8(h) of the 2008 Series Certificate**).

Construction Fund

The Bond Resolution establishes a Construction Fund to be held by the Trustee and amounts on deposit in the Construction Fund will be applied to the Cost of the Project including repairs, restorations, and additions thereto in the manner provided in the Bond Resolution. There will be established within the Construction Fund separate accounts for each facility constituting a part of the Project and any additions, enlargements, improvements, expansions, repairs, restorations, or reconstructions of such part of the Project or any other project authorized to be financed by the Authority, the cost of which is to be paid out of the Construction Fund.

To the extent that other monies are not available therefore, amounts in the Construction Fund shall be paid by the Trustee for application to the payment of principal of and premium and interest on the Bonds when due.

After completion of construction of any part of the Project authorized to be financed by the Authority, the balance in the respective accounts in the Construction Fund, at the option of the State, will be transferred by the Trustee for deposit in the Debt Service Fund, the Bond Retirement Fund, or to another account in the Construction Fund, as shall be determined by an Authorized State Representative. If subsequent to the filing of a certificate evidencing the completion of the acquisition, the construction, and the installation of such part of the Project or any other Additional Project authorized to be financed by the Authority, it shall be determined that any amounts specified in such certificate as being required for the payment of any remaining part of the cost of such part of the Project or Additional Project are no longer so required, such fact will be evidenced by a certificate or certificates signed by an Authorized State Representative filed with the Trustee stating such fact, and any amount shown therein as no longer being required will be transferred by the Trustee for application as provided in the preceding sentence (**Section 503**).

Debt Service Fund

The Trustee will pay from the Debt Service Fund the amounts required for (i) the payment of interest when due, (ii) each principal installment on the Bonds when due, plus any applicable redemption premium, (iii) the redemption of Bonds called for sinking fund redemption, (iv) accrued interest included in the purchase price of Bonds purchased for retirement, and (v) the purchase of Bonds which are subject to sinking fund redemption, provided that such amounts are applied after the sixtieth day but on or prior to the forty-fifth day preceding the date on which such Bonds are subject to sinking fund redemption. In the event of the refunding of any Bonds, the Trustee shall, if the Authority so directs, withdraw from the Debt Service Fund all or any portion of the amounts accumulated therein with respect to Debt Service on the Bonds being refunded and deposit such amounts with itself as Trustee to be held for the payment of the principal or Redemption Price, if any, and interest on the Bonds being refunded; provided that such withdrawal shall not be made unless (a) immediately thereafter Bonds being refunded shall be deemed to have been paid pursuant to the Bond Resolution and (b) the amount remaining in the Debt Service Fund, after giving effect to the issuance of the Refunding Bonds and the disposition of the proceeds thereof, shall not be less than the requirement of such Fund pursuant to the Bond Resolution.

On June 20 of each Bond Year, the Trustee shall pay to the State the amount on deposit in the Debt Service Fund in excess of the Aggregate Debt Service for the remaining portion of the then current Bond Year so long as the cash and the principal when due on the Investment Securities on deposit in the

Debt Service Fund is sufficient to pay or provide for the payment of such Aggregate Debt Service **(Section 506); and (Section 8(i) of the 2008 Series Certificate)**.

The Trustee shall deposit the Swap Provider Payments received under the Swaps into the Debt Service Fund. The Trustee shall apply the Swap Provider Payments received under the Swaps, on or before each Interest Payment Date for any Bonds Subject to a Swap Agreement, to the amount required for the interest payable on the Bonds Subject to a Swap Agreement on such date.

If in any Bond Year the Authority has received Swap Provider Payments in excess of the interest payments due on the 2003 Bonds Subject to a Swap Agreement, the Authority directs the Trustee to withdraw such excess prior to June 20 of each Bond Year from the Debt Service Fund and to deposit such excess amount into the Yield Reduction Sinking Fund established under the Bond Resolution. An Authorized Authority Official may, upon the advice of Bond Counsel, direct the Trustee to withdraw such excess amount of money from the Debt Service Fund more frequently than provided in the previous sentence in order to comply with the provisions of the Code **(Section 4.3 of the Eleventh Supplemental Bond Resolution)**.

There is established within the Debt Service Fund a separate Letter of Credit Account for each Subseries of the 2003 Series A Bonds. The Trustee shall deposit all amounts derived from a drawing on a Letter of Credit to pay the principal of and/or interest on the applicable Subseries of the 2003 Series A Bonds into the applicable Letter of Credit Account for such Subseries of the 2003 Series A Bonds. The Trustee shall apply amounts on deposit in the applicable Letter of Credit Account to pay principal of and/or interest on such Subseries in the manner and at the times specified in the Eleventh Supplemental Resolution **(Section 8(g) of the 2008 Series Certificate)**.

Pursuant to the Amended 2003 Supplemental Resolution, the Trustee is required to draw upon the applicable Letter of Credit for each Subseries of the 2003 Series A Bonds in the following circumstances:

(a) to make timely payment of the principal of and interest on the applicable Subseries of the 2003 Series A Bonds;

(b) to make timely payment of the Redemption Price of the applicable Subseries of the 2003 Series A Bonds called for optional or mandatory sinking fund redemption; and

(c) to make timely payment of the Purchase Price of the applicable Subseries of the 2003 Series A Bonds required to be purchased as the result of an optional or mandatory purchase pursuant to the provisions of the Eleventh Supplemental Resolution to the extent other funds are not available to make such payment under the provisions of the Eleventh Supplemental Resolution.

2003 Administrative Expense Fund

The Trustee shall deposit into the 2003 Administrative Expense Fund amounts from the Revenue Fund, after the transfer of the amounts required pursuant to Sections 505(1), (2) and (3) of the Bond Resolution and after the transfer of the amounts required to be deposited in any Yield Reduction Sinking Fund, any amounts necessary for costs incurred in connection with the Conversion and remarketing of the 2003 Series A Bonds. The Trustee shall apply amounts on deposit in the 2003 Administrative Expense Fund to pay costs incurred in connection with the Conversion and the remarketing of the 2003 Series A Bonds after payment of the amounts required by Sections 505(1), (2) and (3) of the General Bond Resolution and amounts required to be deposited in the Yield Reduction Sinking Fund, in the amounts as set forth in an order executed by an Authorized Authority Official. **(Section 2.11 of the Sixteenth Supplemental Bond Resolution)**.

Subordinated Debt Fund

Subject to the provisions in the Bond Resolution, the Trustee as directed by the Authority will apply amounts in the Subordinated Debt Fund to the payment of the principal or the sinking fund installment of and interest on each issue of Subordinated Debt and reserves therefor in accordance with the provisions of, and subject to the priorities, limitations and restrictions provided in, the resolution or debt instrument authorizing each issue of such Subordinated Debt or to the payment of contractual obligations that constitute Subordinated Debt. If at any time the amount on deposit in the Debt Service Fund shall be less than the amount required to be on deposit therein, the Trustee will transfer from the Subordinated Debt Fund for deposit in the Debt Service Fund the amount necessary to make up such deficiency. Subject to the provisions of, and to the priorities, the limitations and the restrictions provided in, the resolution, indenture, or other instrument securing each issue of Subordinated Debt, amounts in the excess of the requirements of such Fund may, at the written direction of the Authority, be transferred to the State (**Section 507**).

There is established within the Subordinated Debt Fund for each Series of Bonds issued as Bonds Subject to a Swap Agreement a separate Swap Account. The Trustee shall deposit all Swap Payments into the applicable Swap Account. In furtherance of the provisions of Sections 507 and 510 of the General Bond Resolution, the Trustee shall apply amounts on deposit in the applicable Swap Account to pay the amount of any Swap Payment attributable to such Series of Bonds Subject to a Swap Agreement in accordance with the provisions of the Swap Agreements. At the time all Swap Payments applicable to a Series of Bonds Subject to a Swap Agreement have been made, any amounts remaining in the applicable Swap Account shall be transferred to the Debt Service Fund. For all purposes of the Bond Resolution, all amounts incurred in connection with a Swap Agreement shall be considered Subordinated Debt (**Sections 4.1 and 4.2 of the Eleventh Supplemental Bond Resolution**).

Bond Retirement Fund

Amounts in the Bond Retirement Fund will be applied, as rapidly as practicable, to the purchase or the redemption (including premium, if any) of the Bonds. Interest on the Bonds so purchased or redeemed will be paid from the Debt Service Fund, and all expenses in connection with such purchase or redemption shall be paid by the Authority and will constitute Administrative Expenses. The Trustee shall not be required to purchase or to redeem Bonds in any amount less than \$50,000 (**Section 508**).

Yield Reduction Sinking Fund

The Trustee shall deposit into the Yield Reduction Sinking Fund the following amounts: (i) all Other Swap Provider Payments, (ii) all amounts required by the last paragraph under the subheading “Debt Service Fund” above and (iii) after the transfers described in clauses (1), (2) and (3) under the subheading “Application of Revenues” above, any other amounts deemed necessary by the Yield Consultant pursuant to a written report delivered to the Authority and the State (the “Yield Report”).

Amounts in the Yield Reduction Sinking Fund shall be invested at the rates and for the duration as directed by an Authorized Authority Official in accordance with the requirements of the Yield Report.

The Trustee shall transfer the amounts on deposit in the Yield Reduction Sinking Fund at the times, in the amounts and for the purposes as directed by an Opinion of Bond Counsel (**Sections 4.9 and 4.10 of the Eleventh Supplemental Bond Resolution**).

Subordinated Debt

The Authority at any time, or from time to time, upon filing of a certificate of an Authorized State Representative approving the issuance or the incurrence thereof, may issue or may incur Subordinated Debt in connection with any swap agreement, letter of credit, line of credit, surety bond, loan agreement, purchase agreement, or other credit agreement, facility or insurance or guaranty arrangement payable out

of, and that may be secured by a pledge of, such amounts in the Subordinated Debt Fund as may from time to time be available for the purpose of payment thereof; provided, however, that such pledge will be, and will be expressed to be, subordinate and junior in all respects to the pledge and the lien created by the Bond Resolution as security for the Bonds (**Section 510 and Section 4.2 of the Eleventh Supplemental Bond Resolution**).

Additional Bonds and Refunding Bonds

Additional Bonds and Refunding Bonds authorized pursuant to the Bond Resolution may include:

- (i) Capital Appreciation Bonds;
- (ii) Capital Appreciation and Income Bonds;
- (iii) Variable Interest Rate Bonds; and
- (iv) Option Bonds, which shall mean Bonds which by their terms may be tendered by and at the option of the holder thereof for payment and purchase by the Authority or another party prior to the stated maturity thereof, or the maturities of which may be extended by and at the option of the holder thereof.

One or more series of Additional Bonds may be authenticated and delivered for the purpose of paying the Cost of completion of the Initial Project or any other project authorized to be financed by the Authority upon compliance with the provisions of the Bond Resolution which include, among other conditions, a written request of the State to issue such Additional Bonds, an executed copy of an amendment to the Lease, if required, and a certificate of an Authorized State Representative and of an Authorized Authority Representative that neither is in default under the Lease.

If any Debt Service on such Series of Additional Bonds is due and payable during the twelve month period beginning on December 15 and ending on the following December 14 in which such Additional Bonds are authenticated and delivered, exclusive of interest payable from the proceeds of such Additional Bonds, the Trustee will receive a certificate of the State Treasurer to the effect that an amount equal to such Debt Service on such Series of Additional Bonds for such period has been appropriated by the State Legislature. If such Series of Additional Bonds is authenticated during the period between June 1 and December 14 of any year or between December 1 and June 14 of any following year, the Trustee will receive an amount equal to Debt Service, if any, payable on such Series of Additional Bonds during the period between June 1 and December 14 and December 1 and June 14, as the case may be, less any amount on deposit in the Debt Service Fund and available therefor.

If option Bonds shall be issued under the Bond Resolution, then the Authority shall furnish to the Trustee a letter of credit, line of credit, surety bond, loan agreement, purchase agreement or other credit agreement, facility or insurance or guaranty arrangement in such an amount that would accommodate an election by all Bondholders to enable the Authority or another party to purchase or to redeem the entire aggregate outstanding principal amount of such Series of Bonds.

One or more Series of Refunding Bonds may be authenticated and delivered to refund all but not less than all Outstanding Bonds of one or more Series or one or more maturities within a Series upon compliance with the provisions of the Bond Resolution which include, among other conditions, irrevocable instructions to the Trustee to give due notice of redemption or to make due publication of the notice, as applicable, and prior to or simultaneously with the delivery of such Series of Refunding Bonds, a written request from the State to the Authority to issue said Refunding Bonds and a duly executed copy of an amendment to the Lease, if required (**Sections 202, 204, and 205**).

General Covenants

The Authority will keep proper books of record and account relating to the Project and each Fund and account established under the Bond Resolution. Such books, together with all other books and papers of the Authority including insurance policies relating to the Project, at all times will be subject to the inspection of the Trustee and the Holders of an aggregate of not less than 5% in principal amount of the Bonds then Outstanding or their representatives duly authorized in writing.

The Authority will file annually, within 150 days after the close of each calendar year, with the Trustee, and otherwise as provided by law, a copy of an annual report, accompanied by a certificate of a certified public accountant of the State or certified municipal accountant, including (i) a statement of assets and liabilities relating to the Project as of the end of the year, (ii) a statement of receipts and expenditures, (iii) a summary with respect to each Fund and account established under the Bond Resolution, and (iv) a statement as to the existence of any default under the provisions of the Bond Resolution and the Lease.

The reports, statements, and other documents required to be furnished to the Trustee will be made available for inspection of Bondholders at the principal corporate trust office of the Trustee (**Section 713**).

In the event the State is unable to pay when due the payments to be made under the Lease or the State is unable to observe or to perform any covenant or agreement on its part to be observed or to be performed under the Lease because of a failure of the State Legislature to appropriate monies for such purposes, the Authority, upon written request of the Trustee or the Holders of 25% in principal amount of the Bonds then Outstanding, will exercise its right to terminate the Lease as provided in the Lease (**Section 715**).

If the State enacts legislation to repeal or to revise the limit on the principal amount of bonds or notes of the Authority that may be outstanding that is contained in the Act, the holders of the Bonds agree that the Authority may issue bonds or notes, including the Bonds, as the case may be, without limitation if such limitation is repealed or if such limitation is revised within any such limitation, as increased, decreased, or revised from time to time (**Section 717**). The Act was amended in 1992 to repeal the \$250,000,000 limitation on the principal amount of bonds or notes of the Authority that may be outstanding.

Investments

Monies held in the Construction Fund by the Trustee may be invested in accordance with written instructions of an Authorized State Representative in the following investments which mature not later than such times as shall be necessary to provide moneys when needed for payments from such Fund:

- (i) Direct obligations of or obligations guaranteed by the United States of America;
- (ii) Bonds, debentures, notes, or other evidence of indebtedness issued by any of the following agencies: Bank for Cooperatives; Federal Intermediate Credit Banks; Federal Home Loan Bank System; Export-Import Bank of the United States; Federal Land Banks; the Federal National Mortgage Association; the United States Postal Service; the Tennessee Valley Authority; the Government National Mortgage Association; the Federal Financing Bank; or any agency or instrumentality of the Federal Government which shall be established for the purpose of acquiring the obligations of any of the foregoing or otherwise providing financing therefor;
- (iii) New housing authority bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an Annual Contributions Contract or Contracts with the United States of America; or project notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;

(iv) Direct and general obligations of the State, to the payment of the principal of and interest on which the faith and credit of the State is pledged;

(v) Unless the Authority requires the same be secured as provided in clause (vi) below, negotiable certificates of deposit issued by any bank, trust company, or national banking association having a capital stock and surplus of more than \$100,000,000 (including the Trustee);

(vi) Negotiable certificates of deposit issued by any bank, trust company, or national banking association (including the Trustee), provided that each certificate of deposit (other than certificates of deposit of a bank, trust company, or national banking association having a capital stock and surplus of more than \$100,000,000 described in clause (v) of this "Investments" subheading which may be secured as provided in this clause (vi) at the option of the Authority), shall be continuously secured by direct obligations of or obligations guaranteed by the United States of America which shall have a market value (exclusive of accrued interest) at all times at least equal to 102% of the principal amount of such certificates of deposit and shall be lodged with the Trustee (or any correspondent bank or trust company designated by the Trustee), as custodian, by the bank, the trust company, or the national banking association issuing such certificates of deposit, and the bank, the trust company, or the national banking association issuing each such certificate of deposit required to be so secured shall furnish the Trustee with an undertaking satisfactory to it that the aggregate market value of all such obligations securing each such certificate of deposit will at all times be an amount equal to 102% of the principal amount of each such certificate of deposit and the Trustee shall be entitled to rely on each such undertaking;

(vii) Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality, or local governmental unit of any such state (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in clause (i) of this "Investments" subheading which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (vii), as appropriate, and (c) as to which the principal of and interest on the bonds and obligations of the character described in clause (i) of this "Investments" subheading which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay principal of and interest and redemption premium, if any, on the bonds or other obligation described in this clause (vii) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (vii) as appropriate;

(viii) Any repurchase agreement with any bank or trust company organized under the laws of any state of the United States of America which is a member of the Federal Deposit Insurance Corporation or any national banking association or government bond dealer having capital stock and surplus or net worth aggregating at least \$100,000,000 reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is secured by any one or more of the securities described in clauses (i) or (ii) of this "Investments" subheading which securities shall at all times have a market value (inclusive of accrued interest) not less than one hundred two percent (102%) of the full amount of the repurchase agreement and be delivered to the Trustee or another bank or trust company organized under the laws of any state of the United States of America or any national banking association, as custodian; and

(ix) Units of participation in the New Jersey Cash Management Fund or any similar common trust fund established pursuant to law as a legal depository of public monies and for which the New Jersey State Treasurer is custodian.

Monies held in the Revenue Fund, the Debt Service Fund (excluding amounts in the respective Letter of Credit Accounts established for each Subseries of the 2003 Series A Bonds), the Subordinated Debt Fund and the Bond Retirement Fund may be invested in any of the above, other than in investments described in clauses (v) and (ix) of this “Investments” subheading, by the Trustee in accordance with written instructions of an Authorized State Representative.

Any investments will be deemed at all times a part of the Fund from which the investment has been made. Interest (net of that which represents a return of accrued interest paid in connection with the purchase of any investments) earned on any monies or investments in such Funds other than the Construction Fund shall be paid into the Revenue Fund, provided that on or prior to the completion date of the Initial Project, such interest shall, upon direction of an Authorized State Representative, be transferred to the Construction Fund. Any profit realized from the liquidation of investments in any Fund shall be credited to, and any loss resulting from the liquidation of such investment shall be charged to, the computation of net interest earned on the monies and investments in such Fund (**Sections 101, 603, and 604**); and (**Section 8(g) of the 2008 Series Certificate**).

Events of Default and Remedies

Events of default specified in the Bond Resolution include (i) failure to pay principal or Redemption Price of any Bond when due, whether at maturity or by a call for redemption or otherwise, (ii) failure to pay any interest installment or the unsatisfied balance of any Sinking Fund Installment therefor when due, (iii) failure for 60 days after written notice thereof in the observance or the performance of any covenants, agreements or conditions contained in the Bond Resolution or the Bonds, (iv) failure for 90 days to discharge or stay an order or decree appointing a receiver of the Project, or any portion thereof, or its revenues, (v) the occurrence of an Event of Default under the Lease, (vi) if default shall be made on the due and punctual payment of the principal or interest when due on any Subordinated Debt, and (vii) if the Authority shall fail to pay when due any Reimbursement Obligation. Upon the happening of any such Event of Default the Trustee or the Holders of not less than 25% in principal amount of Bonds then Outstanding may declare the principal of and accrued interest on all Bonds then Outstanding immediately due and payable. If the Event of Default is not remedied, the Authority will open the books of the Authority for inspection by the Trustee and will, upon demand of the Trustee, account as if it were the trustee of an express trust for funds pledged or held under the Bond Resolution (**Sections 801 and 802**); and (**Section 8(j) of the 2008 Series Certificate**).

The Bond Resolution provides that if an Event of Default occurs and has not been remedied, the Trustee will (i) be entitled, upon application to a court of competent jurisdiction, to have a receiver of the Project appointed, (ii) have such rights to take possession and control of the Project as the Authority may then have, as well as the right to operate the Project and receive the income therefrom, (iii) on written request of the Holders of not less than 25% in principal amount of Bonds Outstanding, take such steps by suit as the Trustee deems most effectual to enforce any of its rights or to perform any of its duties under the Bond Resolution (**Sections 804, 805 and 806**).

The Trustee may, and upon the request of Holders of a majority in principal amount of the Bonds then Outstanding and upon being furnished with reasonable security and indemnity will institute and will prosecute a proper action to prevent any impairment of the security under the Bond Resolution and preserve the interests of the Trustee and of the Bondholders. No Bondholder will have any right to institute any suit, action, or proceeding for the enforcement of any provisions of the Bond Resolution unless such Bondholder has previously given the Trustee written notice of the happening of an Event of Default, and the Holders of at least 25% in principal amount of the Bonds then Outstanding have filed a written request with the Trustee and the Trustee has refused to comply with such request within 60 days (**Sections 806 and 807**).

If an Event of Default under the Lease occurs and is continuing, the Authority will not exercise any of its remedies without the written consent of the Trustee, which consent shall not be unreasonably withheld (**Section 812**).

The Swap Providers are not “Bondholders” under the Bond Resolution and therefore shall have no rights or remedies under the Bond Resolution except the right to receive subordinated payments thereunder. The rights and remedies of the Swap Providers are solely specified in the Swaps, and are solely subordinate to, and shall not adversely affect the rights and remedies of the Bondholders (**Section 11(b) of the 2003 Series Certificate**).

Each Credit Provider shall, to the extent it makes a payment pursuant to a drawing on the related Credit Facility to pay the principal of and interest on the applicable Subseries of the 2003 Series A Bonds, become subrogated to the rights of the holders of such Subseries of the 2003 Series A Bonds (**Section 8(q) of the 2008 Series Certificate**).

Supplemental Resolutions

Any of the provisions of the Bond Resolution may be amended by the Authority by a Supplemental Resolution upon the consent of the Bondholders in accordance with the provisions of the Bond Resolution, which upon filing with the Trustee of a copy thereof and upon compliance with such provisions of the Bond Resolution will become fully effective (**Section 1003**).

The Authority may adopt (without the consent of any Holders of the Bonds) Supplemental Resolutions:

(i) To close the Bond Resolution against, or to provide limitations and restrictions upon issuance of Bonds or other evidences of indebtedness;

(ii) To add to the covenants and the agreements of the Authority contained in the Bond Resolution, other covenants and agreements to be observed by the Authority which are not contrary to or inconsistent with the Bond Resolution theretofore in effect;

(iii) To add to the limitations and restrictions contained in the Bond Resolution, other limitations and restrictions to be observed by the Authority which are not contrary to or inconsistent with the Bond Resolution theretofore in effect;

(iv) To authorize Bonds of a Series and, in connection therewith, specify and determine any matters and things relative to such Bonds which are not contrary to or inconsistent with the Bond Resolution as theretofore in effect, or to amend, to modify, or to rescind any such authorization, specification or determination at any time prior to the first authentication and delivery of such Bonds;

(v) To authorize, in compliance with all applicable law, Bonds of each Series to be issued in the form of coupon Bonds including provisions relating to the timing and manner of provision of any notice required to be given under the Bond Resolution, which are not contrary to or inconsistent with the Bond 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 coupon Bonds;

(vi) To authorize, in compliance with all applicable law, Bonds of each Series to be issued in the form of Bonds issued and held in book-entry form on the books of the Authority or any Fiduciary appointed for that purpose by the Authority and, in connection therewith, make such additional changes therein, not adverse to the rights to the Holders of the Bonds, as are necessary or appropriate to specify and determine the matters and things relative to the issuance of such book-entry form Bonds as are appropriate or necessary;

(vii) Notwithstanding any other provisions of the Bond Resolution, to authorize Bonds of a Series having terms and provisions different than the terms and the provisions theretofore provided in the

Bond Resolution, including but not limited to provisions relating to the timing of the payment of interest, maturity amounts and valuation as of a given time, and authorizing the form of bond for such Series of Bonds; provided that the authorization and the issuance of such Series of Bonds shall not in any manner impair or adversely affect the rights or the security of the Bondholders under the Bond Resolution;

(viii) To confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by the Bond Resolution, or the Revenues or of any other monies, securities or funds;

(ix) To modify any of the provisions of the Bond Resolution in any other respect whatever, provided that such modification shall be effective only after all Bonds of each Series Outstanding shall cease to be Outstanding and such Supplemental Resolution shall be specifically referred to in the text of all Bonds authenticated and delivered after the date of adoption of such Supplemental Resolution and of Bonds issued in exchange therefor or in place thereof; and

(x) With consent of the Trustee to cure any ambiguity, to supply any omission or to cure or correct any defect or inconsistent provision in the Bond Resolution or to insert such provisions clarifying matters or questions arising under the Bond Resolution as are necessary or desirable and not contrary to or inconsistent with the Bond Resolution as theretofore in effect (**Sections 1001 and 1002**).

In the event that a Series of Bonds is credit-enhanced, amendments to the Bond Resolution may also require the written consent of the credit enhancer and may also require prior notice of any such amendment to be given to the credit enhancer.

Pursuant to the Twenty-Second Supplemental Bond Resolution adopted by the Authority on November 7, 2012, and pursuant to Section 1002 of the Bond Resolution, the definition of “Bond” or “Bonds” under the Bond Resolution was amended to include bonds, notes or other obligations authorized to be issued pursuant to the Act and authenticated and delivered under and pursuant to the Bond Resolution.

Defeasance

If the Authority shall pay or cause to be paid, or if there shall otherwise be paid, to the holders of all Outstanding Bonds of a Series or of a particular maturity within a Series the principal or the Redemption Price, if applicable, and the interest due or to become due thereon at the times and in the manner stipulated in the Bonds and in the Bond Resolution, then such Bond will cease to be entitled to any lien, benefit, or security under the Bond Resolution and the pledge of the Revenues and other monies and securities pledged under the Bond Resolution and all covenants, agreements, and other obligations of the Authority to the Bondholders thereof thereupon will cease, terminate, and become void and be discharged and satisfied.

Bonds or interest installments for the payment or the redemption of which monies shall have been set aside and shall be held in trust by the Paying Agents at the maturity or redemption date thereof will be deemed to have been paid within the meaning and the effect expressed in the Bond Resolution, as described in the immediately preceding paragraph. Any outstanding Bonds, prior to the maturity or redemption date thereof, will be deemed to have been paid within the meaning and the effect expressed in the Bond Resolution, as described in the first sentence of this paragraph, if the following conditions are met: (i) in case any of such Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee instructions to mail notice of redemption of such Bonds on such date; (ii) there shall have been deposited with the Trustee either moneys in an amount that shall be sufficient or Defeasance Securities (and in accordance with Section 1201 of the Bond Resolution) the principal of and the interest on which when due will provide monies which, together with the monies, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal or the Redemption Price of and the interest due or to become due on such Bonds on or prior to the redemption date or the

maturity date thereof, as the case may be; and (iii) in the event such Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Authority shall have given to the Trustee instructions to mail a notice to the holders of such Bonds that the above described deposit has been made with the Trustee and that such Bonds are deemed to have been paid and stating such maturity or redemption date upon which monies are to be available for the payment of principal or the Redemption Price, if applicable, on such Bonds. **(Section 1201); (Section 8(n) of the 2008 Series Certificate) and (Section 1.1(d) of the Eighteenth Supplemental Resolution).**

Covenant Not to Affect Tax-Exempt Status of the 2016 Series A Bonds

The Authority agrees that, so long as it owns or leases the Project under the Lease, it will take no action with respect to the Project that will impair the exemption of interest on Outstanding Bonds from federal income taxes **(Section 716)**. In addition, the Authority agrees that it will do and perform all acts and things necessary or desirable in order to assure that, under the Code as presently in force and effect, interest on the 2016 Series A Bonds will, for purposes of federal income taxation, be excludable from gross income of the recipient thereof pursuant to Section 103 of the Code **(Section 4.2 of the Twenty-Fifth Supplemental Bond Resolution)**.

LEGALITY FOR INVESTMENT AND DEPOSIT

Under the Act, the 2016 Series A Bonds are securities in which the State and all public officers, governmental units and agencies thereof, all banks, trust companies, savings banks and institutions, building and loan associations, savings and loan associations, investment companies and other persons carrying on a banking business, all insurance companies, insurance associations and other persons carrying on an insurance business, and all executors, administrators, guardians, trustees and other fiduciaries, may legally invest any sinking funds, monies, or other funds belonging to them or within their control; and the 2016 Series A Bonds are securities that are authorized security for any and all public deposits.

LITIGATION

There is no litigation pending or, to the knowledge of the Authority threatened, seeking to restrain or enjoin the issuance, sale, execution or delivery of the 2016 Series A Bonds or questioning or affecting the validity of the 2016 Series A Bonds or the proceedings or authority under which the 2016 Series A Bonds are to be issued. There is no litigation pending or, to the Authority's knowledge threatened, which in any manner questions the right of the Authority to adopt the Bond Resolution, to enter into the Lease and the Ground Lease or to secure the 2016 Series A Bonds in the manner herein described.

APPROVAL OF LEGALITY

All legal matters incident to the authorization, issuance, sale and delivery of the 2016 Series A Bonds are subject to the approval of GluckWalrath LLP, Trenton, New Jersey, as Bond Counsel to the Authority, whose approving legal opinion will be delivered with the 2016 Series A Bonds, substantially in the form annexed hereto as APPENDIX IV. Certain legal matters will be passed upon for the Authority and for the State by the Attorney General of the State, and for the Underwriters by Wilentz, Goldman & Spitzer, P.A., Woodbridge, New Jersey.

TAX MATTERS

Federal Taxation

In the opinion of GluckWalrath LLP, Bond Counsel to the Authority, assuming continuing compliance with the provisions of the Internal Revenue Code of 1986, as amended (the "Code") applicable to the 2016 Series A Bonds and subject to certain provisions of the Code which are described below, under laws, regulations, rulings and judicial decisions existing on the date of the original delivery of the 2016 Series A Bonds, interest received by a holder of the 2016 Series A Bonds will be excludable from gross income for federal income tax purposes, and will not be treated as a preference item for purposes of the alternative minimum tax imposed on individuals or corporations. Interest on the 2016 Series A Bonds is included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax on such corporations.

The Code contains a number of provisions that apply to the 2016 Series A Bonds, including restrictions relating to the use or investment of the proceeds of the 2016 Series A Bonds and the payment of certain arbitrage earnings in excess of the "yield" on the 2016 Series A Bonds to the Treasury of the United States. Non-compliance with such provisions may result in interest on the 2016 Series A Bonds not being excludable from gross income for federal income tax purposes retroactive to the date of issuance of the 2016 Series A Bonds. The Authority has covenanted to comply with these requirements.

Under prior law, banks, thrift institutions and other financial institutions were required to reduce the amount deducted with respect to the interest expense incurred to purchase or carry tax-exempt obligations by 20%. Section 265(b) of the Code generally denies to institutions any deduction for that portion of interest expense incurred in taxable years ending after December 31, 1986. An exception is provided to the 100% disallowance rule for certain small issuers who designate the obligations as "qualified tax-exempt obligations" under Section 265(b)(3) of the Code and, provided certain conditions are met, for bonds the proceeds of which refund obligations which are issued after August 7, 1986 and which were designated as qualified tax-exempt obligations. Such obligations will be treated as if they were acquired on August 7, 1986 and will be subject to the 20% disallowance rule. The 2016 Series A Bonds will not be designated as qualified under Section 265 of the Code by the Authority for an exemption from the denial of deduction for interest paid by financial institutions to purchase or to carry tax-exempt obligations.

Fifteen percent (15%) of the interest earned on tax-exempt obligations must be used to reduce deductions for losses incurred by property and casualty insurance companies.

In addition, prospective purchasers should be aware that Section 6049 of the Code provides that interest paid on tax-exempt obligations will be subject to information reporting in a manner similar to interest paid on taxable obligations. Pursuant to Notice 2006-93, backup withholding will be required if the bondholder fails to provide a tax identification number. The reporting requirement does not in and of itself affect or alter the excludability of such interest from gross income for federal tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

Ownership of tax-exempt obligations may also result in collateral federal income tax consequences to certain taxpayers including, without limitation, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations.

[The 2016 Series A Bonds have been sold to the public at a premium. Section 171 of the Code provides rules under which a bond premium may be amortized and a deduction allowed for the amount of the amortizable bond premium for a taxable year. Under Section 171(a)(2) of the Code, however, no deduction is allowable for the amortizable bond premium in the case of bonds, like the 2016 Series A Bonds, the interest on which is excludable from gross income. Under Section 1016(a)(5) of the Code, the purchaser's basis in a 2016 Series A Bond will be reduced by the amount of the amortizable bond premium disallowable as a deduction under Section 171(2) of the Code. Proceeds received from the sale, exchange, redemption or payment of a 2016 Series A Bond in excess of the owner's adjusted basis (as reduced pursuant to Section 1016(a)(5) of the Code), will be treated as a gain from the sale or exchange of such 2016 Series A Bonds and not as interest.]

Tax legislation, administrative action taken by tax authorities, and court decisions, whether at the Federal or state level, may adversely affect the exclusion from gross income of interest on the 2016 Series A Bonds for federal income tax purposes, or the exclusion of interest on and any gain realized on the sale of the 2016 Series A Bonds under the existing New Jersey Gross Income Tax Act, and any such legislation, administrative action or court decisions could adversely affect the market price or marketability of the 2016 Series A Bonds.

From time to time, there are legislative proposals in Congress that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the 2016 Series A Bonds. Recently, there have been various legislative proposals submitted to Congress, which if enacted, would limit for certain individual taxpayers the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. If enacted into law, such proposals may cause interest on the 2016 Series A Bonds to be subject, directly or indirectly, to federal income taxation or otherwise prevent owners of the 2016 Series A Bonds from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals may also affect the market price for, or marketability of, the 2016 Series A Bonds. No prediction is made whether these provisions will be enacted as proposed or concerning other future legislation which if passed might have the effect on the tax treatment of interest on the 2016 Series A Bonds. Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation. Bond Counsel will render its opinion as of the issue date, and will assume no obligation to update its opinions after the issue date to reflect any future facts or circumstances, or any future changes in law or interpretation, or otherwise. Moreover, the opinions of Bond Counsel are only opinions and not a warranty or guaranty of the matters discussed. The Authority has no obligation to provide updated information concerning pending or future legislation. Each purchaser of the 2016 Series A Bonds should consult his or her own tax advisor regarding any pending or proposed federal tax legislation.

In addition, the Internal Revenue Service ("IRS") has established an expanded audit program for tax-exempt bonds. There can be no assurance that an audit initiated or concluded by the IRS after the issue date of the 2016 Series A Bonds involving either the 2016 Series A Bonds or other tax-exempt bonds will not have an adverse effect on the tax-exempt status or market price of the 2016 Series A Bonds.

State Taxation

Under the laws of the State, as enacted and construed on the date of original delivery of the 2016 Series A Bonds, interest on the 2016 Series A Bonds and any net gains from the sale thereof are exempt from the tax imposed by the New Jersey Gross Income Tax Act.

PROSPECTIVE PURCHASERS OF THE 2016 SERIES A BONDS SHOULD CONSULT THEIR TAX ADVISORS WITH RESPECT TO THE FEDERAL, STATE AND LOCAL TAX CONSEQUENCES OF THE OWNERSHIP OF THE 2016 SERIES A BONDS.

CONTINUING DISCLOSURE

The Authority and the State Treasurer will enter into an agreement with the Trustee for the benefit of the holders of the 2016 Series A Bonds (the “Continuing Disclosure Agreement”), to comply with the secondary market disclosure requirements of the Securities and Exchange Commission’s Rule 15c2-12. Pursuant to the Continuing Disclosure Agreement, the State Treasurer will covenant to provide certain financial information and operating data relating to the State to the Municipal Securities Rulemaking Board (“MSRB”) in accordance with Rule 15c2-12. Further, the Authority will covenant to provide notices of the occurrence of certain enumerated events to the MSRB. The Trustee shall file such information on behalf of the State Treasurer and such notices on behalf of the Authority with the MSRB. The Trustee may meet the continuing disclosure filing requirements described above by providing such information to the MSRB or by complying with any other procedure that may be authorized by the United States Securities and Exchange Commission. The form of the Continuing Disclosure Agreement is set forth in APPENDIX III hereto.

The State Treasurer and the Authority have become aware of certain facts that they do not consider to be material but that are disclosed below for the benefit of the holders and Beneficial Owners of the Bonds.

Some information that was made available in a timely manner on EMMA may not have been linked to all relevant CUSIP numbers. In addition, filings with respect to certain bond insurer ratings changes were either posted late or the filings were not posted at all. The State Treasurer and the Authority are not always made aware of or may not have received notices from the rating agencies or the bond insurers of changes in the bond insurers’ ratings. Such bond insurer ratings changes may or may not have had an effect on the ratings of the Bonds.

In addition, the continuing disclosure agreement relating to the Authority’s Outstanding State Building Revenue Bonds, 2002 Series B (the “2002 Series B Bonds”) provided that the Authority will provide an Authority’s Annual Report consisting of the Authority’s audited financial statements for each Authority Fiscal Year (the “Authority’s Annual Report”). The Authority’s Annual Report was required to be filed with the MSRB by the October 1 next following the end of each Fiscal Year of the Authority ending December 31.

The Authority’s Annual Report for its Fiscal Year ending December 31, 2012, which was required to be filed on October 1, 2013, was filed October 30, 2013. In addition, the Authority’s Annual Reports for its Fiscal Years ending December 31, 2009 and 2010, when filed, were not filed under the 2002 Series B Bonds but were filed under other Series of the Authority’s Outstanding Bonds. These filing errors have been corrected.

The continuing disclosure agreements for all Series of Bonds issued subsequent to the 2002 Series B Bonds do not require, and the Continuing Disclosure Agreement for the 2016 Series A Bonds will not require, that the Authority provide the Authority’s Annual Report. As a result of the defeasance and redemption of the 2002 Series B Bonds, the Authority is no longer required to file the Authority’s Annual Report with the MSRB.

VERIFICATION

AMTEC Corporation of Avon, Connecticut, and Ross & Company, PLLC (an independent Certified Public Accountant), of Louisville, Kentucky (together, the “Verification Agent”) will verify from the information provided to them the mathematical accuracy, as of the date of delivery of the 2016 Series A Bonds, of the computations contained in the provided schedules to determine that the amount to be deposited pursuant to the Escrow Deposit Agreements will be sufficient to pay, when due, the Redemption Price of and interest on the 2013 Series Notes and Bonds to be Refunded. The Verification Agent will express no opinion on the assumptions provided to it, nor as to the exemption from taxation of the interest on the 2016 Series A Bonds for federal income tax purposes, or on the exemption from taxation of the interest on the 2016 Series A Bonds under the New Jersey Gross Income Tax Act.

UNDERWRITING

Citigroup Global Markets Inc. (“Citigroup”), as representative of the underwriters of the 2016 Series A Bonds shown on the cover page hereof (collectively, the “Underwriters”), has agreed, subject to certain conditions, to purchase the 2016 Series A Bonds from the Authority at a purchase price of \$_____ (representing the principal amount of the 2016 Series A Bonds, plus [net] original issue premium of \$_____, less an Underwriters’ discount of \$_____). The Underwriters may offer and sell 2016 Series A Bonds to certain dealers (including the Underwriters and other dealers depositing 2016 Series A Bonds into investment trusts) at a price or prices lower than the initial public offering prices set forth on the inside front cover page of this Official Statement.

The following three sentences have been furnished by Citigroup for inclusion in this Official Statement. Citigroup Global Markets Inc., an underwriter of the 2016 Series A Bonds, has entered into a retail distribution agreement (each a “Citigroup Distribution Agreement”) with each of TMC Bonds L.L.C. (“TMC”) and UBS Financial Services Inc. (“UBSFS”). Under these Citigroup Distribution Agreements, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS and the electronic primary offering platform of TMC. As part of this arrangement, Citigroup Global Markets Inc. may compensate TMC (and TMC may compensate its electronic platform member firms) and UBSFS for their selling efforts with respect to the 2016 Series A Bonds.

The Authority has not been furnished with any documents relating to the Citigroup Distribution Agreements and makes no representations of any kind with respect thereto. The Authority is not a party to the Citigroup Distribution Agreements and has not entered into any agreement or arrangement with TMC or UBSFS with respect to the offering and sale of the 2016 Series A Bonds.

FTN Financial Capital Markets (“FTN”) has provided the following three sentences for inclusion in this Official Statement. FTN is a division of First Tennessee Bank National Association and FTB Advisors, Inc. is a wholly owned subsidiary of First Tennessee Bank National Association. FTN has entered into a distribution agreement with FTB Advisors, Inc. for the distribution of the 2016 Series A Bonds at the original issue prices (the “FTN/FTB Agreement”). The FTN/FTB Agreement generally provides that FTN will share a portion of its underwriting compensation or selling concession with FTB Advisors, Inc.

The Authority has not been furnished with any documents relating to the FTN/FTB Agreement and makes no representations of any kind with respect thereto. The Authority is not a party to the FTN/FTB Agreement and has not entered into any agreement or arrangement with FTB Advisors, Inc. with respect to the offering and sale of the 2016 Series A Bonds.

RATINGS

Fitch Ratings (“Fitch”), Moody’s Investors Service, Inc. (“Moody’s”) and Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“S&P”), have assigned their municipal bond ratings of “___”, “___” and “___”, respectively, to the 2016 Series A Bonds. Such ratings reflect the views of Fitch, Moody’s and S&P, respectively, at the time such ratings were given and the Authority makes no representation as to the appropriateness of the ratings. Any explanation of the significance of the ratings may be obtained from Fitch, Moody’s and S&P. There is no assurance that the ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by Fitch, Moody’s or S&P, if in the judgment of Fitch, Moody’s or S&P, circumstances so warrant. Any such downward revision, qualification or withdrawal of the ratings can be expected to have an adverse effect on the market price of the 2016 Series A Bonds.

MISCELLANEOUS

The references herein to the Bond Resolution, the Act, the Lease, or other documents are brief outlines of certain provisions thereof. Such outlines do not purport to be complete, and reference is made to such documents, laws, and agreements, copies of which will be furnished by the Authority, upon request, for full and complete statements of their provisions.

The State has provided the information contained in APPENDIX I and the information contained therein is not to be construed as a representation of the Authority.

The address of the Authority is 28 West State Street, Trenton, New Jersey 08625 and the telephone number is (609) 943-4830.

This Official Statement is submitted in connection with the sale and issuance of the 2016 Series A Bonds and may not be reproduced or used, as a whole or in part, for any other purpose.

Any statements in this Official Statement involving matters of opinion, projections or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any such statements will be realized. The agreements of the Authority are fully set forth in the Bond Resolution in accordance with the Act, and this Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or owners of any 2016 Series A Bonds.

This Official Statement has been duly executed and delivered by the Executive Director of the Authority.

NEW JERSEY BUILDING AUTHORITY

By: _____
Raymond A. Arcario
Executive Director

Dated: March __, 2016

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

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DATED MARCH 11, 2016

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

This Appendix I speaks only as of its date and contains information supplied by the State that a prospective investor might consider in reaching a decision to invest in securities of the State or securities issued by governmental authorities that are secured by amounts subject to appropriations by the State Legislature. Nothing contained in this Appendix I shall create any implication that there has been no change in the affairs of the State since the date hereof. This Appendix I replaces Appendix I dated August 5, 2015 and supplements thereto. The principal changes reflected in this Appendix I are the updates of information to reflect adjustments to the Fiscal Year 2016 Appropriations Act, the introduction of the Governor's Fiscal Year 2017 Budget Message and certain financial and other activity which occurred during Fiscal Year 2016. The State intends to further update or supplement the information contained in this Appendix I upon becoming aware of the occurrence of any event that materially changes the information contained herein.

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

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

From time to time, State officials or representatives of State governmental authorities may issue statements or reports, post information on websites, or otherwise make public information that contains 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. In addition, such officials and authorities as well as other persons and groups, with or without official State governmental approval and cooperation, may undertake studies and analyses, whether or not designed to be made public, which may contain information regarding the State and its financial condition which differs significantly from the information provided herein or on which the information provided herein is based. Such statements, reports and information are not part of this Appendix I or the Official Statement to which this Appendix I is appended and should not be relied upon by investors and other market participants.

To the extent the State determines it is necessary or appropriate to revise, update or supplement the information contained in this Appendix I, the State will prepare and make public supplements to this Appendix I. Investors and other market participants should refer to subsequent Official Statements containing updates to this Appendix I or filings with the Electronic Municipal Market Access System of the Municipal Securities Rulemaking Board ("MSRB") for official revisions, updates or supplements to the information contained in this Appendix I. In determining the appropriate information concerning the State to be relied upon in making an investment decision, investors and other market participants should refer only to this Appendix I and official supplements thereto provided by the State.

The Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2015, including Management's Discussion and Analysis (the "2015 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 2015 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.

APPENDIX I
FINANCIAL AND OTHER INFORMATION RELATING TO THE STATE OF NEW JERSEY
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* Filed with the MSRB and incorporated by specific reference herein.

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CERTAIN CONSTITUTIONAL PROVISIONS AND JUDICIAL DECISIONS

The New Jersey State Constitution (the “State Constitution”) provides for a bicameral State Legislature which meets in annual sessions. Members of the State Senate are elected to terms of four years, except for the election following a decennial census, in which case the election is for a term of two years. Members of the General Assembly are elected to terms of two years. Both the Governor and the Lieutenant Governor are elected to terms of four years each.

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) (the “Appropriations Clause”). In addition to line-item appropriations for the payment of debt service on bonds, notes or other obligations which are subject to appropriation, the annual Appropriations Act contains a general language provision, which appropriates such additional amounts necessary to pay such debt service obligations subject to the approval of the Budget Director (defined below). (For general information regarding the budget process, see “STATE FINANCES — Budget and Appropriation Process” herein; for the application of the budget process for Fiscal Year 2017, 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 “Lance Amendment”). The Lance 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 Lance 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.

Proposed Constitutional Amendment

The State Legislature approved Senate Concurrent Resolution No. 184 (“SCR 184”) during its 2014-2015 session, but by less than a 3/5ths majority. Therefore, the State Constitution requires that before SCR 184 may be presented to the voters at a general election for approval, it must be approved by the State Legislature again during the 2016-2017 session. SCR 184 was again introduced (now as Senate Concurrent Resolution No. 2) in the State Senate on February 4, 2016, and in the General Assembly (as Assembly Concurrent Resolution No. 109) on January 27, 2016. No assurances can be given as to whether or not the State Legislature will approve SCR 184 during the 2016-2017 session, and if approved by the State Legislature, whether the voters will approve SCR 184 at a general election.

SCR 184 would amend Article VII of the State Constitution to add a new Section IV and require the State: (1) to make its annual required contribution to the Pension Plans (as defined hereinafter) as that contribution is determined by the board of trustees of each Pension Plan in consultation with the actuary for that Pension Plan; (2) to make the full annual required contribution to the Pension Plans beginning in Fiscal Year 2022 and for each fiscal year thereafter; (3) beginning in Fiscal Year 2018, to make a payment to each Pension Plan of at least 4/8ths of the full annual required contribution and increase that payment by an additional 1/8th of the full annual required contribution for each Pension Plan until payment of the full annual required contribution is required in Fiscal Year 2022; (4) the required contribution to be made by the State shall be paid in each State fiscal year as follows: at least 25% by August 1st, at least 50% by November 1st, at least 75% by February 1st and at least 100% by May 1st; (5) the amount of the contribution to be made to each Pension Plan shall be included in the annual Appropriations Act for each fiscal year and the annual required contribution shall be an indefeasible obligation of the State; (6) vested members of the Pension Plans shall have an indefeasible non-forfeitable right to receive benefits provided under the laws governing the Pension Plans; and (7) the appropriation obligation is subject to and subordinate to appropriations for State general obligation bonds authorized in accordance with the Debt Limitation Clause.

Additionally, SCR 184 would amend the Appropriations Clause to require that no annual Appropriations Act shall be enacted without including appropriations for the State contribution to the Pension Plans and the Debt Limitations Clause to clarify that the indefeasible obligation of the State to make the annual required contribution to the Pension Plans is not subject to the Debt Limitation Clause’s voter approval requirement.

If the State Legislature and then voters approve SCR 184, it could have a material adverse impact on the short- and medium-term structural balance of the General Fund of the State and present significant cash flow challenges to the State. Historically, when the State encountered potential shortfalls in revenues, the State has reduced its contributions to its Pension Plans as one of the means by which to address those shortfalls. See “STATE FUNDING OF PENSIONS — *State’s Financial Responsibility to the Pension Plans*,” below. Furthermore, to deal with the fact that a significant amount of the State’s revenues tend to be realized in the second half of the fiscal year, the timing of pension contributions pursuant to SCR 184 would most likely result in the need for a sizeable increase in the State’s annual cash flow borrowing. See “TAX AND REVENUE ANTICIPATION NOTES” below. On the whole, SCR 184 would thus significantly impact the flexibility of the State to respond during the course of the fiscal year to unanticipated shortfalls in revenues.

Judicial Decisions

Pursuant to the Debt Limitation and the Appropriation Clauses described above, the State has issued various types of debt instruments. Under the Debt Limitation Clause, the State issues “General Obligation Bonds” pursuant to separate bond acts approved by the voters at a general election. The faith and credit of the State is pledged for the payment of such General Obligation Bonds. In addition, over the past fifty years, legislation has been enacted from time to time which provides for the issuance of obligations by various independent authorities, the debt service on which is paid by annual appropriations made by the State Legislature (“State Appropriation Obligations”).

In December 2000, a challenge was brought seeking a declaration that legislative programs authorizing State Appropriation Obligations violated the Debt Limitation Clause. The New Jersey Supreme Court's first ruling in this matter ("Lonegan I") was limited solely to the issuance of State Appropriation Obligations by the New Jersey Economic Development Authority ("NJEDA") authorized by the Educational Facilities Construction and Financing Act ("EFCFA"). The Court held that such bonds did not violate the Debt Limitation Clause because such debt was not legally enforceable against the State. See *Lonegan v. State of New Jersey*, 174 N.J. 435 (2002). The Court ordered additional briefing and argument on the other legislatively authorized State Appropriation Obligations. In "*Lonegan II*", issued in April 2003, the Court rejected a broad challenge to the validity of fourteen New Jersey statutes authorizing the issuance of State Appropriation Obligations. The Court held that the Debt Limitation Clause does not apply to debt that is subject to future legislative appropriations because such debt is not legally enforceable against the State. Furthermore, the Court held that under New Jersey law, only debt that is legally enforceable against the State is subject to the Debt Limitation Clause and that in reliance upon such rule, the State Legislature responded to changes in the financial markets that reflect modern economic realities to provide for the issuance of debt where the payment is subject to annual legislative appropriation. *Lonegan v. State of New Jersey*, 176 N.J. 2 (2003).

Following *Lonegan II*, the State Legislature enacted two laws — the Cigarette Tax Securitization Act of 2004, L. 2004, c. 68 and the Motor Vehicle Surcharges Securitization Act of 2004, L. 2004, c. 70 (collectively, the "Securitization Acts"). The Securitization Acts authorized the issuance of State Appropriation Obligations by the NJEDA and provided that the proceeds of these bonds would be deposited into the General Fund and included as revenues to support the Governor's certification of revenues for the annual appropriations act (the "Appropriations Act") as required by the Appropriations Clause. A lawsuit was filed asserting that the Fiscal Year 2005 Appropriations Act was unconstitutional under the Appropriations Clause because of the inclusion of the proceeds of bonds as revenue for the purposes of the Governor's certification of revenues. The plaintiffs further claimed that absent voter approval, these bonds would be unconstitutional under the Debt Limitation Clause. In July 2004, the Supreme Court issued its decision holding that the issuance of bonds under the Securitization Acts did not violate the Debt Limitation Clause but that the proceeds of bonds issued under such acts cannot be included as "revenue" for the purposes of the Appropriations Clause. However, the Court determined that this ruling would be given prospective application only and that the State and the NJEDA would be permitted to proceed with the sale of bonds authorized under the Securitization Acts because barring these bond sales would require significant revisions to, if not a complete overhaul of, that year's budget potentially resulting in great disruption to the State Government. *Lance v. McGreevy*, 180 N.J. 590 (2004).

A further challenge was launched in August 2005, seeking a declaration that the Fiscal 2006 Appropriations Act violated the State Constitution because it anticipated revenues in the amount of \$150 million from the proceeds of Tobacco Settlement Asset-Backed Bonds (the "Tobacco Settlement Bonds") to be issued by the Tobacco Settlement Financing Corporation, a public body corporate and politic and an instrumentality of the State (the "Corporation"). On August 12, 2005, the trial court entered an order in favor of the plaintiffs (i) permanently enjoining the issuance of that portion of the Tobacco Settlement Bonds in excess of that necessary to effectuate the refunding of the Corporation's Series 2003 Bonds estimated to be \$150 million, (ii) permanently enjoining the transfer of any portion of the proceeds of the Tobacco Settlement Bonds to the State, and (iii) ruling that the proceeds from the sale of the Tobacco Settlement Bonds would not be "revenue" for purposes of the Appropriations. No appeal was taken and the bonds were not issued.

In July 2008, a complaint was filed in the Superior Court against the State claiming that L. 2008, c. 39 (the "EFCFA Amendment"), was unconstitutional under the Debt Limitation Clause. The EFCFA Amendment, among other things, authorized the issuance by the NJEDA of an additional \$3.9 billion of State Appropriation Bonds. The Superior Court dismissed the complaint in its entirety, with prejudice in December 2008. In November 2009, the Appellate Division affirmed the Superior Court's dismissal of the complaint.

In November 2008, as discussed above, the voters approved the Lance Amendment. A suit was filed in December 2008 in the Superior Court, seeking a declaration that the Lance Amendment was unconstitutional.

The Plaintiffs claimed that the ballot question and the interpretative statement were defective. In November 2009, the Court dismissed the Plaintiffs' complaint for failure to state a claim upon which relief can be granted.

STATE FINANCES

Accounting System

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.

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, 2015," and the notes referred to therein (the "2015 CAFR") which has been separately filed with the Municipal Securities Rulemaking Board ("MSRB") and is incorporated by specific reference herein and is considered to be part of this Appendix I.) The 2015 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 2015 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.

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.

Governmental Funds

Governmental Funds finance most Direct State Services, which support the normal operations of State government. 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, which receives revenues from taxes that are unrestricted by statute, most federal revenue and certain miscellaneous revenue items; the Property Tax Relief Fund, which receives revenues from the New Jersey Gross Income Tax and 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; the Special Revenue Funds, which are used to account for resources legally restricted to expenditure for specified purposes; and the Capital Projects Funds, which are used to account for financial resources to be used for the acquisition or construction of major State capital facilities. The Capital Projects Funds includes the State Transportation Fund which is used to account for financial resources for State transportation projects. 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.

Proprietary Funds

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

Fiduciary Funds, which include the State's Pension Plans, 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

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 eleven State colleges and universities including their foundations and associations.

Budget and Appropriation Process

The State operates on a fiscal year beginning July 1 and ending June 30. For example, "Fiscal Year 2017" refers to the State's fiscal year beginning July 1, 2016 and ending June 30, 2017. New Jersey's budget process is comprehensive and inclusive, involving every department and agency in the Executive Branch, the State Legislature, the Judicial Branch, and through a series of public hearings, the citizens of the State.

Pursuant to the Appropriations Clause, 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. The State Legislature enacts the Appropriations Act on an annual basis which provides the basic framework for the operation of the General Fund. 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.

Budget Requests and Preliminary Projections

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.

Budget Director Review

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. 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.

Governor's Budget Message

The Governor's budget message (the "Governor's Budget Message") is presented by the Governor during an appearance before a joint session of the State Legislature which, by law, is convened on a date on or before the fourth Tuesday in February in each year. The Governor's Budget Message for Fiscal Year 2017 was delivered on February 16, 2016 (the "Governor's Fiscal Year 2017 Budget Message"). The Governor's Budget Message must include the proposed complete financial program of the State government for the next ensuing fiscal year and must set forth in detail each source of anticipated revenue and the purposes of recommended expenditures for each spending agency (*N.J.S.A. 52:27B-20*).

Legislative Review

The financial program included in the Governor's Budget Message is then subject to a process of legislative committee review. As part of such review, testimony is given by a number of parties. The Office of Legislative Services, which is an agency of the State Legislature, generally provides its own estimates of anticipated revenues which may be higher or lower than those included in the Governor's Budget Message, and the State Treasurer generally provides an updated statement of anticipated revenues in May of each year which may increase or decrease the amounts included in the Governor's Budget Message. In addition, various parties may release their own estimates of anticipated revenues and recommended expenditures to the media. After completion of the legislative committee review process, the budget, in the form of an appropriations bill, must be approved by the Senate and Assembly and must be submitted to the Governor for review. The Appropriations Act includes the General Fund, as well as certain Special Revenue Funds (Casino Control, Casino Revenue, Gubernatorial Elections, and Property Tax Relief). In addition to anticipated revenues, the 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".

Governor's Line-Item Veto Power

Upon such submission, the Governor may approve the bill, revise the estimate of anticipated revenues contained therein, delete or reduce appropriation items contained in the bill through the exercise of his or her line-item veto power, or veto the bill in its entirety. As with any gubernatorial veto, such action may be reversed by a two-thirds vote of each House of the State Legislature.

If a general appropriation law is not enacted prior to the July 1 deadline, under the Appropriations Clause, no money can be withdrawn from the State treasury. In addition, in such an event, 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 "LONG-TERM OBLIGATIONS — State Appropriation Obligations" herein.

Fiscal Controls

The departments maintain legal control at the appropriation line item level and exercise budgetary control by individual appropriations and allocations within annual appropriations to various programs and major expenditure objects. Revisions to the Appropriations Act, reflecting program changes or interdepartmental transfers of an administrative nature, may be effected during the fiscal year with certain Executive and Legislative Branch approvals. Management may amend a department's budget with approval by the Budget Director; provided that under specific conditions, additional approval by the Office of Legislative Services is required. Only the State Legislature, however, may transfer appropriations between departments.

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. Pursuant to various statutes, the Governor may order

the Budget Director to set aside a reserve out of each appropriation, and if sufficient revenues are not available by the end of the fiscal year to fund such reserve, the amount reserved lapses back into the General Fund. In addition, the Governor is authorized to prohibit and enjoin the expenditure of monies in the case of extravagance, waste or mismanagement.

Furthermore, under the State Constitution, no supplemental appropriation may be enacted after adoption of the Appropriations Act except where there are sufficient revenues on hand or anticipated, as certified by the Governor, to meet such appropriation and all prior appropriations for such fiscal year.

FINANCIAL RESULTS AND ESTIMATES

Audit Reports

The State Auditor is directed by statute (*N.J.S.A. 52:24-4*) to “examine and post-audit all the accounts, reports, and statements and make independent verifications of all assets, liabilities, revenues, and expenditures” of the State and its agencies. The 2015 CAFR, including the opinion of the State Auditor, has been separately filed with the MSRB, 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.

Balance Sheets

The comparative balance sheets for the General Fund, the Casino Control Fund, the Casino Revenue Fund, the Gubernatorial Elections Fund and the Property Tax Relief Fund as of June 30, 2015 and 2014 are set forth below:

**GENERAL FUND(1)
COMPARATIVE BALANCE SHEETS
(Audited)
(In Millions)**

	<u>As of June 30,</u>	
	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and cash equivalents	\$ 120.4	\$ 72.3
Investments	1,419.0	177.0
Receivables, net of allowances for uncollectibles		
Federal government	567.0	664.1
Departmental accounts	3,082.4	2,800.3
Loans	20.8	24.8
Other	134.6	147.8
Due from other funds	599.4	839.7
Other	31.1	8.5
Total Assets	<u>\$5,974.7</u>	<u>\$4,734.5</u>
LIABILITIES		
Accounts payable and accruals	1,422.5	1,567.3
Unearned revenue	259.7	461.4
Due to other funds	407.4	240.6
Refunds payable	143.7	109.3
Contributory Life Insurance Payable	579.1	—
Other	18.9	18.1
Total Liabilities	<u>\$2,831.3</u>	<u>\$2,396.7</u>
Fund Balances		
Restricted	119.5	85.5
Committed	2,217.5	1,957.2
Unassigned	806.4	295.1
Total Fund Balances	<u>3,143.4</u>	<u>2,337.8</u>
Total Liabilities and Fund Balances	<u>\$5,974.7</u>	<u>\$4,734.5</u>

(1) The General Fund is used to account for all State revenues not otherwise restricted by statute. The largest part of the total financial operations of the State is accounted for in the General Fund. Most revenues received from taxes, federal sources, and certain miscellaneous revenue items are recorded in the General Fund. The Appropriations Act enacted by the State Legislature provides the basic framework for the operation of the General Fund.

See the 2015 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.

**OTHER BUDGETED FUNDS
COMPARATIVE BALANCE SHEETS
AS OF JUNE 30
(Audited)
(In Millions)**

	Casino Control Fund(1)		Casino Revenue Fund(2)		Gubernatorial Elections Fund(3)		Property Tax Relief Fund(4)	
	2015	2014	2015	2014	2015	2014	2015	2014
ASSETS								
Cash and cash equivalents	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Receivables, net of allowances for uncollectibles								
Department accounts	6.1	8.6	15.0	20.9	0.6	0.3	181.2	472.7
Due from other funds	10.7	5.1	25.1	23.7	—	—	244.8	9.7
Total Assets	<u>\$16.8</u>	<u>\$13.7</u>	<u>\$40.1</u>	<u>\$44.6</u>	<u>\$0.6</u>	<u>\$0.3</u>	<u>\$426.0</u>	<u>\$482.4</u>
LIABILITIES AND FUND BALANCES								
Liabilities								
Accounts payable and accruals	\$ 4.0	\$ 4.8	\$16.5	\$17.7	\$ —	\$ —	\$ 71.8	\$ 61.5
Unearned revenue	4.5	4.0	—	—	—	—	—	—
Due to other funds	—	—	—	—	—	0.3	9.9	214.8
Other	—	—	—	—	—	—	313.4	197.9
Total Liabilities	<u>\$ 8.5</u>	<u>\$ 8.8</u>	<u>\$16.5</u>	<u>\$17.7</u>	<u>\$ —</u>	<u>\$0.3</u>	<u>\$395.1</u>	<u>\$474.2</u>
Fund Balances								
Committed	8.3	4.9	23.6	26.9	0.6	—	30.9	8.2
Total Fund Balances	<u>8.3</u>	<u>4.9</u>	<u>23.6</u>	<u>26.9</u>	<u>0.6</u>	<u>—</u>	<u>30.9</u>	<u>8.2</u>
Total Liabilities and Fund Balances	<u>\$16.8</u>	<u>\$13.7</u>	<u>\$40.1</u>	<u>\$44.6</u>	<u>\$0.6</u>	<u>\$0.3</u>	<u>\$426.0</u>	<u>\$482.4</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. 5:12-143*, 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. 5:12-145*, approved June 2, 1977.
- (3) The Gubernatorial Elections Fund is used to account for receipts from the dollar designations on New Jersey Gross Income Tax returns. When indicated by the taxpayer, one dollar of the tax is reserved from Gross Income Tax revenues and credited to the Gubernatorial Elections Fund. These funds are available for appropriation pursuant to The New Jersey Campaign Contributions and Expenditures Reporting Act (*L. 1973, c. 83*), as amended. The Gubernatorial Elections Fund was established by the New Jersey Gross Income Tax Act, *N.J.S.A. 54A:9-25.1*, 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.

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, 2013 through 2017, covering budgeted funds. The Undesignated Fund Balances

are available for appropriation in succeeding fiscal years. There have been positive Undesignated Fund Balances in the General Fund at the end of each year since the State Constitution was adopted in 1947.

Amounts shown for Fiscal Years 2013 through 2015 are actual and final. Amounts shown for Fiscal Year 2016 in the following tables and charts are based upon revised estimates for revenues and appropriations contained in the Governor's Fiscal Year 2017 Budget Message which includes enacted and anticipated supplemental appropriations and expected lapses for Fiscal Year 2016. Amounts shown for Fiscal Year 2017 are estimates as contained in the Governor's Fiscal Year 2017 Budget Message.

Budgeted State funds include the General Fund, the Property Tax Relief Fund, the Casino Revenue Fund, the Casino Control Fund and the Gubernatorial Elections Fund, but exclude federal funds and other non-budgeted funds. The Appropriations Act also provides for the appropriation of non-budgeted revenue, including primarily federal funds and a portion of the Energy Tax Receipts, to the extent such revenue is received and permits the corresponding increase of appropriation balances from which expenditures can be made. See "STATE FINANCES — Accounting System" above.

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

	<u>2017</u> <u>Estimated</u>	<u>2016</u> <u>Estimated</u>	<u>2015</u> <u>Actual</u>	<u>2014</u> <u>Actual</u>	<u>2013</u> <u>Actual</u>
July 1st Beginning Balances					
General Fund	\$ 785.1	\$ 806.4	\$ 295.1	\$ 01.4	\$ 441.4
Property Tax Relief Fund	—	10.2	1.1	8.6	2.4
Gubernatorial Elections Fund	1.2	0.6	—	—	1.0
Casino Control Fund	—	6.0	3.8	3.2	1.8
Casino Revenue Fund	—	—	—	—	—
Total Beginning Balances	<u>786.3</u>	<u>823.2</u>	<u>300.0</u>	<u>313.2</u>	<u>446.6</u>
Anticipated Revenue					
General Fund	19,407.2	19,068.0	18,889.7	18,080.6	17,894.8
Property Tax Relief Fund	15,174.1	14,486.0	13,949.3	12,991.4	12,758.4
Gubernatorial Elections Fund	0.7	0.7	0.6	0.4	0.4
Casino Control Fund	50.3	42.9	51.5	53.9	55.6
Casino Revenue Fund	199.9	203.2	206.2	221.5	214.9
Total Revenues	<u>34,832.2</u>	<u>33,800.8</u>	<u>33,097.3</u>	<u>31,347.8</u>	<u>30,924.1</u>
Total Resources	<u>\$35,618.5</u>	<u>\$34,624.0</u>	<u>\$33,397.3</u>	<u>\$31,661.0</u>	<u>\$31,370.7</u>
Other Adjustments					
General Fund					
Balances lapsed(1)	—	201.8	487.2	1,141.2	280.7
From (To) reserved fund balance	—	—	—	—	(24.5)
From (To) Property Tax Relief Fund	—	44.5	(28.5)	(33.8)	(25.2)
Budget vs GAAP Adjustment	—	—	(0.4)	(28.8)	(1.6)
From (To) Casino Revenue Fund	—	(0.6)	(63.5)	(161.9)	(68.7)
From (To) Gubernatorial Elections Fund	(4.2)	—	—	(10.2)	0.4
From (To) Casino Control Fund	—	0.2	—	—	—
Property Tax Relief Fund					
Balances lapsed(1)	—	17.5	52.5	780.8	409.9
From (To) General Fund	—	(44.5)	28.5	33.8	25.2
Gubernatorial Elections Fund					
From (To) General Fund	4.2	—	—	10.2	(0.4)
Balances lapsed(1)	—	—	—	—	4.0
Budget vs GAAP Adjustment	—	—	—	—	1.2
Casino Control Fund					
Balances lapsed(1)	—	6.5	11.1	2.0	1.1
From (To) General Fund	—	(0.2)	—	—	—
Casino Revenue Fund					
From (To) General Fund	—	0.6	63.5	161.9	68.7
Balances lapsed(1)	—	0.4	0.5	0.2	0.5
Budget vs GAAP Adjustment	—	—	—	—	(0.1)
Total Other Adjustments	<u>—</u>	<u>226.2</u>	<u>550.9</u>	<u>1,895.4</u>	<u>671.2</u>
Total Available	<u>\$35,618.5</u>	<u>\$34,850.2</u>	<u>\$33,948.2</u>	<u>\$33,556.4</u>	<u>\$32,041.9</u>
Appropriations					
General Fund	19,398.2	19,335.3	18,773.2	18,993.4	18,195.9
Property Tax Relief Fund	15,174.1	14,469.2	14,021.2	13,813.5	13,187.3
Gubernatorial Elections Fund	6.2	—	—	10.6	6.2
Casino Control Fund	50.3	55.2	60.4	55.3	55.3
Casino Revenue Fund	199.9	204.2	270.2	383.6	284.0
Total Appropriations	<u>\$34,828.7</u>	<u>\$34,063.9</u>	<u>\$33,125.0</u>	<u>\$33,256.4</u>	<u>\$31,728.7</u>
June 30th Ending Balances					
General Fund	789.8	785.0	806.4	295.1	301.4
Property Tax Relief Fund	—	—	10.2	1.1	8.6
Gubernatorial Elections Fund	—	1.3	0.6	—	—
Casino Control Fund	—	—	6.0	3.8	3.2
Casino Revenue Fund	—	—	—	—	—
Total Ending Balances	<u>\$ 789.8</u>	<u>\$ 786.3</u>	<u>\$ 823.2</u>	<u>\$ 300.0</u>	<u>\$ 313.2</u>

(1) Upon the end of the fiscal year, any unexpended or unencumbered balance in an appropriation reverts (lapses) to the June 30th ending undesignated fund balance, unless otherwise provided for in the Appropriations Act.

Demographic and Economic Information

New Jersey is the eleventh largest state by population but the fifth smallest by land area. According to the United States Bureau of the Census (“Census Bureau”), the population of New Jersey is currently estimated to be 8,958,013. New Jersey’s population increased from 7,762,963 in 1990 to 8,430,621 in 2000 and then to 8,803,881 in 2010. New Jersey is the most densely populated of all the states with an average of 1,196 persons per square mile according to the 2010 Census. New Jersey is located at the center of a megalopolis which extends from Boston in the north to Washington D.C. in the south 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 combined with the transportation and port facilities and proximity to New York City make the State an attractive location for corporate headquarters and international business offices.

The State has a diverse economic base consisting of a variety of manufacturing, construction, and service industries. This is supplemented by commercial agriculture in the rural areas. New Jersey has the Atlantic seashore on the east and lakes and mountains in the north and northwest, which provide recreation for residents as well as for out-of-state visitors. Since 1978, casino gambling in Atlantic City has been an important State tourist attraction.

New Jersey’s population grew rapidly in the years following World War II, before slowing to an annual rate of growth of 0.28% in the 1970s. The annual rate of growth rose to 0.51% between 1981 and 1990, accelerated to 0.83% between 1991 and 2000 but then returned to 0.43% between 2001 and 2010. This lagged behind the annual rate of growth for the United States as a whole but it compares favorably with neighboring states. According to the Census Bureau, New York’s population grew at an annual rate of 0.21% from 2001 to 2010 while Pennsylvania’s population grew at a rate of 0.34% during the same period.

The increase in the State’s total population during recent decades masks the redistribution of population within the State. For many years there was a significant shift from the northeastern industrial areas toward the coastal counties of Atlantic, Ocean and Monmouth, and the central New Jersey counties of Hunterdon, Somerset and Middlesex. However, preliminary data suggest that in recent years counties in the northeastern part of the State, most notably Hudson, have been gaining population relative to the rest of the State. Most of the counties along the Delaware River, including Hunterdon, have lost population since 2010. Cumberland and Cape May counties have also seen declines in population since 2010.

For more information, see the 2015 CAFR-Statistical Section which has been separately filed with the MSRB, and is incorporated by specific reference herein and is deemed a part of this Appendix I.

Selected Information Relating to New Jersey’s Economic Condition

The State ended 2015 with payroll employment at 4.048 million jobs. This is an increase of 65,200 jobs, or 1.6%, over the course of the year. The State’s growth in payroll employment was 0.3 percentage points lower than the national growth rate of 1.9% during the same period. Payrolls grew in every sector over the course of 2015 with the exception of the mining and logging sector (-100) where payrolls continue to be depressed nationwide as a result of the decline in energy prices. Payroll growth was led by the education and health services sector (+16,200), trade, transportation and utilities sector (+11,200), construction sector (+10,800), and leisure and hospitality services sector (+10,200).

The State’s unemployment rate improved over the course of 2015 falling by 1.2 percentage points from 6.3% in December 2014 to 5.1% in December 2015. The unemployment rate is continuing its current trend of decline and is now only 0.1 percentage points higher than the national rate of 5.0%. The State’s labor force participation rate ended 2015 unchanged from a year ago at 64.1% which continues to be above the national figure of 62.6%.

The State's housing market continues to improve with 2015 being a better year than 2014. Sales of existing single-family homes in 2015 were 14.0% higher than a year ago while overall home sales were 12.3% higher according to data from the New Jersey Association of Realtors. Residential construction also continues to expand with the 31,050 building permits issued in 2015 being the most since 2006 according to data from the Census Bureau. Residential construction has been led by the large multifamily sector (buildings with 5 or more units), where building permits for 19,675 housing units were issued in 2015, 22.4% higher than a year ago.

The State does continue to have a high number of homes in foreclosure with 70,324 mortgages in foreclosure at the end of 2015 according to data from the Mortgage Bankers Association. This is 6.1% of all mortgages being serviced in New Jersey which is more than triple the national average of 1.8%. However, the State has made recent strides in reducing the number of foreclosures where the share was as high as 7.8% as recently as the end of 2014. New Jersey has a judicial foreclosure process which does make the process more time consuming but this also provides greater protections for the homeowner.

Real gross state product grew by only 0.4% in 2014, which is slower than the 0.8% growth rate in 2013. Prior to adjusting for inflation, gross state product in New Jersey totaled \$549.1 billion in 2014 which is eighth among the fifty states. The seven states with higher gross state products all have much higher populations than New Jersey, while New Jersey did have a higher gross state product than three states with higher populations. Personal income, which is income from all sources including earnings, assets and transfer income, increased by 4.7% in 2014, which is a marked improvement over the 0.5% increase in 2013.

Economic conditions in both the State and the nation are continuing to improve and expected to continue to improve. The labor market continues to expand for both the State and the nation as a whole which is important because jobs growth is the foundation for any recovery. New Jersey does seem well positioned in this regard since the State saw payrolls increase by 58,400 jobs over the last five months of 2015. Continued growth in jobs will support further growth in both consumer spending and the housing market.

However, recent global events which have led to financial market instability have given rise to concerns about the state of the national economic recovery. The outlook for global economic growth has been lowered as the Chinese economy slows down as it transitions from a manufacturing/export-based economy to one that is driven by domestic consumption. This transition has reduced demand for many global commodities, including oil, which has put downward pressure on both the price of these commodities as well as the economic outlook for commodities-exporting countries.

Financial market instability has led to concerns that credit conditions within the United States will tighten which would dampen economic growth. This combined with concerns that inflation in the United States will continue to remain restrained has created uncertainty about the expected path of future increases in the federal funds rate by the Federal Reserve's Federal Open Market Committee ("FOMC"). Economic projections released in December 2015 indicated that members of the FOMC expected there to be four quarter-point increases in the federal funds rate over the course of 2016 but recent events have called into question whether this will actually happen.

The State's economic outlook hinges on the success of supportive national fiscal and monetary policies. Continued labor market growth, sustained growth in wages, the availability of credit, stability in financial markets, and continued improvement in both consumer and business confidence are critical factors necessary for the economic recovery to continue. The December economic projections indicate members of the FOMC anticipate real GDP to grow between 2.3 and 2.5% in 2016, so both the State and the national economy are expected to continue to expand. But it is possible that both the State and the nation may experience deterioration in growth if there continues to be uncertainty about global economic conditions which would lead to continued financial market volatility.

The 2015 CAFR-Statistical Section contains various demographic and economic statistical tables for New Jersey and, where available, for neighboring states and the region.

Revenues

The following table sets forth actual and estimated revenues for fiscal years ended June 30, 2013 through 2017 for the General Fund, the Property Tax Relief Fund, the Gubernatorial Elections Fund, the Casino Control Fund and the Casino Revenue Fund. The Fiscal Year 2016 and 2017 estimates are as presented in the Governor’s Fiscal Year 2017 Budget Message. See “APPENDIX I-B — SUMMARY OF CERTAIN STATE TAXES” below.

**REVENUES
(In Millions)**

	<u>2017 Estimated</u>	<u>2016 Estimated</u>	<u>2015 Actual</u>	<u>2014 Actual</u>	<u>2013 Actual</u>
General Fund:					
Sales and Use Tax	\$ 9,597.4	\$ 9,315.8	\$ 8,875.1	\$ 8,640.2	\$ 8,235.1
Less: Property Tax Dedication	(727.4)	(705.9)	(677.2)	(658.9)	(629.8)
Net Sales and Use Tax	8,870.0	8,609.9	8,197.9	7,981.3	7,605.3
Corporation Business Tax	2,336.0	2,336.0	2,655.0	2,101.0	2,364.5
Lottery Fund	965.0	965.0	960.0	965.0	1,085.0
Transfer Inheritance Tax	848.5	828.1	793.5	687.4	623.8
Insurance Premium Tax	688.7	668.7	643.3	578.2	563.3
Fringe Benefit Recoveries	763.4	676.2	559.0	650.3	602.9
Motor Fuels Tax	545.6	556.6	535.6	530.4	524.6
Motor Vehicle Fees	515.6	479.1	437.0	430.1	449.5
Medicaid Uncompensated Care	386.8	453.6	404.8	399.3	429.8
Realty Transfer Tax	330.4	309.1	272.2	249.2	212.1
Petroleum Gross Receipts	218.1	218.1	215.1	216.8	206.5
Corporation Business Tax — Banks and Financials	155.3	155.3	127.2	186.0	164.2
Cigarette Tax	126.5	163.6	184.4	224.1	246.9
Alcoholic Beverage Excise Tax	110.8	109.5	105.5	104.2	103.1
Other	<u>2,546.5</u>	<u>2,539.2</u>	<u>2,799.2</u>	<u>2,777.3</u>	<u>2,713.3</u>
Total General Fund(1)	19,407.2	19,068.0	18,889.7	18,080.6	17,894.8
Property Tax Relief Fund:					
Gross Income Tax(2)	14,424.6	13,758.0	13,250.0	12,311.7	12,108.6
Plus: Property Tax Dedication	749.5	728.0	699.3	679.7	649.8
Gross Property Tax Relief Fund	15,174.1	14,486.0	13,949.3	12,991.4	12,758.4
Gubernatorial Elections Fund-Taxpayer					
Designations	0.7	0.7	0.6	0.4	0.4
Casino Control Fund-License Fees, Interest	50.3	42.9	51.5	53.9	55.6
Casino Revenue Fund-8% Gross Revenue Tax,					
Other Taxes and Fees, Interest	<u>199.9</u>	<u>203.2</u>	<u>206.2</u>	<u>221.5</u>	<u>214.9</u>
Total	<u>\$34,832.2</u>	<u>\$33,800.8</u>	<u>\$33,097.3</u>	<u>\$31,347.8</u>	<u>\$30,924.1</u>

- (1) 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 undesignated fund balance.
- (2) New Jersey’s Gross Income Tax is highly progressive and it is difficult to project revenues due to a significant reliance on volatile sources of income, including capital gains, bonuses and other non-wage sources of income.

Revenues — Dollar Growth

The following table sets forth actual and estimated incremental dollar growth in revenues for fiscal years ended June 30, 2013 through 2017 for the General Fund, the Property Tax Relief Fund, the Gubernatorial Elections Fund, the Casino Control Fund and the Casino Revenue Fund. The Fiscal Year 2016 and 2017 estimates are as presented in the Governor’s Fiscal Year 2017 Budget Message.

**REVENUES — DOLLAR GROWTH
(In Millions)**

	<u>2017 Estimated</u>	<u>2016 Estimated</u>	<u>2015 Actual</u>	<u>2014 Actual</u>	<u>2013 Actual</u>
General Fund:					
Sales and Use Tax	\$ 281.6	\$ 440.7	\$ 234.9	\$ 405.1	\$ 299.3
Less: Property Tax Dedication	(21.5)	(28.7)	(18.3)	(29.1)	(26.0)
Net Sales and Use Tax	260.1	412.0	216.6	376.0	273.3
Corporation Business Tax	—	(319.0)	554.0	(263.5)	332.1
Lottery Fund	—	5.0	(5.0)	(120.0)	134.9
Transfer Inheritance Tax	20.4	34.6	106.1	63.6	(18.1)
Insurance Premium Tax	20.0	25.4	65.1	14.9	35.0
Fringe Benefit Recoveries	87.2	117.2	(91.3)	47.4	80.9
Motor Fuels Tax	(11.0)	21.0	5.2	5.8	(15.1)
Motor Vehicle Fees	36.5	42.1	6.9	(19.4)	(14.4)
Medicaid Uncompensated Care	(66.8)	48.8	5.5	(30.5)	(0.4)
Realty Transfer Tax	21.3	36.9	23.0	37.1	24.3
Petroleum Gross Receipts	—	3.0	(1.7)	10.3	(16.8)
Corporation Business Tax — Banks and Financials	—	28.1	(58.8)	21.8	57.8
Cigarette Tax	(37.1)	(20.8)	(39.7)	(22.8)	(41.5)
Alcoholic Beverage Excise Tax	1.3	4.0	1.3	1.1	0.8
Other	7.3	(260.0)	21.9	64.0	18.4
Total General Fund	<u>339.2</u>	<u>178.3</u>	<u>809.1</u>	<u>185.8</u>	<u>851.2</u>
Property Tax Relief Fund:					
Gross Income Tax	666.6	508.0	938.3	203.1	980.2
Plus: Property Tax Dedication	21.5	28.7	19.6	29.9	26.5
Gross Property Tax Relief Fund	<u>688.1</u>	<u>536.7</u>	<u>957.9</u>	<u>233.0</u>	<u>1,006.7</u>
Gubernatorial Elections Fund-Taxpayer Designations	—	0.1	0.2	—	(0.1)
Casino Control Fund-License Fees, Interest	7.4	(8.6)	(2.4)	(1.7)	4.2
Casino Revenue Fund-8% Gross Revenue Tax, Other Taxes and Fees, Interest	(3.3)	(3.0)	(15.3)	6.6	(24.4)
Total	<u>\$1,031.4</u>	<u>\$ 703.5</u>	<u>\$1,749.5</u>	<u>\$ 423.7</u>	<u>\$1,837.6</u>

Revenues — Percentage Growth

The following table sets forth actual and estimated year over year percentage growth in revenues for the fiscal years ended June 30, 2013 through 2017 for the General Fund, the Property Tax Relief Fund, the Gubernatorial Elections Fund, the Casino Control Fund and the Casino Revenue Fund. The Fiscal Year 2016 and 2017 estimates are as presented in the Governor’s Fiscal Year 2017 Budget Message.

REVENUES — PERCENTAGE GROWTH

	<u>2017 Estimated</u>	<u>2016 Estimated</u>	<u>2015 Actual</u>	<u>2014 Actual</u>	<u>2013 Actual</u>
General Fund:					
Sales and Use Tax	3.0%	5.0%	2.7%	4.9%	3.8%
Less: Property Tax Dedication	3.0	4.2	2.8	4.6	4.3
Net Sales and Use Tax	3.0	5.0	2.7	4.9	3.7
Corporation Business Taxes	—	(12.0)	26.4	(11.1)	16.3
Lottery Fund	—	0.5	(0.5)	(11.1)	14.2
Transfer Inheritance Tax	2.5	4.4	15.4	10.2	(2.8)
Insurance Premium Tax	3.0	3.9	11.3	2.6	6.6
Fringe Benefit Recoveries	12.9	21.0	(14.0)	7.9	15.5
Motor Fuels Tax	(2.0)	3.9	1.0	1.1	(2.8)
Motor Vehicle Fees	7.6	9.6	1.6	(4.3)	(3.1)
Medicaid Uncompensated Care	(14.7)	12.1	1.4	(7.1)	(0.1)
Realty Transfer Tax	6.9	13.6	9.2	17.5	12.9
Petroleum Gross Receipts	—	1.4	(0.8)	5.0	(7.5)
Corporation Business Tax — Banks and Financials	—	22.1	(31.6)	13.3	54.3
Cigarette Tax	(22.7)	(11.3)	(17.7)	(9.2)	(14.4)
Alcoholic Beverage Excise Tax	1.2	3.8	1.2	1.1	0.8
Other	0.3	(9.3)	0.8	2.4	0.7
Total General Fund	1.8	0.9	4.5	1.0	5.0
Property Tax Relief Fund:					
Gross Income Tax	4.8	3.8	7.6	1.7	8.8
Plus: Property Tax Dedication	3.0	4.1	2.9	4.6	4.3
Gross Property Tax Relief Fund	4.8	3.8	7.4	1.8	8.6
Gubernatorial Elections Fund-Taxpayer Designations	—	16.7	50.0	—	(20.0)
Casino Control Fund-License Fees, Interest	17.2	(16.7)	(4.5)	(3.1)	8.2
Casino Revenue Fund-8% Gross Revenue Tax, Other Taxes and Fees, Interest	(1.6)	(1.5)	(6.9)	3.1	(10.2)
Total	3.1%	2.1%	5.6%	1.4%	6.3%

Revenues — Percent of Total

The following table sets forth actual and estimated revenues as a percent of total revenue for fiscal years ended June 30, 2013 through 2017 for the General Fund, the Property Tax Relief Fund, the Gubernatorial Elections Fund, the Casino Control Fund and the Casino Revenue Fund. The Fiscal Year 2016 and 2017 estimates are as presented in the Governor’s Fiscal Year 2017 Budget Message.

REVENUES — PERCENT OF TOTAL

	<u>2017 Estimated</u>	<u>2016 Estimated</u>	<u>2015 Actual</u>	<u>2014 Actual</u>	<u>2013 Actual</u>
General Fund:					
Sales and Use Tax	27.6%	27.6%	26.8%	27.6%	26.6%
Less: Property Tax Dedication	<u>(2.1)</u>	<u>(2.1)</u>	<u>(2.0)</u>	<u>(2.1)</u>	<u>(2.0)</u>
Net Sales and Use Tax	25.5	25.5	24.8	25.5	24.6
Corporation Business Taxes	6.7	6.9	8.0	6.7	7.6
Lottery Fund	2.8	2.9	2.9	3.1	3.5
Transfer Inheritance Tax	2.4	2.4	2.4	2.2	2.0
Insurance Premium Tax	2.0	2.0	1.9	1.8	1.8
Fringe Benefit Recoveries	2.2	2.0	1.7	2.1	1.9
Motor Fuels Tax	1.6	1.6	1.6	1.7	1.7
Motor Vehicle Fees	1.5	1.4	1.3	1.4	1.5
Medicaid Uncompensated Care	1.1	1.3	1.2	1.3	1.4
Realty Transfer Tax	0.9	0.9	0.8	0.8	0.7
Petroleum Gross Receipts	0.6	0.7	0.7	0.7	0.7
Corporation Business Tax — Banks and Financials	0.4	0.5	0.4	0.6	0.5
Cigarette Tax	0.4	0.5	0.6	0.7	0.8
Alcoholic Beverage Excise Tax	0.3	0.3	0.3	0.3	0.3
Other	<u>7.3</u>	<u>7.5</u>	<u>8.5</u>	<u>8.8</u>	<u>8.8</u>
Total General Fund	55.7	56.4	57.1	57.7	57.8
Property Tax Relief Fund:					
Gross Income Tax	41.4	40.7	40.0	39.3	39.2
Plus: Property Tax Dedication	<u>2.2</u>	<u>2.2</u>	<u>2.1</u>	<u>2.1</u>	<u>2.1</u>
Gross Property Tax Relief Fund	43.6	42.9	42.1	41.4	41.3
Gubernatorial Elections Fund-Taxpayer Designations	—	—	—	—	—
Casino Control Fund-License Fees, Interest	0.1	0.1	0.2	0.2	0.2
Casino Revenue Fund-8% Gross Revenue Tax, Other Taxes and Fees, Interest	<u>0.6</u>	<u>0.6</u>	<u>0.6</u>	<u>0.7</u>	<u>0.7</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Use of Nonrecurring Revenues and Appropriation Reductions

The State’s budget is largely comprised of recurring revenue sources and expenditure obligations, and they may increase or decrease based on economic trends. However, each fiscal year, the Governor’s Budget Message typically includes items of revenue and appropriation reductions that the State does not expect to recur. The State estimates that such measures in the Governor’s Fiscal Year 2017 Budget Message represent 0.7% of State appropriations, which has been reduced from 2.9% in Fiscal Year 2016, 3.6% in Fiscal Years 2015 and 2014, 3.8% in Fiscal Year 2013, and 4.1% in Fiscal Year 2012. Some examples of these measures in the Governor’s Fiscal Year 2017 Budget Message include the anticipated reduction in federal funding in Fiscal Year 2018 for certain Medicaid populations that the State had previously funded on a 50/50 basis with the federal government

prior to January 1, 2014, as the federal matching rate begins to decline from 100% to 90% beginning January 1, 2017, the use of one-time resources to pay for a portion of NJ Family Care costs, and transfers of available balances from various funds.

Appropriations

Appropriations — Fiscal Year 2013 through Fiscal Year 2017

The following table sets forth the composition of annual appropriations in Fiscal Years 2013 through 2017, including (except for Fiscal Years 2016 and 2017) supplemental appropriations and deappropriations, if any, from the General Fund, the Property Tax Relief Fund, the Gubernatorial Elections Fund, the Casino Control Fund and the Casino Revenue Fund. Should tax revenues be less than the amount anticipated in the Appropriations Act, the Governor may, pursuant to statutory authority, prevent any expenditure under any appropriation. The amounts for Fiscal Years 2013 through 2015 are actual and final. The amounts for Fiscal Year 2016 and Fiscal Year 2017 reflect the amounts shown in the Governor's Fiscal Year 2017 Budget Message.

APPROPRIATIONS FOR BUDGETED STATE FUNDS(1)
(In Millions)

	For the Fiscal Year Ended June 30,				
	2017 Recommended	2016 Estimated	2015 Actual	2014 Actual	2013 Actual
General Fund:					
Legislative	\$ 77.6	\$ 77.8	\$ 78.2	\$ 76.5	\$ 76.7
Chief Executive	6.7	6.7	6.7	6.0	6.0
Department of:					
Agriculture	19.9	19.9	19.7	19.6	19.7
Banking and Insurance	64.0	64.0	64.0	63.5	63.5
Children and Families	1,120.0	1,112.9	1,097.8	1,050.0	1,074.2
Community Affairs	77.9	86.7	83.6	128.3	85.8
Corrections	1,038.4	1,045.8	1,047.4	1,087.9	1,077.8
Education	232.1	248.8	249.1	229.0	224.8
Environmental Protection	391.4	394.4	376.9	354.1	336.9
Health	531.8	415.6	366.1	370.4	334.3
Human Services	6,233.3	6,361.9	6,278.5	6,039.1	6,076.8
Labor and Workforce Development	165.2	165.2	163.7	157.1	157.0
Law and Public Safety	525.3	505.6	497.5	512.4	514.5
Military and Veterans' Affairs	96.5	97.3	96.8	94.1	95.4
State	1,275.9	1,260.8	1,283.3	1,246.9	1,172.7
Transportation	1,379.5	1,358.3	1,280.2	1,364.7	1,135.9
Treasury	1,042.4	1,138.2	1,045.1	1,360.5	1,325.9
Miscellaneous Commissions	0.8	0.8	0.8	0.8	1.0
Inter-Departmental Accounts — Employee Benefits and					
Miscellaneous	4,395.0	4,250.8	4,045.4	4,155.0	3,744.0
Judicial Branch	724.5	723.8	692.4	677.5	673.0
Total General Fund	<u>19,398.2</u>	<u>19,335.3</u>	<u>18,773.2</u>	<u>18,993.4</u>	<u>18,195.9</u>
Property Tax Relief Fund:					
Department of:					
Community Affairs	744.9	715.9	716.3	631.4	656.7
Corrections	22.5	22.5	22.5	—	—
Education	13,162.9	12,601.8	11,920.2	12,267.0	11,542.6
Environmental Protection	2.7	2.7	2.7	—	—
Human Services	159.6	168.1	184.6	130.2	152.8
Law and Public Safety	2.0	2.0	2.0	—	—
Transportation	123.4	—	182.0	—	—
Treasury	956.1	956.2	990.9	784.9	835.2
Total Property Tax Relief Fund	<u>15,174.1</u>	<u>14,469.2</u>	<u>14,021.2</u>	<u>13,813.5</u>	<u>13,187.3</u>
Gubernatorial Elections Fund					
Department of:					
Law and Public Safety	6.2	—	—	10.6	6.2
Total Gubernatorial Elections Fund	<u>6.2</u>	<u>—</u>	<u>—</u>	<u>10.6</u>	<u>6.2</u>
Casino Control Fund					
Department of:					
Law and Public Safety	42.6	47.0	52.2	47.1	46.7
Treasury	7.7	8.2	8.2	8.2	8.6
Total Casino Control Fund	<u>50.3</u>	<u>55.2</u>	<u>60.4</u>	<u>55.3</u>	<u>55.3</u>
Casino Revenue Fund					
Department of:					
Health	0.5	0.5	0.5	0.5	0.5
Human Services	179.6	182.5	249.1	360.5	256.5
Labor and Workforce Development	2.2	2.2	2.2	2.2	2.2
Law and Public Safety	0.1	0.1	0.1	0.1	0.1
Transportation	17.5	18.9	18.3	20.3	24.7
Total Casino Revenue Fund	<u>199.9</u>	<u>204.2</u>	<u>270.2</u>	<u>383.6</u>	<u>284.0</u>
Total Appropriations	<u>\$34,828.7</u>	<u>\$34,063.9</u>	<u>\$33,125.0</u>	<u>\$33,256.4</u>	<u>\$31,728.7</u>

Footnote appears on next page.

(1) 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.

The following table sets forth, by major category, the original, enacted and anticipated supplemental appropriations for Fiscal Years 2013 through 2016 and the recommended appropriations for Fiscal Year 2017 as contained in the Governor’s Fiscal Year 2017 Budget Message.

SUMMARY OF APPROPRIATIONS BY MAJOR CATEGORY(1)
(In Millions)

	<u>Fiscal Year 2017 Recommended</u>	<u>Fiscal Year 2016 Adjusted</u>	<u>Fiscal Year 2015 Actual</u>	<u>Fiscal Year 2014 Actual</u>	<u>Fiscal Year 2013 Actual</u>
State Aid	\$14,995.7	\$14,419.5	\$13,796.6	\$14,117.1	\$13,358.8
Grants-in-Aid	10,504.9	10,329.5	10,211.5	10,132.0	9,871.0
Direct State Services	7,370.4	7,345.5	7,160.3	7,291.8	6,827.2
Capital Construction	1,616.9	1,523.6	1,573.7	1,395.8	1,261.1
Debt Service on General Obligation Bonds	340.8	445.8	382.9	319.7	410.6
Total	<u>\$34,828.7</u>	<u>\$34,063.9</u>	<u>\$33,125.0</u>	<u>\$33,256.4</u>	<u>\$31,728.7</u>

(1) Adjusted appropriations for Fiscal Year 2016 are as contained in the Governor’s Fiscal Year 2017 Budget Message and reflect the addition of supplemental appropriations of \$279 million.

Of the total Fiscal Year 2017 increase in recommended appropriations of \$764.8 million, the largest increase, \$576.2 million, is in State Aid. This increase is mostly comprised of increased pension and debt service payments. The \$93.3 million increase in Capital Construction is primarily due to the utilization of prior year balances to offset the debt service on bonds issued by the New Jersey Transportation Trust Fund Authority (“TTFA”) in Fiscal Year 2016. The \$105.0 million decrease in Debt Service in Fiscal Year 2017 reflects changes in scheduled payments for existing General Obligation Bond debt service.

The following tables set forth recommended appropriations by department and by major category for Fiscal Year 2017 and adjusted appropriations by department and major category for Fiscal Year 2016.

**RECOMMENDED APPROPRIATIONS FOR BUDGETED STATE FUNDS(1)
FOR THE FISCAL YEAR ENDING JUNE 30, 2017
(In Millions)**

<u>Government Branch</u>	<u>Direct State Services</u>	<u>Grants-in- Aid</u>	<u>State Aid</u>	<u>Capital Construction</u>	<u>Debt Service</u>	<u>Total</u>
Chief Executive	\$ 6.7	\$ —	\$ —	\$ —	\$ —	\$ 6.7
Agriculture	7.5	6.8	5.6	—	—	19.9
Banking and Insurance	64.0	—	—	—	—	64.0
Children and Families	255.1	864.9	—	—	—	1,120.0
Community Affairs	40.7	35.6	746.5	—	—	822.8
Corrections	929.6	108.8	22.5	—	—	1,060.9
Education	79.2	3.6	13,312.2	—	—	13,395.0
Environmental Protection	225.3	2.1	9.0	107.0	50.7	394.1
Health	40.6	491.7	—	—	—	532.3
Human Services	578.8	5,591.7	402.0	—	—	6,572.5
Labor and Workforce Development ...	94.5	72.9	—	—	—	167.4
Law and Public Safety	550.6	23.6	2.0	—	—	576.2
Military and Veterans' Affairs	94.1	2.4	—	—	—	96.5
State	31.7	1,229.2	15.0	—	—	1,275.9
Transportation	45.2	160.9	17.5	1,296.8	—	1,520.4
Treasury	488.9	763.8	463.4	—	290.1	2,006.2
Miscellaneous Commissions	0.8	—	—	—	—	0.8
Interdepartmental	<u>3,035.0</u>	<u>1,146.9</u>	<u>—</u>	<u>213.1</u>	<u>—</u>	<u>4,395.0</u>
Subtotal	<u>6,568.3</u>	<u>10,504.9</u>	<u>14,995.7</u>	<u>1,616.9</u>	<u>340.8</u>	<u>34,026.6</u>
Legislature	77.6	—	—	—	—	77.6
Judiciary	724.5	—	—	—	—	724.5
Grand Total	<u><u>\$7,370.4</u></u>	<u><u>\$10,504.9</u></u>	<u><u>\$14,995.7</u></u>	<u><u>\$1,616.9</u></u>	<u><u>\$340.8</u></u>	<u><u>\$34,828.7</u></u>

(1) The recommended appropriations are as contained in the Governor's Fiscal Year 2017 Budget Message.

**ADJUSTED APPROPRIATIONS FOR BUDGETED STATE FUNDS(1)
FOR THE FISCAL YEAR ENDING JUNE 30, 2016
(In Millions)**

<u>Government Branch</u>	<u>Direct State Services</u>	<u>Grants-in- Aid</u>	<u>State Aid</u>	<u>Capital Construction</u>	<u>Debt Service</u>	<u>Total</u>
Chief Executive	\$ 6.7	\$ —	\$ —	\$ —	\$ —	\$ 6.7
Agriculture	7.5	6.8	5.6	—	—	19.9
Banking and Insurance	64.0	—	—	—	—	64.0
Children and Families	267.8	845.1	—	—	—	1,112.9
Community Affairs	40.7	44.4	717.5	—	—	802.6
Corrections	936.2	109.6	22.5	—	—	1,068.3
Education	81.2	5.1	12,764.3	—	—	12,850.6
Environmental Protection	226.5	2.1	9.0	113.0	46.5	397.1
Health	42.6	373.5	—	—	—	416.1
Human Services	611.8	5,666.7	434.0	—	—	6,712.5
Labor and Workforce Development ...	94.5	72.9	—	—	—	167.4
Law and Public Safety	535.4	17.3	2.0	—	—	554.7
Military and Veterans' Affairs	94.9	2.4	—	—	—	97.3
State	31.7	1,214.1	15.0	—	—	1,260.8
Transportation	125.2	33.2	18.9	1,199.9	—	1,377.2
Treasury	499.3	773.3	430.7	—	399.3	2,102.6
Miscellaneous Commissions	0.8	—	—	—	—	0.8
Interdepartmental	<u>2,877.1</u>	<u>1,163.0</u>	<u>—</u>	<u>210.7</u>	<u>—</u>	<u>4,250.8</u>
Subtotal	6,543.9	10,329.5	14,419.5	1,523.6	445.8	33,262.3
Legislature	77.8	—	—	—	—	77.8
Judiciary	723.8	—	—	—	—	723.8
Grand Total	<u>\$7,345.5</u>	<u>\$10,329.5</u>	<u>\$14,419.5</u>	<u>\$1,523.6</u>	<u>\$445.8</u>	<u>\$34,063.9</u>

(1) Adjusted appropriations include enacted appropriations and anticipated supplemental appropriations and are as contained in the Governor's Fiscal Year 2017 Budget Message. Lapses in appropriations are not reflected in the above table.

Programs Funded Under Recommended Appropriations in Fiscal Year 2017

Of the \$34,828.7 million recommended for Fiscal Year 2017 from the General Fund, the Property Tax Relief Fund, the Casino Control Fund, the Casino Revenue Fund and the Gubernatorial Elections Fund, \$14,995.7 million (43.0%) is recommended for State Aid, \$10,504.9 million (30.2%) is recommended for Grants-in-Aid, \$7,370.4 million (21.2%) is recommended for Direct State Services, \$1,616.9 million (4.6%) is recommended for Capital Construction and \$340.8 million (1%) is recommended for Debt Service on State General Obligation Bonds.

State Aid

State Aid is the largest portion of Fiscal Year 2017 recommended appropriations. These consist of payments to, or on behalf of, local government entities including counties, municipalities and school districts, to assist them in carrying out their local responsibilities.

The largest State Aid recommended appropriation, in the amount of \$13,312.2 million, is recommended for local preschool, elementary and secondary education programs. Of this amount, \$8,626.2 million in formula aid for PreK-12 education, including School Choice Aid, will be distributed. Aid will be determined using a modified funding formula in Fiscal Year 2017. Weights and cost coefficients used in the formula will be based on the statutorily-required Educational Adequacy Report. Districts that would otherwise lose funding will be held

flat, and districts that would receive increases are being funded at 3.5% of that increase in the core formula categories. The Fiscal Year 2017 recommendation also includes new funding of \$13.4 million for Professional Learning Community Aid, which is provided to districts at \$10 per pupil so that every school district will receive an increase in State Aid for Fiscal Year 2017. The Governor's Fiscal Year 2017 Budget Message also recommends a new category of aid — Host District Support Aid — that will provide additional funding of \$25.9 million to school districts, that in addition to Charter School Aid, will ensure that no charter school will receive less base per pupil funding than in Fiscal Year 2016. The methodologies used to calculate aid are different than the statutory funding formula, and the recommended amounts continue the practice of supporting one month of prior year payments, while shifting the last month of current year payments to the following fiscal year. In addition to formula aid for PreK-12 education, \$936.3 million is recommended for debt service on School Facilities Construction Bonds issued by the NJEDA, \$46.0 million is recommended in School Building Aid to school districts, and \$72.5 million is recommended for School Construction Debt Service Aid to school districts. Also, \$3,250.8 million is recommended on behalf of school districts as the employers' share of the Social Security and teachers' pensions and benefits programs, including debt service on pension obligation bonds. Finally, \$32.0 million in Commercial Valuation Stabilization Aid is recommended to provide State Aid to school districts in municipalities with significant decreases in commercial property valuation.

Recommended appropriations to the Department of Community Affairs total \$746.5 million in State Aid for Fiscal Year 2017. Consolidated Municipal Property Tax Relief Aid is recommended in the amount of \$623.1 million. These recommended appropriations also include \$107.4 million for the Transitional Aid to Localities program. Under this program, aid is awarded through a competitive process and requires recipient local units to submit to additional State oversight, with the goal of reducing reliance on this aid in the future.

Recommended appropriations for the Department of Human Services total \$402.0 million in State Aid for Fiscal Year 2017. The principal programs funded by these recommended appropriations are \$289.6 million for various income maintenance programs for the economically disadvantaged and \$105.2 million for patients in county psychiatric hospitals.

Recommended appropriations for the Department of the Treasury total \$463.4 million in State Aid for Fiscal Year 2017. The principal programs funded by these recommended appropriations are aid to county colleges (\$204.1 million) and the cost of property tax deductions paid to municipalities for seniors, citizens with disabilities, and veterans (\$62.1 million). Also, \$163.1 million is recommended on behalf of local governments to fund a portion of the employers' share of certain police and firemen's pensions and benefits programs, including debt service on pension obligation bonds.

Grants-in-Aid

The second largest portion of the recommended appropriations in Fiscal Year 2017 is for Grants-in-Aid. These represent payments to individuals or public or private agencies for benefits to which a recipient is entitled by law or for the provision of services on behalf of the State. The amount recommended in Fiscal Year 2017 for Grants-in-Aid is \$10,504.9 million.

\$5,591.7 million is recommended for programs administered by the Department of Human Services. Of that amount, \$4,052.2 million is for medical services provided under the NJ FamilyCare program, \$778.6 million is for community programs for individuals with developmental disabilities, \$405.6 million is for community programs for individuals with mental illness, \$175.9 million is for assistance programs for the economically disadvantaged and homeless, \$63.2 million is for Pharmaceutical Assistance to the Aged and Disabled, \$6.2 million is for the Senior Gold Prescription Discount program, \$47.9 million is for other programs for the aged, and \$36.8 million is for addiction services.

\$763.8 million is recommended for the Department of the Treasury. Included in this amount is \$322.5 million for the Fiscal Year 2017 Homestead Benefit Program, which will provide credits directly on local property tax bills for eligible homeowners. Eligible seniors and disabled homeowners earning up to \$150,000 and

all other eligible homeowners earning up to \$75,000 will receive benefits under the same formula as in Fiscal Year 2012. Also included in the recommended appropriation is \$204.9 million for the Senior and Disabled Citizens' Property Tax Freeze, which reimburses eligible senior and disabled homeowners earning up to \$70,000 for increases in property taxes paid compared to their first year of program eligibility. Fiscal Year 2017 will be the sixth consecutive year of the current program policy. The recommended appropriation for the Department of the Treasury also includes \$65.8 million for energy assistance programs in the Board of Public Utilities. There is no recommended appropriation in Fiscal Year 2017 for BEIP grants due to legislation enacted in January 2016 that allows businesses to convert their incentives into tax credits. Going forward, this legislation will reduce the BEIP liability as businesses partake in the tax credit conversion option. See Note 11 in the 2015 CAFR for a discussion of long-term obligations concerning BEIP grants.

\$864.9 million is recommended for programs administered by the Department of Children and Families. Of that amount, \$439.0 million is for child protective and permanency services, \$363.5 million is for children's system of care services, and \$62.4 million is for community programs intended to prevent child abuse and neglect.

\$699.5 million is recommended for State colleges and universities. Other higher education appropriations are \$639.5 million for various grant programs including \$461.3 million for student financial assistance, \$61.4 million for debt service on the Higher Education Capital Improvement Fund Program, \$40.4 million for debt service for the Dormitory Safety Trust Fund, the Equipment Leasing Fund, the Higher Education Facilities Trust Fund and the Higher Education Technology Infrastructure Fund, and \$43.8 million for University Hospital. In addition, \$1,035.1 million is recommended for fringe benefit costs of employees of State higher education institutions and University Hospital.

Other programs funded by Grants-in-Aid include but are not limited to Health Care Systems Analysis, Early Childhood Intervention Program, Public Health Protection Services, AIDS services, parole programs, payments to county penal facilities to house State inmates, and bus and railroad subsidies.

Direct State Services

The third largest portion of the recommended appropriations in Fiscal Year 2017 is to Direct State Services, which supports the operation of the State government's departments, the Executive Office, several commissions, the State Legislature and the Judiciary. In Fiscal Year 2017, recommended appropriations for Direct State Services aggregate to \$7,370.4 million. Some of the major recommended appropriations for Direct State Services during Fiscal Year 2017 are described below.

\$2,666.2 million is recommended in the Interdepartmental Accounts for fringe benefits for active and retired State employees, including health benefits (\$1,485.1 million), pensions and non-contributory insurance (\$665.0 million), employer taxes (\$359.4 million), and a portion of the debt service on State Pension Funding bonds (\$156.7 million) issued by the NJEDA. In addition, \$51.7 million is recommended in Fiscal Year 2017 for Salary Increases and Other Benefits for eligible Executive and Judicial Branch employees. The Fiscal Year 2017 recommendation includes \$37.7 million for Executive Branch salary increases, although whether any increases are paid and to whom will be determined by the Salary Advisory Committee. For more information, see "STATE EMPLOYEES — Contract Status" herein.

\$929.6 million is recommended for the Department of Corrections (including the State Parole Board) and \$550.6 million is recommended for the Department of Law and Public Safety (including the Juvenile Justice Commission). Among programs funded by these recommended appropriations are the administration of the State's correctional facilities and parole activities, and the investigative and enforcement activities of the State Police.

\$578.89 million is recommended for programs administered by the Department of Human Services. Of that amount, \$455.6 million is recommended for programs for individuals with mental illness and individuals with developmental disabilities, including the operation of four psychiatric institutions (\$302.5 million), and five

developmental centers (\$101.6 million); \$30.8 million is recommended for administration of the various income maintenance programs, including Work First New Jersey; and \$32.4 million is recommended for administration of the NJ FamilyCare program.

Other departments funded by Direct State Services include but are not limited to Children and Families for various children's services programs; Environmental Protection for the protection of air, land, water, forest, wildlife and shellfish resources and for the provision of outdoor recreational facilities; Labor and Workforce Development for the administration of programs for workers compensation, unemployment, temporary disability insurance, workforce development and health safety inspection; Health for the prevention and treatment of diseases, regulation of health care facilities; and Transportation for the administration, maintenance and improvement of the State highway system and winter operations.

Capital Construction

The Governor's Fiscal Year 2017 Budget Message includes recommended appropriations of \$1,616.9 million for capital construction pay-as-you-go and debt service on bonds issued to fund capital construction. This amount includes \$1,296.8 million for debt service on New Jersey Transportation Trust Fund Authority bonds. Of the remainder, \$97.7 million is for payments for debt service on bonds issued for open space and farmland preservation and is being credited to the Garden State Preservation Trust Fund Account of the General Fund, and \$104.4 million is for debt service on New Jersey Building Authority bonds. Pay-as-you-go recommended appropriations include \$24.1 million for hazardous substance remediation and brownfields, \$31.5 million for shore protection and flood control projects, \$13.9 million for capital improvements for parks, forestry and wildlife management areas, and \$11.0 million for Statewide life safety and emergency projects. The Governor's Fiscal Year 2017 Budget Message also includes \$37.5 million in constitutionally dedicated capital construction funding for Open Space, Farmland and Historic Preservation needs.

All recommended appropriations for such capital projects were subject to the review of the New Jersey Commission on Capital Budgeting and Planning (the "Commission") which voted to recommend such funding at its meeting on February 26, 2017. The Commission is charged with the preparation of the State's seven-year Capital Improvement Plan. The Capital Improvement Plan is a detailed account of capital construction projects requested by State departments, agencies and institutions of higher education for the next three fiscal years and forecasts as to the requirements for capital projects for the four fiscal years following. The Capital Improvement Plan includes the Commission's recommendations as to the priority of such capital projects and the means of funding them. The Capital Improvement Plan is also required to include a report on the State's overall debt. This debt report includes information on the outstanding general obligation debt and debt service costs for the prior fiscal year, the current fiscal year, and the estimated amount for the subsequent five fiscal years. The report also provides similar information on capital leases and installment obligations. *L. 2009, c. 304*, enacted in January 2010, requires that the debt report also include data on other State liabilities as reported in the CAFR, as well as the unfunded actuarial accrued liability for pension plans and the actuarial accrued liability for other post-employment medical benefits. The debt report is not an audited report.

For Fiscal Year 2017, requests for Capital Construction funding were substantially greater than the amount recommended by the Commission. The recommended appropriations for Capital Construction contained in the Governor's Fiscal Year 2017 Budget Message are largely based on the recommendations of the Commission. There can be no assurance that the amounts ultimately appropriated are sufficient to maintain or improve the State's capital facilities and infrastructure assets, or that such capital funding requests will not be substantially greater in future years.

Debt Service on General Obligation Bonds and State Appropriation Obligations

The total Fiscal Year 2017 recommended appropriation for debt service on General Obligation Bonds and State Appropriation Obligations is \$3,780.9 million. Of this amount, \$340.8 million represents principal and interest payments for General Obligation Bonds.

The Governor's Fiscal Year 2017 Budget Message recommends appropriations in the aggregate amount of \$3,440.1 million for debt service on State Appropriation Obligations. Such recommended appropriations are contained within the multiple functional categories, including State Aid, Grants-in-Aid, Direct State Services and Capital Construction. Appropriated debt service differs from the amounts shown in the tables entitled "SUMMARY OF LONG-TERM OBLIGATIONS AS OF JUNE 30, 2015" and "ESTIMATED FUTURE DEBT SERVICE ON LONG-TERM OBLIGATIONS AS OF JUNE 30, 2015" due to various budgetary adjustments, including adjustments due to the use of bond premium and projected future bonding activity, including the anticipated refinancing of variable rate obligations.

Factors That May Affect Fiscal Year 2016 Appropriations and Fiscal Year 2017 Recommended Appropriations

Fiscal Year 2017 recommended appropriations are based on an estimate of various costs. There are various factors that could result in expenditures being significantly higher or lower than current forecasts.

In Fiscal Year 2016, both the State Health Benefits Plan Design Committee, and the School Employees' Health Benefit Plan Design Committee approved packages of prescription drugs and health benefits plan design changes that are anticipated to reduce the cost to the State of providing prescription drugs and health benefits coverage to State employees, State retirees and local teacher retirees. The State Health Benefits Plan Design Committee approved changes that include eliminating coverage for approximately 95% of compound medications, prioritizing Hepatitis C treatments, limiting chiropractic and acupuncture out-of-network coverage and increasing most emergency room co-pays. The School Employees' Health Benefits Plan Design Committee approved changes that eliminated approximately 95% of compound medications and prioritized Hepatitis C treatments. These changes are projected to result in calendar year 2016 and calendar year 2017 gross savings of over \$100 million in each year, with \$197.2 million in net savings budgeted in Fiscal Year 2017.

Fiscal Year 2017 recommended appropriations for active health benefits and post-retirement medical benefits assume \$250 million in additional savings from future reforms. Reforms can be enacted by the State Health Benefits Plan Design Committee and the School Employees' Health Benefit Plan Design Committee, respectively or through legislation. If the plan savings are not achieved, supplemental appropriations may be needed to continue to fully fund the State Health Benefits Program and the School Employees' Health Benefits Program.

In recent years, the need for the Tort Claims Liability Fund and the Medical Malpractice Self-Insurance Fund for Rutgers, The State University of New Jersey, Rowan University and University Hospital has exceeded originally appropriated levels. In Fiscal Year 2017 medical costs for NJ FamilyCare and for State employee health care costs could fluctuate based on actual utilization rates and varying prescription drug prices and rebates. The State contracts with managed care organizations ("MCOs") to provide services to most NJ FamilyCare clients at an annual State cost of approximately \$2.6 billion, which includes the cost of the home and community-based services portion of managed long term services and supports. In addition, NJ FamilyCare resources assume recoveries from fraud, national settlements, pharmaceutical rebates, and other sources that have been historically difficult to predict. Projected costs in these areas are closely monitored and constantly updated.

Residential placement costs for clients with developmental disabilities and mental health issues could fluctuate based on the number of clients needing emergency placements, which could require supplemental funding in Fiscal Year 2017. Projected costs in this area are closely monitored and constantly updated.

Contracts with the majority of Executive Branch employees expired on June 30, 2015. Additional costs may be incurred if the new contracts provide increases in excess of those budgeted in the Governor's Fiscal Year 2017 Budget Message.

A base allocation of \$10.4 million for winter operations is included in the Governor's Fiscal Year 2017 Budget Message. The Budget Director is authorized to provide supplemental appropriations for costs in excess of the base. Between Fiscal Years 2013 and 2015, these annual supplemental appropriations have averaged roughly

\$80 million. As a result, the Governor's Fiscal Year 2017 Budget Message anticipates a supplemental need of \$80 million for winter operations in Fiscal Year 2016.

New Jersey Transit's bus and police unions have been without new collective bargaining agreements since Fiscal Years 2010 and 2011, respectively. If the parties agree to new collective bargaining agreements prior to the end of Fiscal Year 2016, New Jersey Transit could require additional General Fund support beyond the current State subsidy. Ongoing negotiations between New Jersey Transit and its unions are being closely monitored. New Jersey Transit reached an agreement with its rail unions on March 11, 2016, with such agreement still subject to ratification by the rail unions' membership. Currently, it is unknown what the cost of the new collective bargaining agreement with the rail unions will be and whether any additional General Fund support beyond the current State subsidy to New Jersey Transit will be necessary.

All legislatively authorized bonding for transportation projects by the New Jersey Transportation Trust Fund Authority will have been exhausted by the end of Fiscal Year 2016. Though, the Governor's Fiscal Year 2017 Budget Message assumes a \$1,600.0 million Transportation Capital Program, no source of funding for this program has been identified. The source of funding, in addition to the actual size of the program, will be a function of negotiation between the State Legislature and Governor in the coming months. See also "LONG-TERM OBLIGATIONS — Issuers of State Appropriation Obligations — *New Jersey Transportation Trust Fund Authority*" below. Additionally, Fiscal Year 2016 is also the final year of the current funding agreement between the State Treasurer and New Jersey Turnpike Authority ("NJTA"). Payments received under this agreement have been used to supplement the State's operating subsidy for New Jersey Transit in an effort to satisfy the overall transportation needs of the State. It is expected that a new funding agreement between the State Treasurer and the NJTA will be agreed to with respect to Fiscal Year 2017 by the end of Fiscal Year 2016.

The School District of Atlantic City and the City of Atlantic City are facing extraordinary levels of financial distress due, in large part, to casino industry challenges. Fiscal Year 2017 recommended appropriations include: (1) a \$32 million appropriation of Commercial Valuation Stabilization Aid that the Commissioner of Education may make available to the School District of Atlantic City and (2) significant funding through a Transitional Aid program that the Director of the Division of Local Government Services in the Department of Community Affairs may make available to distressed communities including the City of Atlantic City. The State is aggressively pursuing cost controls in both the School District of Atlantic City and the City of Atlantic City and monitoring the financial situation.

Following enactment of the annual appropriations act, the State closely monitors revenues and expenditures, comparing actual results to projections. Such monitoring has identified where actual expenditures and commitments in various items of appropriation have been less than originally anticipated. Though the factors above could require certain supplemental appropriations in Fiscal Years 2016 and 2017, identified budget savings have offset fully or substantially the need for supplemental appropriations in prior fiscal years. In the past, factors resulting in such budget savings have included, but have not been limited to: attrition of the State workforce; trend changes in the marketplace; and shifts in demographics and service beneficiaries' utilization rates. Consistent with past experience, it is likely that certain appropriations will exceed actual expenditures and commitments by the close of Fiscal Year 2017, allowing for flexibility to fully or substantially address the need for other appropriations that arise through the course of the fiscal year.

State Unemployment Insurance Trust Fund

In Fiscal Year 2015, the Unemployment Insurance Trust Fund (the "Trust Fund"), which provides funding for unemployment benefits in the State, received approximately \$2.6 billion in contributions from employers and workers while paying out approximately \$2.2 billion in regular, annual State unemployment benefits (excluding benefits paid entirely by the federal government) on a cash basis. In Fiscal Year 2016, contributions from employers and workers are expected to approximate \$2.6 billion, while regular State unemployment benefits are expected to approximate \$2 billion. As of February 12, 2016, the State's trust fund balance, on a cash basis, was \$1.3 billion.

Under State law, the State unemployment tax rate charged to employers during a fiscal year is determined by State statutory formula based on the status of the Trust Fund in relation to total taxable wages as of March 31st of the preceding fiscal year. For Fiscal Year 2016, the statutorily calculated employer tax rate remained the same as it was for Fiscal Year 2015. The minimal base Federal Unemployment Tax Act (FUTA) rate did not change and remains at 0.6%. No change in the employee rate has occurred or is expected to occur in Fiscal Year 2017.

Federal Aid

Federal Aid Receipts

In general, federal aid receipts in the General Fund and Special Transportation Fund of the State do not have an material impact on the financial condition of the General Fund of the State because federal aid receipts are required to be applied to specific designated expenditures, and the amount of federal aid receipts matches the amount of such expenditures. In some circumstances, federal aid receipts do impact the General Fund because they offset expenditures that the State would otherwise be required to make. In addition, with respect to many of the programs pursuant to which the State receives federal aid, the State is subject to audits of the expenditures to ensure that the State complied with the program requirements. In instances in which the State makes expenditures in violation of program requirements, the State may be obligated to repay the federal government the amounts of such expenditures and other associated amounts.

Actual federal aid receipts in the General Fund and Special Transportation Fund for Fiscal Years 2013 through 2015, which are non-budgeted revenues, amounted to \$10,797.0 million, \$12,837.7 million and \$14,428.5 million, respectively. Federal receipts in the General Fund and the Special Transportation Fund for Fiscal Year 2016 and for Fiscal Year 2017 are estimated to be \$15,666.5 million and \$14,846.0 million respectively. Such federal aid receipts for Fiscal Year 2017 are composed of \$9,138.2 million for health related family programs under Titles XIX and XXI, \$1,248.4 million for other human services, \$910.1 million for Title I and other education, \$463.3 million for labor, \$906.0 million for transportation, and the remainder for all other federal aid programs.

Disaster Relief Aid following Super Storm Sandy

The federal Disaster Relief Appropriations Act of 2013 (the “Disaster Relief Act”) appropriated approximately \$50.38 billion (later reduced by sequestration to \$47.9 billion) to various federal agencies to assist states and local communities with the impacts of Super Storm Sandy, including funding provided directly to private homeowners and businesses. Leveraging available resources, New Jersey has launched nearly 80 programs and initiatives to help Sandy-impacted homeowners, renters, businesses, and communities recover and rebuild.

The State is administering programs funded by a number of federal funding streams. Some of these funding streams require the State or other grantee to contribute a non-federal cost share, also known as “match.” The following is a list of some of the major programs administered by the State that contain a non-federal cost share obligation, along with the State’s intended means of satisfying the match: The Federal Emergency Management Agency’s (“FEMA”) Public Assistance program contains a 10 percent match requirement. As of February 16, 2016, FEMA has approved approximately \$451 million in connection with State public assistance projects and has obligated, or intends to support, approximately \$413 million of this cost. To date, the Federal Transit Administration (“FTA”) has allocated New Jersey Transit a total of \$1.724 billion of Public Transportation Emergency Relief Funds in response to Super Storm Sandy. This includes \$448 million in repair, recovery and resilience projects and \$1.276 billion in federal funds allocated through a competitive resiliency grant program. To date, New Jersey Transit has obligated \$402 million of the \$448 million allocated. The \$448 million has a 10% match for all activities except for expenses incurred between October 30, 2012 and November 14, 2012, which were 100% reimbursable. New Jersey Transit intends to finance this match obligation with Transportation Trust Fund (“TTF”) funding and Transportation Development Credits. Transportation Development Credits (formerly known as Toll Revenue Credits) provide a credit toward a project’s local share using toll revenues. The

credit is provided to encourage states to use toll roads because toll roads do not receive federal highway funds. The State has amassed a large toll credit account through the New Jersey Turnpike Authority, and New Jersey Transit will apply a portion of those Transportation Development Credits to the Super Storm Sandy repair work. The \$1.276 billion of Competitive Resiliency projects requires a 25% match. New Jersey Transit intends to finance this match obligation with TTF funding. The State intends to address the vast majority of the remaining match obligation using Community Development Block Grant — Disaster Recovery (“CDBG-DR”) funding received from the U.S. Department of Housing and Urban Development. FEMA’s Hazard Mitigation Grant Program contains a 25 percent match requirement. The State intends to address this match responsibility utilizing soft match generated by in-kind sources. Projects authorized by the Federal Highway Administration (“FHWA”) carry a 10 to 20 percent non-federal cost share, depending on the project. Based on present projections, the State currently estimates that the non-federal cost share for FHWA projects will approach \$70 million. The State intends to address this match obligation with CDBG-DR funds. The U.S. Environmental Protection Agency allocated \$229 million to New Jersey to address the impacts to water and wastewater systems across New Jersey. The State intends to address the 20 percent match obligation with CDBG-DR funds. The U.S. Army Corps of Engineers (“Army Corps”) received funding from the Disaster Relief Act to replenish previously constructed beaches, and also to fund the construction of previously authorized, but unconstructed engineered beach systems along the New Jersey coastline. Under the Act, previously authorized projects that received construction funds in the last three years are funded 100 percent by the Army Corps. All other previously-authorized, but unconstructed projects have a cost share of 35 percent. The State intends to finance this match obligation as provided by the Disaster Relief Act, which would require repayment from State resources. In addition, the Army Corps is studying certain regions to determine whether additional projects should be pursued. Generally, the Army Corps funds these studies at 50 percent. Currently it is anticipated that dedicated Shore Protection funding would provide the required State matches.

As recovery progresses, it is likely that some projections may understate or overstate the State’s actual non-federal cost share needs across all federal funding sources. The State has appropriated \$40 million to support any unanticipated costs, including expected problems identifying funding to support the non-federal cost share. To date, the State has expended approximately \$23.9 million of the \$40 million in funding and has earmarked the remaining balance. The Disaster Relief Act allocated funding to the various offices of inspector general to conduct audits and investigations related to the expenditure of disaster relief aid. Audits have already been undertaken by the offices of inspector general from the U.S. Department of Homeland Security, the U.S. Department of Housing and Urban Development, the U.S. Department of Transportation, and the U.S. Department of Health and Human Services. The State anticipates that there will be continued audit activity throughout the duration of the federally-funded Sandy programs. As with any federal OIG audit or investigation, there is the potential for de-obligation of federal funding in the event of non-compliance with federal statutes or regulations.

Anticipated Savings from the Patient Protection and Affordable Care Act

The Governor’s Fiscal Year 2017 Budget Message anticipates continued savings from the health care expansion implemented pursuant to the Patient Protection and Affordable Care Act (“PPACA”). Savings attributable to enhanced federal funding for certain populations that the State had previously been funding on a 50/50 basis with the federal government prior to January 1, 2014, will be reduced somewhat in Fiscal Year 2017, as the federal matching rate declines from 100% to 95% on January 1, 2017. In addition, the Governor’s Fiscal Year 2017 Budget Message anticipates \$18.0 million in PPACA related savings from an enhanced federal match on costs associated with children receiving health care through the federal Children’s Health Insurance Program (“CHIP”). The enhanced match rate of 88% that took effect on October 1, 2015, will generate savings in all four quarters of Fiscal Year 2017, versus three quarters of savings in Fiscal Year 2016.

Office of Inspector General Audit of Medicaid

In addition, Medicaid disallowances may be issued during federal Fiscal Year 2016 (which ends September 30, 2016) or 2017 (which ends September 30, 2017) based on a series of federal Office of the

Inspector General program audits of claim documentation and cost allocation methodologies. The Department of Human Services disputes these findings and is taking steps to minimize the final impact of these audits. Seventeen audits which in the aggregate total in the hundreds of millions of dollars, are currently in draft or final form but, due to possible revisions or appeals, the final amounts and timing of any repayments are uncertain. The State is unable to estimate its exposure, but has currently reserved over a hundred million dollars in federal revenues to offset these potential disallowances. See also “LITIGATION — *Medicaid, Tort, Contract, Workers’ Compensation and Other Claims*” herein.

Impact of Budget Control Act of 2011

The State continues to evaluate the effects of the federal Budget Control Act of 2011. However, the impact of the federal Fiscal Year 2016 reductions and the programs impacted cannot be determined until the federal Fiscal Year 2016 budget process is completed.

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 — Budget and Appropriation Process.” The table entitled “EXPENDITURES” on the next page displays the expenditures for Fiscal Years 2013 through 2015.

Expenditures exceed the dollar amounts enumerated in the 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
(In Millions)

	For the Fiscal Year Ended June 30		
	2015	2014	2013
General Fund:			
Legislative Branch	\$ 78.1	\$ 77.2	\$ 76.7
Chief Executive's Office	7.2	7.1	7.4
Department of:			
Agriculture	447.8	428.3	415.0
Banking and Insurance	58.0	58.7	58.2
Children and Families	1,703.1	1,669.9	1,590.4
Community Affairs	2,119.2	1,196.2	963.3
Corrections	1,101.3	1,133.5	1,145.8
Education	1,167.3	1,030.8	1,100.2
Environmental Protection	659.3	663.2	477.5
Health	1,726.5	1,789.1	1,742.2
Human Services	16,100.5	14,021.7	12,828.1
Labor and Workforce Development	806.0	828.1	837.6
Law and Public Safety	1,258.0	1,342.5	1,254.8
Military and Veterans' Affairs	141.6	184.6	147.9
State	1,321.4	1,280.3	1,217.8
Transportation	2,118.5	2,576.3	1,987.5
Treasury	2,260.5	2,562.8	2,626.2
Miscellaneous Executive Commissions	0.8	0.8	1.0
Interdepartmental Accounts	3,961.8	3,692.1	3,787.4
Judicial Branch	828.2	839.8	839.4
Total General Fund	\$37,865.1	\$35,383.0	\$33,104.4
Property Tax Relief Fund:			
Department of:			
Community Affairs	\$ 381.8	\$ 311.7	\$ 358.8
Corrections	21.4	—	—
Education	11,882.1	11,467.0	11,511.1
Environmental Protection	3.4	—	—
Human Services	160.4	122.6	152.8
Law and Public Safety	2.0	—	—
Transportation	182.0	—	—
Treasury	1,300.3	1,093.9	734.4
Total Property Tax Relief Fund	\$13,933.4	\$12,995.2	\$12,757.1
Gubernatorial Elections Fund	\$ —	\$ 10.5	\$ 1.8
Casino Control Fund:			
Department of:			
Law and Public Safety	\$ 43.5	\$ 47.0	\$ 46.3
Treasury	6.0	7.0	7.9
Total Casino Control Fund	\$ 49.5	\$ 54.0	\$ 54.2
Casino Revenue Fund:			
Department of:			
Health	\$ 0.5	\$ 0.5	\$ 0.5
Human Services	248.8	360.4	291.8
Labor and Workforce Development	2.2	2.2	2.2
Law and Public Safety	0.1	0.1	0.1
Transportation	18.2	20.3	24.7
Total Casino Revenue Fund	\$ 269.8	\$ 383.5	\$ 319.3
Total Expenditures	\$52,117.8	\$48,826.2	\$46,236.8

TAX AND REVENUE ANTICIPATION NOTES

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

On July 1, 2015, the State Treasurer adopted a resolution authorizing the issuance of TRAN for Fiscal Year 2016. Pursuant thereto, on July 1, 2015, the State Treasurer entered into a Note Purchase Contract with RBC Capital Markets, LLC (“RBC”) under which RBC agrees to purchase TRAN in one or more series in the maximum amount of \$2,600,000,000. Pursuant to such Note Purchase Contract, the State issued its Series Fiscal 2016A TRAN to RBC on July 6, 2015 in the amount of \$1,900,000,000. The State does not contemplate issuing additional TRAN during Fiscal Year 2016. The Series Fiscal 2016A TRAN will mature on June 28, 2016. The State may issue a TRAN in Fiscal Year 2017.

The following table sets forth the amounts of TRAN issued for the past five fiscal years.

<u>Fiscal Year</u>	<u>Amount of TRAN Issued</u>
2011	\$2,250,000,000
2012	2,150,000,000
2013	2,600,000,000
2014	2,600,000,000
2015	2,600,000,000

LONG-TERM OBLIGATIONS

General Obligation Bonds

General Obligation Bonds of the State are authorized from time to time by Acts of the State Legislature, subject to approval by referendum. Each such “Bond Act” sets forth the authorized amounts and purposes of the bonds as well as certain parameters for issuing bonds, such as maximum term. Purposes under the Bond Acts have included open space and farmland preservation, water supply protection, transportation, higher education, port development, economic development, hazardous waste remediation, and many other public purposes. The Bond Acts provide that the bonds issued represent a debt of the State, and the faith and credit of the State are pledged to their repayment.

Certain decisions relating to the bond sale, including the setting of interest rates and amortization of the bonds, are delegated to the “Issuing Officials” of the State, comprising the Governor, State Treasurer and Director of the Division of Budget and Accounting. The State Treasurer is directed to hold and invest the proceeds of the bond sale pending their expenditure in separate funds as established by the Bond Act. The Refunding Bond Act of 1985 sets forth the procedures and parameters for issuing bonds for the purpose of refunding outstanding bonds issued under any other Bond Act.

General Obligation Bonds are described in the “Notes to the Financial Statements” and the Statistical Section set forth in the 2015 CAFR which is incorporated by specific reference herein. See also the table captioned “STATE OF NEW JERSEY — LEGISLATIVELY AUTHORIZED BUT UNISSUED DEBT, 2015 AND 2014” in the 2015 CAFR.

State Appropriation Obligations

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 appropriations to fund such payments, 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 — Budget and Appropriation Process” 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 State Appropriation Obligations will be issued during Fiscal Years 2016 and 2017 and future fiscal years. The amount of such obligations issued in the future could be significant. The Lance Amendment, described under “CERTAIN CONSTITUTIONAL PROVISIONS AND JUDICIAL DECISIONS — Debt Limitations” herein, prohibits the State Legislature from enacting legislation authorizing State Appropriation Obligations unless such legislation is submitted and approved by a majority of legally qualified voters of the State voting thereon at a general election. 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. See also the table captioned “STATE OF NEW JERSEY — LEGISLATIVELY AUTHORIZED BUT UNISSUED DEBT, 2015 AND 2014” in the 2015 CAFR.

The following tables set forth the State’s long-term obligations. The first table summarizes by issuer and by program the principal amounts outstanding on June 30, 2015 and the estimated Fiscal Year 2016 debt service on such obligations. The second table depicts the aggregate estimated future debt service as of June 30, 2015 on all such General Obligation Bonds and State Appropriation Obligations. The data contained in the tables has not been adjusted to reflect subsequent activity. The tables include certain data that are (1) for governmental entities or programs that are not considered part of the State’s long-term obligations for financial reporting purposes under generally accepted accounting principles or (2) for a component unit of the State. These items are therefore not reflected in Note 11 — Long-Term Obligations and the Schedule of Long-Term Debt in the 2015 CAFR. In addition, there are certain obligations which are included in such Note 11, which are not included in the following tables or elsewhere in this Appendix I. The amounts included in Note 11 which are not included in the following tables include payments to private businesses under the Business Employment Incentive Program. The State Legislature has never failed to appropriate amounts for the payment of debt service on the State Appropriation Obligations included in the following tables.

SUMMARY OF LONG-TERM OBLIGATIONS AS OF JUNE 30, 2015

	<u>Type of Agreement</u>	<u>Principal Amount Outstanding(1)</u>	<u>Fiscal Year 2016 Debt Service(2)</u>
General Obligation Bonds	General Obligation	\$ 2,372,695,000	\$ 486,409,394
<i>State Appropriation Bonds by Issuer or Program:</i>			
Garden State Preservation Trust	Contract	884,634,410	97,637,218
New Jersey Building Authority	Lease	464,825,000	148,656,045
New Jersey Economic Development Authority			
Business Employment Incentive Program	Contract	19,725,000	20,261,545
Cigarette Tax Revenue	Contract	825,140,000	107,861,500
Department of Human Services Programs	Service Contract	8,860,000	1,860,908
Economic Recovery Fund	Contract	119,461,361	25,595,034
Lafayette Yard Hotel Project	Lease	10,460,000	2,218,318
Liberty State Park — Park Projects	Lease	9,390,000	1,534,428
Liberty State Park — Science Center Projects	Lease	72,250,000	8,239,738
Motor Vehicle Commission	Contract	7,086,886	11,280,000
Motor Vehicle Surcharges Revenue	Contract	779,772,356	65,656,231
Motor Vehicle Surcharges Revenue- Special Needs Housing	Contract	206,508,197	22,096,175
Municipal Rehabilitation	Contract	129,970,000	14,112,583
New Jersey Performing Arts Center	Lease	5,310,000	5,530,365
New Jersey Transit Light Rail System	Lease	172,145,000	51,227,505
School Facilities Construction	Contract	9,528,414,000	1,112,641,426
State Office Buildings Projects	Lease	22,765,000	5,258,250
State Pension Funding	Contract	2,263,065,897	348,603,677
State Police Barracks Project	Lease	6,200,000	953,506
New Jersey Educational Facilities Authority			
Capital Improvement Fund	Contract	478,255,000	57,395,375
Dormitory Safety Trust Fund	Contract	6,340,000	5,942,435
Equipment Leasing Fund Program	Contract	78,735,000	16,571,750
Facilities Trust Fund	Statutory	199,855,000	19,694,081
Public Library Project Grant Program	Contract	24,455,000	3,756,450
Technology Infrastructure Fund	Contract	36,670,000	3,736,225
New Jersey Health Care Facilities Financing Authority			
Greystone Park Psychiatric Hospital Project	Contract	205,520,000	17,365,588
Hospital Asset Transformation Program	Contract	395,440,000	32,411,684
Marlboro Psychiatric Hospital Project	Contract	70,135,000	4,070,075
New Jersey Sports and Exposition Authority	Contract	394,425,000	65,307,730
New Jersey Transportation Trust Fund Authority			
Transportation Program Bonds	Contract	2,774,860,000	160,188,417
Transportation System Bonds	Contract	12,637,525,716	999,419,606
State of New Jersey Certificates of Participation			
New Jersey Transit, Transportation Equipment	Lease	616,850,000	88,859,381
State-Supported County College Bonds	Statutory	200,892,334	35,212,675
State Equipment Line of Credit	Lease	79,956,701	35,571,705
TOTALS		<u>\$36,108,592,858</u>	<u>\$4,083,137,022</u>

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

(2) For variable rate obligations, estimated interest amounts were calculated using the rates in effect on June 30, 2015. (See "LONG-TERM OBLIGATIONS — Description of Certain Long-Term Obligations — *Variable Rate Obligations*" herein).

**ESTIMATED FUTURE DEBT SERVICE ON LONG-TERM OBLIGATIONS
AS OF JUNE 30, 2015**

Fiscal Year	General Obligation Bonds		State Appropriation Obligations		Total
	Principal	Interest	Principal(1)	Interest(1)(2)	
2016(3)	\$ 379,030,000	\$107,379,394	\$ 1,914,383,370	\$ 1,682,344,258	\$ 4,083,137,022
2017(4)	251,925,000	91,012,275	2,040,938,380	1,751,021,739	4,134,897,395
2018(5)	235,685,000	78,626,403	2,080,936,387	1,694,322,756	4,089,570,546
2019	235,080,000	66,700,009	1,677,254,137	1,650,460,220	3,629,494,367
2020	267,060,000	53,915,575	1,627,346,272	1,599,901,053	3,548,222,900
2021	206,125,000	42,065,675	1,662,237,255	1,500,088,407	3,410,516,337
2022	133,525,000	34,102,856	1,687,984,199	1,445,505,831	3,301,117,886
2023	79,620,000	28,643,969	1,870,206,243	1,365,539,529	3,344,009,741
2024	41,485,000	25,241,613	1,829,707,058	1,285,790,403	3,182,224,074
2025	43,375,000	23,345,763	1,706,408,576	1,341,515,663	3,114,645,001
2026(6)	45,180,000	21,548,013	1,767,150,052	1,102,281,817	2,936,159,881
2027	47,245,000	19,480,113	1,813,499,473	964,098,086	2,844,322,672
2028(7)	49,410,000	17,316,613	2,070,373,825	868,402,867	3,005,503,304
2029	51,675,000	15,052,813	1,588,028,458	810,539,711	2,465,295,982
2030	54,040,000	12,684,013	862,213,820	673,808,944	1,602,746,777
2031	55,965,000	10,760,050	718,687,310	644,417,218	1,429,829,578
2032	58,530,000	8,194,300	667,577,148	620,169,647	1,354,471,096
2033	61,215,000	5,509,600	687,293,548	572,319,850	1,326,337,998
2034	37,510,000	3,061,000	755,351,831	543,856,578	1,339,779,408
2035	39,015,000	1,560,600	732,709,809	514,855,603	1,288,141,012
2036	—	—	538,294,570	603,436,086	1,141,730,657
2037	—	—	512,584,324	561,309,832	1,073,894,156
2038	—	—	485,371,526	566,684,078	1,052,055,604
2039	—	—	468,943,420	632,702,072	1,101,645,493
2040	—	—	658,290,782	506,012,383	1,164,303,165
2041	—	—	816,831,082	187,955,993	1,004,787,075
2042	—	—	266,465,000	23,801,825	290,266,825
2043	—	—	111,780,000	10,785,625	122,565,625
2044	—	—	117,050,000	5,517,400	122,567,400
	<u>\$2,372,695,000</u>	<u>\$666,200,644</u>	<u>\$33,735,897,858</u>	<u>\$25,729,445,476</u>	<u>\$62,504,238,977</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, estimated interest amounts were calculated using the rates in effect on June 30, 2015. (See "LONG-TERM OBLIGATIONS — Description of Certain Long-Term Obligations — Variable Rate Obligations" herein).
- (3) The principal amount includes \$242,495,000 School Facilities Construction Notes, 2011 Series E that were refinanced prior to their maturity on February 1, 2016 and \$47,620,000 State Building Revenue Bond Anticipation Notes, 2013 Series that mature June 15, 2016. During Fiscal Year 2016, the 2013 Series Notes will be refunded as fixed-rate serial bonds prior to their maturity. Estimated interest on the Notes is included in this table.
- (4) The principal amount includes \$119,060,000 School Facilities Construction Notes, 2012 Series H and \$119,060,000 School Facilities Construction Notes, 2014 Series K that mature February 1, 2017. It is anticipated that these Notes will be refunded prior to their maturity. Estimated interest on the Notes is included in this table.
- (5) The principal amount includes \$65,620,000 School Facilities Construction Notes, 2011 Series C; \$150,000,000 School Facilities Construction Notes, 2011 Series D; \$25,000,000 School Facilities Construction Notes, 2011 Series E and \$45,000,000 School Facilities Construction Notes, 2011 Series F that will mature February 1 2018. It is anticipated that these Notes will be refunded prior to their maturity. Estimated interest on the Notes is included in this table.
- (6) The principal amount includes \$60,850,000 School Facilities Construction Notes, 2013 Series I that mature September 1, 2025. It is anticipated that these Notes will be refunded prior to their maturity. Estimated interest on the Notes is included in this table.

- (7) The principal amount includes \$89,580,000 School Facilities Construction Notes, 2013 Series I that mature September 1, 2027 and \$230,085,000 School Facilities Construction Notes, 2013 Series I that will mature March 1, 2028. It is anticipated that these Notes will be refunded prior to their maturity. Estimated interest on the Notes is included in this table.

Issuers of State Appropriation Obligations

Garden State Preservation Trust

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

New Jersey Building Authority

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

New Jersey Economic Development Authority

The NJEDA is authorized to issue bonds for various purposes described below.

Pursuant to the Business Employment Incentive Program Act, *L. 1996, c. 26*, the NJEDA has entered into agreements with various private businesses in order to provide BEIP grants in consideration for the attainment of certain employment promotion targets as established therein. *L. 2003, c. 166*, authorizes the NJEDA to issue bonds to provide funds (i) for the payment of the BEIP grants, and (ii) to be used by the NJEDA for the purposes enumerated in subsections a. and b. of section 4 of *L. 1992, c. 16 (N.J.S.A. 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 Cigarette Tax Securitization Act of 2004, *L. 2004. c. 68*, authorizes the NJEDA to issue bonds payable from, and secured by, a dedicated portion, \$0.0325 per cigarette, of the cigarette tax imposed pursuant to *N.J.S.A. 54:40A-1 et seq.* Debt service on the bonds is payable pursuant to a contract between the NJEDA and the State Treasurer, subject to appropriation by the State Legislature.

The 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 Motor Vehicle Security and Customer Service Act, *L. 2003, c. 13*, authorizes the NJEDA to issue bonds to pay the costs of capital improvements for New Jersey Motor Vehicle Commission facilities. The legislation provides that bonds shall not be issued in an aggregate principal amount exceeding \$160 million without the prior approval of the Joint Budget Oversight Committee (“JBOC”) of the State Legislature. The bonds are secured by the monies in the Market Transition Facility Revenue Fund. All bonds issued pursuant to this act matured on July 1, 2015.

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

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

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

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

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

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

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

facilities, blood collection facilities and cancer research facilities. Debt service on the bonds shall be paid pursuant to a contract to be entered into between the NJEDA and the State Treasurer, subject to appropriation by the State Legislature.

The NJEDA has issued revenue bonds on behalf of non-profit community service providers. The payment of debt service on these revenue bonds is the obligation of the community service providers. However, such debt service payments as well as the payment of certain other provider expenses are reimbursed 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 programs to finance: (i) the purchase of equipment to be leased to institutions of higher learning (the “Equipment Leasing Fund”); (ii) grants to the State’s public and private institutions of higher education for the development, construction and improvement of instructional, laboratory, communication and research facilities (the “Facilities Trust Fund”); (iii) grants to public and private institutions of higher education to develop a technology infrastructure within and among the State’s institutions of higher education (the “Technology Infrastructure Fund”); (iv) capital projects at county colleges; (v) grants to public and private institutions of higher education to finance the renewal, renovation, improvement, expansion, construction, and reconstruction of educational facilities and technology infrastructure (the “Capital Improvement Fund”); (vi) grants to public libraries to finance the acquisition, expansion and rehabilitation of buildings to be used as public library facilities and the acquisition and installation of equipment to be located therein (the “Public Library Project Grant Program”); and (vii) loans to public and private institutions of higher education and public or private secondary schools, military schools or boarding schools located in the State which are required under the Dormitory Safety Trust Fund Act to install automatic fire suppression systems for the cost or a portion of the cost of the construction, reconstruction, development, extension or improvement of dormitory safety facilities, including fire prevention and sprinkler systems (the “Dormitory Safety Trust Fund”). The debt service on the bonds issued under these programs is payable by the State pursuant to statutory provisions or contracts between the NJEFA and the State Treasurer subject to appropriation by the State Legislature. Under the financing programs for the Equipment Leasing Fund, the Facilities Trust Fund, the Technology Infrastructure Fund and the Capital Improvement Fund, as bonds mature and/or are redeemed, the bonding capacity revolves. As of June 30, 2015, under these programs, the NJEFA has, in aggregate, approximately \$111 million of bonding capacity.

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. The State has financed the construction of a new Greystone Park Psychiatric Hospital, the demolition of the old Greystone Park Psychiatric Hospital and the demolition of the old Marlboro Psychiatric Hospital through the issuance of bonds by HCFFA that are secured by payments made by DHS, subject to appropriation by the State Legislature.

Under the Hospital Asset Transformation Program established by *L. 2000, c. 98* and as amended by *L. 2007, c. 110*, and *L. 2009, c. 2*, HCFFA is authorized to issue bonds to provide funds to any nonprofit health care

organization in order to, among other things, satisfy the outstanding indebtedness of a hospital, pay the costs of transitioning or terminating the provision of hospital acute care services at a specific location, including the costs of construction, renovation, equipment, information technology and working capital, and pay the costs associated with the closure or acquisition of a general hospital. Such bonds are special obligations of HCFFA payable from amounts paid to it under a contract between HCFFA and the State Treasurer, subject to appropriation by the State Legislature.

New Jersey Sports and Exposition Authority

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

New Jersey Transportation Trust Fund Authority

The New Jersey Transportation Trust Fund Authority (the “TTFA”) issues bonds for the purpose of funding a portion of the State’s share of the cost of improvements to the State’s transportation system. The bonds issued by the TTFA are special obligations of the TTFA payable from a contract (“State Contract”) among the TTFA, the State Treasurer and the Commissioner of Transportation, subject to appropriation by the State Legislature. The issuance of refunding bonds to refund prior obligations of the TTFA is not subject to the debt issuance restrictions described below, but is subject to the approval of the JBOC.

On June 29, 2012, the New Jersey Transportation Trust Fund Authority Act of 1984, as amended (the “TTFA Act”) was further amended by L. 2012, c. 13 (the “Reauthorization Act”). The Reauthorization Act authorized the issuance, over four (4) fiscal years (Fiscal Year 2013 through Fiscal Year 2016) of \$3,458,300,000 in TTFA bonds. The payment of debt service on Reauthorization Act bonds, notes or other obligations must be paid solely from revenues dedicated for transportation purposes pursuant to Article VIII, Section II, paragraph 4 of the State Constitution. The TTFA has issued all bonds authorized pursuant to the Reauthorization Act. In addition, the Reauthorization Act allows the issuance of certain notes above and beyond the bonding limitation described above, which are payable out of the proceeds of federal highway and/or federal public transportation grants.

Fiscal Year 2016 marks the final year of the current reauthorization. Though the Governor’s Fiscal Year 2017 Budget Message assumes a \$1,600.0 million Transportation Capital Program, no source of funding for this program has been identified. The source of funding, in addition to the actual size of the program, will be a function of negotiation between the State Legislature and Governor in the coming months.

State of New Jersey Certificates of Participation

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

State Supported County College Bonds

Legislation provides for appropriations for State Aid to counties equal to a portion of the debt service on bonds issued by or on behalf of such counties for construction of county college facilities (*L. 1971, c. 12, as amended*). The State Legislature has no legal obligation to make such appropriations, but has done so to date for

all obligations issued under this legislation. The NJEFA is also authorized to issue its obligations to finance county college capital facilities which are secured in whole or in part by an agreement with the State Treasurer, subject to appropriation by the State Legislature.

Lines of Credit

The State finances the acquisition of certain equipment and vehicles 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.

Description of Certain Long-Term Obligations

Variable Rate Obligations

As of June 30, 2015, the NJEDA and the TTFA had outstanding \$1,444,250,000 of floating rate notes (“FRN”), which bear interest at rates that reset monthly or weekly and are based on either the London InterBank Offering Rate (“LIBOR”) plus a fixed spread or the Securities Industry and Financial Markets Association (“SIFMA”) rate plus a fixed spread. There are no letters of credit in support of these notes. Such notes constitute approximately 4% of the State’s long-term obligations and are included within the Long-Term Obligations tables herein.

The following table and chart provide a summary of the State-supported variable rate obligations outstanding as of June 30, 2015.

SUMMARY OF VARIABLE RATE OBLIGATIONS AS OF JUNE 30, 2015

Issuer	Series	Type-Reset Period	Amount Outstanding as of 6/30/15	Index Rate (if applicable)	Interest Rate as of 6/30/15
NJEDA — School Facilities Construction	2011 Series C	FRN-Weekly	\$ 65,620,000	SIFMA + 1.80%	1.870%
	2011 Series D	FRN-Monthly	150,000,000	70% 1-Month LIBOR + 1.80%	1.928
	2011 Series E ⁽¹⁾	FRN-Weekly	242,495,000	SIFMA + 1.70%	1.770
	2011 Series E	FRN-Weekly	25,000,000	SIFMA + 1.90%	1.970
	2011 Series F	FRN-Monthly	45,000,000	70% 1-Month LIBOR + 1.90%	2.028
	2012 Series H	FRN-Weekly	119,060,000	SIFMA + 0.90%	0.970
	2013 Series I	FRN-Weekly	60,850,000	SIFMA + 1.25%	1.320
	2013 Series I	FRN-Weekly	89,580,000	SIFMA + 1.55%	1.620
	2013 Series I	FRN-Weekly	230,085,000	SIFMA + 1.60%	1.670
	2012 Series K	FRN-Weekly	119,060,000	SIFMA + 0.73%	0.800
	TTFA	2014 Series BB-1	FRN-Weekly	150,000,000	SIFMA + 1.00%
2014 Series BB-2		FRN-Weekly	147,500,000	SIFMA + 1.20%	1.270
		Total	<u>\$1,444,250,000</u>		

(1) These Notes were refunded during Fiscal Year 2016 and were refunded as fixed-rate serial bonds prior to their maturity.

Bank Loan Bonds

The NJEDA has issued certain series of bonds to finance school facilities construction projects pursuant to term loan agreements with several banks. A bank’s rights under such term loan agreements are essentially the same as bondholders’ rights except for a few differences. The bank may require the mandatory term out of the bonds for a shortened amortization period if certain events of default occur under the loan agreement, including, without limitation, the failure to pay but not as a result of non-appropriation, a debt moratorium, a ratings downgrade, a material failure to perform under the State Contract, an action that material adversely affects the rights, remedies or security of the trustee under the bond resolution or the bank under the loan agreement or a material amendment or modification to the State Contract without the prior written consent of the bank. For tax-exempt bonds, the loan agreements provide that if an event of taxability occurs, the interest rate on the bonds will increase. The aggregate amount of such bank loan bonds outstanding as of June 30, 2015 is \$847,455,000. Such bonds are included within the Long-Term Obligations tables herein.

Swap Agreements

The various independent State authorities authorized to issue State Appropriation Obligations in certain cases are also authorized to enter into interest rate exchange agreements (“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 a 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. As of June 30, 2015, the notional amount of interest rate swap agreements supported by State appropriations is zero.

MORAL OBLIGATIONS

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 obligations outstanding as of June 30, 2015 and debt service for Fiscal Year 2016.

	<u>Principal Amount Outstanding</u>	<u>Fiscal Year 2016 Debt Service</u>
New Jersey Housing and Mortgage Finance Agency	\$ 6,395,000	\$ 4,148,746
South Jersey Port Corporation	256,210,000	24,901,167
Higher Education Student Assistance Authority	2,403,460,000	249,824,026
	<u>\$2,666,065,000</u>	<u>\$278,873,939</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>
2011	\$ 7,013,289
2012	19,847,053
2013	18,972,976
2014	14,756,323
2015	18,918,927

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.

OTHER OBLIGATIONS

Qualified Bonds

L. 1976, c. 38, as amended by L. 2015, c. 95, and L. 1976, c. 39 (the “Acts”) provide for the issuance of “Qualified Bonds” by municipalities and school districts. Whenever a local board of education or the governing body of a municipality determines to issue bonds, it may file an application with the Local Finance Board, and, in the case of a local board of education, also with the Commissioner of Education, to qualify bonds pursuant to the Acts. Upon approval of such application, the State Treasurer shall withhold from certain State appropriations of revenues or other State aid payable to the municipalities or appropriations of State school aid payable to the school district, as appropriate, an amount sufficient to pay debt service on such bonds. Additionally, with respect to Qualified Bonds issued by municipalities, a statutory lien and trust, superior to all other liens, automatically attaches to such appropriations, in favor of the holders of Qualified Bonds, for the sole purpose of paying debt service on the Qualified Bonds. These Qualified Bonds are not direct, guaranteed or moral obligations of the State, and debt service on such bonds will be paid by the State only to the extent that the State aid or State school aid has been appropriated by the State Legislature. As of June 30, 2015, the aggregate amounts of municipal and school district Qualified Bonds outstanding are \$1,392,412,282 and \$112,307,000, respectively.

Tobacco Settlement Asset-Backed Bonds

The State has transferred to the Tobacco Settlement Financing Corporation (the “Corporation”), a special purpose entity established pursuant to L. 2002, c. 32 (the “Act”), the State’s right to receive all tobacco settlement receipts (the “TSRs”) to be received by the State after December 1, 2003 from the multi-state Master Settlement Agreement (“MSA”) which settled litigation with the participating tobacco companies. In January 2007, the Corporation issued its Tobacco Settlement Asset-Backed Bonds, Series 2007-1A Senior Current Interest Bonds (the “Series 2007-1A Bonds”), Series 2007-1B First Subordinate Capital Appreciation Bonds (the “Series 2007-1B Bonds”) and Series 2007-1C Second Subordinate Capital Appreciation Bonds (the “Series 2007-1C Bonds,” and together with the Series 2007-1A Bonds and the Series 2007-1B Bonds, the “Series 2007 Bonds”). The Corporation pledged 76.26% of the TSRs (“Pledged TSRs”) as security for its Series 2007 Bonds. The remaining 23.74% of the TSRs (the “Unpledged TSRs”) were not pledged to the Series 2007 Bonds and are payable to the State. On March 7, 2014, the Corporation entered into pledge agreements with respect to the Series 2007-1B and Series 2007-1C Bonds, whereby the Corporation agreed to pledge the Unpledged TSRs (the “Additional Pledged TSRs”) to the Series 2007-1B and Series 2007-1C Bonds beginning on July 1, 2017. In consideration for entering into the pledge agreements, the Corporation received a one-time enhancement premium (net of costs) of \$91.6 million, which was then transferred by the Corporation to the State for deposit

into the General Fund. Pursuant to the pledge agreements, the Additional Pledged TSRs will be used to optionally redeem the Series 2007-1B and Series 2007-1C Bonds. Beginning on July 1, 2017, the State will not receive any Unpledged TSRs (estimated to be approximately \$40 million per year) until the Series 2007-1B and Series 2007-1C Bonds are fully paid, which is currently expected to occur in calendar year 2022.

In each of the years 2006 through and including 2012 certain of the tobacco companies withheld a portion of their annual payment primarily based on claims, under the MSA, that the companies were entitled to a Non-Participating Manufacturer (“NPM”) Adjustment from the settling states, of which the State is one, because the states did not diligently enforce their statutes which requires tobacco companies that did not enter into the settlement to make certain payments for in-state tobacco product sales. For each year, the withholding related to enforcement efforts for the entire calendar year, three years prior to the date of payment (e.g., the calendar year 2006 withholding was related to enforcement efforts in calendar year 2003). Because the MSA provides that states that are unsuccessful in the arbitration are responsible for the successful states’ share of the NPM Adjustment, New Jersey was theoretically exposed to losing its entire MSA payment for each year it was unsuccessful in the arbitrations.

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

On December 14, 2012, the State joined in a settlement of the dispute for 2003 through 2012, as well as potential disputes for 2013 and 2014. In April 2013, pursuant to the settlement, the State received approximately \$170 million more in 2013 MSA payments than it would have otherwise received, but will receive a total of approximately \$75 million less from 2014 through 2017. Some modest decreased payments can be expected in later years, but, as is always the case with long term projections of MSA payments, such payments are subject to too many variables to estimate the impact.

STATE EMPLOYEES

Public Employer-Employee Relations Act

The State, as a public employer, is covered by the New Jersey Public Employer-Employee Relations Act, as amended (*N.J.S.A. 34:13A-1 et seq.*), which guarantees public employees the right to negotiate collectively through employee organizations certified or recognized as the exclusive collective negotiations representatives for units of public employees found to be appropriate for collective negotiations purposes. Approximately 62,000 full-time Executive Branch employees are paid through the State payroll system. Of the 62,000 employees, approximately 55,000 are represented by certified or recognized exclusive majority representatives and are organized into various negotiation units. There are twelve civilian units which presently represent more than 45,000 employees in the Executive Branch. The Health Care and Rehabilitation Services Unit is represented by the American Federation of State, County and Municipal Employees (“AFSCME”) and includes about 6,917 employees. The Administrative and Clerical Services Unit, the Primary Supervisory Unit, the Professional Unit and the Higher Level Supervisory Unit are all represented by the Communications Workers of America (“CWA”) and include about 6,357 employees, 8,415 employees, 14,976 employees and 2,700 employees, respectively, for total of 32,448 employees. The Crafts Unit, the Inspection and Security Unit, and the Operations, Maintenance and Services Unit are represented by the International Federation of Professional and Technical Engineers (“IFPTE”) and the New Jersey State Motor Vehicle Employees Union, Service Employees International Union (“SEIU”), and combined include about 4,513 employees. The Deputy Attorneys General (“DAsG”) unit and the State Government Managers (“Managers”) Unit are both represented by the International Brotherhood of Electrical Workers (“IBEW”) and include approximately 430 employees (represented by IBEW Local 33) and 760 employees, respectively. There are approximately 9,600 employees represented by twelve law enforcement units.

Negotiation Process

The New Jersey Public Employer-Employee Relations Act specifies a negotiation process for non-police and non-fire units which includes mediation and advisory fact-finding in the event of a negotiations impasse. This process is geared to the public employer's budget submission process. 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 9,600 State employees come under the binding interest arbitration process. Of the 9,600, approximately 2,500 are in the State Police.

Contract Status

The State has commenced negotiations with IFPTE Local 195 and SEIU Local 518 for a successor agreement to the contract that expired on June 30, 2015.

The Contract between the State and the four CWA units expired on June 30, 2015. Negotiations for successor agreements have not yet commenced.

The State has commenced negotiations with AFSCME for a successor agreement to the contract that expired on June 30, 2015.

The State has commenced negotiations with IBEW Local 33 for a successor agreement to the contract expiring June 30, 2015. Negotiations are ongoing.

The State has commenced negotiations with the Policemen Benevolent Association Local 105 ("PBA 105") for a successor agreement to the contract that expired on June 30, 2015.

The State has commenced negotiations with the New Jersey State Fraternal Order of Police Lodge 174 ("FOP Lodge 174") for a successor agreement to the contract that expired on June 30, 2015.

The State has commenced negotiations with the New Jersey Policemen Benevolent Association State Law Enforcement Unit ("SLEU") for a successor agreement to the contract that expired on June 30, 2015.

The contract between the State and the New Jersey Law Enforcement Supervisors Association ("NJLESA") expired on June 30, 2015. Negotiations for a successor agreement have not yet commenced.

The contract between the State and the New Jersey Superior Officers Law Enforcement Association ("NJLESOA") expired on June 30, 2015. Negotiations for a successor agreement have not yet commenced.

The State has commenced negotiations with IBEW Local 30, State Government Managers Unit, for a successor agreement to the contract expiring June 30, 2015. Negotiations are ongoing.

The contract between the State and the New Jersey Law Enforcement Commanding Officers Association ("NJLECOA") expired on June 30, 2015. Negotiations for a successor have not yet commenced.

In October 2014, the State proceeded to Interest Arbitration with FOP Lodge 91, the State Investigators Unit, rank and file State Investigators and Detectives. An award for a five year contract expiring in June 2019 was issued in December 2014. That award was vacated by the Public Employment Relations Commission ("PERC") and remanded to the arbitrator. The revised remand award was issued on June 23, 2015. The State and FOP 91 appealed the remand award to PERC, which affirmed the award with a few modifications on September 3, 2015. FOP 91 appealed PERC's September 3, 2015 decision affirming the remand award to the Appellate Division and the State filed a cross-appeal, both of which are pending.

The State is in negotiations with the State Investigators Unit sergeant rank represented by the N.J. Division of Criminal Justice Non-Commissioned Officers Association and the State Investigators Unit, lieutenants rank represented by the New Jersey Division of Criminal Justice Superior Officers Association.

The State and the State Troopers Fraternal Associations (“STFA-Troopers”) were parties in an Interest Arbitration proceeding for the successor agreement to the Contract that expired on June 30, 2012. The Interest Arbitration award was issued on January 31, 2016. The successor agreement shall have a term of July 1, 2015 through June 30, 2017. Effective the first full pay period after July 1, 2016, there will be a 1.25% across the board increase at each step and rank and a 1.25% increase to the maintenance allowance. The time in which to appeal the award expires on February 16, 2016.

The State and State Troopers Non-Commissioned Officers Association (“STNCOA-Sergeants”) were parties in an Interest Arbitration proceeding for the successor agreement to the Contract that expired on June 30, 2012. The Interest Arbitration award was issued on January 31, 2016. The successor agreement shall have a term of July 1, 2015 through June 30, 2017. There will be a 1% across the board increase, not compounded, at each step and rank effective July 1, 2013, July 1, 2014, July 1, 2015 and July 1, 2016. The salaries for the years 2013, 2014 and 2015 shall be paid retroactively. Effective the first full pay period after July 1, 2016, there shall be a 1.25% increase to the maintenance allowance. The time in which to appeal the award expires on February 16, 2016.

The negotiations with the State Troopers Superior Officer Association (“STSOA-Lieutenants”) for the successor agreement to the Contract that expired June 30, 2012 are ongoing.

STATE FUNDING OF PENSION PLANS

General

The State sponsors and operates seven defined benefit pension plans (the “Pension Plans”), which fund retirement benefits for almost all of the public employees of the State. As a result of lower-than-recommended contributions by the State to the Pension Plans for an extended period, lower than expected investment returns on an actuarial basis and other causes, the Pension Plans have experienced (and, absent action by the State, are expected to continue to experience for a number of years) a deterioration in their financial condition. See “STATE FUNDING OF PENSION PLANS — State’s Financial Responsibility to the Pension Plans.”

The amount that the State will contribute to its Pension Plans over the next several fiscal years is subject to a number of factors that may change in the near future. The State has not funded the full actuarially recommended contribution to its Pension Plans for more than a decade, which (among other factors) has led to a deterioration in the financial condition of the Pension Plans. While the State Legislature enacted two pension reforms, Chapter 1 enacted in 2010 and the 2011 Pension and Health Benefit Reform Legislation, the State has failed to make the phased-in contributions set forth in these pension reforms since Fiscal Year 2013. See “LITIGATION — *Pension Funding Litigation*” below. For Fiscal Year 2016, the Fiscal Year 2016 Appropriations Act includes an appropriation of \$1.307 billion which is based on 3/10th of the full actuarially recommended contribution of \$4.357 billion. For Fiscal Year 2017, the Governor’s Fiscal Year 2017 Budget Message recommends a contribution based on 4/10th of the full actuarially recommended contribution determined on the basis of the July 1, 2015 actuarial valuations, which is currently estimated to be \$1.867 billion but still may change depending on the results of those valuations.

The policy and legal framework for the levels of the State’s contribution to its Pension Plans for the next several fiscal years remains uncertain. In August 2014, the Governor appointed the New Jersey Pension and Health Benefits Commission (the “Commission”), a non-partisan body tasked with developing recommendations for how the State can further reform the Pension Plans. The Commission completed its evaluation of the Pension Plans and issued its recommendation report to the Governor in February 2015. In his Fiscal Year 2016 Budget Message, the Governor called for reforms to the Pension Plans consistent with the Commission’s recommendation report. However, the State Legislature has not yet acted upon these proposed reforms and no assurance can be given that the State Legislature will enact any of the proposed reforms. See “STATE FUNDING OF PENSION PLANS — Pension Reforms” below.

In addition, there is substantial legal uncertainty surrounding several of the State’s actions with respect to its Pension Plans that may affect the State’s contributions over the next several years. Several lawsuits have been filed against the State relating to its pension reforms and other actions taken by the State with respect to the Pension Plans. One such lawsuit sought to compel the State to make the phased-in contribution required under Chapter 78. The State Supreme Court issued an opinion on June 9, 2015 ruling in favor of the State and holding that “the [State] Legislature and Governor were without authority to enact an enforceable and legally binding long-term financial agreement through” Chapter 78. Therefore, the pension funding right in Chapter 78 is subject to appropriation. Another lawsuit pending before the State Supreme Court concerns the constitutionality of the temporary suspension of the payment of cost of living adjustments to retired public employees pursuant Section 25 of Chapter 78. Any result in these lawsuits that is adverse to the State may cause a deterioration in the financial condition of the Pension Plans or increase the State’s contributions to the Pension Plans, or both. See below under the captions “LITIGATION” — “*Berg v. Christie*” and “*Pension Funding Litigation*.”

Membership of the Pension Plans

Membership of State Pension Plans. 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. Listed in order of active membership based on the most recent actuarial valuation reports dated July 1, 2015, the Pension Plans and their active and retired membership are as follows:

<u>Plan</u>	<u>Membership at June 30, 2015</u>	
	<u>Active</u>	<u>Retired</u>
Public Employees' Retirement System ("PERS")	259,161	167,340
Teachers' Pension and Annuity Fund ("TPAF")	153,452	98,440
Police and Firemen's Retirement System ("PFRS")	40,359	44,303
State Police Retirement System ("SPRS")	2,676	3,511
Judicial Retirement System ("JRS")	404	590
Consolidated Police and Firemen's Pension Fund ("CP&FPF")	—	124
Prison Officers' Pension Fund ("POPF")	—	98
Total	<u>456,052</u>	<u>314,406</u>

From June 30, 2010 to June 30, 2015, the total number of active members of all of the State-administered plans decreased by 57,736 or 11.2%, and the total number of retired members increased by 52,044 or 19.8%.

Membership of Local Government Pension Plans. The State is not the only employer sponsoring PERS and PFRS. Local governments within the State participate as employers. In both of these Pension Plans, the assets that the State and the local governments contribute are invested together and generate one investment rate of return. However, both of these Pension Plans segregate the active and retired members and the related actuarial liabilities between the State and the local governments. As of June 30, 2015, those members of the PERS and PFRS for which the State is responsible for making contributions were, with respect to PERS, 78,997 active members and 54,278 retired members and, with respect to PFRS, 6,883 active members and 6,596 retired members.

Actuarial Valuations, Assumptions and Methodologies

Required Actuarial Valuations. State law requires that all Pension Plans must conduct an actuarial valuation as of the end of each fiscal year. Buck Consultants serves as consulting actuary for the PERS, PFRS, SPRS, JRS, CP&FPF and POPF, while Milliman, Inc. serves as consulting actuary for the TPAF. The consulting actuaries prepare the actuarial valuations and experience investigations (which are described below) for the Pension Plans. Informational copies of these reports as well as other financial information are available on the Division of Pensions and Benefits' website at: <http://www.state.nj.us/treasury/pensions/financial-rprts-home.htm>. No information contained on the website of the Division of Pensions and Benefits is incorporated herein by reference.

Content and Timing of Actuarial Valuations. The purpose of an actuarial valuation is to use independent actuaries to calculate the actuarial value of assets and the actuarial accrued liability of each Pension Plan in accordance with State statutes and generally recognized and accepted actuarial principles and practices. The actuarial accrued liability of a Pension Plan represents an estimate, on the basis of demographic and economic assumptions, of the present value of benefits the Pension Plan will pay to retirees over time. The actuarial valuation compares the actuarial accrued liability with the actuarial value of assets, and any excess of that liability over the assets forms an unfunded actuarial accrued liability ("UAAL") of the applicable Pension Plan. An actuarial valuation will express the percentage that a Pension Plan is funded through a "Funded Ratio" which represents the quotient obtained by dividing the actuarial value of assets of the Pension Plan by the actuarial accrued liability of the Pension Plan.

An actuarial valuation will also state an actuarially recommended contribution rate, which is a recommended rate of covered payroll that the State and other sponsoring employers contribute to the applicable Pension Plan. The actuarially recommended contribution consists of two components: (1) normal cost which represents the portion of the present value of retirement benefits that are allocable to active members' current year service, and (2) an amortized portion of the UAAL. The actuarially recommended contribution is determined in accordance with State statutes and is not the same as the actuarially determined contribution which is determined in accordance with Governmental Accounting Standard Board ("GASB") Statement No. 67 for purposes of meeting financial disclosure requirements. GASB Statement No. 67 supersedes financial reporting requirements for pension plans under GASB Statement No. 25 and is effective beginning with financial statements for fiscal years after June, 2013. The actual amounts that the State contributes to the Pension Plans each fiscal year are subject to annual appropriation by the State Legislature and to actions by the Governor. The amounts that the State contributes to the Pension Plans can be and, since Fiscal Year 2004, have been less than the actuarially recommended contribution rates.

Ordinarily, the actuarial valuations of the Pension Plans are completed approximately six (6) to eight (8) months after the end of a fiscal year. As a result, the actuarially recommended contribution rates of the actuarial valuations of the Pension Plans apply not to the fiscal year immediately following the fiscal year covered by the actuarial valuations but the second immediately following fiscal year. For example, the actuarially recommended rates of contribution in the actuarial valuations of the Pension Plans as of July 1, 2013 are applicable to the fiscal year ended June 30, 2015.

Assumptions used in Actuarial Valuations. The actuarial valuations use several actuarial assumptions to calculate the UAAL and Funded Ratio and to recommend contribution rates. These assumptions include: expected rate of return on assets, inflation rates, future pay increases, age of retirement of active members, assumed rates of disability and post-employment life expectancies of retirees and beneficiaries. The Pension Plan boards establish most of these assumptions except that the State Treasurer establishes the expected rate of return. If the experience of the Pension Plans is different from these assumptions, the UAAL of the Pension Plans may increase or decrease to the extent of any variances. If the actual experience results in a material increase in the UAAL of the Pension Plans, the State's future actuarially recommended rates of contribution would likely result in a material increase which would increase the financial burden imposed on the State of its obligation to the Pension Plans in the long term. State law requires the Pension Plans to conduct experience investigations every three (3) years, which examine the demographic and economic assumptions used in the Pension Plans' actuarial valuations to ensure that those assumptions are consistent with historical experience. If an experience investigation results in a change in one or more assumptions, it can have a significant impact on the UAAL of a Pension Plan in the actuarial valuations following the experience investigation. For example, based on the experience investigation for PERS covering the period from July 1, 2008 through June 30, 2011, several of the demographic assumptions were changed, including the mortality rates. These assumption changes were reflected in the July 1, 2012 actuarial valuation and caused the overall UAAL and the actuarially recommended contribution of PERS to increase. Although the actual cost impact of these assumption changes on the July 1, 2012 valuation is not readily available, the overall effect of the assumption changes on the July 1, 2011 valuation results would have been an increase in the UAAL of PERS of \$464.4 million or 5.6% and an increase in the full actuarially recommended contribution of the State to PERS of \$56.2 million or 6.1%.

In the case of the expected rate of return of assets, the actual rate of return of the Pension Plans depends on the performance of the investment portfolio. The value of the securities in the investment portfolio can dramatically change from one fiscal year to the next, which could, in turn, contribute to substantial increases or decreases in the applicable UAAL. For example, for Fiscal Year 2015, the investment rate of return was 4.14% and, for Fiscal Years 2014 and 2013, the investment rate of return was 16.72% and 11.63%, respectively. The annualized return for the three (3)-year period ending June 30, 2015 was 10.71%. The rate of return on assets assumed by the actuaries for valuation purposes is currently set at 7.90%. Buck Consultants, the actuary for all Pension Plans except TPAF, considers the 7.90% assumed rate of return to be within the acceptable range of rates although at the high end. However, Milliman, Inc., the actuary for TPAF, considers the 7.90% assumed rate of return to be outside their reasonable range and recommends a further reduction in the assumed rate of return.

Methodologies used in Actuarial Valuations. 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. These methods are generally established by State legislation. These methods include the method of amortizing the UAAL, a method of smoothing differences between market value of assets and expected value of assets, and a method of determining when pension benefits accrue for purposes of calculating actuarial liabilities. The State Legislature may change these methods which, depending on the nature of the change, can have a substantial positive or negative impact on the UAAL of the Pension Plans.

One of the methodologies used by the Pension Plans is an asset valuation method of smoothing over a five (5)-year period the differences between market value of assets and expected value of assets. The Pension Plans use this method to prevent extreme fluctuations that may result from temporary or cyclical economic and market conditions. As of June 30, 2015, the aggregate market value of all of the assets of the Pension Plans, as determined by the Pension Plans' actuaries, was approximately \$82.4 billion. As of June 30, 2015, the aggregate actuarial value of all assets of the Pension Plans was \$86.8 billion. Based on these figures, the Pension Plans have a net unsmoothed loss of approximately \$4.4 billion, which is the difference, as of June 30, 2015, between the market value of their assets and the actuarial value of their assets which is calculated using the smoothing method. As a result of the smoothing of gains and losses over a five (5)-year period under the current asset valuation method, the UAAL is lower than it would be if assets were stated at their current market value as of June 30, 2015.

The Pension Plans, except the CP&FPF and the POPF, use the level dollar amortization method in place of the level percent of pay method previously used to calculate the amount of the UAAL that is included in the actuarially recommended rates of contribution, which means that the actuary assumes that the State will pay the same dollar amount to amortize the UAAL in each year of the amortization period. The UAAL is being amortized over an open-ended 30 year period through the July 1, 2018 actuarial valuation. Beginning with the July 1, 2019 actuarial valuation, the UAAL will be amortized over a closed 30-year period until the remaining period reaches 20 years, when the amortization period will revert to an open-ended 20-year period. An open amortization period means that the period over which the UAAL is amortized re-sets to 20 years with each actuarial valuation whereas, in a closed amortization period, the period is reduced with each actuarial valuation.

Investment Portfolio

The Division of Investment of the New Jersey Department of the Treasury invests the assets of the Pension Plans. The State Investment Council is responsible for formulating the policies that govern the methods, practices and procedures for investments, reinvestments, sale or exchange transactions to be followed by the Director of the Division of Investment. State law and State Investment Council regulations regulate the types of investments which are permitted.

Benefits

General. Almost all State employees participate in one of the Pension Plans, with eight to ten years of employment required before retirement benefits become vested. Upon retirement, members of PERS and TPAF enrolled before May 22, 2010 are eligible for annual retirement benefits equal to 1/55 of final average compensation for each year of service credit. 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. Members of PERS and TPAF who were enrolled prior to June 28, 2011 are eligible for an early retirement benefit after 25 years of service, while members who were enrolled on or after June 28, 2011 are eligible for early retirement benefits after 30 years of service. PERS and TPAF members are also eligible for a veteran's retirement benefit after 20 and 25 years of service, if age requirements for those retirement benefits are met. Members who enrolled before June 28,

2011 can qualify for full benefits under early retirement if the member is at least age 55. If the member enrolled on or after June 28, 2011, the member does not qualify for full benefits under early retirement and must be at least age 65 to receive full benefits. Certain retirees also receive a cost-of-living adjustment in addition to their base retirement allowance under the State's pension adjustment program. The pension adjustment program, under which retirees received cost-of-living benefits, was suspended under the 2011 Pension and Health Benefit Reform Legislation; however, cost-of-living benefits earned before the suspension continue to be paid.

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.

Legislative Changes to Benefit Levels. The State Legislature has in the past adopted laws that increased the retirement benefits payable by the Pension Plans and may do so in the future. Increases in retirement benefits increase the actuarial accrued liability of the affected Pension Plans which then increases the actuarially recommended contributions for the State for the affected Pension Plans.

State's Financial Responsibility to the Pension Plans

Annual Contributions. The State's annual actuarially recommended contribution to the Pension Plans is determined by the results of the actuarial valuation reports dated as of July 1 of each year. The actuarial funding method used to determine the State's contribution is a matter of State law. Any change to the funding method requires the approval of the State Legislature and the Governor. The amount the State actually contributes to the Pension Plan may differ from the actuarially recommended contributions of the Pension Plans because the State's contribution to the Pension Plans is subject to the appropriation of the State Legislature and actions by the Governor. See "CERTAIN CONSTITUTIONAL PROVISIONS AND JUDICIAL DECISIONS — Proposed Constitutional Amendment" and "STATE FUNDING OF PENSION PLANS — State's Financial Responsibility to the Pension Plans — *Current and Historical Funding Status and Contributions*" and "— Pension Reforms" below.

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.

State Financial Responsibility for Local Employees. Although local governmental employers participating in the PERS are, for the most part, responsible for funding the normal cost and the UAAL relating to the local governmental members of PERS, State statute stipulates that if the assets in the Benefit Enhancement Fund are insufficient to pay the normal cost portion of these increased retirement benefits for a valuation period (which is valued at \$44.1 million as of the July 1, 2015 PERS actuarial valuation), the State will pay that amount of the normal cost portion for the local governmental employers not covered by the assets in the Benefit Enhancement Fund. The Benefit Enhancement Fund was established by State law in 2001 to fund increased retirement benefits. Since the establishment of the Benefit Enhancement Fund, no amounts have been credited to the Fund other than investment earnings. However, as of the July 1, 2015 PERS actuarial valuation, the level of assets in the Benefit Enhancement Fund continue to be sufficient to meet this obligation. The PERS actuarial valuation as of June 30, 2015 valued the Benefit Enhancement Fund in the local governmental portion of PERS at approximately \$177.2 million. The State expects that the amounts in the Benefit Enhancement Fund will fund these benefits until the fiscal year ending June 30, 2022.

With respect to PFRS, the State makes a contribution to active and retired members of the local governments to cover certain retirement benefit enhancements. For Fiscal Year 2016, based on the Fiscal Year

2016 Appropriations Act, the State is expected to make a contribution to the PFRS of \$138.3 million of which \$61.5 million represents funding for enhanced benefits for local PFRS participants. For Fiscal Year 2017, the Governor's Fiscal Year 2017 Budget Message includes a recommended appropriation to the PFRS of \$195.2 million of which \$86.5 million represents funding for local participant enhanced benefits.

Current and Historical Funding Status and Contributions. From the fiscal year ended June 30, 1997 through fiscal year ended June 30, 2003, the State made minimal contributions to the Pension Plans because the actuarial value of the assets in each of the Pension Plans exceeded the actuarial accrued liability and the State used that excess as a credit against the actuarially recommended contributions. The UAAL of the Pension Plans has consistently risen since Fiscal Year 2004 in part as a result of the State not contributing the full amount of the actuarially recommended contributions with respect to the Pension Plans since Fiscal Year 2003. These low levels of State funding coupled with lower than expected investment returns on an actuarial basis have caused funding levels to decrease substantially. Between the July 1, 2004 and July 1, 2010 actuarial valuations, the aggregate Funded Ratio of the Pension Plans declined from approximately 85.4% to 56.4%. As a result of this decline in the Funded Ratio of the Pension Plans, the actuarially recommended contributions of the State increased significantly.

To address the deteriorating financial condition of the Pension Plans, the 2011 Pension and Health Benefit Reform Legislation was enacted, which initially improved the overall funded status of the Pension Plans. As a result of the 2011 Pension and Health Benefit Reform Legislation, the overall funded ratio of the Pension Plans improved from 56.4% to 65.2% and the total UAAL included in the revised actuarial valuations of the Pension Plans decreased by an aggregate of \$11.5 billion from \$37.1 billion to \$25.6 billion as of the revised July 1, 2010 actuarial valuations. Following the enactment of the pension reforms, the State continued to fund less than the full actuarially recommended contributions, which has caused an increase in the UAAL and a decrease in the Funded Ratio following the 2011 Pension and Health Benefit Reform Legislation. But the pension reforms did provide for a schedule of phased-in contributions which, due to a shortfall in resources, starting in Fiscal Year 2014, the State no longer follows. See "STATE FUNDING OF PENSION PLANS — General" above. In Fiscal Year 2015, a contribution to the Pension Plans of \$892.6 million was made, which was \$3.043 billion less than the full recommended contribution of \$3.935 billion. For Fiscal Year 2015, the amount contributed represented the normal cost portion of the actuarially recommended contribution plus an additional \$212 million which was allocated to the five active Pension Plans. For Fiscal Year 2016, the Fiscal Year 2016 Appropriations Act includes an appropriation to the Pension Plans of \$1.307 billion representing 3/10th of the full actuarially recommended contribution. This appropriation is \$3.050 billion less than the full actuarially recommended contribution of \$4.357 billion. For Fiscal Year 2017, the Governor's Fiscal Year 2017 Budget Message includes a recommended contribution to the Pension Plans of \$1.862 billion, which is based on 4/10th of the projected full actuarially recommended contribution. Since the actuarial valuations applicable to Fiscal Year 2017 have not yet been finalized, the recommended 4/10th contribution may change. This recommended contribution is \$2.805 billion less than the full recommended contribution of \$4.667 billion based on the 2015 draft valuation reports. See "STATE FUNDING OF PENSION PLANS — State's Financial Responsibility to the Pension Plans — Impact of Financial Deterioration of Pension Plans on Benefit Payments" below.

STATUTORY FUNDING STATUS
PENSION FUND ACTUARIAL LIABILITIES AND ASSETS(1)
Actuarial Valuations as of July 1, 2015
(In Millions)

<u>Pension Plan</u>	<u>Actuarial Value of Assets(2)</u>	<u>Actuarial Accrued Liability(2)</u>	<u>Unfunded Actuarial Accrued Liability(2)</u>	<u>Funded Ratio(2)</u>	<u>Market Value of Assets(3)</u>
State					
PERS	\$ 8,868.3	\$ 21,635.5	\$12,767.2	41.0%	\$ 8,218.7
TPAF	28,301.4	55,359.4	27,058.0	51.1%	26,320.7
PFRS	2,004.6	4,516.4	2,511.8	44.4%	1,831.0
CP&FPF	3.3	4.2	0.9	79.4%	2.4
SPRS	1,969.2	3,090.2	1,121.0	63.7%	1,900.7
JRS	243.9	602.4	358.5	40.5%	225.7
POPF	6.7	3.9	(2.8)	172.4%	6.7
Subtotal	<u>\$41,397.4</u>	<u>\$ 85,212.0</u>	<u>\$43,814.6</u>	48.6%	<u>\$38,505.9</u>
Local					
PERS	\$21,495.8	\$ 29,431.9	\$ 7,936.1	73.0%	\$20,557.5
PFRS	23,935.0	31,206.0	7,271.0	76.7%	23,360.0
Subtotal	<u>\$45,430.8</u>	<u>\$ 60,637.9</u>	<u>\$15,207.1</u>	74.9%	<u>\$43,917.5</u>
Total	<u><u>\$86,828.2</u></u>	<u><u>\$145,849.9</u></u>	<u><u>\$59,021.7</u></u>	59.5%	<u><u>\$82,423.4</u></u>

Source: New Jersey Department of the Treasury, Division of Pensions and Benefits. Information was derived from the actuarial valuation reports as of July 1, 2015.

- (1) The actuarial liabilities and assets shown in this chart are based on the actuarial methods and assumptions used to determine the statutory contributions and are different from the actuarial liabilities and assets based on GASB Statement No. 67. See "Recent Accounting Changes Affecting Pension Plans Generally" contained herein.
- (2) For a description of these terms, see "STATE FUNDING OF PENSION PLANS — Actuarial Valuations, Assumptions and Methodologies" above.
- (3) The market value of assets as shown in the actuarial valuation reports for the Pension Plan and included in the table differs from the value of the investment portfolio of the Pension Plans as reported by the Division of Investment. The market value of assets of each of the Pension Plans is as set forth in the actuarial valuation reports for the Pension Plans and represents the full market value of the assets held by the Pension Plan, including expected receivable contributions from the State, local employers and participants, and excludes assets held in the Contributory Group Insurance Premium Fund and the Noncontributory Group Insurance Premium Fund.

HISTORICAL STATUTORY FUNDING STATUS
AGGREGATE PENSION FUND ACTUARIAL LIABILITIES AND ASSETS(1)
Actuarial Valuations as of July 1, 2009 through July 1, 2015
(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					
2009	\$50,138.2	\$79,798.4	\$29,660.2	62.8%	\$36,540.1
2010	47,950.5	72,588.5	24,638.0	66.1	37,765.8
2011	46,736.7	75,622.0	28,885.3	61.8	40,795.3
2012	45,293.4	77,991.1	32,697.7	58.1	38,271.3
2013	44,494.5	80,051.0	35,556.5	55.6	39,486.0
2014	42,486.4	82,563.3	40,076.9	51.5	40,549.3
2015	41,397.4	85,212.0	43,814.6	48.6	38,505.9
Local					
2009	\$38,835.4	\$53,972.0	\$15,136.6	72.0%	\$29,678.8
2010	38,849.9	49,520.7	10,670.8	78.5	31,853.2
2011	40,049.1	51,657.7	11,608.6	77.5	36,042.2
2012	40,925.9	53,714.2	12,788.3	76.2	36,081.9
2013	42,148.8	55,817.5	13,668.7	75.5	38,855.6
2014	43,833.2	58,494.4	14,661.2	74.9	43,394.1
2015	45,430.8	60,637.9	15,207.1	74.9	43,917.5

Source: New Jersey Department of the Treasury, Division of Pensions and Benefits. Information was derived from the actuarial valuation reports as of July 1, 2009 through July 1, 2015 for all the Pension Plans.

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

SCHEDULE OF STATE & LOCAL EMPLOYER CONTRIBUTIONS TO PENSION PLANS
For the Fiscal Year Ending June 30, 2017
(In Millions)

<u>Pension Plan</u>	<u>Actuarial Recommended Contributions(1)</u>	<u>Expected Contributions(2)(4)</u>	<u>Unfunded Amount(3)(4)</u>
State			
PERS	\$1,263.7	\$ 505.5	\$ 758.2
TPAF	2,740.8	1,096.3	1,644.5
PFRS	483.9	193.6	290.3
CP&FPF	0.9	0.9	—
SPRS	133.2	53.3	79.9
JRS	44.2	17.7	26.5
POPF	—	—	—
Subtotal	<u>\$4,666.7</u>	<u>\$1,867.3</u>	<u>\$2,799.4</u>
Local			
PERS	\$ 845.8	\$ 845.8	—
PFRS	779.7	779.7	—
Subtotal	<u>\$1,625.5</u>	<u>\$1,625.5</u>	<u>—</u>
Total	<u>\$6,292.2</u>	<u>\$3,492.8</u>	<u>\$2,799.4</u>

Source: New Jersey Department of the Treasury, Division of Pensions and Benefits. Information regarding the actuarially recommended and expected contributions was derived from the July 1, 2015 draft actuarial valuation reports. Information with respect to the expected contributions of local government participating employers was derived from the July 1, 2015 actuarial valuation reports for PERS and PFRS.

- (1) The actuarially recommended contributions to the indicated Pension Plans in Fiscal Year 2017 will be based on the information contained in the actuarial valuations for the Pension Plans as of July 1, 2015. The PERS and PFRS local employer pension contribution excludes early retirement incentive (“ERI”) contributions payable in Fiscal Year 2017 by local government employers who have adopted ERI programs for their employees. The July 1, 2015 actuarial valuations have not yet been finalized and accepted.
- (2) For Fiscal Year 2017, the State is expected to make a contribution based on 4/10th of the full actuarially recommended contribution. For local participating employers, full contributions based on the actuarially recommended amounts are expected.
- (3) Represents the difference between the actuarially recommended contribution and the expected contribution from the State and the local participating employers.
- (4) Estimated.

SCHEDULE OF STATE & LOCAL EMPLOYER CONTRIBUTIONS TO PENSION PLANS
For the Fiscal Year Ending June 30, 2016
(In Millions)

<u>Pension Plan</u>	<u>Actuarial Recommended Contributions(1)</u>	<u>Expected Contributions(2)(4)</u>	<u>Unfunded Amount(3)(4)</u>
State			
PERS	\$1,182.0	\$ 354.6	\$ 827.4
TPAF	2,548.3	764.5	1,783.8
PFRS	461.1	138.3	322.8
CP&FPF	0.5	0.1	0.4
SPRS	118.6	35.6	83.0
JRS	46.5	14.0	32.5
POPF	—	—	—
Subtotal	<u>\$4,357.0</u>	<u>\$1,307.1</u>	<u>\$3,049.9</u>
Local			
PERS	\$ 816.0	\$ 816.0	—
PFRS	776.6	776.6	—
Subtotal	<u>\$1,592.6</u>	<u>\$1,592.6</u>	<u>—</u>
Total	<u>\$5,949.6</u>	<u>\$2,899.7</u>	<u>\$3,049.9</u>

Source: New Jersey Department of the Treasury, Division of Pensions and Benefits. Information regarding the actuarially recommended contributions was derived from the July 1, 2014 actuarial valuation reports. Information regarding the expected contributions for the State is based on the Fiscal Year 2016 Appropriations Act. Information with respect to the expected contributions of local government participating employers was derived from the July 1, 2014 actuarial valuation reports for PERS and PFRS.

- (1) The actuarially recommended contributions to the indicated Pension Plans in Fiscal Year 2016 are based on the information contained in the actuarial valuations for the Pension Plans as of July 1, 2014. The PERS and PFRS local employer pension contribution excludes ERI contributions payable in Fiscal Year 2016 by local government employers who have adopted ERI programs for their employees.
- (2) For Fiscal Year 2016, the Fiscal Year 2016 Appropriations Act includes a contribution to the Pension Plans based on 3/10th. of the full actuarially recommended contribution. 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) Estimated.

AGGREGATE STATE & LOCAL EMPLOYER CONTRIBUTIONS TO PENSION PLANS
For the Fiscal Years Ending June 30, 2011 through June 30, 2017(1)
(In Millions)

<u>Fiscal Year Ending June 30,</u>	<u>Actuarial Recommended Contributions(2)</u>	<u>Actual and Expected Contributions</u>	<u>Amount Unfunded</u>
State			
2011	\$ 3,060.5	\$ —	\$ 3,060.5
2012	3,391.4	484.5	2,906.9
2013	3,600.2	1,029.3	2,570.9
2014	3,691.2	699.4	2,991.8
2015	3,935.4	892.6	3,042.8
2016	4,357.0	1,307.1	3,049.9
2017	4,666.7	1,867.3	2,799.4
Subtotal	<u>\$26,702.4</u>	<u>\$ 6,280.2</u>	<u>\$20,422.2</u>
Local			
2011	1,611.3	1,611.3	—
2012	1,512.6	1,512.6	—
2013	1,490.6	1,490.6	—
2014	1,436.9	1,436.9	—
2015	1,502.6	1,502.6	—
2016	1,592.6	1,592.6	—
2017	1,625.5	1,625.5	—
Subtotal	<u>\$10,927.8</u>	<u>\$10,927.8</u>	<u>—</u>
Total	<u>\$37,630.2</u>	<u>\$17,208.0</u>	<u>\$20,422.2</u>

Source: New Jersey Department of the Treasury, Division of Pensions and Benefits. Information regarding the actuarially recommended contributions of the State was derived from the actuarial valuation reports as of July 1, 2009 through July 1, 2015. Information regarding the actual contributions of the State for Fiscal Years 2011 through 2015 was provided by the Division of Pensions and Benefits. Information regarding expected contributions of the State for Fiscal Year 2016 is as set forth in the Fiscal Year 2016 Appropriations Act. Information regarding expected contributions of the State for Fiscal Year 2017 was derived from the July 1, 2015 draft actuarial valuations and is based on 4/10th of the full actuarially recommended contribution. Information regarding the actuarially recommended contributions and the actual and expected contributions of local governments was derived from the actuarial valuation reports of PERS and PFRS as of July 1, 2009 through July 1, 2015.

- (1) Please refer to the footnotes of the preceding tables 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 (except with respect to the Funded Ratio which is a weighted average Funded Ratio of all of the Pension Plans).
- (2) For all pension plans, the State and local employer contributions relating to an actuarial valuation as of the end of a fiscal year are made in the second succeeding fiscal year. For example, the State and local employers' contributions relating to the actuarial valuation as of July 1, 2014 will be made in Fiscal Year 2016.

Prospective Funding Status of the Pension Plans. Based on laws currently in effect and other factors currently projected to affect the funding status of the State's Pension Plans, the State continues to expect that the Pension Plans will experience an increase in their UAAL and a decrease in their Funded Ratios. Without further action on the part of the State, the amount of the State's actuarially recommended contributions to the Pension Plans will also increase in the future. The main contributing factors are the phased-in contributions of the State to the Pension Plans pursuant to Chapter 1, the suspension of this phased-in approach for Fiscal Year 2014 and Fiscal Year 2015, and resuming phased-in contributions in Fiscal Year 2016 based on a modified schedule that extends phased-in contributions through Fiscal Year 2022. Based on the Fiscal Year 2016 Appropriations Act, the State appropriated a 3/10th contribution to the Pension Plans in Fiscal Year 2016. For Fiscal Year 2017, based on the Governor's Fiscal Year 2017 Budget Message, a contribution based on 4/10th of the full actuarially

recommended contribution is recommended. Until such time as additional reforms are enacted, the Administration's goal is to annually increase pension appropriations by tenths of the ARC. Under this modified phase-in schedule, the State would not begin making full contributions to the Pension Plans until Fiscal Year 2023. The State does not anticipate the overall financial condition of the Pension Plan to improve until such time that the State resumes making full actuarially recommended contribution. As the State has previously noted, increased contributions in future fiscal years, depending on their magnitude, will likely create a significant burden on all aspects of the State's finances.

Impact of Financial Deterioration of Pension Plans on Benefit Payments. The State's aggregate Funded Ratio of all Pension Plans as of July 1, 2015 was 48.6%, which is the lowest Funded Ratio that the Pension Plans have experienced, and the Funded Ratio has steadily declined following the 2011 Pension and Health Benefit Reform Legislation. The continued financial deterioration of the Pension Plans will cause a substantial increase in the actuarially recommended contributions of the State to the Pension Plans. These actuarially recommended contributions can place a significant burden on all aspects of the State's finances. Further, State budgetary pressures from areas other than contributions to the Pension Plans can place pressure on the State to contribute less than its actuarially recommended contributions, as was the case in Fiscal Years 2014 and 2015 and as is contemplated by the Fiscal Year 2016 Appropriations Act and the Governor's Fiscal Year 2017 Budget Message.

In addition to placing a significant burden on the State's finances, the continued financial deterioration of the Pension Plans will reduce the amount of assets the Pension Plans have to pay benefits to their members. As the financial condition of the Pension Plans has deteriorated, the Pension Plans' Annual Expenditures to Net Assets Ratio has generally increased since Fiscal Year 2005. To illustrate, from Fiscal Year 2010 to Fiscal Year 2015 the total net assets of all of the Pension Plans, which includes both the assets relating to State and local government active and retired members, as reported in their respective audited financial reports, increased by \$9.3 billion from \$72.0 billion to \$81.3 billion, while total expenditures incurred by the Pension Plans over the same period increased by \$2.6 billion from \$7.4 billion to \$10.0 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 10.32% for Fiscal Year 2010 to 12.37% for Fiscal Year 2015. The State expects that this ratio will continue to increase and worsen. Net assets represent the difference between a Pension Plan's total assets and its liabilities and mainly consist of investment holdings, which are stated at market value, and member and employer receivables. Expenditures include retirement benefit payments, including cost-of-living adjustments, contributory and noncontributory death benefit payments, member withdrawals and administrative expenses.

The ratio of market value of assets to the prior year's benefit payments also provides an indication of the ability of the Pension Plans to meet their benefit obligations. The July 1, 2015 actuarial reports, which set forth the actuarial valuations as of June 30, 2015, include certain information described in the actuarial valuations as "risk measures" in either tabular or textual format for each of the individual Pension Plans. This information was 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 2015 and exclude increases in the number of retirees, future increases in those payments, State and member contributions and investment income. Differences in the Pension Plans make the aggregation of such individual data in a single combined presentation inappropriate. For PERS-State, between June 30, 2013 and June 30, 2014, the ratio of market assets to the prior year's benefit payment decreased by 3.0% from 6.7 to 6.5, and between June 30, 2014 and June 30, 2015, the ratio worsened and decreased by 10.8% from 6.5 to 5.8. For TPAF, between June 30, 2013 and June 30, 2014, the ratio decreased by 1.3% from 7.5 to 7.4 and, between June 30, 2014 and June 30, 2015, the ratio worsened and decreased by 9.5% from 7.4 to 6.7.

Although the current level of accumulated assets in the Pension Plans does not jeopardize the payment of pension benefits in the short term, the long-term impact of continuation of a funding policy that allows the State to contribute less than the actuarially recommended contributions could impact, at some point, the Pension Plans' ability to meet their obligations absent significant additional contributions by the State, investment returns in excess of the assumed rate of return or actions or events resulting in reductions to liabilities of the Pension Plans.

Pension Reforms

Chapter 1. In 2010, Chapter 1 was enacted, which provides for the State's contribution to increase by at least an additional 1/7th of the actuarially recommended contribution so that full actuarially recommended contributions are made beginning in Fiscal Year 2018 and each year thereafter. Despite the seven year phase-in of State contributions prescribed by Chapter 1, due to a shortfall in resources, the State stopped following this seven year phase-in schedule starting in Fiscal Year 2014, and the State does not expect to follow this schedule in Fiscal Year 2016 or Fiscal Year 2017. On June 9, 2015, the New Jersey Supreme Court ruled that funding schedule set forth in Chapter 78 was not legally enforceable and that the annual pension contributions are subject to appropriation. See "STATE FUNDING OF PENSION PLANS — State's Financial Responsibility to the Pension Plans — *Current and Historical Funding Status and Contributions*" above and "LITIGATION — *Pension Funding Litigation*" below.

2011 Pension and Health Benefit Reform Legislation. On June 28, 2011, the 2011 Pension and Health Benefit Reform Legislation was enacted. The major reform measures include raising the member contribution rates in the PERS, TPAF, PFRS, SPRS and JRS. In PERS and TPAF, the member contribution rate was increased from 5.5% to 6.5% with an additional 1% increase phased-in in equal increments over a seven-year period. In PFRS and SPRS, the member contribution rate increased from 8.5% to 10% and from 7.5% to 9%, respectively. In JRS, the member contribution rate is increasing an additional 9% from 3% to 12%. The JRS member contribution rate increase is being phased-in over a period of seven (7) years. The reforms also include suspending cost-of-living benefits in all Pension Plans, limiting future retirement benefits payable to new members in the PERS and TPAF by increasing the service retirement age from 60 to 65 and the number of years needed to qualify for early retirement benefits from 25 to 30 years with a one quarter of 1% reduction for each month under age 65, and reducing the special retirement benefit for new PFRS members from 65% of final compensation after 25 years of service and 70% of final compensation after 30 years of service to 60% of final compensation after 25 years and 65% after 30 years.

The 2011 Pension and Health Benefit Reform Legislation contains a provision stating that members of the Pension Plans now have a contractual right to the annual required contribution made by the State and local participating employers and failure by the State and local employers to make annual required contributions is deemed an impairment of the contractual right of each member. However, the Supreme Court issued an opinion on June 9, 2015 holding that "the [State] Legislature and Governor were without authority to enact an enforceable and legally binding long-term financial agreement through" Chapter 78. Therefore, the pension funding right in Chapter 78 is subject to appropriation. This contractual right is the subject of litigation. See below under the captions "LITIGATION" — "*Berg v. Christie*" and "*Pension Funding Litigation*."

The pension reforms also include a change in the amortization method that calculates the amount of the UAAL that is included in the annual pension contribution. Under the new amortization method, the UAAL will be amortized over an open-ended 30 year period and assumed to be paid in level dollars in each year of the amortization period. In addition, beginning with the July 1, 2019 actuarial valuation, the UAAL will be amortized over a closed 30 year period until the remaining period reaches 20 years, when the amortization period will revert to an open-ended 20 year period. This change in the amortization method will ensure that a portion of the UAAL is assumed to be retired in the year that the recommended rates calculated by the actuarial valuation are applied, assuming that the State makes the full actuarially recommended contribution.

The pension reforms also include the establishment of six new pension committees for the Pension Plans which, together with the State House Commission for JRS, will have the discretionary authority to modify various aspects of the Pension Plans once they meet a targeted funded ratio. The target funded ratio is initially set at 75% in Fiscal Year 2012 and increases annually in equal increments to 80% by Fiscal Year 2018. After reaching the targeted funded ratio, these committees (and the State House Commission for JRS) will have the discretionary authority to modify member contribution rates, the formula for calculation of final compensation or final salary, the fraction used to calculate a retirement allowance, and the age at which a member may be eligible for service and early retirement benefits. The committees will also have the authority to reactivate the cost of

living adjustment on pensions and to modify the basis for the calculation of the cost of living adjustment and set the duration and extent of the activation when the targeted funded ratio is reached. However, no decision of the committees (or the State House Commission for the JRS) can be implemented if the direct or indirect result of the decision causes the projected funded ratio of the applicable Pension Plan to fall below the targeted funded ratio in any valuation period during the 30 years following the implementation of the decision as determined by the actuary for the applicable Pension Plan.

New Jersey Pension and Health Benefit Study Commission. In August 2014, the Governor created the Commission. The Commission was tasked with making recommendations regarding, among other things, the goals and criteria and funding policies for a sustainable retirement and health benefit system. The Commission completed its evaluation of the Pension Plans and issued its recommendations in a report to the Governor in February, 2015. The Commission's recommendations include freezing the current defined benefit Pension Plans and shifting active employees to a new cash balance hybrid plan, and requiring employees to contribute more toward the cost of their health insurance. If the recommendations of the Commission are adopted, it could substantially impact the UAAL and Funded Ratio or substantially increase or decrease the State's contributions, or both. The Commission issued a follow-up report on February 11, 2016 entitled "Supplemental Report on Health Benefits" that provides more detail on the Commission's health benefit reform recommendations. No assurance can be provided that any of the reform measures being proposed by the Commission will eventually be approved by the State Legislature and the Governor.

As part of its process of analyzing the condition of the Pension Plans and formulating its recommendations, the Commission has requested and is expected to continue to request that the State provide to it information regarding the Pension Plans containing data in addition to or different from that presented herein and analyses using assumptions and methodologies which differ from those used herein. As a result the Commission may develop for its own internal use or for public dissemination information characterizing the present and projected financial condition of the Pension Plans which differs markedly from that presented herein. The State continues to believe that the information relating to the Pension Plans contained herein, including information describing assumptions and methodologies employed, provides a reasonable basis to evaluate the status of the State's Pension Plans. Investors and other market participants should refer only to this Appendix I and official supplements thereto provided by the State.

Alternate Benefit Program

In addition to these defined benefit programs, the State also maintains the Alternate Benefit Program ("ABP"), which is a defined contribution plan for eligible employees of the public institutions of higher education in the State. Employer and employee contributions under the ABP are paid to authorized investment carriers who offer participants a variety of investment choices. The seven investment carriers for this program are ING Life Insurance and Annuity Company, Met Life, TIAA- CREF, VALIC, AXA Financial (Equitable), The Hartford and Prudential Retirement. The State pays the employer pension contribution to the ABP at a rate equal to 8.0% of the member's base salary. In addition, the State provides funding to cover the cost of noncontributory group life insurance and long-term disability insurance coverage for ABP participants. For Fiscal Years 2014 and 2015, the State contributed \$186.6 million and \$185.5 million, respectively, to cover pension contributions and to provide funding for noncontributory group life insurance and long-term disability benefits. For Fiscal Year 2016, the Fiscal Year 2016 Appropriations Act includes \$195.3 million to cover ABP pension and insurance benefit costs and, for Fiscal Year 2017, the Governor's Fiscal Year 2017 Budget Message includes \$194.3 million to cover such benefit costs. Since the ABP is a defined contribution plan and not a defined benefit plan, the State's sole obligation with respect to the ABP is to make the annual contributions and the State has no responsibility to ensure that the participating employees ultimately receive a level of benefit.

Defined Contribution Retirement Program

The State Legislature adopted legislation in the fiscal year ending June 30, 2007, *L. 2007, c. 92*, amended by *L. 2007, c. 103*, *L. 2008, c. 89*, and *L. 2010, c. 1*, which required the establishment of the Defined Contribution

Retirement Program (the “DCRP”). The DCRP includes a defined contribution plan providing pension benefits for elected and appointed officials, for certain PERS, TPAF, PFRS and SPRS employees with pensionable wages in excess of the Social Security wage base limit and certain part-time employees ineligible for membership in the PERS and TPAF. The DCRP also includes noncontributory group life insurance and long-term disability benefits for participants. The employee pension contribution rate for the DCRP is 5.5%. Employers are required to contribute an additional 3.0% of base salary on behalf of employees enrolled in the plan to fund pension benefits. With regard to PERS, TPAF, PFRS and SPRS members that are enrolled in the DCRP because their pensionable wages exceed the Social Security wage base limit, contributions are based on compensation in excess of the Social Security wage base limit.

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

For Fiscal Years 2014 and 2015, the State contributed \$1.2 million and \$1.3 million, respectively, to the DCRP to cover pension and insurance benefit costs. For Fiscal Year 2016, the Fiscal Year 2016 Appropriations Act includes a recommended appropriation of \$2.0 million to cover pension and insurance benefit costs. For Fiscal Year 2017, the Governor’s Fiscal Year 2017 Budget Message includes 1,252,000 as the State’s pension contribution to the DCRP and \$581,000 to cover insurance benefit costs.

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

Noncontributory Life & Long-Term Disability Insurance. The State funds noncontributory life insurance benefit costs for active and retired State employees. State appropriations are received on a monthly basis to cover actual benefit charges incurred and payable to beneficiaries of active and retired State employees plus administrative fees charged by the insurance providers. The State funds these benefit costs on a pay-as-you-go basis and does not actuarially determine the future liability of these benefit costs; therefore benefit costs can fluctuate from year to year. For Fiscal Years 2014 and 2015, the State contributed \$76.7 million and \$77.8 million, respectively, to cover noncontributory life insurance benefit costs. For Fiscal Year 2016, the Fiscal Year 2016 Appropriations Act includes \$83.7 million to fund anticipated noncontributory insurance benefit costs. For Fiscal Year 2017, the Governor’s Fiscal Year 2017 Budget Message includes \$85.0 million to fund life insurance benefit costs.

Under *L. 2010, c. 3*, the State is required to provide long-term disability (“LTD”) insurance coverage to PERS and TPAF members hired after May 22, 2010. Through Fiscal Year 2015, the State has incurred no benefit costs as a result of this coverage. However, beginning in Fiscal Year 2016, the State will be required to pay premiums for this LTD coverage under an agreement negotiated between the State and the State’s insurance provider. For Fiscal Year 2016, the Fiscal Year 2016 Appropriations Act includes \$4.6 million to cover anticipated LTD premiums. For Fiscal Year 2017, the Governor’s Fiscal Year 2017 Budget Message includes \$5.3 million to cover premium costs.

Recent Accounting Changes Affecting Pension Plans Generally

On June 25, 2012, GASB approved two new standards designed to improve the accounting and financial reporting of public employee pensions by state and local governments and enhance the usefulness of pension information for making decisions and assessing accountability. New GASB Statement No. 67, *Financial Reporting for Pension Plans*, replaced GASB Statement No. 25, and revised existing guidance for the financial reports of public pension plans beginning after June 15, 2013. The Fiscal Year 2014 and Fiscal Year 2015 Division of Pensions and Benefits financial statements are in compliance with this new accounting standard. New GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, replaces GASB Statements No. 27

and No. 50, and revises and establishes new financial reporting requirements for governmental employers that provide their employees with pension benefits. The provisions in new GASB Statement No. 68 are effective for fiscal years beginning after June 15, 2014. The CAFR is in compliance with the new GASB Statement No. 68 requirements. Although these new GASB Statements are intended to improve comparability between public pension plans by standardizing the way certain financial data relating to these plans are disclosed, they do not require plans to change their methods used to compute actual employer contributions to the plan. Employer contributions to the Pension Plans continue to be calculated per the requirements of the governing State statutes using generally accepted actuarial procedures and practices.

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

The new GASB Statements requires that the discount rate used to discount projected benefit payments to their present value will be based on a single rate that reflects (a) the long-term expected rate of return on plan investments as long as the plan net position is projected under specific conditions to be sufficient to pay pensions of current employees and retirees and the pension plan assets are expected to be invested using a strategy to achieve that return; and (b) a yield or index rate on tax-exempt 20-year, AA- or higher rated municipal bonds to the extent that the conditions for use of the long-term expected rate of return are not met. The new standards require the calculation of a "depletion date" based on a projection as to the length of time assets will cover projected benefit payments over a 99-year projection period under certain assumptions. For purposes of projecting future employer contributions, the State must assume that the amount that it contributes to each Plan for each future year is equal to the average of its contributions for the most recent five (5) years to ensure compliance with the new standard. This requirement will continue until such time that a consistent contribution pattern is followed per state statute or other formally adopted funding policy.

The results, summarized from the recently completed GASB Statement No. 67 reports as of June 30, 2015 are shown in the following chart:

**GASB Statement No. 67 Disclosure
Net Pension Liability Plan Fiduciary Net Position(1)
Based on Actuarial Valuations as of July 1, 2015
(In Millions)**

<u>Pension Plan</u>	<u>Plan Fiduciary Net Position</u>	<u>Total Pension Liability</u>	<u>Plan Net Pension Liability</u>	<u>Plan Fiduciary Net Position as a % of TPL</u>	<u>Depletion Date</u>
PERS(2)	\$28,553.6	\$ 74,723.7	\$ 46,170.1	38.21%	6/30/2033
TPAF	25,604.8	89,178.5	63,573.7	28.71	6/30/2027
PFRS(3)	25,106.9	47,517.8	22,410.9	52.84	6/30/2045
CP&FPF	2.4	3.7	1.3	65.84	(4)
SPRS	1,867.7	4,643.8	2,776.1	40.22	6/30/2033
JRS	212.8	970.0	757.2	21.94	6/30/2022
POPF	6.7	4.0	(2.7)	166.96	(4)
Total	<u>\$81,354.9</u>	<u>\$217,041.5</u>	<u>\$135,686.6</u>	<u>37.48%</u>	

- (1) Based on Market Value
- (2) Of the total Net Pension Liability of \$46,170.1 million for PERS, \$23,722.1 million is the estimated State portion and \$22,448 million is the estimated Local portion.
- (3) Of the total Net Pension Liability of \$22,410.9 million for PFRS, \$4,293.7 million is the estimated State portion and \$18,117.2 million is the estimate Local portion.
- (4) The Plan's fiduciary net position was projected to be sufficient to make all projected future benefit payments of current Plan members.

In all Pension Plans, except the CP&FPF and the POPF, it has been determined that future assets will not cover all projected future benefit payments and, as a result, a lower or blended discount rate has been used to value the Plans' liabilities in these Pension Plans. For valuing plan liabilities after the depletion date, the actuaries applied a discount rate of 3.80%. The Plans' current discount rate for purposes of determining the statutory contribution amounts of 7.9% was used to value plan liabilities before the depletion date. The GASB Statement No. 67 liabilities for State and Local shown in footnotes two (2) and three (3) above were computed separately for each group based on the same GASB discount rate. The discount rate was determined based on the depletion date for the total plan (State and Local combined). The total liability shown in the GASB Statement No. 67 chart above is the sum of the State and Local GASB Statement No. 67 liabilities.

The following chart summarizes the GASB Statement No. 67 valuation results as of July 1, 2014 and July 1, 2015:

**GASB Statement No. 67 Funding Status
Net Pension Liability Plan Fiduciary Net Position(1)
Actuarial Valuations as of July 1, 2014 and July 1, 2015
(In Millions)**

<u>July 1,</u>	<u>Plan Fiduciary Net Position</u>	<u>Total Pension Liability</u>	<u>Plan Net Pension Liability</u>	<u>Plan Fiduciary Net Position as a % of TPL</u>
2014	\$83,482.5	\$196,607.9	\$113,125.4	42.46%
2015	\$81,354.9	\$217,041.5	\$135,686.6	37.48%

- (1) Based on Market Value

Between July 1, 2014 and July 1, 2015, the Net Pension Liability of the Pension Plans increased by \$22.561 million from \$113,125.4 million to \$135,686.6 million and the Net Position as a Percentage of the Total Plan Liability decreased from 42.46% to 37.48%. This increase in the Net Pension Liability and reduction in the overall Net Position as a Percentage of the Total Plan Liability is primarily attributable to the State funding less than the full actuarially recommended contribution. An informational copy of the July 1, 2014 valuation report is posted on the Division of Pensions and Benefits' website at: <http://www.state.nj.us/treasury/pensions/financial-rprts-home.htm>. The July 1, 2015 valuation report has not yet been posted on the Division's website. No information posted on the Division's website is incorporated by reference in this Appendix I.

The new standard contains a provision that requires a pension plan to be treated as a single trust for purposes of valuing the plan when there are no separate trust agreements in place for the component groups within the plan. Since there is no language in legislation that legally segregates the State and local components within the Public Employees' Retirement System (PERS) and the Police and Firemen's Retirement System (PFRS), the information and disclosures for these two multi-employer plans had to be developed in the aggregate per system and not separately for the State and the local participating employers. If the State and local employers were segregated for GASB Statement No. 67 disclosure purposes, the State's Plan Fiduciary Net Position as a percentage of Total Pension Liability in both PERS and PFRS would have been lower than the combined State and local Plan Fiduciary Net Position as a percentage of Total Pension Liability shown in the above chart, and the local employer Plan Fiduciary Net Position as a percentage of Total Pension Liability would have been higher.

Treating the PERS and PFRS pension plans as a single trust for purposes of the new GASB statements does not change the statutory funding requirements. For internal recordkeeping purposes and for purposes of determining the annual actuarially recommended contributions, the pension plans continue to segregate the active and retired members and the related accrued liabilities between the State and local governments. See "STATE FUNDING OF PENSION PLANS — State's Financial Responsibility to the Pension Plans — *Current and Historical Funding Status and Contributions*" above.

GASB Statement No. 68 Results: As indicated above, GASB Statement No. 68 supersedes financial reporting requirements for the State and local governmental employers under GASB Statements No. 27 and 50 as they relate to pensions that are provided through the State-administered retirement system. GASB Statement No. 68 is effective for fiscal years beginning after June 15, 2014. This statement requires each participating employer to recognize and record as a liability on their financial statements their proportionate share of the collective net pension liability determined under GASB Statement No. 67. For the fiscal year ending June 30, 2015, each participating employer must recognize their share of the total net pension liability of \$113,125.4 million determined as of June 30, 2014. The State's share of the collective net pension liability as of June 30, 2014 has been determined to be \$78.9 billion. This amount has been recorded as a liability on the State's financial statements for the fiscal year ending June 30, 2015.

The following chart summarizes the allocation of the net pension liability of \$113,125.4 determined under GASB Statement No. 68:

Allocation of Net Pension Liability (NPL) per GASB Statement No. 68(1)
(In Millions)

<u>Pension Plan</u>	<u>State</u>	<u>State Non-Employer(1)</u>	<u>Total State</u>	<u>State Colleges & Universities</u>	<u>Locals</u>	<u>Plan Net Pension Liability</u>
PERS	\$17,274.1	\$ —	\$17,274.1	\$2,853.0	\$18,722.7	\$ 38,849.8
TPAF	366.3	53,446.7	53,813.0	—	—	53,813.0
PFRS	3,412.0	1,354.6	4,766.6	141.0	12,579.1	17,486.7
CP&FPF	1.7	—	1.7	—	—	1.7
SPRS	2,308.2	—	2,308.2	—	—	2,308.2
JRS	669.2	—	669.2	—	—	669.2
POPF	(3.2)	—	(3.2)	—	—	(3.2)
Total	<u>\$24,028.3</u>	<u>\$54,801.3</u>	<u>\$78,829.6</u>	<u>\$2,994.0</u>	<u>\$31,301.8</u>	<u>\$113,125.4</u>

(1) The TPAF and a portion of local government component of the PFRS represent special funding situations because the State is legally responsible for making contributions directly to these plans that is used to provide pension to non-State employees. Pursuant to GASB Statement No. 68, these special funding situations require the State to recognize its proportionate share of the collective NPL for these plans.

Since there is no statutory requirement that the State fund the pension costs for the State colleges and universities, the State is not required under GASB Statement No. 68 to include the State college and university portion of the net pension liability, which is estimated to be \$2.994 billion, as a liability on its financial statements. However, the State’s longstanding practice has been to pay the required pension contributions on behalf of the various State higher education institutions and it is expected that this longstanding practice will continue in the future.

An informational copy of the GASB Statement No. 68 actuarial valuation report for the various Pension Plans is posted on the Division’s website. No information posted on the Division’s website is incorporated by reference in this Appendix I.

FUNDING POST-RETIREMENT MEDICAL BENEFITS

In addition to the pension benefits, the State provides post-retirement medical (“PRM”) benefits for certain State and other retired employees meeting the service credit eligibility requirements. This includes retired State employees of PERS, TPAF, PFRS, SPRS, JRS and ABP; local retired TPAF and other school board employees; and some local PFRS retirees. To become eligible for this State-paid benefit, a member of these Pension Plans must retire with 25 or more years of pension service credit or on a disability pension. These benefits are provided through the State Health Benefits Program (“SHBP”) and the School Employees’ Health Benefits Program (“SEHBP”). The SHBP and the SEHBP are administered by the Division of Pensions and Benefits. The benefits provided include medical, prescription drug, and Medicare Part B and Part D reimbursement for covered retirees, spouses and dependents. In Fiscal Year 2015, the State paid PRM benefits for 140,415 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 Years 2014 and 2015, the State contributed \$1.396 billion and \$1.684 billion, respectively, to pay for pay-as-you-go PRM benefit costs incurred by covered retirees. The increase in the State’s pay-as-you-go contribution between Fiscal Year 2014 and Fiscal Year 2015 is attributable to rising health care costs, an increase in the number of participants qualifying for State-paid PRM benefits at retirement and larger fund balance utilization in Fiscal Year 2014 than in Fiscal Year 2015. For Fiscal Year 2016, the Fiscal Year 2016 Appropriations Act included \$1.783 billion as the State’s contribution to fund pay-as-you go PRM costs. For Fiscal Year 2017, the Governor’s Fiscal Year 2017 Budget Message includes \$1.989 billion to cover PRM benefit costs. The State expects that funding to cover the pay-as-you-go PRM benefit costs will continue to increase going forward. However, as a result of health reform measures enacted by the State in 2011, including a requirement that certain future retirees eligible for State-paid coverage contribute toward such coverage, the rate of growth in the State’s contribution should begin to decrease in the future. See “FUNDING POST-RETIREMENT MEDICAL BENEFITS — *Pension and Health Benefits Reform*” herein.

In accordance with the provisions of GASB Statements No. 43 and 45, the State is required to quantify and disclose its obligations to pay PRM to current and future retirees. Based on the most recent valuation of these benefits and as summarized in the report, “Postemployment Benefits Other Than Pension Actuarial Valuation,” submitted to the Division of Pensions and Benefits by Aon Hewitt in May 2015, the Fiscal Year 2014 actuarial accrued liability of the State to provide PRM to active and retired members of the Pension Plans, which is based upon GASB Statement No. 43 results as of July 1, 2014, has been measured to be \$65,046.2 million, an increase of \$12,046.1 million or 22.73% as compared to the Fiscal Year 2013 actuarial accrued liability of \$53,000.1 million. The 2014 valuation report is currently under review and has not yet been finalized. An informational copy of the valuation report will be posted on the Division of Pensions and Benefits’ website at: <http://www.state.nj.us/treasury/pensions/financial-rprts-home.htm> when it has been finalized and approved. GASB Statement No. 45 does not impose any requirement on the State to pre-fund its PRM actuarial accrued liability.

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

	GASB Statement No. 43 Results		
	As of July 1, 2014(1)		
	(In Millions)		
	<u>State</u>	<u>Education-State</u>	<u>Total</u>
Actuarial Accrued Liability*			
Active	\$12,967.2	\$22,444.4	\$35,411.6
Retired	\$11,503.3	\$18,131.3	\$29,634.6
Total	\$24,470.5	\$40,575.7	\$65,046.2

* There is no pre-funding of obligations at this time.

- (1) 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 \$16,408.5 million. The State has no legal responsibility with respect to the PRM obligations of local governmental employers.

Aon Hewitt calculated the State PRM actuarial accrued liability based on plan provisions, as provided by the State, along with certain demographic and economic assumptions recommended by Aon Hewitt and approved by the State, and which conform to the requirements of GASB Statement No. 43 and 45. Aon Hewitt used the projected unit credit Actuarial Method to calculate the PRM actuarial accrued liability of the State and local participating employers. Many of the actuarial assumptions used to project the PRM actuarial accrued liability are the same as those used to determine the accrued actuarial liabilities of the Pension Plans. The discount rate used to determine the retiree healthcare liabilities is 4.5%, which is the maximum discount rate that GASB Statement No. 43 and 45 permit when employers do not pre-fund their PRM actuarial accrued liabilities. When projecting the growth of expected claims of the lifetimes of the qualifying retirees, (1) Aon Hewitt assumed that pre-age 65 PPO medical benefits would increase at a rate of 7.5% in Fiscal Year 2015 and decrease to a 5.0% long-term trend after five (5) years. For post-65 PPO medical benefits, the trend rate is 5.0%. For HMO medical benefits for both pre and post-age 65, the trend rate is 7.0% in Fiscal Year 2015 and decreases to a 5.0% long-term trend rate after 4 years. and (2) Aon Hewitt assumed that prescription drug benefits would increase at a rate of 13.0% for current and future retirees in Fiscal Year 2015 and decrease to a 5.0% long-term trend rate after eight (8) years. 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, will be provided in the July 1, 2014 State of New Jersey, Postemployment Benefits Other Than Pension Actuarial Valuation. An informational copy of the valuation report will be posted on the Division of Pensions and Benefits' website at: <http://www.state.nj.us/treasury/pensions/financial-rprts-home.htm> when the report has been finalized and approved. The valuation reports for the years July 1, 2006 through July 1, 2013 are posted on the website.

SCHEDULE OF ACTUARIAL STATUS OF POST-RETIREMENT MEDICAL BENEFITS
Actuarial Valuations as of July 1, 2006 through July 1, 2014
(In Millions)

<u>Actuarial Value Date</u>	<u>Unfunded Actuarial Liability (UAAL)(1)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAA as a Percentage of Covered Payroll</u>	<u>Actual Pay-As-You-Go Contribution</u>
State & Education					
7/1/2006	\$58,059.0	0%	n/a	n/a	\$ 955.8
7/1/2007	\$50,649.5	0%	n/a	n/a	\$1,021.6
7/1/2008	\$55,913.5	0%	\$20,180.2	277.1%	\$1,055.7
7/1/2009	\$56,782.5	0%	\$20,794.4	273.1%	\$1,045.7
7/1/2010	\$59,282.0	0%	\$20,870.0	284.1%	\$1,111.8
7/1/2011	\$48,949.7	0%	\$20,286.7	241.3%	\$1,191.6
7/1/2012	\$51,502.6	0%	\$20,513.9	251.1%	\$1,221.8
7/1/2013	\$53,000.1	0%	\$20,964.3	252.8%	\$1,363.9
7/1/2014	\$65,046.2	0%	\$20,081.7	323.9%	\$1,357.8
Local					
7/1/2006	\$10,774.6	0%	n/a	n/a	\$ 159.5
7/1/2007	\$ 9,096.6	0%	n/a	n/a	\$ 159.2
7/1/2008	\$ 8,840.5	0%	\$ 2,411.7	366.6%	\$ 145.2
7/1/2009	\$10,010.4	0%	\$ 2,607.2	384.0%	\$ 142.0
7/1/2010	\$12,089.8	0%	\$ 2,844.1	425.1%	\$ 173.6
7/1/2011	\$11,127.0	0%	\$ 2,831.0	393.0%	\$ 204.7
7/1/2012	\$12,378.1	0%	\$ 2,937.0	421.4%	\$ 245.5
7/1/2013	\$13,804.5	0%	\$ 3,156.0	437.4%	\$ 306.6
7/1/2014	\$16,408.5	0%	\$ 3,067.6	534.9%	\$ 354.0

Source: New Jersey Department of the Treasury, Division of Pensions and Benefits. Information regarding the unfunded actuarial accrued liability, funded ratio, and covered payroll was derived from the Postemployment Benefits Other Than Pension Actuarial Valuation Reports dated July 1, 2006 through July 1, 2014. Information regarding the actual pay-as-you-go contributions was provided by the Division of Pensions and Benefits.

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

Pension and Health Benefits Reform. On June 28, 2011, the Governor signed into law health benefits reform as part of the 2011 Pension and Health Benefits Reform Legislation which required all public employees participating in the SHBP and SEHBP to contribute more toward their health insurance coverage. The legislation also required certain future retirees eligible for State-paid health insurance coverage at retirement to contribute toward the cost of their post-retirement medical coverage. Specifically, the 2011 Pension and Health Benefits Reform Legislation required active employees to pay a percentage of the premium for the level of coverage selected by the employee. The percentage varies based on the employee's base salary and the coverage level and ranges from 3% for the lowest paid employees to 35% for the highest paid employees. For those employees employed as of June 28, 2011, the contribution rates were phased-in over a four year period in increments of 25% per year. New employees hired on or after June 28, 2011 are required to contribute at the full rate. The 2011 Pension and Health Benefits Reform Legislation established a minimum employee contribution of 1.5% of salary in the first year due to the four (4)-year phase-in provision; however, beginning in the second year of the four (4)-year phase-in period, which commenced in July 2012, most employees were required to pay a higher contribution based on the new percentage as reflected on the premium tables. By July, 2014, the four (4)-year phase-in period was completed for most State employees. Pursuant to the 2011 Pension and Health Benefits Reform Legislation, future retirees eligible for PRM coverage who on June 28, 2011 had less than 20 years of creditable service will also be required to pay a percentage of the cost of their health care coverage at retirement under the new law provided they retire with 25 or more years of pension service credit. However, the percentage of the premium for which the retiree will be responsible will be determined based on the retiree's annual retirement benefit and level of coverage. For more information about challenges to the Chapter 78 post-retirement medical benefit reforms, see "LITIGATION — *Pepe v. State*".

In accordance with the 2011 Pension and Health Benefits Reform Legislation, two new Plan Design Committees were formed, one for the SHBP and one for the SEHBP. These new committees have established new plan design options for participating employees and retirees in the SHBP and SEHBP with lower premiums in exchange for higher copayments, deductibles and other participant costs. The new plan design options include High Deductible Health Plans with a Health Savings Account component. The State Health Benefits Commission and the School Employees' Health Benefits Commission approved the new plan design options on October 12, 2011, which were available to participants beginning January 1, 2012. The Commissions approved additional lower cost plan design options established by the design committees which were available to participants beginning January 1, 2014. The State Health Benefits Commission approved a Tiered Network Plan, which was available to State participants beginning in plan year 2016. Savings are already expected from under spending in Fiscal Year 2016. The State Health Benefits Program Plan Design Committee, at a meeting on July 6, 2015, approved a package of prescription and health plan changes that will reduce the cost to the State of providing prescription and health coverage to State employees and retirees. The changes include restricting compound medications, prioritizing Hepatitis C treatments, limiting chiropractic and acupuncture out-of-network coverage, and increasing all emergency room copays. These changes are projected to result in calendar year 2016 gross saving of over \$100 million. In January 2016, the School Employees' Health Benefits Program Plan Design Committee approved restricting compound medications and prioritizing Hepatitis C treatments effective as soon as possible but no later than April 1, 2016. These changes are projected to result in calendar year 2016 gross saving of approximately \$97 million. Fiscal Year 2017 recommended appropriations for active health benefits and post-retirement medical benefits assume \$250 million in additional savings from future reforms. Reforms can be enacted by the State Health Benefits Plan Design Committee and the School Employees' Health Benefits Plan Design Committee, respectively or through legislation.

As shown in the *Schedule of Actuarial Status of Post-Retirement Medical Benefits* above, the total unfunded actuarial accrued liability ("UAAL") for post-retirement medical benefits for which the State is liable increased by \$12.046 billion or 22.73% between the July 1, 2013 and July 1, 2014 actuarial valuations from \$53.0 billion to \$65.046 billion. Major factors that caused this significant increase in the UAAL include the following: (1) the State continues to fund post-retirement medical benefits on a pay-as-you-go basis as opposed to prefunding

benefits by making the actuarially recommended normal contribution and making a contribution toward the unfunded liability; (2) new mortality assumption tables were utilized in the 2014 valuation which assume longer life expectancies as compared to the prior mortality assumptions; and (3) the trend rates used to forecast future retiree prescription drug costs were increased as a result of recent poor experience and projected future increases in retiree prescription drug costs. In addition, as a result of Federal healthcare reform, certain health plans will be subject to a 40% excise tax on per capita medical benefit costs that exceed certain prescribed thresholds. The 40% excise tax was effective beginning in plan year 2018; however, recent federal legislation has postponed the assessment of the excise tax until plan year 2020. The excise tax will be applied to the annual aggregate value of individual coverage in excess of \$10,200 and family coverage in excess of \$27,500. It is anticipated that several of the health plans offered by the State under the SHBP and SEHBP will be subject to this excise tax. Based on the revised medical and prescription drug trend assumptions used in the 2014 valuation, the projected liability associated with the excise tax has increased between the July 1, 2013 and July 1, 2014 OPEB valuations. The reduction in the post-retirement medical UAAL between the July 1, 2010 and July 1, 2011 actuarial valuations was mainly attributable to a change in the prescription drug Medicare integration from the Retiree Drug Subsidy (“RDS”) to an Employer Group Waiver Program (“EGWP”) effective January 1, 2012. In addition, GASB regulations allow such federal payments and reimbursements under EGWP to be reflected in the total UAAL. As a result of the change in the prescription drug Medicare integration, the State’s portion of the total UAAL for post-retirement medical benefits decreased by an estimated \$9.437 billion or 16% as of the July 1, 2011 actuarial valuation. The reduction in the State’s portion of the total post-retirement medical UAAL between the July 1, 2010 and July 1, 2011 actuarial valuations was also attributable to the health reform measures included in the 2011 Pension and Health Benefits Reform Legislation, which lowered unfunded accrued liabilities by approximately 4.0% or \$2.5 billion as of July 1, 2011.

LITIGATION

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

Bacon v. New Jersey Department of Education. On September 8, 2014, the Bacon districts (sixteen rural, poor school districts) filed a verified complaint and order to show cause in the New Jersey Superior Court, Law Division. The Bacon districts previously had a multi-year administrative litigation (which ended in 2006) against the New Jersey Department of Education (“DOE”) to determine whether the prior funding formula under the Comprehensive Educational Improvement and Financing Act (“CEIFA”) was unconstitutional as applied to the Bacon districts. While factual findings were made that the Bacon districts were not providing a thorough and efficient education to their students, in March 2008, the Appellate Division ordered the DOE Commissioner to conduct a needs assessment of the Bacon districts to determine whether the School Funding Reform Act of 2008 (“SFRA”) provided sufficient funds to the Bacon districts in order to provide a thorough and efficient education to their students. The reports concluded that sufficient funds were available but also directed regionalization studies, training and technical assistance. The Plaintiffs now allege that because the Bacon districts have not received the State aid required under SFRA, the Bacon district students are being deprived of a thorough and efficient education as called for in the State Constitution. The Plaintiffs seek an order “requiring the provision of K-12 funding, preschool, facilities improvements and other measures as determined necessary to remedy the continuing constitutional violation” in the Bacon districts. The State’s motion to dismiss was granted on December 15, 2014. The Plaintiffs filed an appeal and on November 6, 2015, the Appellate Division affirmed the trial court’s order dismissing the Plaintiff’s complaint. The Plaintiffs have filed a notice of petition for certification, which is currently pending before the New Jersey Supreme Court. The State intends to vigorously defend this matter.

East Cape May Associates v. New Jersey Department of Environmental Protection. This matter is a regulatory taking case in which the Plaintiff claims that it is entitled to damages for a taking of its property without just compensation. The property is approximately 96 acres of freshwater wetlands in the City of Cape May. Plaintiff filed its complaint in Superior Court, Law Division, on December 8, 1992, after the DEP denied an application for 366 single family homes. On motion for summary judgment, the trial court ruled that the State was liable for a regulatory taking as of December 1992. Thereafter, the New Jersey Appellate Division held that DEP could avoid liability by approving development on the property under Section 22(b) of the Freshwater Wetlands Protection Act. In addition, the Appellate Division remanded the case for a determination of whether the “property” also included 100 acres previously developed by the Plaintiff’s principals. On remand from the Appellate Division, the trial court ruled on October 8, 1999 that the “property” did not include the 100 acres previously developed, and that DEP could not approve development of the 80 remaining acres without first adopting rules. Since DEP had not adopted rules, the trial court held that DEP’s development offer of 64 homes on the 80 acres was ineffective and DEP was liable for a taking of the property. The State filed an appeal of the trial court’s decision and East Cape May Associates filed a cross-appeal. On July 25, 2001, the Appellate Division affirmed the trial court’s decision, and found that before DEP could approve limited development to avoid a taking, it was required to adopt rules. The Appellate Division remanded the case for such rule-making, the making of a development offer under the rules, and a determination by the trial court as to whether the new offer complies with the rules and avoids a taking. Upon remand from the Appellate Division, DEP promulgated regulations to implement Section 22(b), which took effect on January 22, 2002. On July 1, 2009, the parties reached a settlement of the case, and submitted a consent order and stipulation of dismissal to the trial court contingent upon federal approval from the United States Army Corps of Engineers. The relevant federal agencies expressed opposition to the proposed settlement. On May 25, 2012, East Cape May Associates served notice asserting its rights to terminate the settlement, demanding that within 60 days DEP initiate the reconsideration process. DEP has initiated the reconsideration process pursuant to the regulations.

On June 4, 2014, DEP issued its amelioration authorization which approves development of between 80 to 90 dwelling units clustered on approximately 25 acres of land on the 100-acre parcel. The authorization is consistent with municipal residential zoning, requiring conservation of the remaining 75 acres. DEP is also

requiring mitigation of 25 acres of barren land which will serve the migratory bird species which now use the subject property. Plaintiff has reinstated its longstanding complaint in the trial court. Plaintiff claims the amelioration authorization is excessive for this environmentally sensitive property and therefore does not follow DEP's rules, and is also inadequate to avoid a taking.

Discovery is ongoing. The trial court judge has initially ordered that DEP must produce its experts first, stating that DEP holds the burden of proof. DEP filed an interlocutory motion for leave to appeal the burden of proof assignment, which was subsequently denied by the Appellate Division. Surrounding neighbors have also formed a nonprofit entity to challenge the amelioration authorization and have been granted intervenor status. The State is vigorously defending this matter.

Berg v. Christie. On December 2, 2011, a number of retired Deputy Attorneys General and retired Assistant Attorneys General (the "Plaintiffs") filed a lawsuit in Superior Court, Law Division, Mercer County against various State officials challenging the constitutionality of Section 25 of Chapter 78, which temporarily suspends the payment of pension adjustments to retired public employees. The Plaintiffs allege violation of multiple provisions of both the State and federal constitutions and seek monetary damages, injunctive relief, and a declaratory judgment. On February 2, 2012, the State filed a motion to dismiss for failure to state a claim upon which relief may be granted. On March 16, 2012, Plaintiffs' filed a cross-motion for summary judgment. On April 16, 2012, the New Jersey Education Association and other labor organizations (collectively, the "NJEA") filed a motion to intervene or, in the alternative, to be permitted to submit an amicus brief. On April 23, 2012, the court granted NJEA's motion to intervene permissively. On June 7, 2012, the court entered an Order granting the State's motion to dismiss, denying Plaintiffs' cross-motion for summary judgment, and dismissing Plaintiffs' Complaint. On June 20, 2012, the court issued an amended Order that 1) converted the State's motion to dismiss into a motion for summary judgment, 2) granted the State's motion for summary judgment, 3) denied the Plaintiffs' cross-motion for summary judgment, 4) dismissed the Plaintiffs' Complaint, 5) dismissed NJEA's Complaint-in-Intervention, and 6) vacated its June 7, 2012 Order. Plaintiffs filed an appeal on August 1, 2012. The NJEA, as Plaintiff-Intervenors, filed a notice of appeal and a motion to consolidate their appeal with the appeal that the Plaintiffs' have filed. On October 4, 2012, the Appellate Division consolidated *Berg v. Christie* and the appeal of the NJEA Plaintiff-Intervenors which challenged the provision of Chapter 78 that temporarily suspends future COLA payments. On June 26, 2014, the Appellate Division reversed the trial court's grant of summary judgment and remanded for determination of whether Plaintiffs can meet the remaining prongs of a contract clause impairment analysis, while dismissing all other Plaintiffs' claims. On July 14, 2014, the pro se Plaintiffs filed a notice of petition with the New Jersey Supreme Court seeking a review of the Appellate Division's dismissal of all other Plaintiffs' claims. On July 16, 2014, the State filed a notice of cross-petition with the New Jersey Supreme Court on the State contracts clause claim. On July 30, 2015, the New Jersey Supreme Court granted the petitions for certification. On November 20, 2015, the New Jersey Supreme Court granted the motion of the Former State Troopers Association to appear as amicus curiae in this matter. Oral argument is scheduled to take place on March 14, 2016. The State is vigorously defending this matter.

Pension Funding Litigation (Burgos et al. v. State et al.; CWA et al. v. Christie et al.; NJEA et al. v. State et al.; PANJ et al. v. State et al.) On May 20, 2014, the Governor issued Executive Order No. 156 that ordered the Budget Director to place into reserve \$887 million that had been appropriated to pay down the UAAL of the Pension Funds. On June 4, 2014, a number of State Police-associated groups ("Burgos Plaintiffs") filed a verified complaint and order to show cause in the Law Division challenging the Governor's actions and naming both the Executive Branch and the State Legislature as Defendants. On June 9, 2014, the Communications Workers of America ("CWA") and various other unions filed a separate verified complaint and order to show cause also challenging the Governor's actions in Fiscal Year 2014 and the Treasurer's recommendation that, due to an unprecedented revenue shortfall, the State not make the scheduled Chapter 1 ARC payment in Fiscal Year 2015. On June 9, 2014, the NJEA also filed a complaint challenging the Governor's actions in Fiscal Year 2014 and the State's proposed action in Fiscal Year 2015, but did not seek preliminary relief. On June 10, 2014, the Court signed CWA's order to show cause, again rejecting the application for preliminary restraints and scheduling a preliminary injunction hearing for June 25, 2014. On June 10, 2014, the trial court also sua sponte consolidated the three matters. Thereafter, the New Jersey Principals and Supervisors Association ("PSA") filed a motion to

intervene in NJEA's action, which the court granted. On June 17, 2014, the Probation Association of New Jersey ("PANJ") filed a separate verified complaint, but not an order to show cause. On June 18, 2014, the Legislative Defendants filed a motion to dismiss the State Trooper's Complaint, the only complaint which named the State Legislature as defendants. On June 25, 2014, the trial court heard oral argument and issued an opinion denying Plaintiffs' requests for preliminary injunctive relief and granting the Legislative Defendants' motion to dismiss.

On July 21, 2014, the trial court, at the State Executive Defendants' request, issued an order extending the time by which to file a responsive pleading from July 25, 2014 to August 25, 2014. On July 25, 2014, the Burgos Plaintiffs filed an amended complaint, challenging the State's decision not to appropriate monies in Fiscal Year 2015 to pay down the UAAL. On that same day, the CWA likewise filed an amended complaint, also challenging the State's decision not to appropriate monies in Fiscal Year 2015 to pay down the UAAL. CWA also moved to proceed summarily pursuant to R. 4:67-1(b). On September 2, 2014, the State Executive Defendants moved to dismiss all of the complaints filed in this matter. On February 23, 2015, the trial court denied the State's Executive Defendants' motion to dismiss and granted the Plaintiff's motion for summary judgment. The trial court also declared that the State's failure to make the full Chapter 1 ARC payment for Fiscal Year 2015, as required by Chapter 78, impairs the Plaintiff's rights under the Contracts Clauses of the federal and State Constitutions. The trial court also ordered the State Executive Defendants to "work with" the State Legislature to "satisfy this constitutional obligation."

On March 13, 2015, the State filed a notice of motion for leave to appeal an interlocutory order with the Appellate Division. On March 31, 2015, the State filed its brief in support of its motion for leave to appeal interlocutorily and on the same day also filed an emergent motion for direct certification to the New Jersey Supreme Court. The New Jersey Supreme Court granted the motion for emergent direct certification on April 6, 2015. All briefing was completed and oral argument was held on May 6, 2015. The New Jersey Supreme Court issued an opinion on June 9, 2015 holding that "the State Legislature and Governor were without authority to enact an enforceable and legally binding long-term financial agreement through" Chapter 78. Therefore, the pension funding right in Chapter 78 is subject to appropriation. The Plaintiffs filed two petitions for writs of certiorari with the United States Supreme Court on September 3, 2015 and September 8, 2015, respectively. On December 7, 2015, the Pension Boards (as defined below) filed a motion to appear as amici before the United States Supreme Court. The Pension Boards' application was opposed by the State and the United States Supreme Court has yet to issue a decision. The State filed an opposition brief to the Plaintiffs' writs for certiorari on January 6, 2016. On February 29, 2016, the United States Supreme Court denied the petitions for writs of certiorari in *Burgos*.

Following issuance of the trial court's decision in *Burgos v. Christie* on February 23, 2015, and the presentation of the Governor's Fiscal Year 2016 Budget Message, the *Burgos* plaintiffs, together with additional unions and individual public employees, filed orders to show cause and verified complaints based on the Governor's recommendation to fund less than 5/7 of the Chapter 1 ARC payment, as required by Chapter 78. Plaintiffs assert that the Governor's recommendation violates their rights and will lead to an appropriation of less than the required Chapter 1 ARC payment, also in violation of their rights. The orders to show cause seek mandamus, declaratory and injunctive relief: declaring that the budget recommendation violates their rights under Chapter 78 and the Contracts Clause of the State Constitution and directing the State to notify the trial court of what actions it has taken to satisfy plaintiffs' right to Fiscal Year 2016 pension contributions. The mandamus relief seeks to compel the Governor to include the full Chapter 1 ARC (5/7ths) pension contribution in a revised budget message and in the Appropriations Act. The trial court has postponed oral argument pending the New Jersey Supreme Court's decision in *Burgos*. In the wake of the New Jersey Supreme Court's June 9, 2015 *Burgos* decision, the majority of the *Burgos* plaintiffs withdrew their Fiscal Year 2016 claims that were pending before the trial court. While the *Burgos* decision has been issued, the trial court has not yet rescheduled oral argument and the claims of the State Troopers and related entities continue to remain unheard before the trial court. The State is vigorously defending this matter.

While the *Burgos* case was pending, the Boards of Trustees for PERS, TPAF and PFRS (collectively, the "Pension Boards") filed a complaint to compel payment of the unfunded liability contribution for Fiscal Year

2014 and to direct the State to pay future liabilities in Fiscal Year 2015 and beyond. Characterized as a collection action distinct from the Burgos matters, the Pension Boards set forth three legal theories: enforcement of the pension statutes, constructive trust, and account stated. In the alternative, the Pension Boards sought declaratory relief that two other provisions of Chapter 78 (temporary suspension of future COLAs and increased employee contributions) should not be enforced if the State fails to make its annual ARC payments. The State filed a motion to dismiss on February 23, 2015. The Pension Boards filed an amended complaint on April 30, 2015. Subsequent to the Supreme Court's decision in *Burgos*, the Pension Boards indicated to the trial court that they were going to either further amend their existing complaint or voluntarily dismiss the amended complaint and file new complaints on behalf of each Pension Board. On July 24, 2015, the Pension Boards filed for leave to file a second amended complaint. In the proposed second amended complaint, the Pension Boards alleged that the failure to pay the annual ARC payment violates Chapter 78 under breach of contract, constructive trust and account stated causes of action. The Pension Boards seek a judgment requiring payment of balance of the annual ARC payment not paid in Fiscal Years 2014, 2015 and 2016 and for Fiscal Year 2017. On October 8, 2015, the trial court dismissed, with prejudice, the Pension Boards suit for failure to state a claim upon which relief may be granted. The Pension Boards subsequently filed a notice of appeal with the Appellate Division on November 17, 2015. Briefing has commenced. The State will vigorously defend this matter.

Pepe v. State. On November 2, 2015, two (2) retired public school teachers and a retired public school secretary ("Individual Plaintiffs"), along with the NJEA, filed suit against the State and various State officials claiming that the State is violating the Individual Plaintiffs' alleged constitutionally protected contractual right to premium-free post-retirement health insurance by deducting a portion of the premium from the Individual Plaintiffs' retirement benefits. Specifically, in their Complaint, the Individual Plaintiffs: 1) allege an impairment of such contractual right by Section 40 of Chapter 78, which requires, as of the June 28, 2011 effective date of Chapter 78, any employee with less than twenty (20) years of creditable service in certain State or locally administered retirement systems, to pay a portion of the premium of post-retirement health insurance; 2) claim a violation of State and federal due process rights and Takings Clauses; 3) assert estoppel against the State arising from the State's argument in *New Jersey Education Association v. State*; and 4) seek a declaration that Section 40 of Chapter 78 expired and has no force. On January 29, 2016, the State filed a motion to dismiss for failure to state a claim upon which relief may be granted. Briefing has commenced and oral argument is scheduled for June 28, 2016. The State intends to vigorously defend this matter.

Johnson & Johnson v. Director, Division of Taxation and Commissioner, Banking & Insurance. On November 2, 2015, Johnson & Johnson submitted a request to the New Jersey Department of Banking & Insurance and the New Jersey Department of the Treasury, Division of Taxation seeking a refund of self-procured insurance premium taxes paid pursuant to *N.J.S.A. 17:22-6.64* for the period November 1, 2011 through March 31, 2015. Johnson & Johnson obtained its insurance through Middlesex Assurance Company Limited, its captive insurance company domiciled in Vermont. Middlesex Assurance is a nonadmitted insurer, that is, it is not authorized to conduct insurance business in New Jersey. The basis for Johnson & Johnson's refund request is the assertion that the Nonadmitted and Reinsurance Reform Act ("NRRA") and, by extension, *N.J.S.A. 17:22-6.64*, were never intended to apply to captive insurance companies. The State intends to vigorously defend this matter.

Harrington et al. v. State of New Jersey; Milligan v. Director, Division of Taxation and State of New Jersey, Department of the Treasury, Division of State Lottery; Leger v. Director, Division of Taxation. These lead cases involve the amendment of *N.J.S.A. 54A:6-11*, which had previously exempted New Jersey lottery winnings from the Gross Income Tax. In June 2009, the State amended the statute to allow for lottery winnings over \$10,000 to be taxable by the State. The tax was made retroactive to January 1, 2009. The Plaintiffs include both winners who elected to receive their winnings in lump sum and winners who elected to receive their prizes over time through annuity payments. The plaintiffs seek refunds of the taxes that were paid as a result of the retroactive application of the amendment to their prize winnings. The complaints relate to tax year 2009 and, as to the Plaintiffs receiving annuity payments, each subsequent year that an annuity payment has been made. The *Harrington* and *Milligan* cases serve as the lead cases for the Plaintiffs who allege constitutional violations,

manifest injustice, and breach of contract by the Division of State Lottery. Discovery is ongoing. The State intends to vigorously defend these matters.

Paz v. Director, Division of Taxation. Plaintiff and certain grantor trusts owned 100% of an S-Corporation. Plaintiff purportedly sold the corporation to a third-party purchaser pursuant to a deemed “asset sale” under Internal Revenue Code Section 338(h)(10). On his Gross Income Tax return for 2010, Plaintiff apportioned the gain from the sale of an S-Corporation to the 23 states where the corporation conducted business. The Division audited Plaintiff and the S-Corporation and assigned 100% of the gain on the sale to the State as non-operational income under the Corporation Business Tax Act and assessed Plaintiff accordingly. Plaintiff argues that the Division erred or is not otherwise authorized to classify the gains from the sale of the stock as non-operational income. The Division’s answer to the complaint is currently due in mid-March 2016. The State intends to vigorously defend this matter.

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

Pfizer Inc. et al. v. Director, Division of Taxation. Two taxpayers, Pfizer Inc. (“Pfizer”) and Whirlpool Properties, Inc. (“Whirlpool”), challenged the New Jersey Tax Court’s affirmance of the facial constitutionality of the Corporation Business Tax (“CBT”) “Throw-Out Rule,” which affected the amount of taxable income taxpayers “allocate” to the State through 2010. In pursuit of their facial challenges, the taxpayers asserted that the Throw-Out Rule (which requires the exclusion of certain receipts from the CBT “allocation formula”) violates the Due Process and Commerce Clauses of the United States Constitution as well as various equitable principles. Two amici curiae further claimed that the Throw-Out Rule violates the Supremacy Clause of the United States Constitution. On May 29, 2008, the Tax Court granted the Division’s cross-motion to sustain the facial constitutionality of the Throw-Out Rule. Taxpayers’ “as-applied” challenges remain. 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. On July 12, 2010, the Appellate Division affirmed the Tax Court’s decision on the facial constitutionality of the Throw-Out Rule. On October 21, 2010, the New Jersey Supreme Court granted the taxpayers’ motion for leave to appeal. On May 3, 2011, Pfizer and the Division settled their dispute concerning the facial constitutionality of the Throw-Out Rule. By a unanimous opinion dated July 28, 2011, the New Jersey Supreme Court affirmed, with modification, the facial constitutionality of the Throw-Out Rule. Whirlpool’s “as applied” constitutional challenge remains for adjudication by the Tax Court and discovery is ongoing. The State is vigorously defending this matter.

Banc of America Consumer Card Holdings Corporation v. Director, Division of Taxation. On or about August 5, 2011, Banc of America Consumer Card Holdings Corporation (“BOA”) filed a complaint in the Tax Court of New Jersey, contesting the Division’s May 9, 2011 denial of a CBT refund for tax periods January 1, 2006 through December 31, 2008. BOA does not challenge the State’s jurisdiction to impose CBT. BOA alleges that its income from intangibles should be sourced to BOA’s alleged commercial domicile outside of the State. The State filed an answer to the complaint on October 4, 2011, and an amended answer on March 6, 2012. The parties have completed the initial stage of discovery. On April 2, 2015, plaintiff filed a motion for partial summary judgment. The State’s opposition was filed on July 14, 2015. Oral argument on the motion was heard on February 3, 2016. The Tax Court reserved its decision. The State is vigorously defending this matter.

New Cingular Wireless, PCS, LLC v. Director, Division of Taxation. On or about August 4, 2012, New Cingular Wireless, PCS, LLC (“New Cingular”) filed a complaint in the Tax Court, contesting the Division’s

October 5, 2011 denial of a Sales and Use Tax refund claim on behalf of its customers for tax periods November 1, 2005 through September 30, 2010. The Division denied New Cingular's claim for refund on the grounds that a portion of its claim is barred by the statute of limitations and that New Cingular had not demonstrated that it refunded the applicable Sales and Use Tax to its customers before filing its claim with the Division, as required by statute. Furthermore, the State does not permit a refund claim on behalf of a class. In an opinion dated February 21, 2014, the Tax Court ruled that New Cingular could claim a refund. The Tax Court remanded the matter to the Division for review of the substantive basis for New Cingular's refund claim. The Division has completed its review and a trial is expected to be scheduled for sometime later in 2016. The State is vigorously defending this matter.

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

Frank Greek and Son, Inc. v. Verizon New Jersey, Inc. et al. Plaintiff Frank Greek and Son, Inc. (the "Plaintiff"), filed a nominal class action lawsuit against Verizon, alleging that: (1) Verizon overcharged customers by charging "custopak" customers for the New Jersey enhanced 9-1-1 fee ("E911 Fee") on six telephone lines even if those customers actually contracted for less than six lines; and (2) Verizon overcharged customers generally for various other fees and services and therefore violated the New Jersey Consumer Fraud Act. Verizon denies that it improperly charged the E911 Fee and other charges, and it filed a third-party complaint against the Division. Verizon claims that all E911 Fees it collected were remitted to the Division and that Division should refund allegedly overpaid E911 Fees to a third-party class action trust fund administrator. The Division objects to this approach because the E911 Fee statute (*N.J.S.A. 52:17C-18(c)*), incorporates the State Uniform Tax Procedure Law (*N.J.S.A. 54:48-1 et seq.*) which expressly prohibits refund claims on behalf of a class. The trial court denied Verizon's and the Division's motions to dismiss Plaintiff's complaint on August 20, 2014. Subsequently, Verizon filed an interlocutory appeal, which was granted by the Appellate Division. In the interim, the Plaintiff amended its complaint. Verizon and the Division have filed motions to dismiss the amended complaint. On April 21, 2015, the trial court granted the Division's motion to dismiss in part with respect to claims concerning the New Jersey Civil Rights Act. Oral argument on the interlocutory appeal was held on November 2, 2015. The State intends to vigorously defend this matter.

Escobar v. DYFS et al. On July 17, 2009, Plaintiff's child was allegedly shaken by his biological father. As a result, the child is severely disabled and requires life care by professionals. The biological father is currently incarcerated for aggravated assault. The Division of Youth and Family Services ("DYFS") (now known as the Division of Child Protection and Permanency in the Department of Children and Families) allegedly had knowledge that the biological father had a history of drug use, domestic violence, mental health disorders and other issues. DYFS also was allegedly aware that the child showed prior evidence of abuse. Plaintiff alleges that DYFS failed to adequately investigate the reports of alleged abuse. After the completion of the trial, the jury awarded the Plaintiff \$166 million, of which approximately \$57 million was for pain and suffering, approximately \$4 million was for the child's past medical needs and \$105 million is to cover the child's future medical needs. The State filed a motion for a new trial and, in the alternative, for remitter on the awards for pain and suffering and the child's future medical needs. On March 19, 2014, the court ruled on the motion for remitter, reducing the award against the State to \$102,630,618 by reducing the amount allocated for future medical needs from \$105,000,000 to \$75,868,321 based on the assumption of the child's life expectancy of 79 years and by allocating 25% liability to the biological father. On April 1, 2014, the court entered a final order judgment in the case. On April 22, 2014, the State filed a notice of appeal. All briefing in this matter is completed. The Appellate Division heard oral argument in this matter on December 16, 2015. The State is vigorously defending this matter.

Gomez v. DCPD et al. On March 12, 2012, the plaintiff child was allegedly assaulted by her biological father. The plaintiff suffered severe injuries. The Division of Child Protection and Permanency in the Department of Children and Families (“DCPP”) allegedly knew that the plaintiff’s parents had a history of drug and alcohol abuse, psychiatric problems and were unemployed. The biological mother had two other children removed from her care and was in a methadone program when the plaintiff was born. The biological father also had an extensive criminal history of domestic violence. Plaintiff claims DCPP failed to comply with its own policy and procedure, failed to remove the plaintiff from the home, negligent training, violation of the New Jersey Child Placement Bill of Rights, and Section 1983 claims. The complaint was filed in State Court on February 12, 2015. On March 11, 2015, DCPP removed the case to the U.S. District Court for the District of New Jersey and filed a motion to dismiss the complaint. The State’s motion to dismiss the complaint was denied without prejudice on May 8, 2015. The plaintiff agreed to withdraw the federal claims and the matter was remanded to State court. Discovery is ongoing. The State is vigorously defending this matter.

Medicaid, Tort, Contract, Workers’ Compensation and Other Claims. The Office of the Inspector General of the U.S. Department of Health & Human Services (“OIG”) has conducted and continues to conduct various audits of Medicaid claims for different programs administered by the State’s Department of Human Services (“DHS”). The OIG audits, which have primarily focused on claim documentation and cost allocation methodologies, recommend that certain claims submitted by DHS be disallowed. OIG submits its recommendations on disallowances to the Centers for Medicare and Medicaid Services (“CMS”) which may, in whole or in part, accept or disagree with the OIG’s recommendations. If the OIG’s recommendations are not challenged by the State or are upheld by CMS, DHS will be required to refund the amount of any disallowances. However, DHS is disputing OIG’s audit findings. In addition, the State has currently reserved certain revenues that would mitigate, but not completely offset, the State’s exposure assuming CMS upholds the OIG’s recommended claim disallowances. Given that the State is currently disputing and appealing the OIG audit findings, it cannot estimate any final refund amounts or the timing of any refund payments that may be due to CMS. These current audits and any future audits of Medicaid claims submitted by DHS may result in claim disallowances which may be significant. The State is unable to estimate its exposure for these claim disallowances. See “FINANCIAL RESULTS AND ESTIMATES — Federal Aid — *Office of Inspector General Audit of Medicaid*” herein for additional discussion of currently pending audits.

The Internal Revenue Service (“IRS”) opened an examination for tax years 2011, 2012 and 2013, of the State’s Form 945, Annual Return of Withheld Federal Income Tax based on instances where the IRS has identified that the State may not have properly backup withheld for some of its vendors. Section 3406 of the Internal Revenue Code of 1986, as amended (the “Code”) requires backup withholding be imposed by a payor making a reportable payment to recipients under certain circumstances. Section 3406 authorizes the IRS to assess the payor for such backup withholding and also to assess penalties for failure to backup withhold. The IRS gave the State until the end of July 2015 to investigate these instances of failure to backup withhold and to provide documentation to the IRS indicating that there were valid reasons to not require backup withholding in such instances. The IRS closed this examination and the State was required to pay \$2.8 million for backup withholding or penalties.

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

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

In addition, at any given time, there are various numbers of contract and other claims against the State and State agencies, including environmental claims asserted against the State, among other parties, arising from the

alleged disposal of hazardous waste. Claimants in such matters are seeking recovery of monetary damages or other relief which, if granted, would require the expenditure of funds. The State is unable to estimate its exposure for these claims.

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

Prior to July 1, 2013, there were various numbers of claims and cases pending against the University of Medicine and Dentistry of New Jersey ("UMDNJ") and its employees, seeking recovery of monetary damages that were primarily paid out of the UMDNJ Self Insurance Reserve Fund created pursuant to the New Jersey Tort Claims Act (*N.J.S.A. 59:1-1 et seq.*). As a result of the enactment of the New Jersey Medical and Health Sciences Education Restructuring Act, *L. 2012, c. 45* (the "Restructuring Act"), all of UMDNJ has been transferred to Rutgers, The State University ("Rutgers"), with the exception of the School of Osteopathic Medicine which has been transferred to Rowan University ("Rowan"), and University Hospital in Newark, New Jersey now exists as a separate instrumentality of the State. All claims and liabilities of UMDNJ associated with the transferred facilities have been transferred to Rutgers, Rowan and University Hospital, as applicable. Pursuant to the Restructuring Act, Rutgers and Rowan each entered into a memorandum of understanding with the State Treasurer pursuant to which the State shall pay from a self-insurance reserve fund established for each entity medical malpractice claims occurring prior to and post the effective date of the transfers, which was July 1, 2013. The Restructuring Act also provides for University Hospital's medical malpractice claims to be covered by a self-insurance reserve fund established by the State Treasurer and University Hospital entered into a memorandum of understanding with the State Treasurer for such claims. All claims, other than medical malpractice claims, incurred by UMDNJ with respect to the UMDNJ facilities transferred to Rutgers will be paid for by Rutgers out of its own funds. All claims, other than medical malpractice claims, incurred by Rowan will be paid from the Tort Claims Fund. The State is unable to estimate its exposure for these claims.

Affirmative Litigation. From time to time, the State initiates litigation against various entities to enforce State laws, contractual and other rights, pursue cost recoveries and natural resource damages in the environmental arena and prosecute entities who have engaged in alleged fraudulent, negligent or other wrongful conduct. The State is unable to estimate the amount of any monetary recoveries from such affirmative litigation. In addition, depending on which State department, division or agency is the plaintiff, any monetary recoveries may already be included in such State department, division or agency's revenue estimates for the current fiscal year.

APPENDIX-I-A

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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, 2015 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
SUMMARY OF CERTAIN STATE TAXES

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**APPENDIX-I-B
SUMMARY OF CERTAIN STATE TAXES**

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Summary of Certain 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. *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 a tax on the “gross revenues” of gambling casinos, as defined by the Act, as well as a gross revenue tax on companies that administer and service multi-progressive casino slot machine systems.

Current Rate: 8% (both taxes).

There is also 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, and fees for casino hotel parking in Atlantic City.

L. 2013, c. 27 amends and supplements the “Casino Control Act” and authorizes Internet gaming at Atlantic City casinos under certain circumstances. The law imposes an annual 15% tax on Internet gaming gross revenues, which shall be paid into the Casino Revenue Fund. The 8% tax on casino gross revenues excludes Internet gaming but, the investment alternative tax does apply to those gross revenues at a rate of 5% with the State requiring a partial payment of 2.5% of the estimated taxes (*N.J.S.A. 5:12-144.1*).

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. *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. *L. 2001, c. 448.*

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%.

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, 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.*

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

The CBT is imposed on every corporation, including S corporations (*L. 1993, c. 173*) not expressly exempted by statute, real estate investment trusts (*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.

Current Rates: 9% of entire net income allocable to New Jersey; 7.5% for taxpayers with entire net income of \$100,000 or less; 6.5% for taxpayers with entire net income of \$50,000 or less.

Corporations are required to pay a tax that is the greater of the amount resulting from rates applied to corporate net income allocated to New Jersey, or the alternative minimum assessment (AMA). Corporate net income is based on federal taxable income with certain additions, exclusions and modifications. S corporations, professional corporations, investment companies, pass-through entities, and federally qualified cooperatives are exempted from the AMA. The AMA is computed using a formula that uses either allocated gross receipts or allocated gross profits. If a corporation's AMA exceeds its tax computed on entire net income in any one year, the difference is allowed as a credit to reduce the CBT in a future year, but to not less than 50% of the liability otherwise due. The AMA for privilege periods commencing after June 30, 2006 shall be \$0.00, except for taxpayers exempt from corporation net income taxation pursuant to 15 *U.S.C. s.381 et seq.* (Pub. *L.86-272*). Many corporations not otherwise subject to the tax based on corporate net income or to the alternative minimum assessment are subject to a minimum tax. A number of tax credits against the CBT are provided, such as for investment in certain new or expanded business facilities which create new jobs in New Jersey. *L. 1993, c. 70*.

To determine the tax liability that is incurred as a result of a corporation's business activity in the State of New Jersey, a single sales factor is used, which is derived from the corporation's sales in New Jersey divided by all its sales. In certain circumstances the Director may use other factors. There is also a specialized sales fraction formula for airlines calculated as a ratio of airline revenue miles in this State divided by the airline's total revenue miles. *L. 2011, c. 59*. Taxpayers who allocate less than 100% of income to New Jersey are not required to show that a regular place of business exists outside of this State. *L. 2008, c. 120*. For privilege periods ending on or after July 1, 2014, a taxpayer's operational income is allocable income derived from tangible or intangible property if the acquisition, management, or disposition of the property, is an integral part of the taxpayer's regular trade or business operations. *L. 2014, c. 13*.

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 million, 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 *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 per entity, 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. *L. 2002, c. 40*.

S Corporations are generally not subject to tax in the State of New Jersey, with certain exceptions, and are also subject to the minimum tax, which is 75% of the minimum tax of a C corporation with the same New Jersey Gross Receipts.

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. *L. 2006 c. 38.*

On November 5, 1996, Article VIII, Section II of the State 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. *L. 2004, c. 47.* With respect to privilege periods beginning in the 2006 calendar year, Net Operating Loss deductions return to full deductibility. *L. 2004, c. 47.* In addition, under *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, *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. *L. 2014, c. 13* reduces the net operating losses for any privilege period ending after June 30, 2014, and any net operating loss carryover for that privilege period, by the amount excluded from federal taxable income relating to certain debt cancellations. Certain Net Operating Loss deductions of emerging technology and biotechnology companies may be sold to other entities. The overall cap on transfers of Net Operating Loss deductions is \$60 million per year.

For privilege periods beginning after December 31, 2008 and before January 1, 2011, *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.

NJEDA provides tax credits which can be used to offset CBT (as well as Insurance Premiums Tax) through the Urban Transit Hub Tax Credit Act ("UTHHTCA"), the Grow New Jersey Assistance Act ("GNJAA"), the New Jersey Economic Stimulus Act of 2009 ("NJESA 2009"), the Public Infrastructure Program ("PIP"), and through BEIP grants. Awards for any of these programs are based on actual performance and achievement of job and

capital investment requirements. *L. 2012, c. 35*, amends the UTHTCA to increase the cap on the total amount of tax credits authorized under such Act for eligible businesses making capital investments in the State. The cap was increased from \$1.5 billion to \$1.75 billion, to be utilized over a ten year period. The overall cap on PIP credits is \$22 million. There is no overall cap on GNJAA credits. The UTHTCA program is now closed to new applications.

L. 2013, c. 14, known as the “New Jersey Angel Investor Tax Credit Act,” provides tax credits against CBT and GIT for qualified investments made by high net worth individuals into high-risk start-up ventures. Subject to certain limitations, tax credits equal 10% of a taxpayer’s qualifying investment in an emerging technology company, up to a maximum allowed credit of \$500,000 per year for each qualifying investment. The total cap on the credit is \$25 million per year.

Credits against the CBT and IPRT are also available to residential developers, through the New Jersey Economic Redevelopment and Growth (“ERG”) program, authorized by NJEDA in 2009. The total cap on credits is \$600 million, to be utilized over a ten year period. *L. 2015, c. 69* provides that mixed use parking project developers are eligible for credits, but does not increase the cap.

NJEDA awarded BEIP grants to certain businesses which met employment goals in New Jersey. *L. 2015, c. 194*. Recipients of BEIP grants accrued but not paid between 2008 and 2025 can elect by a certain date to receive the grant in the form of a tax credit against the recipient’s CBT (as well as IPRT) obligations. Credits can be sold in certain circumstances by certain entities. The amount of the grant or credit is based on the recipient’s company’s employee GIT withholdings. There was no overall cap on BEIP grants, although the grant was limited to a maximum of \$50,000 per employee. The BEIP program is now closed to new applications.

NJEDA awarded tax credits against CBT and IPRT through the Business Retention and Relocation Assistance Act (“BRRRA”). The overall cap was \$20 million per year. The program was eliminated by *L. 2013, c. 161*. \$124 million of BRRRA tax credits were approved for companies, which may use the credits over six years. The BRRRA program is now closed to new applications.

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. *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. *L. 1997, c. 167*.

Current Rate for sewerage and water corporations: 5% (2% if gross receipts do not exceed \$50,000) plus 7% on gross receipts plus 0.625% surtax (0.25% if gross receipts do not exceed \$50,000) plus 0.9375%.

Utilities are generally subject to the State’s Corporation Business Tax, with certain exceptions. The retail sale of energy and utility service is subject to the State’s Sales and Use Tax, with certain exceptions. A portion of the revenues derived from the taxation of energy and utility service is 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. *L. 1997, c. 167*. Sewerage and water corporations are exempt from the State’s Corporation Business Tax, but are subject to a specific excise tax which applies only to them. Utilities are also assessed by the Board of Public Utilities. Certain utilities may also be subject to the Uniform Transitional Utility Assessment.

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

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 (*L. 1989, c. 219*) or other retirement income, such as income from IRC § 401(k), 403, 414, 457 Plans (*L. 104, c. 95*, effective January 1, 1996), of non-resident individuals, estates and trusts, is also subject to GIT. Gambling winnings of non-residents are subject to the GIT as well. *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. *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. *L. 1993, c. 320*.

Current Rates: Beginning in 1996 and thereafter, further rate reductions enacted pursuant to *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% is imposed on taxpayers with income over \$500,000. *L. 2004, c. 40*.

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 January 1, 1997, \$1,000 is deductible, with this amount annually adjusted based on relevant C.P.I.'s. *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 (*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 (*L. 1997, c. 414*). Roth IRA's also receive favorable tax treatment. *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. *L. 1993, c. 210; L. 1998, c. 79*. Beginning January 1, 2001 military pension and survivor benefits respecting service in the United States Armed Forces are included. *L. 2001, c. 84*. However, for taxable years beginning on or after January 1, 2004, *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).

Pursuant to *N.J.S.A. 54A:3a-17*, New Jersey resident taxpayers are permitted a deduction of up to \$10,000 from gross income for property taxes. 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. *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. *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.

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). *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, 20% for 2010 through 2014, and 30% thereafter. *L. 2015, c. 73.*

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. *L. 2004, c. 55.* See also summary of *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. *L. 2004, c. 139.*

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

The uncoupling will apply to the other activities described above and that are set forth under the American Jobs Creation Act of 2004, will apply to qualified production property that was grown or extracted by the taxpayer, (*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 *N.J.S.A. 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 *N.J.S.A. 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 (*L. 2005, c. 130*, effective July 2, 2005).

Effective January 1, 2012, a taxpayer is permitted an alternative business calculation deduction offsetting gains from one type of business with losses from another. *L. 2011, c. 60.* Net business-related losses can be

carried forward for up to 20 years. The alternative business deduction is limited to four categories of business income as follows: (1) net profits from business; (2) net gains or net income derived from, or in the form of rents, royalties, patents, and copyrights; (3) distributive share of partnership income; and (4) net pro rata share of S corporation income.

NJEDA awarded BEIP grants to certain businesses which meet employment goals in New Jersey. Recipients of BEIP grants accrued but not paid between 2008 and 2025 can choose to receive the grant in the form of a credit against the recipient's GIT withholding obligations. *L. 2015, c. 194*. A recipient which is a partnership can receive a credit against its GIT withholding obligations or the GIT obligations of certain partners. Credits can be sold in certain circumstances by certain entities. The BEIP program is now closed to new applications.

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.

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. *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. *L. 1990, c. 8*. There is also a retaliatory tax imposed against foreign insurance companies doing business in New Jersey where the foreign company's state, country, or province (in the event that the foreign country is Canada) imposes an overall tax (including but not limited to fines and penalties) on New Jersey insurance companies doing business in that jurisdiction higher than the tax New Jersey imposes on the foreign company doing business in New Jersey. The tax rate is equal to the difference between the two rates.

Current Rates: 1.05% 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 Chapter 128 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 *L. 1985, c. 236 (N.J.S.A. 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 (*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*.

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*.

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, Chapter 75 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.*

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

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

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, *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. *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. *L. 2010, c. 22.*

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

Article VIII, Section 2, Paragraph 4 of the State 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.

Petroleum Gross Receipts Tax

The Petroleum 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 (*L. 1991, c. 19*) and asphalt. This tax does not apply to the sale of fuel oil used by any utility, co-generation facility or wholesale operation facility to generate electricity.

Current Rate: 2.75% for petroleum products. Fuel oil, aviation fuel and motor fuels — \$0.04 per gallon. *L.* 2000, *c.* 48.

In November 2000 Article VIII, Section 4 of the State 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.

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, *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). *L.* 2004, *c.* 66.

Pursuant to *N.J.S.A.* 46:15-7.1, a supplemental fee is imposed 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. *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. *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. *L.* 2004, *c.* 66.

In addition, the grantee (buyer) of residentially-zoned real property, 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 *L.* 2004 *c.* 66 § 8 (*N.J.S.A.* 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. *L.* 2006 *c.* 66. Pursuant to Section 9 of *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, *L.* 2005, *c.* 19 amended the 1% 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). *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 *L.* 2006 did not alter *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.

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. *L.* 1990, *c.* 40, § 11.

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

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. *L.* 2006, *c.* 44. *L.* 2011, *c.* 49 deleted the term “digital property” and replaced the term with “specified digital product.”

The Sales Tax is also extended as of October 1, 2006, to services, subject to some exemptions, including, but not limited to, furnishing of space for storage; parking, storing or garaging a motor vehicle; tanning services, massage services, tattooing, investigation and security services, information services, limousine services originating within New Jersey; and 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. *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. *L.* 1993, *c.* 373. Sales and leases of new and used boats and other vessels are taxed at 3.5%, with a cap of \$20,000 on the total tax. *L.* 2015, *c.* 170. In addition, out-of-state boats operated and registered lawfully can be used in New Jersey in a non-commercial manner for up to 30 days per year without incurring use tax.

Qualified businesses engaged in making retail sales in a designated Urban Enterprise Zone (“UEZ”) are authorized to collect sales tax equal to 50% of the tax rate in effect, except on sales of alcoholic beverages, cigarettes, motor vehicles, restaurant meals, room rentals, catalog sales, and services. *L.* 1983, *c.* 303; *L.* 1993, *c.* 40. Retail sales of personal property (except motor vehicles and energy) and sales of services (except telecommunications services and utility services) to a qualified business for the exclusive use or consumption of such business within the UEZ are exempt from sales tax. *L.* 2007, *c.* 328. Further, receipts from sales made to

contractors or repairmen of materials, supplies, or services, for exclusive use in erecting structures or building on, or otherwise improving, altering, or repairing real property of a qualified business within the UEZ, are also exempt from sales tax.

Under the Brownfields Reimbursement Program, the State provides cash payments to developers in an amount equivalent to 75% of the estimated costs of remediation of a contaminated site from new incremental sales and other taxes paid to the State from the project site. The grant payments are made after completion of the project and subject to receipt of taxes over a maximum period stated in the agreement. There is no cap on Brownfields Reimbursement program. There is also a program for the remediation of municipal landfills in which 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 of the sales tax collected on non-exempt sales generated from businesses located on the sites. *L. 1996, c. 124.*

Article VIII, Section II of the State Constitution provides for the dedication of up to \$98 million annually from sales tax revenues for open space, farmland and historic preservation commencing on July 1, 1999 and the dedication of and not less than \$200 million annually 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. *L. 2006, c. 44*

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

As of July 1, 2014, the State's sales tax collection and remittance requirements extend to remote sellers who solicit New Jersey customers through an agreement with an independent contractor, or other representative, who has a physical presence in the State. The law creates a rebuttable presumption that remote sellers have nexus with the State from those referrals obtained through an Internet website link, or otherwise, and from which the seller derives over \$10,000 in annual taxable sales. *L. 2014, c. 13.*

Commercial redevelopment projects qualifying under ERG are eligible for funding of up to 20% of the total cost of the project. The funds are paid to the developer out of incremental tax revenue from the project, which is primarily SUT, but also includes various other taxes. The payments are made from up to 75% of incremental tax revenue (85% in a Garden State Growth Zone) over a period of up to twenty years.

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. *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 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. *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.

APPENDIX II

CERTAIN DEFINITIONS

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APPENDIX II

CERTAIN DEFINITIONS

The following are certain definitions of capitalized terms used in this Official Statement. Certain capitalized terms may also be defined elsewhere in this Official Statement.

“Act” means the New Jersey Building Authority Act, constituting Chapter 120 of the New Jersey Laws of 1981, as amended from time to time.

“Accreted Value” means, with respect to any Capital Appreciation Bond, an amount equal to the principal amount of such Capital Appreciation Bond (determined on the basis of the principal amount per \$5,000 at maturity thereof) plus the amount assuming semi-annual compounding of earnings which would be produced on the investment of such principal amount, beginning on the dated date of such Capital Appreciation Bond and ending at the maturity date thereof, at a yield which, if produced until maturity, will produce \$5,000 at maturity. As of any Valuation Date, the Accreted Value of any Capital Appreciation Bonds means the amount set forth for such date in the Supplemental Resolution authorizing such Capital Appreciation Bonds and as of any date other than a Valuation Date, the sum of (a) the Accreted Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date and (2) the difference between the Accreted Values for such Valuation Dates.

“Additional Bonds” means any Series of Bonds other than the 1981 Series Bonds issued under the Bond Resolution and shall include any Bonds issued for refunding purposes pursuant to Section 204 of the Bond Resolution.

“Additional Project” means any additions, enlargements, improvements expansions, repairs, restorations or reconstruction of the Initial Project.

“Administrative Expenses” means and include expenses incurred by the Authority in carrying out its duties under the Lease, the Note Resolution and the Bond Resolution, including without limitation, accounting, administrative, financial advisory and legal expenses, Credit Facility fees and expenses, bank commitment, Liquidity Facility fees and expenses, bond insurance and indemnity premiums and Swap Payments, including, without limitation, termination payments under the Swap Agreement, to the extent the same are not deemed Subordinated Debt, payments related to the cancellation of any Insurance Policy, including, without limitation, fees and expenses of the Insurer, and the fees and expenses of the Trustee, Paying Agents, Escrow Agents, Tender Agents, Remarketing Agents, Yield Consultants or any other Fiduciaries acting under this Bond Resolution, and any other means of providing credit enhancement or credit support, costs incurred in connection with interest rate exchanges, futures contracts or other similar financing arrangements, and all other expenses incurred in connection with the issuance, Conversion and/or remarketing of the Bonds.

“Aggregate Debt Service” for any period means, as of any date of calculation, the sum of the amounts of Debt Service for such period with respect to all Series.

“Amendment No. 1” means Lease and Agreement Amendment No. 1, dated as of January 1, 1983, between the Authority and the State.

“Amendment No. 2” means Lease and Agreement Amendment No. 2, dated as of December 15, 1985, between the Authority and the State.

“Amendment No. 3” means Lease and Agreement Amendment No. 3, dated as of April 1, 1989, between the Authority and the State.

“Amendment No. 4” means Lease and Agreement Amendment No. 4, dated as of October 1, 1991, between the Authority and the State.

“Amendment No. 5” means Lease and Agreement Amendment No. 5, dated as of January 1, 1994, between the Authority and the State.

“Amendment No. 6” means Lease and Agreement Amendment No. 6, dated as of September 1, 1997, between the Authority and the State.

“Amendment No. 7” means Lease and Agreement Amendment No. 7, dated as of October 1, 1999, between the Authority and the State.

“Amendment No. 8” means Lease and Agreement Amendment No. 8, dated as of February 1, 2000, between the Authority and the State.

“Amendment No. 9” means Lease and Agreement Amendment No. 9, dated as of November 15, 2002, between the Authority and the State.

“Amendment No. 10” means Lease and Agreement Amendment No. 10, dated as of November 15, 2002, between the Authority and the State.

“Amendment No. 11” means Lease and Agreement Amendment No. 11, dated as of August 15, 2003, between the Authority and the State.

“Amendment No. 12” means Lease and Agreement Amendment No. 12, dated as of December 1, 2004, between the Authority and the State.

“Amendment No. 13” means Lease and Agreement Amendment No. 13, dated as of March 1, 2005, between the Authority and the State.

“Amendment No. 14” means Lease and Agreement Amendment No. 14, dated as of April 1, 2011, between the Authority and the State.

“Appreciated Value” means, with respect to any Capital Appreciation and Income Bond up to the Interest Commencement Date, an amount equal to the principal amount of such Capital Appreciation and Income Bond (determined on the basis of the principal amount per \$5,000 at the Interest Commencement Date thereof) plus the amount, assuming semi-annual compounding of earnings which would be produced on the investment of such principal amount, beginning on the dated date of such Capital Appreciation and Income Bond and ending on the Interest Commencement Date, at a yield which, if produced until the Interest Commencement Date, will produce \$5,000 at the Interest Commencement Date. As of any Valuation Date, the Appreciated Value of any Capital Appreciation and Income Bond means the amount set forth for such date in the Supplemental Resolution authorizing such Capital Appreciation Bonds and as of any date other than a Valuation Date, the sum of (a) the Appreciated Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date and (2) the difference between the Appreciated Values for such Valuation Dates.

“Authority Available Moneys Account” means the account so designated and established within the Purchase and Remarketing Fund pursuant to the Sixteenth Supplemental Resolution.

“Authorized Authority Official” means the Chairman, Vice Chairman, Executive Director or Treasurer of the Authority.

“Authorized Authority Representative” means any person or persons authorized to act on behalf of the Authority by a written certificate signed on behalf of the Authority by the Chairman or Executive Director of the Authority containing the specimen signatures of each such person.

“Authorized Denominations” means (a) during any Daily Rate Period or any Weekly Rate Period, \$100,000 or any integral multiple of \$5,000 in excess thereof, (b) during the Fixed Rate Period, \$5,000 or any integral multiple thereof, (c) during a seven-day Auction Period, \$25,000 or any integral multiple thereof and (d) during a 35-day Auction Period, \$50,000 or any integral multiple thereof.

“Authorized State Representative” means the Treasurer of the State and any other person or persons authorized to act on behalf of the State by a written certificate signed on behalf of the State by the Treasurer of the State containing the specimen signature of each such person.

“Available Moneys” means, (a) whenever a Liquidity Facility is in effect for a Subseries of the 2003 Series A Bonds (i) moneys obtained by the Trustee or the Tender Agent from the provider thereof pursuant to such Liquidity Facility and held by the Tender Agent for payment of the Purchase Price of such Subseries of the 2003 Series A Bonds, (ii) moneys derived from the remarketing of such Subseries of the 2003 Series A Bonds which are directly paid to and held by the Tender Agent for the payment of the Purchase Price of such 2003 Series A Bonds in accordance with Section 2.15(f) of the Eleventh Supplemental Resolution, (iii) moneys which have been on deposit with the Trustee or the Tender Agent, as applicable, for at least one hundred twenty-four (124) days prior to and during which no petition by or against the Authority or the State, under the Bankruptcy Code shall have been filed or any bankruptcy or similar

proceeding shall have been commenced, unless such petition or proceeding shall have been dismissed and such dismissal shall be final and not subject to appeal, (iv) any other moneys the application of which to the payment of the Purchase Price of such 2003 Series A Bonds would not, in the opinion of Bond Counsel, constitute a voidable preference in the case of a filing for protection of the Authority under the Bankruptcy Code and (v) the proceeds from the investment of moneys described in clauses (i) through (iv) above; and (b) at any other time, any moneys.

“Bond” or “Bonds” means any bond or bonds, as the case may be, authenticated and delivered, under and pursuant to the Bond Resolution.

“Bond Counsel” means any lawyer or firm of lawyers nationally recognized in the field of municipal finance and satisfactory to the Authority and acceptable to the Trustee.

“Bondholder” or “Holder of Bonds” means any person who shall be the registered owner of any Bond or Bonds.

“Bond Registrar” means the Trustee and any other bank or trust company organized under the laws of any state of the United States of America or national banking association appointed by the Authority to perform the duties of Bond Registrar enumerated in the Bond Resolution.

“Bond Retirement Fund” means the fund created pursuant to the Bond Resolution.

“Bonds Subject to a Swap Agreement” means the 2003 Series A Bonds which bear interest at a Variable Rate or an Auction Rate, and which are the subject of the Swaps.

“Bond Year” means the twelve month period beginning December 15 and ending on the following December 14; provided, however, the first Bond Year shall commence on December 1, 1985 and end with December 14, 1986.

“Business Day” means any day other than (a) a Saturday, Sunday, legal holiday in the State, or a (b) a day on which any of the following are required to remain closed: (i) the Authority, (ii) the Trustee, (iii), the Tender Agent, (iv) the Remarketing Agent, or (v) the Credit and Liquidity Provider for the applicable Subseries of the 2003 Series A Bonds.

“Capital Appreciation and Income Bonds” means any Bonds so designated pursuant to the Supplemental Resolution authorizing such Bonds.

“Capital Appreciation Bonds” means any Bonds so designated pursuant to the Supplemental Resolution authorizing such Bonds.

“Chairman”, when used with respect to the Chairman of the Authority, shall also mean Chairperson or other official designation for such officer.

“Construction Fund” means the fund created pursuant to Section 502 of the Bond Resolution.

“Conversion” means a change in the Rate Mode of an Authorized Refunding Bond made in accordance with the provisions of Section 2.12 of the Eleventh Supplemental Resolution.

“Conversion Date” means the day on which the interest rate on an Authorized Refunding Bond is converted from one Rate Mode to a different Rate Mode or was proposed to be converted from one Rate Mode to another Rate Mode, which date must be a Reset Date or an Interest Payment Date for an Authorized Refunding Bond to be converted to a Rate Mode other than an Auction Rate Mode and in the case of an Authorized Refunding Bond to be converted to an Auction Rate Mode, which date shall be a date specified in Section 1.08(a) of Exhibit A to the Eleventh Supplemental Resolution.

“Conversion Notice” means a notice given pursuant to Section 2.12(c)(1) of the Eleventh Supplemental Resolution.

“Cost” or “Costs of the Project” means and shall be deemed to include, together with any other proper item of cost not specifically mentioned herein, whether incurred prior to or after the date of the Lease, (a) costs and expenses of the Authority incurred for labor and materials and payments to contractors, builders and materialmen in connection with the acquisition, construction, reconstruction, rehabilitation, repair, improvement and operation of all or any part of the Project; (b) the cost of contract bonds and of insurance of all kinds that may be required or necessary during the course of construction of the Project which is not paid by the contractor or contractors or otherwise provided for; (c) the costs and expenses of the Authority for test borings, surveys, estimates, Plans and Specifications and preliminary investigations therefor, and for supervising construction, as well as for the performance of all other duties required by or consequent upon the proper construction of the Project; (d) compensation and expenses of the Trustee, Paying Agents, Fiduciaries, Escrow Agents, Tender Agents, Remarketing Agents, Auction Agents, Broker-Dealers, Yield Consultants, financial advisory, legal, accounting, financial and printing expenses, fees, interest and financing costs, including, without limitation, Swap Payments, bank commitment, Liquidity Facility fees and expenses, bond insurance and indemnity premiums, and any other means of providing credit enhancement or credit support, costs incurred in connection with interest rate exchanges, futures contracts or other similar financing arrangements, and all other expenses incurred in connection with the issuance of the Bonds; (e) all other costs which the Authority shall be required to pay under the terms of any contract or contracts for the acquisition, construction, reconstruction, rehabilitation, repair, improvement and operation of all or any part of the Project, including, but not limited to the cost of insurance; (f) any sums required to reimburse the Authority or the State for advances made by either of them for any of the above items, or for any other costs incurred and for work done by either of them, which are properly chargeable to the Project; (g) deposits in the Debt Service Fund for payment of interest on the Bonds or any other fund or account under the Bond Resolution, all as shall be provided herein; (h) the payment when due (whether at the maturity of principal or the due date of interest upon redemption or purchase) of any indebtedness of the Authority issued to temporarily finance the payment of any item or items of Cost of the Project; and (i) such other expenses not specified herein as may be necessary or incidental to the acquisition, construction, reconstruction, rehabilitation, repair, impair, improvement and operation of all or any part of the Project, the financing thereof and the placing of the same in use

and operation. Cost or Cost of the Project as defined herein shall be deemed to include the cost and expenses incurred by any agent of the Authority, including the State, for any of the above mentioned items.

“Credit Facility” means a letter of credit, line of credit, surety bond, loan agreement, purchase agreement or other credit agreement, facility or insurance or guaranty arrangement pursuant to which the Authority or another person is entitled to obtain funds to pay Bonds and interest thereon tendered to the Authority or another party for payment, purchase or redemption in accordance with the Bond Resolution.

“Credit Facility Agreement” means the agreement pursuant to which a Credit Facility or a Liquidity Facility is issued.

“Credit Provider” means a provider of a Credit Facility selected in accordance with the terms of Section 2.2(b) of the Sixteenth Supplemental Resolution.

“Daily Rate” means the rate at which a 2003 Series A Bond in the Daily Rate Mode bears interest, as established in accordance with the Eleventh Supplemental Resolution.

“Daily Rate Mode” means a Rate Mode in which a 2003 Series A Bond in such Rate Mode bears interest at a Daily Rate.

“Daily Rate Period” means a period commencing on a Conversion Date or on a Business Day and extending to, but not including, the next succeeding Business Day, during which 2003 Series A Bonds in the Daily Rate Mode bear interest at the Daily Rate.

“Debt Service” for any period means, as of any date of calculation and with respect to any Series, an amount equal to the sum of (a) the interest payable during such period on such Series of Bonds except to the extent such interest is to be paid from deposits made from Bond proceeds into the Debt Service Fund, and (b) the amount payable in respect of Principal Installments during such period. In the case of Variable Interest Rate Bonds, with respect to a particular period and date of calculation, the interest rate thereon shall be calculated on the assumption that such Bonds will bear interest during such period at the Maximum Interest Rate for such Bonds; provided that, if on such date of calculation the interest rate on such Bonds shall then be fixed for a specified period, the interest rate used for such specified period for the purposes of the foregoing calculation shall be such actual interest rate. For purposes of this definition, the principal and interest Portions of the Accreted Value and Appreciated Value of Capital Appreciation Bonds and Capital Appreciation and Income Bonds, respectively, becoming due at maturity or by virtue of a Sinking Fund Installment shall be included in the calculations of interest or Principal Installments payable in such manner and during such period of time as is specified in the Supplemental Resolution authorizing such Bonds.

“Debt Service Fund” means the fund created pursuant to the Bond Resolution.

“Debt Service Reserve Requirement” means, as of any date of calculation and with respect to all Series of Bonds other than Series of Interim Bonds, an amount equal to the greatest

amount of Debt Service with respect to such Series of Bonds for the current or any future Bond Year.

“Default Notice” means a notice given by a Credit Provider or a Liquidity Provider pursuant to its Reimbursement Agreement to the effect that an event of default thereunder has occurred and that the Credit Facility or the Liquidity Facility, as applicable, issued by such Provider will terminate on the date specified in such notice

“Eleventh Supplemental Resolution” means the Eleventh Supplemental State Building Revenue Bond Resolution as from time to time amended or supplemented in accordance with the terms of the Eleventh Supplemental Resolution and of the Bond Resolution.

“Eligible Account” is an account that is either (a) maintained with a federal or state chartered depository institution, bank or trust company that has a Standard & Poor’s short-term debt rating of at least .A-2. (or, if no short-term debt rating, a long-term debt rating of “BBB+”); or (b) maintained with the corporate trust department of a federal depository institution or trust company or state-chartered depository institution or trust company subject to regulations regarding fiduciary funds on deposit similar to Title 12 of the U.S. Code of Federal Regulations Section 9.10(b), which, in either case, has corporate trust powers and is acting in its fiduciary capacity.

“Expiration Date” when used in connection with a particular Credit Facility or Liquidity Facility means the date on which such Facility will expire, as such date may be extended from time to time or any earlier date on which such Facility shall terminate, expire or be cancelled except as a result of a Default Notice.

“Fiduciary” or “Fiduciaries” means the Trustee, the Paying Agents, or any or all of them, as may be appropriate.

“Fixed Rate” means the rate at which a 2003 Series A Bond bears interest to its maturity during the Fixed Rate Period, as established in accordance with the Eleventh Supplemental Resolution.

“Fixed Rate Mode” means a Rate Mode in which a 2003 Series A Bond in such Rate Mode bears interest at a Fixed Rate.

“Fixed Rate Period” means the period from and including the Conversion Date and extending (a) to and including the date of maturity of a subseries of the 2003 Series A Bonds in the Fixed Rate Mode or (b) to, but not including, the Conversion Date on which 2003 Series A Bonds of a subseries in the Fixed Rate Mode are converted from another Rate Mode.

“Interest Commencement Date” means, with respect to any particular Capital Appreciation and Income Bond, the date specified in the Supplemental Resolution authorizing such Bonds (which date must be prior to the maturity date for such Bonds) after which interest ceases to be deferred and compounded and the interest becomes currently payable.

“Investment Securities” means and includes any of the following securities, if and to the extent the same are at the time legal for investment of Authority funds:

- i) Direct obligations of or obligations guaranteed by the United States of America;
- ii) Bonds, debentures, notes or other evidence of indebtedness issued by any of the following agencies: Bank for Cooperatives; Federal Intermediate Credit Banks; Federal Home Loan Bank System; Export-Import Bank of the United States; Federal Land Banks; the Federal National Mortgage Association; the United States Postal Service; the Tennessee Valley Authority; the Government National Mortgage Association; the Federal Financing Bank; or any agency or instrumentality of the Federal Government which shall be established for the purpose of acquiring the obligations of any of the foregoing or otherwise providing financing therefor;
- iii) New housing authority bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an Annual Contributions Contract or Contracts with the United States of America; or project notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;
- iv) Direct and general obligations of the State to the payment of the principal of and interest on which the faith and credit of the State is pledged;
- v) Unless the Authority requires the same be secured as provided in clause (vi) below, negotiable certificates of deposit issued by any bank, trust company or national banking association having a capital stock and surplus of more than \$100,000,000 (including the Trustee);
- vi) Negotiable certificates of deposit issued by any bank, trust company or national banking association (including the Trustee), provided that such certificates of deposit (other than certificates of deposit of a bank, trust company or national banking association having a capital stock and surplus of more than \$100,000,000 described in (v) above which may be secured as provided in this clause (vi) at the option of the Authority) shall be continuously secured by direct obligations of or obligations guaranteed by the United States of America which shall have a market value (exclusive of accrued interest) at all times at least equal to 102% of the principal amount of such certificates of deposit and shall be lodged with the Trustee (or any correspondent bank or trust company designated by the Trustee), as custodian, by the bank, trust company or national banking association issuing such certificates of deposit, and the bank, trust company or national banking association issuing each such certificate of deposit required to be so secured shall furnish the Trustee with an undertaking satisfactory to it that the aggregate market value of all such obligations securing each such certificate of deposit will at all times be an amount equal to 102% of the principal amount of each such certificate of deposit and the Trustee shall be entitled to rely on each such undertaking;
- vii) any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due

notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in clause (i) hereof which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (vii) as appropriate, and (c) as to which the principal of and interest on the bonds and obligations of the character described in clause (i) hereof which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (vii) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (vii), as appropriate;

- viii) any repurchase agreement with any bank or trust company organized under the laws of any state of the United States of America which is a member of the Federal Deposit Insurance Corporation or any national banking association or government bond dealer having capital stock and surplus or net worth aggregating at least \$100,000,000 reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is secured by any one or more of the securities described in clause (i) or (ii) above which securities shall at all times have a market value (inclusive of accrued interest) not less than one hundred two percent (102%) of the full amount of the repurchase agreement and be delivered to the Trustee or another bank or trust company organized under the laws of any state of the United States of America or any national banking association, as custodian; and
- ix) units of participation in the New Jersey Cash Management Fund, or any similar common trust fund established pursuant to law as a legal depository of public moneys and for which the New Jersey State Treasurer is custodian.

“Lease Term” means the duration of the leasehold estate created in the Lease as specified in Section 2.2 of the Lease.

“Leased Land” means and includes (a) the real estate described in Exhibit A to the Lease dated as of November 15, 1981 as amended by Amendment No. 1; (b) the real estate described in Exhibit A to Amendment No. 3; (c) the real estate described in Exhibit A to Amendment No. 4; (d) the real estate described in Schedule A and Schedule B to Amendment No. 5; (e) the real estate described in Schedules A and B to Amendment No. 6; (f) the real estate described in the Short Form of Lease; (g) the real estate described in Schedule A to Amendment No. 7; (h) the real estate described in Schedule A to Amendment No. 8; (i) the real estate described in Schedule A to Amendment No. 9; (j) the real estate described in Exhibits A and B to Amendment No. 10; (k) the real estate described in Exhibit A to Amendment No. 12; (l) the real estate described in Exhibit A to Amendment No. 13; and (m) including any real estate in which the Authority acquires an interest in connection with any Additional Project authorized to be undertaken by the Authority pursuant to the Act.

“Liquidity Facility” means a letter of credit or other Credit Facility issued by a financial institution or insurance company or association which has been rated not lower than the second highest rating category by Moody’s and S&P’s, respectively, which letter of credit or Credit Facility is payable on demand in the event the terms under which such letter of credit or Credit Facility require payment thereunder.

“Liquidity Provider” means the provider of a Liquidity Facility selected in accordance with the provisions of Section 2.3 of the Sixteenth Supplemental Resolution.

“Maximum Interest Rate” means the rate per annum equal to 12.00%; provided, however, that in no event shall the rate at which any Authorized Refunding Bond bears interest exceed the Maximum Lawful Rate.

“Maximum Lawful Rate” means the maximum rate of interest on the relevant obligation permitted by applicable law.

“Maximum Rate” means, with respect to 2003 Series A Bonds purchased by a Liquidity Provider, the lesser of the Maximum Lawful Rate or 25%.

“Minimum Interest Rate” means, with respect to any particular Variable Interest Rate Bond, a numerical rate of interest which may (but need not) be set forth in the Supplemental Resolution authorizing such Bond, that shall be the minimum rate of interest such Bond may at any time bear.

“1981 Series Bonds” means the Series of Bonds initially issued under the Bond Resolution.

“No Remarketing Notice” means a notice given by a Liquidity Provider pursuant to its Reimbursement Agreement then in effect with respect to a Subseries of the 2003 Series A Bonds to the effect that an event of default thereunder has occurred and that from and after the date specified therein no Tendered Bonds, to which the Liquidity Facility issued by such Liquidity Provider relates, are to be remarketed.

“Notes” means note or notes of the Authority issued pursuant to a Note Resolution, the proceeds of which are applied to the Cost of the Project.

“Note Resolution” means any resolution or resolutions the Authority authorizing the issuance of Notes.

“Opinion of Bond Counsel” means an opinion of Bond Counsel addressed to the Authority, the Trustee and the affected Remarketing Agent, Credit Provider and Liquidity Provider to the effect that the action proposed to be taken will not cause interest on the applicable Subseries of the 2003 Series A Bonds to be includable in the gross income of the owners of such Subseries of the 2003 Series A Bonds for purposes of federal income taxation and such action is authorized or permitted by the Resolution.

“Opinion of Counsel” means an opinion signed by an attorney or firm of attorneys (who may be counsel to the Authority) selected by the Authority and approved by the Trustee (which approval shall not unreasonably be withheld); provided that, if the Trustee shall fail to so approve, it shall deliver to the Authority a statement of its reasons for such failure.

“Option Bonds” means Bonds which by their terms may be tendered by and at the option of the Holder thereof for payment or purchase by the Authority or another party prior to the stated maturity thereof, or the maturities of which may be extended by and at the option of the Holder thereof.

“Optional Tender Date” means any Business Day during a Daily Rate Period or a Weekly Rate Period.

“Other Swap Provider Payments” means all payments made by the provider of the Swaps except for Swap Provider Payments.

“Outstanding,” when used with reference to Bonds, means, as of any date, Bonds theretofore or thereupon being authenticated and delivered under the Bond Resolution except:

- i) Bonds cancelled by the Trustee at or prior to such date;
- ii) Bonds (or portions of Bonds) for the payment or redemption of which moneys, equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, shall be held in trust under the Bond Resolution and set aside for such payment or redemption (whether at or prior to the maturity or redemption date), provided that if such Bonds (or portions of Bonds) are to be redeemed, notice of such redemption shall have been given as in Article IV of the Bond Resolution provided or provision satisfactory to the Trustee shall have been made for the giving of such notice;
- iii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to Article III of the Bond Resolution or Section 406 or 1106 of the Bond Resolution;
- iv) Bonds deemed to have been paid as provided in subsection 2 of Section 1201 of the Bond Resolution; and
- v) Option Bonds deemed tendered in accordance with the provisions of the Supplemental Resolution authorizing such Bonds on the tender date, if interest thereon shall have been paid through such applicable date and the purchase price thereof shall have been paid or amounts are available for such payment as provided in the Bond Resolution.

“Paying Agent” means any bank or trust company organized under the laws of any state of the United States or any national banking association designated as paying agent for the Bonds of any Series, and its successor or successors hereafter appointed in the manner provided in the Bond Resolution.

“Plans and Specifications” means the plans and specifications for the Project prepared by

the State pursuant to the Lease.

“Principal Installment” means, as of any date of calculation and with respect to any Series, so long as any Bonds thereof are Outstanding, (a) the principal amount of Bonds of such Series due on a certain future date for which no Sinking Fund Installments have been established, plus any applicable redemption premium, or (b) the unsatisfied balance (determined as provided in Section 508 of the Bond Resolution) of any Sinking Fund Installments due on a certain future date for Bonds of such Series, plus the amount of the sinking fund redemption premiums, if any, which would be applicable upon redemption of such Bonds on such future date in a principal amount equal to said unsatisfied balance of such Sinking Funds Installments, or (c) if such future dates coincide as to different Bonds of such Series, the sum of such principal amount of Bonds and of such unsatisfied balance of Sinking Fund Installments due on such future date plus applicable redemption premiums, if any.

“Principal Installment Date” means any date on which any Principal Installment shall become due.

“Project” means the Initial Project and each Additional Project as may be modified by Sections 8.1(c) and 8.2(c) of the Lease, as supplemented and amended by Amendment No. 3.

“Purchase and Remarketing Fund” means the Purchase and Remarketing Fund established pursuant to the Eleventh Supplemental Resolution.

“Purchase Price” means when used in relation to Tendered Bonds, an amount equal to (a) one hundred percent (100%) of the principal amount of any 2003 Series A Bond tendered or deemed tendered to the Tender Agent for purchase pursuant to Section 2.15 of the Eleventh Supplemental Resolution or (b) the amount payable to the registered owner of a Purchased Bond following receipt by such owner of a purchase notice from the Remarketing Agent, plus accrued and unpaid interest thereon to the date of purchase; provided, however, that, if the date of purchase is an Interest Payment Date, then the Purchase Price shall not include accrued and unpaid interest, which shall be paid to the Holder of record on the applicable Regular Record Date.

“Purchased Bond” means any 2003 Series A Bond during the period from and including the date it is purchased or paid for by a provider of a Liquidity Facility pursuant to such Liquidity Facility to, but excluding, the earliest of (a) the date on which the principal, Redemption Price or Purchase Price of such 2003 Series A Bond, together with all interest accrued thereon, is paid with amounts other than amounts drawn under the Liquidity Facility, (b) the date on which the registered owner of a 2003 Series A Bond has given written notice of its determination not to sell such 2003 Series A Bond following receipt of a purchase notice from the Remarketing Agent with respect to such 2003 Series A Bond, or, if notice of such determination is not given on or before the Business Day next succeeding the day such purchase notice is received, the second Business Day succeeding receipt of such purchase notice or (c) the date on which such 2003 Series A Bond is to be purchased pursuant to an agreement by the registered owner of such 2003 Series A Bond to sell such 2003 Series A Bond following receipt of a purchase notice from the Remarketing Agent with respect to such 2003 Series A Bond, if the

Trustee then holds, in trust for the benefit of such registered owner, sufficient moneys to pay the Purchase Price of such 2003 Series A Bond, together with the interest accrued thereon to the date of purchase.

“Qualified Purchaser” means a person in whose name a Purchased Bond may, as provided in the applicable Liquidity Facility or the Reimbursement Agreement with the provider of a Liquidity Facility, be registered or to whom a Purchased Bond may be transferred by or upon the order of such provider without affecting the character of such Purchased Bond as a Purchased Bond.

“Rate” means any Daily Rate, Weekly Rate, Purchased Bond Rate or the Fixed Rate.

“Rate Mode” means the Daily Rate Mode, Weekly Rate Mode or Fixed Rate Mode.

“Rate Period” means any Daily Rate Period, any Weekly Rate Period or the Fixed Rate Period.

“Rebate Fund” means the fund created pursuant to the Bond Resolution.

“Redemption Price” means, with respect to any Bond, the principal amount thereof plus the applicable premium, if any, payable upon redemption thereof pursuant to such Bond or the Bond Resolution.

“Refunding Bonds” means all Bonds, whether issued in one or more Series, authenticated and delivered on original issuance pursuant to Section 205 of the Bond Resolution, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to Article III of the Bond Resolution or Section 406 or Section 1106 of the Bond Resolution.

“Reimbursement Agreement” means (i) with respect to the 2003 Subseries A-1 Bonds, the Credit Facility Agreement represented by the Reimbursement Agreement dated as of May 1, 2011 between the Authority and the Credit and Liquidity Facility Provider, providing for the issuance of the 2003 Subseries A-1 Bonds Letter of Credit; (ii) with respect to the 2003 Subseries A-2 Bonds, the Credit Facility Agreement represented by the Reimbursement Agreement dated as of May 1, 2011 between the Authority and the Credit and Liquidity Facility Provider, providing for the issuance of the 2003 Subseries A-2 Bonds Letter of Credit; (iii) with respect to the 2003 Subseries A-3 Bonds, the Credit Facility Agreement represented by the Reimbursement Agreement dated as of May 1, 2011 between the Authority and the Credit and Liquidity Facility Provider, providing for the issuance of the 2003 Subseries A-3 Bonds Letter of Credit; and (iv) with respect to the 2003 Subseries A-4 Bonds, the Credit Facility Agreement represented by the Reimbursement Agreement dated as of May 1, 2011 between the Authority and the Credit and Liquidity Facility Provider, providing for the issuance of the 2003 Subseries A-4 Bonds Letter of Credit.

“Reimbursement Obligations” means (a) all obligations of the Authority under the applicable Reimbursement Agreement to reimburse the Credit and Liquidity Facility Provider with respect to drawings under the applicable Letter of Credit to pay principal and redemption

price of and interest on the applicable Subseries of the 2003 Series A Bonds and (b) all obligations to pay the applicable Credit and Liquidity Facility Provider for any advance made by the Credit and Liquidity Facility Provider in connection with a drawing under the applicable Letter of Credit to pay the Purchase Price of any tendered 2003 Series A Bond of the applicable Subseries, including in each instance interest accrued thereon as provided in the related Reimbursement Agreement.

“Remarketing Proceeds Account” means the account so designated and established within the Purchase and Remarketing Fund pursuant to Section 4.6 of the Eleventh Supplemental Resolution.

“Reset Date” means with respect to a Subseries of the 2003 Series A Bonds in a Daily Rate Mode or a Weekly Rate Mode, the date on which the interest rate borne by such Subseries of the 2003 Series A Bonds is to be determined in accordance with the provisions of Section 2.11 of the Eleventh Supplemental Resolution.

“Revenue Fund” means the Revenue Fund established in the Bond Resolution.

“Series” means all of the Bonds authenticated and delivered on original issuance and pursuant to the Bond Resolution authorizing such Bonds as a separate Series of Bonds and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to Article III of the Bond Resolution or Section 406 or Section 1106 of the Bond Resolution, regardless of variations in maturity, interest rate, Sinking Fund Installments, or other provisions.

“Short Form of Lease” means that certain Short Form of Ground Lease dated September 26, 1997, by and between the State of New Jersey, Department of the Treasury, and the Authority, which was recorded with the County Clerk’s Offices of Mercer County and Cumberland County, New Jersey on October 17, 1997.

“SIFMA Index” (formerly known as BMA Index) means on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by the Securities Industry and Financial Markets Association (“SIFMA”) or any person acting in cooperation with or under the sponsorship of SIFMA and acceptable to the Remarketing Agent and effective from such date.

“Sinking Fund Installment” means (a) an amount so designated which is established pursuant to clause (h) of paragraph (2) of subsection 1 of Section 202 of the Bond Resolution and (b) the amount so designated pursuant to subsection 7 of Section 203 of the Bond Resolution.

“State” means the State of New Jersey or any successor to its duties and functions.

“State Treasurer” means the treasurer of the State.

“Subordinated Debt” means the indebtedness issued or obligations incurred by the Authority pursuant to Section 510 of the Bond Resolution, including, without limitation, payments under the Swaps.

“Subordinated Debt Fund” means the fund created pursuant to the Bond Resolution.

“Subseries” means, as applicable, the 2003 Subseries A-1 Bonds, the 2003 Subseries A-2 Bonds, the 2003 Subseries A-3 Bonds or the 2003 Subseries A-4 Bonds.

“Supplemental Resolution” means any resolution supplemental to or amendatory of the Bond Resolution, adopted by the Authority in accordance with Article X of the Bond Resolution.

“Swap Account” means the account so designated and established pursuant to the Eleventh Supplemental Resolution.

“Swap Payments” means payments made by the Authority pursuant to the Swaps relating to Bonds Subject to a Swap Agreement.

“Swap Provider Payments” means payments made by the swap provider under the Swaps with respect to interest due on Bonds Subject to a Swap Agreement, in accordance with the terms and provisions of the Swap Agreement.

“Swap Requirement” means, as of the date of calculation, an amount equal to the Swap Payments for the next succeeding Bond Year.

“Tender Agent” means the Trustee, who was appointed as Tender Agent pursuant to the Eleventh Supplemental Resolution and its successor or successors and any successor Trustee which may at any time be substituted in its place pursuant to the Bond Resolution.

“Tendered Bond” means a 2003 Series A Bond or portion thereof in an Authorized Denomination mandatorily tendered for purchase in accordance with Section 2.15 of the Eleventh Supplemental Resolution, including a 2003 Series A Bond or portion thereof deemed tendered, but not surrendered on the applicable Mandatory Tender Date.

“Termination Date” when used in connection with a Credit Facility or a Liquidity Facility means the date on which such Facility will terminate as set forth in a Default Notice delivered by the Credit Provider or the Liquidity Provider, as applicable, in accordance with such Facility or the applicable Reimbursement Agreement.

“Trustee” means the trustee appointed pursuant to Article IX of the Bond Resolution, and its successors and any other corporation which may at any time be substituted in its place pursuant to the Bond Resolution.

“2003 Administrative Expense Fund” means the 2003 Series A Bonds Administrative Expense Fund established pursuant to Section 2.11 of the Sixteenth Supplemental Resolution.

“Valuation Date” means with respect to any Capital Appreciation Bonds and Capital Appreciation and Income Bonds, the date or dates set forth in the Supplemental Resolution authorizing such Bonds on which specific Accreted Values are assigned to the Capital Appreciation Bonds and specific Appreciated Values are assigned to Capital Appreciation and Income Bonds, as the case may be.

“Variable Interest Rate” means a variable interest rate to be borne by a Series of Bonds or any one or more maturities within a Series of Bonds. The method of computing such variable interest rate shall be specified in the Supplemental Resolution authorizing such Series of Bonds and shall be based on (a) a percentage or percentages or other function of an objectively determinable interest rate or rates (e.g. a prime lending rate) or a function of such objectively determinable interest rate or rates which may be in effect from time to time or at a particular time or times; provided that, such variable interest rate shall be subject to a Maximum Interest Rate and may be subject to a Minimum Interest Rate and that there may be an initial rate specified, in each case as provided in such Supplemental Resolution or (b) a stated interest rate that may be changed from time to time as provided in the Supplemental Resolution authorizing such Series, provided that, such interest rate shall be subject to a Maximum Interest Rate. Such Supplemental Resolution shall also specify either (x) the particular period or periods of time or manner of determining such period or periods of time for which each value of such variable interest rate shall remain in effect or (y) the time or times upon which any change in such variable interest rate shall become effective.

“Variable Interest Rate Bonds” for any period of time, means Bonds which during such period bear a Variable Interest Rate, provided that Bonds the interest rate on which shall have been fixed for the remainder of the term thereof shall no longer be Variable Interest Rate Bonds.

“Variable Rate” means the rate of interest per annum which varies within specified periods pursuant to Daily Rate Period, Weekly Rate Period or other term periods, all as set forth in the Eleventh Supplemental Resolution and in the Series Certificate.

“Weekly Rate” means the rate at which a 2003 Series A Bond bears interest during a Weekly Rate Period, as established in accordance with the Eleventh Supplemental Resolution.

“Weekly Rate Mode” means a Rate Mode in which a 2003 Series A Bond in such Rate Mode bears interest at a Weekly Rate.

“Weekly Rate Period” means a period commencing on a Conversion Date or the Wednesday of a calendar week and extending to and including the next succeeding Tuesday.

“Yield Consultant” means the entity appointed pursuant to the Eleventh Supplemental Resolution.

“Yield Reduction Sinking Fund” means the fund created pursuant to the Eleventh Supplemental Resolution.

APPENDIX III

FORM OF CONTINUING DISCLOSURE AGREEMENT

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Continuing Disclosure Agreement

This Continuing Disclosure Agreement (the “Disclosure Agreement”) is made as of the ____ day of March, 2016 by and among the TREASURER OF THE STATE OF NEW JERSEY (the “Treasurer”), the NEW JERSEY BUILDING AUTHORITY (the “Authority”), a public body corporate and politic of the State of New Jersey (the “State”) and U.S. BANK NATIONAL ASSOCIATION, as Dissemination Agent (the “Dissemination Agent”), in its capacity as trustee under the Authority's State Building Revenue Bond Resolution, adopted on December 4, 1985, as amended and supplemented including by the Twenty-Fifth Supplemental State Building Revenue Bond Resolution adopted by the Authority on February 9, 2016 (collectively, the “Resolution”). This Disclosure Agreement is entered into in connection with the issuance and sale by the Authority of its State Building Revenue Refunding Bonds, 2016 Series A (the “Bonds”).

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered for the benefit of the holders and beneficial owners of the Bonds (collectively, the “Bondholders”) and in compliance with Rule 15c2-12(b)(5) of the Securities and Exchange Commission (the “SEC”), as it may be amended from time to time, including administrative or judicial interpretations thereof, as it applies to the Bonds.

SECTION 2. Definitions. In addition to the definitions set forth above and in the Resolution, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined herein, the following capitalized terms shall have the following meanings.

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

“Dissemination Agent” shall mean the Trustee, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Authority and which has filed with the Trustee a written acceptance of such designation.

“Listed Event” or “Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“MSRB” means the Municipal Securities Rulemaking Board.

“Opinion of Counsel” shall mean a written opinion of counsel expert in federal securities law acceptable to both the Treasurer and the Authority.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as it may be amended from time to time, including administrative or judicial interpretations thereof, as it applies to the Bonds.

“SEC” means the Securities and Exchange Commission.

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

SECTION 3. Provision of the Treasurer's Annual Report.

(a) The Treasurer shall, no later than March 15, 2017 and March 15 of each year during which any of the Bonds remain Outstanding, provide to the Dissemination Agent the Treasurer's Annual Report prepared for the fiscal year of the State ending the immediately preceding June 30 (or if the fiscal year of the State shall end on any date other than June 30, the Treasurer shall provide the Treasurer's Annual Report to the Dissemination Agent not later than the fifteenth day of the ninth month next following the end of such other fiscal year); provided, however, that the audited financial statements of the State may be submitted separately from the Treasurer's Annual Report, and later than the date required herein for the filing of the Treasurer's Annual Report, if such audited financial statements are not available by such date, but only if the unaudited financial statements are included in such Treasurer's Annual Report. Each Treasurer's Annual Report provided to the Dissemination Agent by the Treasurer shall comply with the requirements of Section 4 of this Disclosure Agreement but may be submitted as a single document or as separate documents comprising a package. Each Treasurer's Annual Report may cross-reference other information which is available to the public on the MSRB's internet website or which has been filed with the SEC, and, if the document incorporated by reference is a final official statement, it must be available from the MSRB. Unless otherwise required by law, any Continuing Disclosure Information filed with the MSRB in accordance with this Disclosure Agreement shall be in an electronic format as shall be prescribed by MSRB Rule G-32, and shall be accompanied by such identifying information as shall be prescribed by MSRB Rule G-32.

(b) The Dissemination Agent, promptly on receiving the Treasurer's Annual Report, and, in any event, not later than April 1 in each year (or if the fiscal year of the State shall end on any date other than June 30, not later than the first day of the tenth month next following the end of such other fiscal year), shall submit such Treasurer's Annual Report received by it to the MSRB in accordance with the Rule.

(c) If the Treasurer fails to submit the Treasurer's Annual Report to the Dissemination Agent by the date required in subsection (a) of this Section 3, the Dissemination Agent shall send a notice to the Treasurer and the Authority advising of such failure. Whether or not such notice is given or received, if the Treasurer thereafter fails to submit the Treasurer's Annual Report to the Dissemination Agent by the last Business Day of the month in which such Treasurer's Annual Report was due, the Dissemination Agent shall promptly send a notice to the MSRB in substantially the form attached as Exhibit A hereto.

(d) (i) Notwithstanding anything to the contrary contained in this Disclosure Agreement, in order to expedite the transmission of the Treasurer's Annual Report to the MSRB, as set forth in subsections (a), (b) and (c) of this Section 3, the Treasurer shall have the option, but shall not be obligated, to submit the Treasurer's Annual Report directly to the MSRB not later than March 15 in each year (or if the fiscal year of the State shall end on any date other than June 30, not later than the fifteenth day of the ninth month next following the end of such other fiscal year). In the event that the Treasurer elects to submit the Treasurer's Annual Report directly to the MSRB, the Treasurer shall at the same time, submit the Treasurer's Annual Report to the Dissemination Agent together with evidence that such Treasurer's Annual Report has been forwarded by the Treasurer to the MSRB, upon which evidence the Dissemination Agent may rely. In the event that the Treasurer elects not to submit the Treasurer's Annual Report directly to the MSRB, the Treasurer shall provide the Treasurer's Annual Report to the Dissemination Agent

within the time period specified in subsection (a) of this Section 3.

(ii) If the Dissemination Agent does not receive notice that the Treasurer has submitted the Treasurer's Annual Report directly to the MSRB as provided in subsection (d)(i) of this Section 3 by the last Business Day of the month in which such Treasurer's Annual Report was due, the Dissemination Agent shall promptly send a notice to the MSRB in substantially the form attached as Exhibit A hereto.

SECTION 4. Contents of the Treasurer's Annual Report.

(a) Treasurer's Annual Report means: (i) information pertaining to the finances and operating data of the State substantially of the type captioned as follows in Appendix I to the Official Statement of the Authority circulated in connection with the issuance of the Bonds: "STATE FINANCES," "FINANCIAL RESULTS AND ESTIMATES," "TAX AND REVENUE ANTICIPATION NOTES," "LONG-TERM OBLIGATIONS," "MORAL OBLIGATIONS," "STATE EMPLOYEES," "STATE FUNDING OF PENSION PLANS," "FUNDING POST-RETIREMENT MEDICAL BENEFITS" and "LITIGATION," and (ii) "COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2015," being the audit report prepared annually by the Office of the State Auditor with respect to the State's general purpose financial statements for each year, as set forth in Appendix I-A attached to such Appendix I described above, all such financial information included in clause (ii) above being prepared using the accounting standards set forth in subsection (b) of this Section 4.

(b) The State prepares its financial statements in accordance with the provisions of Statements No. 34 and No. 35 of the Governmental Accounting Standards Board.

SECTION 5. Reporting of Listed Events.

(a) This Section 5 shall govern the giving of notices of the occurrence of any of the following listed events (the "Listed Events"):

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

- (7) Modifications to rights of Bondholders, if material;
- (8) Bond calls, if material, and tender offers;
- (9) Defeasances of the Bonds;
- (10) Release, substitution, or sale of property securing repayment of the Bonds, if material;
- (11) Rating changes relating to the Bonds;
- (12) Bankruptcy, insolvency, receivership or similar events of the Authority;
- (13) The consummation of a merger, consolidation, or acquisition involving the Authority or the sale of all or substantially all of the assets of the Authority, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (14) Appointment of a successor or additional trustee for the Bonds or the change of name of a trustee for the Bonds, if material.

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

(c) If the Dissemination Agent has been instructed in writing by the Treasurer to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB within three (3) Business Days of the receipt of such instructions, but in no event later than ten (10) Business Days after the occurrence of such Listed Event. In addition, notice of Listed Events described in subsections (a)(8) and (9) of this Section 5 shall be given by the Dissemination Agent under this subsection simultaneously with the giving of the notice of the underlying event to Holders of affected Bonds pursuant to the Resolution.

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

SECTION 6. Termination of Reporting Obligation. The respective obligations of the Treasurer, the Authority and the Dissemination Agent under this Disclosure Agreement shall

terminate upon the defeasance, prior redemption or payment in full of all of the Bonds or when the Treasurer or the Authority is no longer an Obligated Person (as defined in the Rule) with respect to the Bonds.

SECTION 7. Amendment; Waiver. Notwithstanding any other provisions of this Disclosure Agreement, the Authority and the Treasurer may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an Opinion of Counsel addressed to the Treasurer, the Authority and the Dissemination Agent to the effect that such amendment or waiver will not, in and of itself, cause the undertakings herein to violate the Rule. No amendment to this Disclosure Agreement shall change or modify the rights or obligations of the Dissemination Agent without its written assent thereto.

SECTION 8. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Treasurer or the Authority from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Treasurer's Annual Report or notice of occurrence of a Listed Event, as the case may be, in addition to that which is required by this Disclosure Agreement. If the Treasurer or the Authority chooses to include any information in any Treasurer's Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, it shall not have any obligation under this Disclosure Agreement to update or continue to provide such information or include it in any future Treasurer's Annual Report or notice of occurrence of a Listed Event.

SECTION 9. Default. (a) In the event of a failure of the Treasurer or the Authority to comply with any provision of this Disclosure Agreement, the Dissemination Agent may (and, at the written request of the Holders of at least 25% in aggregate principal amount of Outstanding Bonds affected by such failure, shall), or any Bondholder may take such actions as may be necessary and appropriate to cause the Treasurer or the Authority to comply with its obligations under this Disclosure Agreement; provided, however, that no person or entity shall be entitled to recover monetary damages hereunder under any circumstances. Notwithstanding the foregoing, the right of any Bondholder to challenge the adequacy of information provided pursuant to this Disclosure Agreement shall be limited in the same manner as enforcement rights are limited under the Resolution. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Agreement in the event of any failure of the Treasurer or the Authority to comply with this Disclosure Agreement shall be an action to compel performance.

(b) For purposes of this Disclosure Agreement, in making determinations under applicable securities law, the Treasurer or the Authority may, but shall not be required to, rely on an Opinion of Counsel with respect to matters of a legal nature.

SECTION 10. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Dissemination Agent and the Bondholders, and each Bondholder is hereby declared to be a third party beneficiary of this Disclosure Agreement. Except as provided in the immediately preceding sentence, this Disclosure Agreement shall create no rights in any other person or entity.

SECTION 11. Reimbursement of the Dissemination Agent. The provisions of Section 905 of the Resolution relating to reimbursement of a Fiduciary, shall apply to the performance by

the Dissemination Agent of its obligations as Dissemination Agent under this Disclosure Agreement.

SECTION 12. Notices. All notices and other communications required or permitted under this Disclosure Agreement shall be in writing and shall be deemed to have been duly given, made and received only when delivered (personally, by recognized national or regional courier service, or by other messenger, for delivery to the intended addressee) or when deposited in the United States mail, registered or certified mail, postage prepaid, return receipt requested, addressed as set forth below:

(i) If to the Authority:

New Jersey Building Authority
28 West State Street
6th Floor, Suite 602
P.O. Box 292
Trenton, New Jersey 08625
Attn: Executive Director

(ii) If to the Treasurer:

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

(iii) If to the Dissemination Agent:

U.S. Bank National Association
21 South Street, 3rd Floor
Morristown, New Jersey 07960
Attn: Corporate Trust Department

Any party may alter the address to which communications are to be sent by giving notice of such change of address in conformity with the provisions of this Section 12 for the giving of notice.

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

SECTION 14. Headings for Convenience Only. The descriptive headings in this Disclosure Agreement are inserted for convenience of reference only and shall not control or affect the meaning or construction of any of the provisions hereof.

SECTION 15. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the

same instrument.

SECTION 16. Severability. If any provision of this Disclosure Agreement, or the application of any such provision in any jurisdiction or to any person or circumstance, shall be held invalid or unenforceable, the remaining provisions of this Disclosure Agreement, or the application of such provision as is held invalid or unenforceable in jurisdictions or to persons or circumstances other than those in or as to which it is held invalid or unenforceable, shall not be affected thereby.

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

SECTION 18. Compliance with L. 2005. c. 271. The Dissemination Agent hereby acknowledges that it has been advised of its responsibility to file an annual disclosure statement on political contributions with the New Jersey Election Law Enforcement Commission (“ELEC”) pursuant to *N.J.S.A. 19:44A-20.13* (L. 2005, c. 271, section 3) if the Dissemination Agent enters into agreements or contracts, such as this Disclosure Agreement, with a public entity, such as the Authority, and receives compensation or fees in excess of \$50,000 or more in the aggregate from public entities, such as the Authority, in a calendar year. It is the Dissemination Agent's responsibility to determine if filing is necessary. Failure to do so can result in the imposition of financial penalties by ELEC. Additional information about this requirement is available from ELEC at 888-313-3532 or at www.elec.state.nj.us.

SECTION 19. Compliance with L. 2005, c. 92. In accordance with L. 2005, c. 92, the Dissemination Agent agrees that all services performed under this Disclosure Agreement or any subcontract awarded under this Disclosure Agreement shall be performed within the United States of America.

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

NEW JERSEY BUILDING AUTHORITY

By: _____
Raymond A. Arcario, Executive Director

TREASURER, STATE OF NEW JERSEY

By: _____
Ford M. Scudder, Acting State Treasurer

U.S. BANK NATIONAL ASSOCIATION,
as Dissemination Agent

By: _____
Authorized Officer

[SIGNATURE PAGE TO CONTINUING DISCLOSURE AGREEMENT]

EXHIBIT A

NOTICE OF FAILURE TO FILE AN ANNUAL REPORT

Name of Issuer: New Jersey Building Authority
Name of Bond Issue Affected: \$_____ State Building Revenue Refunding Bonds, 2016
Series A
Date of Issuance of the
Affected Bond Issue: March __, 2016

NOTICE IS HEREBY GIVEN that the Treasurer of the State of New Jersey has not provided a Treasurer's Annual Report with respect to the above named Bonds as required by Section 3 of the Continuing Disclosure Agreement dated March __, 2016 among the Treasurer, the Authority and the Dissemination Agent. [TO BE INCLUDED ONLY IF THE DISSEMINATION AGENT HAS BEEN ADVISED OF THE EXPECTED FILING DATE - The Treasurer anticipates that the specified Treasurer's Annual Report will be filed by _____.]

Dated:

[DISSEMINATION AGENT]

cc: State Treasurer
Executive Director

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APPENDIX IV

FORM OF OPINION OF BOND COUNSEL

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—LAW OFFICES—

GLUCKWALRATH LLP

428 River View Plaza, Trenton, New Jersey 08611
Tel: (609) 278-1900 Fax: (609) 278-9200
www.glucklaw.com

March __, 2016

New Jersey Building Authority
28 West State Street, 6th Floor
P.O. Box 292
Trenton, New Jersey 08625

The Honorable Ford M. Scudder
Acting Treasurer of the State of New Jersey
125 West State Street
State House, P.O. Box 002
Trenton, New Jersey 08625

Re: New Jersey Building Authority
State Building Revenue Refunding Bonds, 2016 Series A

Ladies and Gentlemen:

We have acted as Bond Counsel to the New Jersey Building Authority (the “Authority”) in connection with the issuance by the Authority of \$_____ aggregate stated principal amount of its State Building Revenue Refunding Bonds, 2016 Series A (the “2016 Series A Bonds”). The 2016 Series A Bonds are dated, mature and bear interest upon the terms and conditions stated therein and in the Resolution (as hereinafter defined). The 2016 Series A Bonds are subject to redemption prior to maturity as set forth in the Resolution. All capitalized terms used herein and not defined herein shall have the meanings ascribed to such terms in the Resolution.

The 2016 Series A Bonds are issued under and pursuant to the New Jersey Building Authority Act, constituting Chapter 120 of the Laws of 1981 of the State of New Jersey, as amended and supplemented (the “Act”), and the State Building Revenue Bond Resolution adopted by the Authority on December 4, 1985, as amended and supplemented by, among other things, the Twenty-Fifth Supplemental State Building Revenue Bond Resolution adopted by the Authority on February 9, 2016, and amended by a Series Certificate dated March __, 2016 executed by an Authorized Authority Official (collectively, the “Resolution”). The 2016 Series A Bonds are being issued for the purpose of (a) refunding a portion of the Authority’s State Building Revenue Bonds, 2006 Series A and State Building Revenue Bonds, 2007 Series A and all of the Authority’s State Building Revenue Bond Anticipation Notes, 2013 Series (collectively, the “Bonds to be Refunded”) and (b) paying certain costs of issuance of the 2016 Series A Bonds.

The 2016 Series A Bonds are Refunding Bonds as contemplated by and defined in the Resolution. The 2016 Series A Bonds shall be equally and ratably secured under the Resolution with all Outstanding Bonds issued by the Authority under the Resolution, without preference, priority or distinction.

New Jersey Building Authority
The Honorable Ford M. Scudder
March __, 2016
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The Authority and the State of New Jersey (the “State”) have entered into a Lease and Agreement relating to the Authority’s Projects and Additional Projects, dated as of November 15, 1981, as amended (collectively, the “Lease”). The Lease provides that the State’s obligation to make the rent payments thereunder is absolute and unconditional, subject only to and dependent upon appropriations being made, from time to time, by the New Jersey State Legislature (the “State Legislature”) for such purposes. The State’s obligation to make rent payments under the Lease will continue until the later of January 1, 2025 or thirty (30) days after the final maturity of any Bonds secured by the Lease, unless sooner terminated in accordance with the provisions of the Lease.

In the Resolution, the Authority has pledged as security for the 2016 Series A Bonds (i) the proceeds of the sale of the 2016 Series A Bonds, (ii) the Revenues, and (iii) all Funds established by the Resolution, except the Rebate Fund and the Purchase and Remarketing Fund (collectively, the “Pledged Property”).

The 2016 Series A Bonds are special obligations of the Authority payable solely from and secured solely by the Pledged Property. Neither the faith and credit nor the taxing power of the State or of any political subdivision thereof, other than the credit of the Authority to the extent referred to above, is pledged for the payment of the principal of or the interest on the 2016 Series A Bonds. The 2016 Series A Bonds do not create or constitute a debt or liability of the State or any political subdivision thereof, either legal, moral or otherwise, other than of the Authority under the terms of the Resolution. The Authority has no taxing power.

The 2016 Series A Bonds are issued in fully registered form, initially registered in the name of and held by Cede & Co., as nominee for The Depository Trust Company (“DTC”), an automated depository for securities and clearinghouse for securities transactions. Purchases of the 2016 Series A Bonds will be made in book-entry form (without certificates) in denominations of \$5,000 and any integral multiple thereof. So long as DTC or its nominee is the registered Owner of the 2016 Series A Bonds, payments of the principal of and interest on the 2016 Series A Bonds will be made by the Trustee directly to Cede & Co., as nominee for DTC. Disbursal of such payments to the beneficial owners of the 2016 Series A Bonds is the responsibility of the DTC direct and indirect participants.

In our capacity as Bond Counsel to the Authority with respect to the 2016 Series A Bonds, we have examined the proceedings related to the authorization of the 2016 Series A Bonds, including, among other things: (a) a certified copy of the Resolution; (b) a certified copy of each of the Lease and the Ground Lease, (c) the executed Series Certificate, the Official Statement of the Authority dated March __, 2016 relating to the 2016 Series A Bonds, the 2016 Series A Bonds and the Continuing Disclosure Agreement; (d) the various certificates listed in the closing index for and relating to the 2016 Series A Bonds; (e) such matters of law as we have deemed pertinent, including, *inter alia*, the Act; and (f) such other opinions, agreements, proceedings, certificates, records, approvals, resolutions and documents as to various matters with respect to the issuance of the 2016 Series A Bonds as we have deemed necessary. As to matters of fact, we have relied upon the representations of the Authority and the State, including, without limitation, those contained in the Tax Regulatory Agreement dated March __, 2016 with respect to the 2016 Series A Bonds (the “Tax Certificate”), on which we have relied in rendering the opinions set

New Jersey Building Authority
The Honorable Ford M. Scudder
March __, 2016
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forth in the following paragraph 6, and where we have deemed appropriate, representations or other certifications of public officials.

In connection with the issuance of the 2016 Series A Bonds, the Authority has entered into an Escrow Deposit Agreement dated the date of issuance of the 2016 Series A Bonds (the “Escrow Deposit Agreement”) with U.S. Bank National Association, as escrow agent (the “Escrow Agent”), pursuant to which a portion of the proceeds of the 2016 Series A Bonds will be invested in certain direct obligations of the United States of America which are not subject to redemption prior to their maturity (the “Defeasance Securities”), the maturing principal of which and interest thereon, together with the uninvested cash, shall be used to make payments of the Redemption Price of and interest on the Bonds to be Refunded as the same shall become due and payable on and prior to the various redemption dates set forth in the Escrow Deposit Agreement. AMTEC Corporation, of Avon, Connecticut, and Ross & Company, PLLC (an independent Certified Public Accountant), of Louisville, Kentucky (together, the “Verification Agent”), has, based on certain information provided to it by the underwriters for the 2016 Series A Bonds, verified the mathematical computation of the adequacy of the maturing principal of and interest on the Defeasance Securities, together with the cash on deposit in the Escrow Fund held under the Escrow Deposit Agreement, to make the payments described in this paragraph and the yield of both the 2016 Series A Bonds and the investments in the Escrow Fund purchased with proceeds of the 2016 Series A Bonds. We have relied upon the Verification Agent’s verification of the sufficiency of the amounts to be held by the Escrow Agent in concluding that the 2016 Series A Bonds are not “arbitrage bonds” within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended (the “Code”).

The Code imposes certain requirements that must be met on the date of issuance of the 2016 Series A Bonds and on a continuing basis subsequent to the issuance of the 2016 Series A Bonds in order for interest on the 2016 Series A Bonds to be excluded from gross income for federal income tax purposes under Section 103 of the Code. Such requirements include requirements relating to private use limitations and yield restriction of certain funds. The Authority has covenanted in the Resolution (i) that so long as it owns or leases the Project under the Lease, it will take no action with respect to the Project which will impair the exemption of interest on the Outstanding Bonds from federal income taxes and (ii) that it will, to the extent permitted by law, comply with the provisions and procedures set forth in the Tax Certificate, and will do and perform all acts and things necessary or desirable in order to assure that under the Code, as presently in force and effect, interest on the 2016 Series A Bonds will, for purposes of federal income taxation, be excludable from gross income of the recipients thereof pursuant to Section 103 of the Code. The State has covenanted in the Lease that so long as it leases the Project under the Lease, it will take no action with respect to the Project that will impair the exemption of interest on the Outstanding Bonds from federal income taxes.

We have assumed, with your permission, the proper authorization and due execution and delivery by, and enforceability against, all parties, other than the Authority and the State, of the documents and other instruments which we have examined. We have relied upon the genuineness, accuracy and completeness of the documents and other instruments that we have examined.

Based upon and subject to the foregoing, and subject to the further assumptions and other provisions set forth below, it is our opinion that:

New Jersey Building Authority
The Honorable Ford M. Scudder
March __, 2016
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1. The Authority is duly created and validly existing as a public body corporate and politic and an instrumentality of the State, created pursuant to the Act, and has the right, power and authority under the Act to adopt the Resolution, to enter into the Lease, to perform its obligations thereunder and to issue and sell the 2016 Series A Bonds.

2. The Resolution has been duly and lawfully adopted by the Authority, is in full force and effect and constitutes the valid and binding obligation of the Authority, enforceable against the Authority in accordance with its terms, and no other authorization for the Resolution is required. The Resolution creates the valid pledge which it purports to create of the Pledged Property.

3. The 2016 Series A Bonds have been duly authorized, executed, delivered, issued and sold by the Authority in accordance with the Constitution and the statutes of the State, including the Act and the Resolution, constitute the valid and binding special obligations of the Authority as provided in the Resolution, are entitled to the benefits of the Resolution and the Act, and are enforceable in accordance with their terms and the terms of the Resolution.

4. The Lease is in full force and effect and constitutes the valid and binding obligation of the Authority and the State, enforceable against each of the Authority and the State in accordance with its terms.

5. The Ground Lease is in full force and effect and constitutes the valid and binding obligation of the Authority and the State, enforceable against each of the Authority and the State in accordance with its terms.

6. Based upon existing law, interest received by a holder of the 2016 Series A Bonds will be excludable from the gross income for federal income tax purposes and will not be treated as a preference item for purposes of the alternative minimum tax imposed on individuals or corporations; however, such interest is included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax on such corporations. In rendering the opinions set forth in this paragraph 6, we have assumed compliance by the Authority with all requirements of the Code that must be satisfied subsequent to the issuance of the 2016 Series A Bonds in order that interest thereon be, and continue to be, excluded from gross income for federal income tax purposes. Failure by the Authority to comply with certain of such requirements may cause interest on the 2016 Series A Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the 2016 Series A Bonds. We express no opinion regarding any other federal tax consequences arising with respect to the 2016 Series A Bonds.

7. Based upon existing law, interest on the 2016 Series A Bonds and any net gains from the sale of the 2016 Series A Bonds are exempt from the tax imposed by the New Jersey Gross Income Tax Act. We express no opinion regarding any other State tax consequences arising with respect to the 2016 Series A Bonds or any tax consequences arising with respect to the 2016 Series A Bonds under the laws of any state other than State.

The foregoing opinions are qualified to the extent that the rights of the holders of the 2016 Series A Bonds and the enforceability of the 2016 Series A Bonds, the Resolution, the Lease, the Ground Lease and the other documents mentioned herein are subject to and may be limited by any applicable

New Jersey Building Authority
The Honorable Ford M. Scudder
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bankruptcy, insolvency, reorganization, moratorium, or other laws in effect from time to time relating to the enforcement of creditors' rights, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

We have also examined a specimen copy of the 2016 Series A Bonds as executed by the Authority, and in our opinion its form and execution are regular and proper.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion, or to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

We also express no opinion as to any matter not set forth above, including, without limitation, with respect to the accuracy or completeness of the Official Statement prepared in respect of the offering of the 2016 Series A Bonds.

With respect to the Lease and the Ground Lease, we have not made or undertaken to make any investigation of the state of title to any real or personal property or of the filing or recording of any documents, and we express no opinion with respect to (a) the adequacy and legal sufficiency of the legal description of, or the title to, the real or personal property described in the Lease or the Ground Lease or (b) the creation, perfection or priority of security interests or liens intended to be created by the Ground Lease or the Lease, if any, and we express no opinion concerning the effect of any environmental law upon the real or personal property described in the Ground Lease or the Lease.

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

Very truly yours,
GLUCKWALRATH LLP

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APPENDIX V

BOOK-ENTRY ONLY SYSTEM

The information in this APPENDIX V concerning The Depository Trust Company (“DTC”) and DTC’s book-entry only system has been provided by DTC. Accordingly, the Authority takes no responsibility for the accuracy or completeness of such information and neither the DTC Participants nor the Beneficial Owners (as defined below) should rely on such information with respect to such matters but should instead confirm the same with DTC or the DTC Participants, as the case may be.

General. DTC will act as securities depository for the 2016 Series A Bonds. The 2016 Series A Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. Initially, one fully registered Bond certificate will be issued for each maturity of the 2016 Series A Bonds, in the aggregate principal amount of such maturity of the 2016 Series A Bonds as set forth on the inside front cover page of this Official Statement and will be deposited with DTC. The following discussion will not apply to any 2016 Series A Bonds issued in certificate form due to the discontinuance of DTC’s Book-Entry System, as described below.

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

Purchase of Ownership Interests. Purchases of 2016 Series A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2016 Series A Bonds on DTC’s records. The ownership interest of each actual purchaser of a 2016 Series A Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners, are however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2016 Series A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners.

Beneficial Owners will not receive certificates representing their ownership interests in 2016 Series A Bonds, except in the event that use of the book-entry system for the 2016 Series A Bonds is discontinued.

Transfers. To facilitate subsequent transfers, all 2016 Series A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2016 Series A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2016 Series A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2016 Series A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Notices. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2016 Series A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2016 Series A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the documents relating to the 2016 Series A Bonds. For example, Beneficial Owners of 2016 Series A Bonds may wish to ascertain that the nominee holding the 2016 Series A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption. Notices of redemption of the 2016 Series A Bonds will be sent to DTC. If less than all of the 2016 Series A Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the 2016 Series A Bonds to be redeemed.

Voting. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to any matter related to the 2016 Series A Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2016 Series A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of Principal, Redemption Price and Interest. Payments of the principal or Redemption Price of and interest on the 2016 Series A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (or its nominee), the Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of the principal or Redemption Price of and interest on the 2016 Series A Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

Discontinuation of Book-Entry System. DTC may discontinue providing its services as securities depository with respect to the 2016 Series A Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not

obtained, Bond certificates for the 2016 Series A Bonds are required to be printed and delivered. The use of the system of book-entry transfers through DTC (or a successor depository) may be discontinued by the Authority as described in the Bond Resolution. In that event, Bond certificates for the 2016 Series A Bonds will be printed and delivered to DTC.

THE AUTHORITY AND THE TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC WILL DISTRIBUTE TO THE DIRECT PARTICIPANTS OR THAT THE DIRECT PARTICIPANTS OR THE INDIRECT PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE 2016 SERIES A BONDS, (I) PAYMENTS OF PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE 2016 SERIES A BONDS, (II) CERTIFICATES REPRESENTING AN OWNERSHIP INTEREST OR OTHER CONFIRMATION OF BENEFICIAL OWNERSHIP INTEREST IN THE 2016 SERIES A BONDS OR (III) NOTICES SENT TO DTC OR CEDE & CO., ITS NOMINEE, AS THE HOLDER OF THE 2016 SERIES A BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT ON THE MANNER DESCRIBED ABOVE.

NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION, EITHER SINGULARLY OR JOINTLY, TO ANY DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS, OR ANY PERSON CLAIMING A BENEFICIAL OWNERSHIP INTEREST IN THE 2016 SERIES A BONDS UNDER OR THROUGH DTC OR ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY OTHER PERSON WHICH IS NOT SHOWN ON THE REGISTRATION BOOKS OF THE AUTHORITY KEPT BY THE TRUSTEE AS BEING A BONDHOLDER. THE AUTHORITY AND THE TRUSTEE SHALL HAVE NO RESPONSIBILITY WITH RESPECT TO (I) ANY OWNERSHIP INTEREST IN THE 2016 SERIES A BONDS; (II) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, CEDE & CO., ANY DTC PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (III) THE DELIVERY TO ANY PARTICIPANT OR ANY BENEFICIAL OWNER OF ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE 2016 SERIES A BONDS UNDER THE BOND RESOLUTION; (IV) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OR ANY INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE 2016 SERIES A BONDS; (V) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF THE 2016 SERIES A BONDS; OR (VI) ANY OTHER MATTER.

SO LONG AS CEDE & CO., AS NOMINEE OF DTC, IS THE REGISTERED OWNER OF ALL OF THE 2016 SERIES A BONDS, REFERENCES IN THIS APPENDIX V TO THE BONDHOLDERS OR REGISTERED OWNERS OF THE 2016 SERIES A BONDS SHALL MEAN CEDE & CO. OR DTC AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE 2016 SERIES A BONDS.

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APPENDIX VI

BONDS TO BE REFUNDED

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BONDS TO BE REFUNDED*

New Jersey Building Authority State Building Revenue Bonds, 2006 Series A

Maturity Date	Principal Amount	Interest Rate	Redemption Date	Redemption Price	CUSIP***
6/15/2016	\$ 1,475,000**	5.000%	N/A	N/A	645771TP1
6/15/2017	2,345,000	4.250	6/15/2016	100%	645771TQ9
6/15/2018	2,445,000	4.000	6/15/2016	100%	645771TR7
6/15/2019	2,545,000	4.000	6/15/2016	100%	645771TS5
6/15/2021	2,755,000	4.125	6/15/2016	100%	645771TU0
6/15/2022	2,865,000	4.250	6/15/2016	100%	645771TV8
6/15/2023	2,990,000	4.250	6/15/2016	100%	645771TW6
6/15/2024	3,115,000	4.500	6/15/2016	100%	645771TX4
6/15/2025	3,255,000	4.500	6/15/2016	100%	645771TY2
6/15/2026	3,405,000	4.500	6/15/2016	100%	645771TZ9
6/15/2027	3,555,000	4.500	6/15/2016	100%	645771UA2

New Jersey Building Authority State Building Revenue Bonds, 2007 Series A

Maturity Date	Principal Amount	Interest Rate	Redemption Date	Redemption Price	CUSIP***
6/15/2023	\$ 7,210,000	5.000%	6/15/2016	100%	645771VC7
6/15/2024	7,575,000	5.000	6/15/2016	100%	645771VD5
6/15/2025	7,950,000	5.000	6/15/2016	100%	645771VE3

* Preliminary; subject to change.

** Constitutes a portion of the outstanding principal amount of such maturity.

*** Registered trademark of American Bankers Association. CUSIP numbers are provided by CUSIP Global Services, which is managed on behalf of the American Bankers Association by Standard & Poor's Capital IQ. The CUSIP numbers are being provided solely for the convenience of the Bondholders and the Authority does not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future.

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