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PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER 8, 2013

NEW ISSUE – BOOK-ENTRY ONLY

Fitch: “ ”
Moody’s: “ ”
S&P: “ ”
(See “RATINGS” herein)

NEW JERSEY BUILDING AUTHORITY

\$47,885,000* STATE BUILDING REVENUE BOND ANTICIPATION NOTES, 2013 SERIES
\$240,200,000* STATE BUILDING REVENUE REFUNDING BONDS, 2013 SERIES A
AND
\$10,330,000* STATE BUILDING REVENUE REFUNDING BONDS, 2013 SERIES B
(FEDERALLY TAXABLE)

Dated: Date of Delivery

Due: June 15, as shown on the inside front cover hereof

This Official Statement has been prepared by the New Jersey Building Authority (the “Authority”) to provide information on its State Building Revenue Bond Anticipation Notes, 2013 Series (the “2013 Series Notes”), its State Building Revenue Refunding Bonds, 2013 Series A (the “2013 Series A Bonds”), and its State Building Revenue Refunding Bonds, 2013 Series B (Federally Taxable) (the “2013 Series B Bonds”). The 2013 Series A Bonds and the 2013 Series B Bonds are collectively referred to herein as the “2013 Series Bonds,” and the 2013 Series Notes and 2013 Series Bonds are collectively referred to herein as the “2013 Series Obligations.” Selected information is presented on this cover page and the inside cover page for the convenience of the user in brief or summary form. **To make an informed decision regarding the 2013 Series Obligations, a prospective investor should read this Official Statement, including all Appendices attached hereto, in its entirety.**

- Tax Matters: In the opinion of Wolff & Samson PC, Bond Counsel, pursuant to the applicable provisions of the Internal Revenue Code of 1986, as amended (the “Code”) and related rulings, regulations and judicial decisions, and assuming compliance by the Authority with certain tax requirements described herein, under existing law, interest on the 2013 Series Notes and the 2013 Series A Bonds (collectively, the “2013 Series Tax-Exempt Obligations”) is not included in gross income for purposes of federal income taxation under Section 103 of the Code and is not an item of tax preference for purposes of calculating the alternative minimum tax imposed by the Code on individuals and corporations. Bond Counsel expresses no opinion as to the treatment of interest on the 2013 Series Tax-Exempt Obligations in determining “adjusted current earnings” for purposes of the federal alternative minimum tax imposed on corporations. **Interest on the 2013 Series B Bonds is included in gross income for purposes of federal income taxation.** Bond Counsel is also of the opinion that interest on and any gain realized on the sale of any 2013 Series Obligations are not includable in gross income under the existing New Jersey Gross Income Tax Act. See “TAX MATTERS” herein.
- Redemption: The 2013 Series Obligations are subject to redemption prior to maturity. See “DESCRIPTION OF THE 2013 SERIES OBLIGATIONS — Redemption” herein.
- Security: **As described more fully herein, the 2013 Series Obligations 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 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.**
- The 2013 Series Obligations 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.**
- Purposes: The 2013 Series Notes are being issued to (a) finance a portion of the costs of the 2012 Series Additional Project (as defined herein), (b) pay, at maturity, the principal of the 2012 Series Notes (as defined herein) and (c) pay the costs of issuance of the 2013 Series Notes. The 2013 Series A Bonds are being issued to (a) refund a portion of the Bonds to be Refunded (as defined herein) in the amounts set forth herein, (b) pay all or a portion of the termination costs attributable to the Swaps (as defined herein), and (c) pay the costs of issuance of the 2013 Series A Bonds. The 2013 Series B Bonds are being issued to (a) refund a portion of the Bonds to be Refunded in the amounts set forth herein, and (b) pay the costs of issuance of the 2013 Series B Bonds. See “PLAN OF FINANCE” herein.
- Interest: Interest on the 2013 Series Obligations is payable on June 15 and December 15 of each year, commencing June 15, 2014.
- Denominations: The 2013 Series Obligations 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 2013 Series Obligations are offered when, as and if delivered and subject to the receipt of the approving legal opinion of Wolff & Samson PC, West Orange, 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, DeCotiis, FitzPatrick & Cole, LLP, Teaneck, New Jersey. It is expected that the 2013 Series Obligations will be available for delivery to the Underwriters through DTC against payment therefor in New York, New York on or about November 22, 2013.

MORGAN STANLEY

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Official Statement Dated: November , 2013

* Preliminary, subject to change

NEW JERSEY BUILDING AUTHORITY

\$47,885,000* State Building Revenue Bond Anticipation Notes, 2013 Series

<u>Maturity (June 15)*</u>	<u>Principal Amount*</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP**</u>
2016	\$47,885,000			

\$240,200,000* State Building Revenue Refunding Bonds, 2013 Series A

<u>Maturity (June 15)*</u>	<u>Principal Amount*</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP**</u>
2015	\$38,830,000			
2016	40,365,000			
2017	42,480,000			
2018	47,405,000			
2019	42,260,000			
2020	13,795,000			
2021	3,980,000			
2022	4,185,000			
2023	2,690,000			
2025	500,000			
2026	1,805,000			
2027	1,905,000			

\$10,330,000* State Building Revenue Refunding Bonds, 2013 Series B (Federally Taxable)

<u>Maturity (June 15)*</u>	<u>Principal Amount*</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP**</u>
2015	\$3,190,000			
2016	3,230,000			
2017	1,935,000			
2018	1,975,000			

* Preliminary, subject to change.

** Registered trademark of American Bankers Association. CUSIP numbers are provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The CUSIP numbers listed above are being provided solely for the convenience of the holders of the 2013 Series Obligations only at the time of issuance of the 2013 Series Obligations, and the Authority does not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the 2013 Series Obligations as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the 2013 Series Obligations.

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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 2013 SERIES OBLIGATIONS 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 2013 SERIES OBLIGATIONS IS MADE ONLY BY MEANS OF THIS ENTIRE OFFICIAL STATEMENT.

The following Official Statement contains a general description of the 2013 Series Obligations, the New Jersey Building Authority (the "Authority"), the State of New Jersey (the "State") and the plan of finance 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 2013 Series Obligations 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 2013 Series Obligations 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 2013 Series Obligations 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 2013 Series Obligations 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 2013 Series Obligations and the security therefor, including an analysis of the risk involved. The 2013 Series Obligations have not been recommended by any federal or state securities commission or regulatory authority. The registration or qualification of the 2013 Series Obligations in accordance with applicable provisions of the securities laws of the states in which the 2013 Series Obligations 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 2013 Series Obligations. Neither these states nor any of their agencies have passed upon the merits of the 2013 Series Obligations 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 Treasurer, has approved the 2013 Series Obligations 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 2013 Series Obligations 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, New York, New York (“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

\$47,885,000* STATE BUILDING REVENUE BOND ANTICIPATION NOTES, 2013 SERIES

\$240,200,000* STATE BUILDING REVENUE REFUNDING BONDS, 2013 SERIES A

AND

**\$10,330,000* STATE BUILDING REVENUE REFUNDING BONDS, 2013 SERIES B
(FEDERALLY TAXABLE)**

INTRODUCTION

The purpose of this Official Statement, which includes the cover page and the Appendices, of the New Jersey Building Authority (the “Authority”) is to furnish information with respect to its State Building Revenue Bond Anticipation Notes, 2013 Series (the “2013 Series Notes”), its State Building Revenue Refunding Bonds, 2013 Series A (the “2013 Series A Bonds”), and its State Building Revenue Refunding Bonds, 2013 Series B (Federally Taxable) (the “2013 Series B Bonds”). The 2013 Series A Bonds and the 2013 Series B Bonds are collectively referred to herein as the “2013 Series Bonds,” and the 2013 Series Notes and 2013 Series Bonds are collectively referred to herein as the “2013 Series Obligations.” The 2013 Series Obligations 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 2013 Series Obligations, by the Twenty-Third Supplemental State Building Revenue Bond Resolution adopted by the Authority on October 16, 2013 and a Series Certificate for the 2013 Series Obligations (the “2013 Series Certificate”) executed by an Authorized Authority Official, authorizing the 2013 Series Obligations (together, the “Twenty-Third Supplemental Resolution”). The State Building Revenue Bond Resolution as so amended by other supplemental resolutions and the Twenty-Third 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.

* *Preliminary, subject to change.*

The 2013 Series Obligations, 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.” The following is a list of Bonds Outstanding under the Bond Resolution as of November 1, 2013:

Outstanding Bonds	Outstanding Principal Balance
State Building Revenue Refunding Bonds, 2002 Series B	\$54,765,000
State Building Revenue Bonds, 2003 Series A-1	45,025,000
State Building Revenue Bonds, 2003 Series A-2	45,150,000
State Building Revenue Bonds, 2003 Series A-3	30,100,000
State Building Revenue Bonds, 2003 Series A-4	30,100,000
State Building Revenue Bonds, 2004 Series A	570,000
State Building Revenue Bonds, 2004 Series B	14,685,000
State Building Revenue Bonds, 2006 Series A	35,670,000
State Building Revenue Bonds, 2007 Series A	66,280,000
State Building Revenue Bonds, 2007 Series B	40,265,000
State Building Revenue Refunding Bonds, 2009 Series A	65,620,000
State Building Revenue Refunding Bonds, 2009 Series B	28,630,000
State Building Revenue Refunding Bonds, 2011 Series A	41,665,000
State Building Revenue Bond Anticipation Notes, Series 2012	20,000,000
Total Amount Outstanding	\$518,525,000

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, 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 2013 Series Notes are being issued to (a) finance a portion of the costs of the 2012 Series Additional Project (as described in “PLAN OF FINANCE – The 2012 Series Additional Project”), consisting of: “Exterior Envelope Restoration and Repairs for the New Jersey Executive State House” and “Relocation of the Mechanical and Electrical Equipment Room in the New Jersey State House Garage,” (b) pay, at maturity, the principal of the State Building Revenue Bond Anticipation Notes, 2012 Series (the “2012 Series Notes”) and (c) pay the costs of issuance of the 2013 Series Notes. The 2013 Series A Bonds are being issued to (a) refund a portion of the Bonds listed on APPENDIX V (the “Bonds to be Refunded”) in the amounts set forth herein, (b) pay all or a portion of the termination costs attributable to the Swaps (as defined herein), and (c) pay the costs of issuance of the 2013 Series A Bonds. The 2013 Series B Bonds are being issued to (a) refund a portion of the Bonds to be Refunded in the amounts set forth herein, and (b) pay the costs of issuance of the 2013 Series B Bonds. See “PLAN OF FINANCE” herein.

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. See “PLAN OF FINANCE – The 2012 Series Additional Project” and - “THE AUTHORITY” herein. The Bond Resolution provides that the Initial Project, 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 Project, the State Capitol Complex, Cultural Campus and Other State Office Building Renovation Additional Projects and the 2012 Series Additional Project, 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 2013 Series Obligations 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.

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 First Amendment to Lease Agreement No. 8, dated as of April 1, 2001, 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 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 2013 Series Obligations, 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.

With respect to the Initial Project described under the heading, “THE AUTHORITY –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 a ground lease between the Authority and the State, as amended (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 AUTHORITY – The State House Complex Project” and

“THE AUTHORITY – 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 AUTHORITY – 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 AUTHORITY – The 1999 Series A Additional Project” and “THE AUTHORITY - 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 AUTHORITY – The 1999 Series B Additional Project” and “THE AUTHORITY - 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 AUTHORITY – 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 State has assigned to the Authority its leasehold interest in the Taxation Building under a lease-purchase agreement with a private owner. 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 AUTHORITY – 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 AUTHORITY – 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 AUTHORITY – The 1997 Additional Project” and “THE AUTHORITY – 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 AUTHORITY – 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 AUTHORITY – 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 by the 2012 Series 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 AUTHORITY - 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.

PLAN OF FINANCE

The 2013 Series Notes are being issued to (a) finance a portion of the costs of the 2012 Series Additional Project, (b) pay, at maturity, the principal of the 2012 Series Notes and (c) pay the costs of issuance of the 2013 Series Notes. The 2013 Series A Bonds are being issued to (a) refund a portion of the Bonds to be Refunded, (b) pay all or a portion of the termination costs attributable to the Swaps (in the amounts set forth herein), and (c) pay the costs of issuance of the 2013 Series A Bonds. The 2013

Series B Bonds are being issued to (a) refund a portion of the Bonds to be Refunded in the amounts set forth herein, and (b) pay the costs of issuance of the 2013 Series B Bonds.

The 2012 Series Additional Project

A portion of the proceeds of the 2013 Series Notes will be deposited in the 2013 Series Notes Proceeds Account within the Construction Fund established under the Bond Resolution and applied to pay Costs of the 2012 Series Additional Project, including costs of issuance of the 2013 Series Notes. See “ESTIMATED SOURCES AND USES OF FUNDS” herein. For further description of the 2012 Series Additional Project, see “THE AUTHORITY – The 2012 Series Additional Project” herein.

Payment of 2012 Series Notes at Maturity; Refunding of Bonds to Be Refunded

U.S. Bank National Association (the “Escrow Agent”) and the Authority will enter into two Escrow Deposit Agreements, to be dated the date of issuance and delivery of the 2013 Series Obligations (respectively, the “Notes and Series A Bonds Escrow Deposit Agreement” and the “Series B Bonds Escrow Deposit Agreement” and, together, the “Escrow Deposit Agreements”), pursuant to each of which the Escrow Agent shall create special and irrevocable escrow funds (each, an “Escrow Fund”) to be held by the Escrow Agent for the payment when due of the principal of and interest on the 2012 Series Notes and the principal or Redemption Price of and interest on the Bonds to be Refunded. A portion of the proceeds from the sale of the 2013 Series Notes, together with other funds of the Authority, will be paid to the Escrow Agent for deposit to the Escrow Fund established pursuant to the Notes and Series A Bonds Escrow Deposit Agreement, which amounts will be held uninvested until applied to pay the maturing principal of and interest on the 2012 Series Notes on December 18, 2013. A portion of the proceeds from the sale of the 2013 Series A Bonds, together with other funds of the Authority, will be paid to the Escrow Agent for deposit into the Escrow Fund established pursuant to the Notes and Series A Bonds Escrow Deposit Agreement to 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 principal or Redemption Price of and interest on a portion of the Bonds to be Refunded. A portion of the proceeds from the sale of the 2013 Series B Bonds will be paid to the Escrow Agent for deposit into the Escrow Fund established pursuant to the Series B Bonds Escrow Deposit Agreement to 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 principal or Redemption Price of and interest on a portion of the Bonds to be Refunded. See “ESTIMATED SOURCES AND USES OF FUNDS” and “VERIFICATION OF MATHEMATICAL CALCULATIONS” herein.

The holders of the Bonds to be Refunded will have a lien on the cash and Defeasance Securities on deposit in the applicable Escrow Fund. Upon execution and delivery of the Escrow Deposit Agreements and deposit of the cash and Defeasance Securities into the applicable Escrow Funds, the 2012 Series Notes and the Bonds to be Refunded shall be defeased and shall no longer be deemed to be Outstanding under, or entitled to the benefits of, the Bond Resolution.

Swaps

Simultaneously with the issuance of the 2013 Series Obligations, the Authority expects to apply a portion of the proceeds from the 2013 Series A Bonds to terminate the Swaps in whole or in part, which will result in a reduction of \$ _____ in the aggregate outstanding notional amount of the Swaps. See “SWAP AGREEMENTS” and “ESTIMATED SOURCES AND USES OF FUNDS” herein.

ESTIMATED SOURCES AND USES OF FUNDS

The sources and uses of funds in connection with the issuance of the 2013 Series Obligations are expected to be as follows:

SOURCES OF FUNDS	2013 SERIES NOTES	2013 SERIES A BONDS	2013 SERIES B BONDS	TOTAL
Principal Amount				
Net Original Issue Premium				
Other Available Funds of the Authority				
TOTAL				
 USES OF FUNDS				
Deposit to Construction Fund				
Deposit to Bond Retirement Fund				
Deposit to Escrow Fund				
Swap Termination Payments				
Costs of Issuance*				
Underwriters' Discount				
TOTAL	\$ _____	\$ _____	\$ _____	\$ _____

* Includes fees for bond ratings, printing, legal, trust and escrow and other estimated fees and expenses relating to the sale and issuance of the 2013 Series Obligations.

DESCRIPTION OF THE 2013 SERIES OBLIGATIONS

General

The 2013 Series Obligations 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 2013 Series Obligations will be payable on June 15, 2014 and semi-annually thereafter on December 15 and June 15 of each year to and including their respective dates of maturity. The 2013 Series Obligations 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 2013 Series Obligations 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 2013 Series Obligations 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.

Redemption

Optional Redemption.

(a) The 2013 Series Notes are subject to redemption prior to maturity on _____, at a redemption price of 100% of principal plus accrued interest.

(b) The 2013 Series A Bonds maturing on or before _____ are not subject to optional redemption prior to their stated maturities. The 2013 Series A Bonds maturing on or after _____ are subject to redemption prior to their stated maturity dates at the option of the Authority, on any date on or after _____, 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.

Make-Whole Redemption. The 2013 Series B Bonds are subject to make-whole redemption prior to maturity by written direction of the Authority, in whole or in part, on any Business Day, at the “Make-Whole Redemption Price” (as defined herein).

The “Make-Whole Redemption Price” is the greater of (i) 100% of the principal amount of the 2013 Series B Bonds to be redeemed and (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the 2013 Series B Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the 2013 Series B Bonds are to be redeemed, discounted to the date on which the 2013 Series B Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the adjusted “Treasury Rate” (as defined herein) plus __ basis points, plus, in each case, accrued and unpaid interest on the 2013 Series B Bonds to be redeemed on the redemption date.

The “Treasury Rate” will be as of the redemption date, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least five (5) Business Days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data) most nearly equal to the period from the redemption date to the maturity date of the 2013 Series B Bonds to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one (1) year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one (1) year will be used.

Selection of 2013 Series Obligations to be Redeemed. If less than all of the 2013 Series Notes or if less than all of the 2013 Series A Bonds of like maturity are called for redemption, the portions of the 2013 Series Notes or 2013 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. If less than all of the 2013 Series B Bonds of like maturity are called for redemption, the portions of the 2013 Series B Bonds of like maturity to be redeemed shall be selected by the Trustee on a pro rata basis in such a manner as the Trustee in its discretion may deem fair and appropriate. However, the portion of any 2013 Series Obligations 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 2013 Series Obligations, the Trustee must treat each such 2013 Series Obligation as representing that number of 2013 Series Obligations of \$5,000 denomination which is obtained by dividing by \$5,000 the principal amount of such 2013 Series Obligations 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 2013 Series Obligations, and when redemption of the 2013 Series Obligations is authorized or required pursuant to the Resolution, the Trustee shall give notice, in the name of the Authority, of the redemption of such 2013 Series Obligations, which notice shall specify the maturities of the 2013 Series Obligations 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 2013 Series Obligations of the same maturity are to be redeemed, and, in the case of 2013 Series Obligations 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 2013 Series Obligation to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of 2013 Series Obligations 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 2013 Series Obligations or portions of 2013 Series Obligations which are to be redeemed, at their last addresses, if any, appearing upon the registry books. Failure of the registered owner of any 2013 Series Obligations which are to be redeemed to receive any such notice shall not affect the validity of the proceedings for the redemption of 2013 Series Obligations.

So long as DTC is acting as securities depository for the 2013 Series Obligations, all notices of redemption required to be given to the registered owners of the 2013 Series Obligations will be given to DTC.

Book-Entry Only System

The following is a description of the procedures and record keeping with respect to beneficial ownership interests in the 2013 Series Obligations. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable. However, the Authority takes no responsibility for the accuracy thereof, and neither the DTC Participants nor the Beneficial Owners (as defined below) should rely on the following information with respect to such matters but should instead confirm the same with DTC or the DTC Participants, as the case may be.

General. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the 2013 Series Obligations. The 2013 Series Obligations 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 2013 Series Obligations, in the aggregate principal amount of such maturity of the 2013 Series Obligations, and will be deposited with DTC. The following discussion will not apply to any 2013 Series Obligations 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 2013 Series Obligations under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2013 Series Obligations on DTC’s records. The ownership interest of each actual purchaser of a 2013 Series Obligation (“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 2013 Series Obligations 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 2013 Series Obligations, except in the event that use of the book-entry system for the 2013 Series Obligations is discontinued.

Transfers. To facilitate subsequent transfers, all 2013 Series Obligations 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 2013 Series Obligations 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 2013 Series Obligations; DTC’s records reflect only the identity of the Direct Participants to whose accounts such 2013 Series Obligations 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 2013 Series Obligations may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2013 Series Obligations, such as redemptions, tenders, defaults, and proposed amendments to the documents relating to the 2013 Series Obligations. For example, Beneficial Owners of 2013 Series Obligations may wish to ascertain that the nominee holding the 2013 Series Obligations 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.

Voting. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2013 Series Obligations 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 2013 Series Obligations are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of Principal and Interest. Principal and interest payments on the 2013 Series Obligations 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 and interest on the 2013 Series Obligations 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 2013 Series Obligations 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 2013 Series Obligations are required to be printed and delivered. The use of the system of book-entry transfers through DTC (or a successor depository) may be discontinued as described in the Resolution. In that event, Bond certificates for the 2013 Series Obligations will be printed and delivered to DTC.

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

THE AUTHORITY AND THE TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC WILL DISTRIBUTE TO THE DIRECT PARTICIPANTS OR THAT THE DIRECT PARTICIPANTS OR THE INDIRECT PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE 2013 SERIES OBLIGATIONS, (I) PAYMENTS OF PRINCIPAL OF OR INTEREST ON THE 2013 SERIES OBLIGATIONS, (II) CERTIFICATES REPRESENTING AN OWNERSHIP INTEREST OR OTHER CONFIRMATION OF BENEFICIAL OWNERSHIP INTEREST IN 2013 SERIES OBLIGATIONS OR (III) NOTICES SENT TO DTC OR CEDE & CO., ITS NOMINEE, AS THE HOLDER OF THE 2013 SERIES OBLIGATIONS, 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 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 2013 SERIES OBLIGATIONS 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 2013 SERIES OBLIGATIONS UNDER THE RESOLUTION; (III) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR INTEREST DUE WITH RESPECT TO THE 2013 SERIES OBLIGATIONS; (IV) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF 2013 SERIES OBLIGATIONS; OR (V) ANY OTHER MATTER.

SO LONG AS CEDE & CO. IS THE HOLDER OF THE 2013 SERIES OBLIGATIONS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE BOND OWNERS OR HOLDERS OF THE 2013 SERIES OBLIGATIONS SHALL MEAN CEDE & CO. OR DTC AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE 2013 SERIES OBLIGATIONS.

SOURCES OF PAYMENT AND SECURITY FOR THE 2013 SERIES OBLIGATIONS

General

Under the terms of the Bond Resolution, the 2013 Series Obligations 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 2013 Series Obligations; (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 2013 Series Obligations are irrevocably pledged by the Authority pursuant to the Bond Resolution for the payment of principal of and interest on the 2013 Series Obligations, 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 2013 SERIES OBLIGATIONS 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 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 owns the buildings that comprise the Initial Project. 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, including the 1997 Labor Building Project, the State House Dome Project and the Pinelands Commission Headquarters 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, a portion of 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 Capital 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" hereafter.

SWAP AGREEMENTS

Under the Bond Resolution and in connection with the issuance of the 2003 Series A Bonds, the Authority entered into six (6) separate swap agreements (collectively, the "Swaps"), two with each of Citibank, N.A., New York, Goldman Sachs Mitsui Marine Derivative Products, L.P. and Morgan Stanley Capital Services (collectively, the "Swap Providers") pursuant to three (3) separate ISDA Master Agreements, together with certain schedules thereto (collectively, the "Master Agreements") to hedge the Authority's interest rate exposure with respect to the full principal amount of the 2003 Series A Bonds. The aggregate notional amount of the Swaps as of November 1, 2013 is \$150,375,000.00.

The Swaps each provide that the Authority will pay the respective Swap Provider a fixed rate of 3.64% on a notional amount equal to the principal amount of the 2003 Series A Bonds being hedged pursuant to such Swap, and that the respective Swap Provider will pay the Authority a floating amount based on 62% of one month LIBOR plus 0.20% on the same notional amount. As 2003 Series A Bonds are redeemed, the notional amounts of the respective Swaps shall decrease proportionately.

Payments due to each Swap Provider under its respective Master Agreement, including any termination payments, are special obligations of the Authority payable from lease rental payments made by the State pursuant to the Lease and other revenues and funds pledged under the Bond Resolution. **The pledge of the rentals and other revenues and funds under the Bond Resolution which secure the payments due to the Swap Providers is subordinate to the pledge of such moneys that secure the 2003 Series A Bonds.** 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 by the State Legislature from time to time for such purpose. The State Legislature has no legal obligation to make any such appropriations. Under certain circumstances, each Swap is subject to termination prior to its scheduled termination date and prior to the maturity of the 2003 Series A Bonds, in which event the Authority may be obligated to make a substantial payment to the applicable Swap Provider. For purposes of the Bond Resolution, Swap Payments are considered to be Subordinated Debt of the Authority.

The agreement by the Swap Providers to pay amounts based on a variable interest rate to the Authority under the Swaps will not affect the obligation of the Authority under the Bond Resolution to pay the principal and redemption premium, if any, of, and interest on the 2013 Series Obligations. Neither the owners of the 2013 Series Obligations nor any other person other than the Authority will have any rights under the Master Agreements or against any of the Swap Providers.

The Authority has the option to terminate each of the Swaps at any time. In the event that any Swap terminates prior to the respective stated termination date (including any optional termination by the Authority), either the Authority or the respective Swap Provider will be required to make a termination payment to the other party. The party required to make such payment and the amount thereof will be determined by market conditions at the time of such early termination.

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 subordinate to, and shall not adversely affect, the rights and remedies of the Bondholders.

Simultaneously with the issuance of the 2013 Series Obligations, the Authority expects to apply a portion of the proceeds from the 2013 Series A Bonds to terminate the Swaps in whole or in part, which will result in a reduction of \$_____ in the aggregate outstanding notional amount of the Swaps. See “ESTIMATED SOURCES AND USES OF FUNDS” herein.

For additional information about the Swaps, including various risks associated with the Swaps, see “APPENDIX I – FINANCIAL AND OTHER INFORMATION RELATING TO THE STATE OF NEW JERSEY – OBLIGATIONS SUPPORTED BY STATE REVENUE SUBJECT TO ANNUAL APPROPRIATION – Swap Agreements.” See also “NOTE 12 – DERIVATIVES” in APPENDIX I–A – “COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2012 – NOTE 12 – DERIVATIVES,” which is incorporated by reference in APPENDIX I.

THE AUTHORITY

General

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 Comptroller of the Treasury 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 two vacancies on the Authority Board. The present members of the Authority (all of whom serve without compensation), the expiration dates of their terms of office as members, the business affiliations of the members of the Authority who are not *ex-officio* members and the State office held by each *ex-officio* member are as follows:

<u>Name</u>	<u>Expiration of Term</u>*	<u>Business Affiliation</u>
John H. Fisher, III, Chairman	April 27, 2010	Government Affairs Specialist, Archer & Greiner
Sean W. Earlen	April 27, 2013	Director, Real Estate & Acquisitions, Silvi Group Companies
Dennis McNerney	January 8, 2008	Consultant
Prentis C. Nolan, III	April 27, 2009	President, PC Nolan & Associates, Inc.
William T. Mullen	January 12, 2010	NJ Building and Construction Trade Council
Morris Rubino	April 27, 2008	Business Manager, Financial Secretary and Treasurer, Ironworkers Local Union No. 68 (Retired)
William C. Sproule	April 27, 2011	N.J. Regional Council of Carpenters
Vacant		
Vacant		
Andrew P. Sidamon-Eristoff	<i>Ex-officio</i>	State Treasurer
Charlene Holzbaaur	<i>Ex-officio</i>	Director of the Division of Budget & Accounting, State of New Jersey
B. Carol Molnar, Esq.	<i>Ex-officio</i>	Chair of the New Jersey Commission on Capital Budgeting and Planning

* Each member of the Authority shall continue to serve in such capacity upon the expiration of such member's term until a successor is appointed.

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.

As of November 1, 2013, the Authority has \$518,525,000 principal amount of Bonds Outstanding under the Bond Resolution.

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. Contracts were awarded in the summer of 2005. Asbestos removal was completed by December 2005 and demolition began soon after. In March 2007, after a period of delays, the general contractor, Fletcher-Harlee, abandoned the project. That contract was terminated by the Department of the Treasury, Division of Property Management and Construction and the Authority. The surety company, Safeco Surety, was subsequently terminated for default of its contractual obligations. Certificates of Occupancy have been issued for all areas of construction and the building is occupied. Litigation between the general contractor Fletcher-Harlee, the surety company, Safeco Surety and the State of New Jersey has been resolved. Currently, all of the Museum construction projects are closed.

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. Construction on this component of the 2002 Series A Additional Project began in May 2004 with a majority of construction being completed by summer 2006. A second story shell addition, and its interior fit-out were funded directly by the Department of Law and Public Safety and completed in October 2009. A Certificate of Occupancy was received November 2009. 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. By April 2005, all new fire alarm systems were installed and operational. In September 2005, engineers completed an initial survey to evaluate the condition of the existing elevators and this project was awarded in October 2006. Work was completed on the modernization of eight elevators in three New Jersey Department of Transportation campus buildings and all elevators have been returned to service. A scope of work for the repairs to existing quarry floors, walls and flooring in the elevator lobbies and corridors was developed and approved for construction. A contractor was engaged and work was completed on this project in August 2012.

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 275,000 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 closeout of the subcontractor contracts for those subcontractors not involved with the Day 2 activities. The balance of the subcontractor contracts will be closed after completion of all work by BLL.

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.

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 with an anticipated project completion date of April 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 will include 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.

The architect and engineering firm, Miller-Remick, was issued a notice to proceed for design and construction administration in January 2012. Currently, the project is in construction and is underway. The construction phase is scheduled for completion by the end of January 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 will include the replacement of the existing automatic temperature control system with a new digital control system. The outside air (ventilation) control sequence will be repaired to control carbon dioxide levels in the return air. Repairs made to the system connected to units AHU-8 and HV-1 will include ductwork modifications and system rebalancing to both air and fluid systems serving the Auditorium. Fan motors will be 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 nearly thirty years ago. The normal life expectancy of the skylight system is approximately fifteen years. The skylight system has been reported to be leaking for the past several years and water infiltration is visible. The project will include 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 includes removal of all caulking within the extruded aluminum bar framework which will be replaced with new structural sealants and replacement of the flashings at the ridge and eave of the skylight system.

Plans and specifications for this project were developed by the architect and engineering firm and construction permits were received. The project was put out to bid, was awarded in 2012 and was completed within budget in 2013.

1997, 2002 & 2004 Construction Funds

Taxation Building Water Infiltration Repair

The exterior joint sealants throughout the façade of the Taxation Building are in poor condition and allow 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 is no longer utilized, is leaking and will be removed and the wall and fenestration will be reconstructed at both buildings. The project scope is to include 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.

Plans and specifications for this project were developed by the architect and engineering firm and construction permits were received. The project was put out to bid and was awarded in 2012. It 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 will include 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 is obligated to provide a twenty-four month period of scheduled preventative maintenance to ensure proper operation of the elevators.

1994 & 1997 Construction Fund

New Jersey State House Welcome Center Plaza Membrane Repair

This project will address 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 have been leaking since 2002, causing water infiltration into the State House Atrium Welcome Center lobby and allowing mold growth within the drywall finishes. Water is 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 will consist 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 will consist 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 to be done. 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 has developed construction documents to address the mechanical needs and the operational concerns of the using agency and are currently being reviewed for permitting.

State House Annex East Wing Basement Water Infiltration Repair

The moisture and mold mitigation plan for the State House Annex East Wing basement will address exterior and interior conditions that cause elevated humidity and mold growth in the State House Annex Library. Exterior waterproofing will occur around the electrical and mechanical rooms, the Legislative library and Legislative computer rooms 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 are sensitive to moisture and humidity levels, and has resulted in the closing of the library and relocation of most library staff as well as responding to health complaints from staff that remain in some sections of the State House Annex East Wing basement. The State House Annex Library cannot be reopened and library staff cannot return to this area until the water infiltration is corrected. The project includes braced excavation, repair of damaged concrete and re-pointing of stone wall joints. Work will also include the installation of a rubberized waterproof membrane with mechanical termination, drainage boards and a plastic impermeable sheet under the landscape stone. Trench drains will also be 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 submission will be modified and submitted to DPMC Code Review for review and permitting. Construction for this project is scheduled to start in early Spring of 2014.

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.

Request for proposals from architect and engineering firms were solicited and a contract for design services was awarded. Currently this project is in design development.

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.

Requests for Proposals from architect and engineering firms were solicited and a contract for design services was awarded. Currently the project is in final design development. A construction contract for this project is expected to be advertised for bid by November 2013.

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 2013 SERIES OBLIGATIONS” herein.

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ANNUAL DEBT SERVICE SCHEDULE

The following table sets forth the annual debt service requirements on the 2013 Series Obligations.

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
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TOTAL:	\$	\$	\$
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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**)(**Sections 4.9 and 4.10 of the Eleventh 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. **(Sections 4.9 and 4.10 of the Eleventh 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 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 Series Tax-Exempt Obligations (as defined herein under the heading “TAX MATTERS”) will, for purposes of federal income taxation, be excludable from gross income of the recipient thereof pursuant to Section 103 of the Code **(Section 5.4 of the Twenty-Third Supplemental Bond Resolution)**.

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 2013 Series Obligations or questioning or affecting the validity of the 2013 Series Obligations or the proceedings or authority under which the 2013 Series Obligations 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 2013 Series Obligations in the manner herein described.

TAX MATTERS

2013 Series Notes and 2013 Series A Bonds

The Internal Revenue Code of 1986, as amended (the "Code"), imposes certain requirements which must be met on a continuing basis subsequent to the issuance of the 2013 Series Notes and the 2013 Series A Bonds (collectively, the "2013 Series Tax-Exempt Obligations") in order to assure that interest on 2013 Series Tax-Exempt Obligations will be excluded from gross income for federal income tax purposes under Section 103 of the Code. Such requirements include requirements relating to private use limitations and the yield restriction of certain funds. Failure of the Authority to comply with such requirements may cause interest on the 2013 Series Tax-Exempt Obligations to be included in gross income for federal income tax purposes, retroactive to the date of issuance of the 2013 Series Tax-Exempt Obligations. In the Tax Certificate (the "Tax Certificate"), which will be delivered in connection with the issuance and delivery of the 2013 Series Tax-Exempt Obligations, the Authority will represent that the Authority expects and intends to be able to comply with, and will, to the extent permitted by law, comply with the provisions and procedures set forth in the Tax Certificate and do and perform all acts and things necessary or desirable in order to assure that, under the Code as presently in effect, interest on the 2013 Series Tax-Exempt Obligations be and remain excluded from gross income for federal income tax purposes. Wolff & Samson PC, Bond Counsel to the Authority, has relied upon the representations made in the Tax Certificate and has assumed continuing compliance by the Authority with all applicable federal income tax law requirements in rendering its federal income tax opinion with respect to the exclusion of interest on the 2013 Series Tax-Exempt Obligations from gross income for federal income tax purposes. Based upon the foregoing, Bond Counsel is of the opinion that, under existing law, interest on the 2013 Series Tax-Exempt Obligations (i) is excludable from gross income for purposes of federal income taxation under Section 103 of the Code and (ii) is not an item of tax preference to be included in calculating alternative minimum taxable income under the Code for purposes of the alternative minimum tax imposed with respect to individuals and corporations. Bond Counsel expresses no opinion as to the treatment of interest on the 2013 Series Tax-Exempt Obligations in determining "adjusted current earnings" for purposes of the federal alternative minimum tax imposed on corporations.

[Bond Counsel is further of the opinion that the difference between the principal amount of the 2013 Series Tax-Exempt Obligations maturing on _____ (the "Discount Bonds") and their initial offering price to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of such Discount Bonds of the same maturity was sold, constitutes original issue discount which is excluded from gross income for federal income tax purposes to the same extent as interest on the Discount Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each Discount Bond, and the basis of each Discount Bond acquired at such initial offering price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount.]

[Under Section 171(a)(2) of the Code, no deduction is allowed for the amortizable bond premium (determined in accordance with Section 171(b) of the Code) on the 2013 Series Tax-Exempt Obligations. Under Section 1016(a)(5) of the Code, however, an adjustment must be made to the owner's basis in such bond to the extent of any amortizable bond premium that is disallowable as a deduction under Section 171(a)(2) of the Code.]

The 2013 Series B Bonds

Interest on the 2013 Series B Bonds is includable in gross income for federal income tax purposes. Each prospective purchaser of the 2013 Series B Bonds should consult with its own tax advisor concerning the United States federal income tax and other tax consequences to it of the acquisition, ownership and disposition of the 2013 Series B Bonds as well as any tax consequences that may arise under the laws of any authority, local or foreign tax jurisdiction.

New Jersey Gross Income Tax

In the opinion of Bond Counsel, interest on and any gain realized on the sale of the 2013 Series Obligations is not includable in gross income under the existing New Jersey Gross Income Tax Act.

Certain Federal Tax Consequences Relating to the 2013 Series Tax-Exempt Obligations

Although interest on the 2013 Series Tax-Exempt Obligations is excluded from gross income for federal income tax purposes, the accrual or receipt of interest on the 2013 Series Tax-Exempt Obligations may otherwise affect the federal income tax liability of the recipient. The nature and extent of these other tax consequences will depend upon the recipient's particular tax status and other items of income or deduction. Bond Counsel expresses no opinion regarding any such consequences. Purchasers of the 2013 Series Tax-Exempt Obligations, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of Social Security benefits and individuals who may be eligible for the earned income tax credit under Section 32 of the Code, are advised to consult their own tax advisors as to the tax consequences of purchasing or holding the 2013 Series Tax-Exempt Obligations.

Future Events

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 2013 Series Tax-Exempt Obligations for federal income tax purposes, or the exclusion of interest on and any gain realized on the sale of the 2013 Series Obligations 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 2013 Series Obligations.

Bond Counsel is rendering its opinions under existing law as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise.

EACH PURCHASER OF THE 2013 SERIES OBLIGATIONS SHOULD CONSULT HIS OR HER OWN ADVISOR REGARDING ANY CHANGES IN THE STATUS OF PENDING OR PROPOSED FEDERAL OR NEW JERSEY AUTHORITY TAX LEGISLATION, ADMINISTRATIVE ACTION TAKEN BY TAX AUTHORITIES, OR COURT DECISIONS.

ALL POTENTIAL PURCHASERS OF THE 2013 SERIES OBLIGATIONS SHOULD CONSULT WITH THEIR TAX ADVISORS IN ORDER TO UNDERSTAND THE IMPLICATIONS OF THE CODE.

LEGALITY FOR INVESTMENT AND DEPOSIT

Under the Act, the 2013 Series Obligations 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 2013 Series Obligations are securities that are authorized security for any and all public deposits.

VERIFICATION OF MATHEMATICAL CALCULATIONS

Samuel Klein and Company, Certified Public Accountants (the "Verification Agent") will verify from the information provided to them the mathematical accuracy, as of the date of delivery of the 2013 Series Obligations, 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 principal, or Redemption Price of and interest on the 2012 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 2013 Series Tax-Exempt Obligations for federal income tax purposes, or on the exemption from taxation of the interest on the 2013 Series Tax-Exempt Obligations under the New Jersey Gross Income Tax Act.

APPROVAL OF LEGALITY

All legal matters incident to the authorization, issuance, sale and delivery of the 2013 Series Obligations are subject to the approval of Wolff & Samson PC, West Orange, New Jersey, as Bond Counsel to the Authority, whose approving legal opinion will be delivered with the 2013 Series Obligations, 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 DeCotiis, FitzPatrick & Cole, LLP, Teaneck, New Jersey.

RATINGS

Fitch Ratings ("Fitch"), Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies ("S&P") have assigned their municipal bond ratings of "___", "___" and "___", respectively, to the 2013 Series Obligations. 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 2013 Series Obligations.

UNDERWRITING

Morgan Stanley & Co. LLC (the “Representative”), as representative of the underwriters of the 2013 Series Obligations shown on the cover page hereof (collectively, the “Underwriters”), has agreed, subject to certain conditions, to purchase the 2013 Series Obligations from the Authority on _____, 2013, at a purchase price of \$_____ (representing the principal amount of the 2013 Series Obligations, less an Underwriters’ discount of \$_____). The Underwriters may offer and sell 2013 Series Obligations to certain dealers (including the Underwriters and other dealers depositing 2013 Series Obligations 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 Representative has provided the following three sentences for inclusion in this Official Statement: Morgan Stanley, parent company of Morgan Stanley & Co. LLC., an Underwriter of the 2013 Series Obligations, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement (the “Distribution Arrangement”), Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the 2013 Series Obligations.

The Authority has not been furnished with any documents relating to the Distribution Arrangement and makes no representations of any kind with respect thereto. The Authority is not a party to the Distribution Arrangement and has not entered into any agreement or arrangement with Morgan Stanley or with Morgan Stanley Smith Barney LLC with respect to the offering of the 2013 Series Obligations.

M.R. Beal & Company has provided the following two sentences for inclusion in this Official Statement: M.R. Beal & Company, one of the Underwriters of the 2013 Series Obligations, has entered into an agreement (the “M.R. Beal Distribution Agreement”) with TD Ameritrade, Inc. for the retail distribution of certain municipal securities offerings, at the original issue prices. Pursuant to the M.R. Beal Distribution Agreement (as applicable for this transaction), M.R. Beal & Company will share a portion of its underlying compensation with respect to the transaction with TD Ameritrade, Inc.

The Authority has not been furnished with any documents relating to the M.R. Beal Distribution Arrangement and makes no representations of any kind with respect thereto. The Authority is not a party to the M.R. Beal Distribution Arrangement and has not entered into any agreement or arrangement with M.R. Beal & Company or TD Ameritrade, Inc. with respect to the offering of the 2013 Series Obligations.

Loop Capital Markets LLC has provided the following two sentences for inclusion in this Official Statement: Loop Capital Markets LLC (“Loop Capital Markets”), one of the Underwriters of the 2013 Series Obligations, has entered into distribution agreements (the “Distribution Agreements”) with each of UBS Financial Services Inc. (“UBSFS”) and Deutsche Bank Securities Inc. (“DBS”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Distribution Agreement (if applicable to this transaction), each of UBSFS and DBS will purchase the 2013 Series Obligations from Loop Capital Markets at the original issue prices less a negotiated portion of the selling concession applicable to any 2013 Series Obligations that such firm sells.

The Authority has not been furnished with any documents relating to the Distribution Agreements and makes no representations of any kind with respect thereto. The Authority is not a party to the

Distribution Agreements and has not entered into any agreement or arrangement with UBSFS or DBS with respect to the offering of the 2013 Series Obligations.

CONTINUING DISCLOSURE

The Authority and the State Treasurer will enter into two agreements with the Trustee for the benefit of the holders of the 2013 Series Notes and the 2013 Series Bonds (collectively, the “Continuing Disclosure Agreements”), to comply with the secondary market disclosure requirements of the Securities and Exchange Commission’s Rule 15c2-12. Pursuant to the Continuing Disclosure Agreements, 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. The Authority will also covenant to provide notices of the occurrence of certain enumerated events, if material. Such notices shall be filed by the Trustee on behalf of the Authority with the MSRB. See “APPENDIX III – FORMS OF CONTINUING DISCLOSURE AGREEMENTS” herein.

For the Fiscal Year ended June 30, 2007, the Treasurer of the State failed to timely provide the State's annual report containing its financial and operating data as required by the State's various Agreements with Respect to Continuing Disclosure entered into by the State in connection with its general obligation bonds. The annual report was due to the nationally recognized municipal securities repositories on March 15, 2008. The annual report was filed on March 25, 2008.

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

The annual report for the Fiscal Year ended June 30, 2009, due March 15, 2010, was filed on March 15, 2010. The annual report for the fiscal year ended June 30, 2010, due March 15, 2011, was filed on February 1, 2011. The annual report for fiscal year ended June 30, 2011, due March 15, 2012, was filed on February 10, 2012. The annual report for the Fiscal Year ended June 30, 2012, due March 15, 2013, was filed on February 12, 2013.

In addition, the continuing disclosure agreement relating to the Authority’s Outstanding State Building Revenue Bonds, 2002 Series B (the “2002 Series B Bonds”) provides 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 is 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 Agreements for the 2013 Series Obligations will not require, that the Authority provide the Authority’s Annual Report. It is anticipated that the 2002 Series B Bonds will be defeased simultaneously with the issuance of the Series 2013 Obligations. From

and after the defeasance of the 2002 Series B Bonds, the Authority will no longer be required to file the Authority's Annual Report with the MSRB.

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 APPENDIX I-1, 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 2013 Series Obligations 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 2013 Series Obligations.

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

NEW JERSEY BUILDING AUTHORITY

By: /s/ _____
Raymond Arcario
Executive Director

Dated: November ____, 2013

APPENDIX I-1

SUPPLEMENT DATED NOVEMBER 8, 2013, TO APPENDIX I

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

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

Recent Developments

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

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

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

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

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

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

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

Escobar v. DYFS et al. On July 17, 2009, Plaintiff's child was 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. 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) had knowledge that the biological father had a history of drug use, domestic violence, mental health disorders and other issues. DYFS also was aware the child showed prior evidence of abuse. Plaintiff alleges that DYFS failed to adequately investigate the reports of alleged abuse. Discovery in this matter is complete and a trial date of December 2, 2013 has been set. The State is vigorously defending this matter.

State of New Jersey

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

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DATED AUGUST 13, 2013

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

This Appendix I speaks only as of its date and contains information supplied by the State that a prospective investor might consider in reaching a decision to invest in securities of the State or securities issued by governmental authorities that are secured by amounts subject to appropriations by the State Legislature. Nothing contained in this Appendix I shall create any implication that there has been no change in the affairs of the State since the date hereof. This Appendix I replaces Appendix I dated March 27, 2013 and supplements thereto. The principal changes reflected in this Appendix I are the updates of information to reflect the enactment of the Fiscal Year 2014 Appropriations Act and certain financial and other activity which occurred during Fiscal Year 2013. The State intends to further update or supplement the information contained in this Appendix I upon the occurrence of any event that materially changes the information contained herein.

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

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

From time to time, State officials or representatives of State governmental authorities may issue statements or reports, post information on websites, or otherwise make public information that contain predictions, projections or other information relating to the State's financial condition, including potential operating results for the current fiscal year and for future fiscal years, that may vary materially from the information provided in this Appendix I. Such statements, reports and information are not part of this Appendix I or the Official Statement to which this Appendix I is appended and should not be relied upon by investors and other market participants.

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

The Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2012, including Management's Discussion and Analysis (the "2012 CAFR"), has been separately filed with the MSRB and is incorporated by specific reference herein and is considered to be part of this Appendix I. The State has also placed a copy of the 2012 CAFR on the following website at www.state.nj.us/treasury/omb. No statement on that website or any other website is included by specific cross-reference herein.

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

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

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THE STATE OF NEW JERSEY

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

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

There are 15 departments of the Executive Branch of State government. The maximum number of departments permitted by the State Constitution is 20.

DEMOGRAPHIC AND ECONOMIC INFORMATION

New Jersey is the eleventh largest state in population and the fifth smallest in land area. According to the United States Bureau of the Census, the population of New Jersey was 7,730,188 in 1990, 8,414,350 in 2000, 8,791,894 in 2010, and estimated to be 8,864,590 in 2012. With an average of 1,196 persons per square mile, per the 2010 Census, it is the most densely populated of all the states. New Jersey is located at the center of the megalopolis which extends from Boston to Washington and which includes over one-fifth of the country's population. The extensive facilities of the Port Authority of New York and New Jersey, the Delaware River Port Authority and the South Jersey Port Corporation augment the air, land and water transportation complex which has influenced much of the State's economy. This central location in the northeastern corridor, the transportation and port facilities and proximity to New York City make the State an attractive location for corporate headquarters and international business offices.

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

New Jersey's population grew rapidly in the years following World War II, before slowing to an annual rate of growth of 0.27% in the 1970s. Between 1980 and 1990, the annual rate of growth rose to 0.49% and between 1990 and 2000, accelerated to 0.85%, but was only 0.44% between 2000 and 2010. While this rate of growth is less than that for the United States, it compares favorably with other Middle Atlantic states. New York's population grew at an annual rate of 0.31% from 2000 to 2010 and Pennsylvania's population grew at a rate of 0.28% per year during the same period.

The increase in the State's total population during recent decades masks the redistribution of population within the State. There has been a significant shift from the northeastern industrial areas toward the coastal counties of Atlantic, Ocean and Monmouth, and toward the central New Jersey counties of Hunterdon, Somerset and Middlesex.

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

SELECTED INFORMATION RELATING TO NEW JERSEY'S ECONOMIC CONDITION

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

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

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

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

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

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

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

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

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

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

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

The economic outlook hinges on the success of supportive national fiscal and monetary policies. Availability of credit, stability in the financial markets, and continued improvement in consumer and business confidence are critical factors necessary for the continuation of the economic turnaround nationally and in New Jersey. The State and the nation may experience some near-term deterioration in growth and the expected pace of economic expansion may decline if consumers, investors, and businesses are negatively affected by concerns regarding long-term federal budget sustainability, the implementation of any actions directed at near-term cuts in federal spending or increases in taxes, the impact of federal health care reform on business costs, lack of credit availability, U.S. and international financial market stresses, any slowdown in the pace of global economic recovery, and geopolitical tensions, particularly those which lead to any substantial restrictions on energy supplies from the Middle East. To a large extent, the future direction of the economy nationally and in the State hinges on the assumptions regarding the strength of the current economic recovery, energy prices, and stability in the financial markets.

CERTAIN CONSTITUTIONAL PROVISIONS

Budget Limitations

The State Constitution provides, in part, that no money shall be drawn from the State Treasury but for appropriations made by law and that no law appropriating money for any State purpose shall be enacted if the appropriations contained therein, together with all prior appropriations made for the same fiscal period, shall exceed the total amount of the revenue on hand and anticipated to be available to meet such appropriations during such fiscal period, as certified by the Governor (Article VIII, Sec. 2, para. 2). (For general information regarding the budget process, see “STATE FINANCES — New Jersey’s Budget and Appropriation System” herein; for the application of the budget process for Fiscal Year 2014, see “FINANCIAL RESULTS AND ESTIMATES” herein.)

Debt Limitations

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

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

STATE FINANCES

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

New Jersey’s Accounting System

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

Management's Discussion and Analysis — for State and Local Governments. The State's Comprehensive Annual Financial Report includes government-wide financial statements and fund financial statements. These statements present different views of the State's financial information. (See "COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2012," and the notes referred to therein (the "2012 CAFR") which has been separately filed with the Municipal Securities Rulemaking Board ("MSRB") and is incorporated by specific reference herein and is considered to be part of this Appendix I.) The 2012 CAFR presents the financial position and operating results of the State under generally accepted accounting principles ("GAAP") applicable to state and local governments as established by GASB. GASB is the standard setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in GASB's *Codification of Governmental Accounting and Financial Reporting Standards*.

The significant accounting policies followed by the State are described in the "Notes to the Financial Statements" set forth in the 2012 CAFR which is incorporated by specific reference herein.

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

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

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

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

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

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

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

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

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

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

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

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

New Jersey’s Budget and Appropriation System

The State operates on a fiscal year beginning July 1 and ending June 30. For example, “Fiscal Year 2014” refers to the State’s fiscal year beginning July 1, 2013 and ending June 30, 2014.

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

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

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

The Governor's budget message (the "Governor's Budget Message") is presented by the Governor during an appearance before a joint session of the State Legislature which, by law, is convened on a date on or before the fourth Tuesday in February in each year. The Governor's Budget Message must include the proposed complete financial program of the State government for the next ensuing fiscal year and must set forth in detail each source of anticipated revenue and the purposes of recommended expenditures for each spending agency (N.J.S.A. 52:27B-20). The financial program included in the Governor's Budget Message is then subject to a process of legislative committee review. As part of such review, testimony is given by a number of parties. The Office of Legislative Services, which is an agency of the State Legislature, generally provides its own estimates of anticipated revenues which may be higher or lower than those included in the Governor's Budget Message and the State Treasurer generally provides an updated statement of anticipated revenues in May of each year which may increase or decrease the amounts included in the Governor's Budget Message. In addition, various parties may release their own estimates of anticipated revenues and recommended expenditures to the media. After completion of the legislative committee review process, the budget, in the form of an appropriations bill, must be approved by the Senate and Assembly and must be submitted to the Governor for review. Upon such submission, the Governor may approve the bill, revise the estimate of anticipated revenues contained therein, delete or reduce appropriation items contained in the bill through the exercise of his or her line-item veto power, or veto the bill in its entirety. As with any gubernatorial veto, such action may be reversed by a two-thirds vote of each House of the State Legislature. In addition to anticipated revenues, the annual Appropriations Act also provides for the appropriation of non-budgeted revenue, including primarily federal funds and a portion of the Energy Tax Receipts, to the extent such revenue may be received and permits the corresponding increase of appropriation balances from which expenditures may be made. These amounts are excluded from all tables except for the table entitled "EXPENDITURES" on page I-32.

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

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

obligations paid from State revenue subject to annual appropriation. See “STATE FINANCES — New Jersey’s Budget and Appropriation System” and “OBLIGATIONS SUPPORTED BY STATE REVENUE SUBJECT TO ANNUAL APPROPRIATION” herein.

FINANCIAL RESULTS AND ESTIMATES

Audit Reports

The State Auditor is directed by statute (N.J.S.A. 52:24-4) to “examine and post-audit all the accounts, reports, and statements and make independent verifications of all assets, liabilities, revenues, and expenditures” of the State and its agencies. The 2012 CAFR, including the opinion of the State Auditor, has been separately filed with the MSRB and is incorporated by specific reference herein and is deemed a part of this Appendix I. The accounting and reporting policies of the State conform in all material respects to GAAP as applicable to governments.

Changes in Fund Balances

The following table sets forth a summary of Revenues, Appropriations and Undesignated Fund Balances for the Fiscal Years ended June 30, 2010 through 2014, covering budgeted funds. The Undesignated Fund Balances are available for appropriation in succeeding fiscal years. There have been positive Undesignated Fund Balances in the General Fund at the end of each year since the State Constitution was adopted in 1947.

Amounts shown for Fiscal Years 2010 through 2012 are actual and final. Amounts shown for Fiscal Year 2013 in the following tables and charts are based upon revised estimates for revenues and lapses and include supplemental appropriations and de-appropriations as of June 30, 2013 (which are subject to adjustment pending completion of the annual audit). Amounts shown for Fiscal Year 2014 are estimates as contained in the Fiscal Year 2014 Appropriations Act.

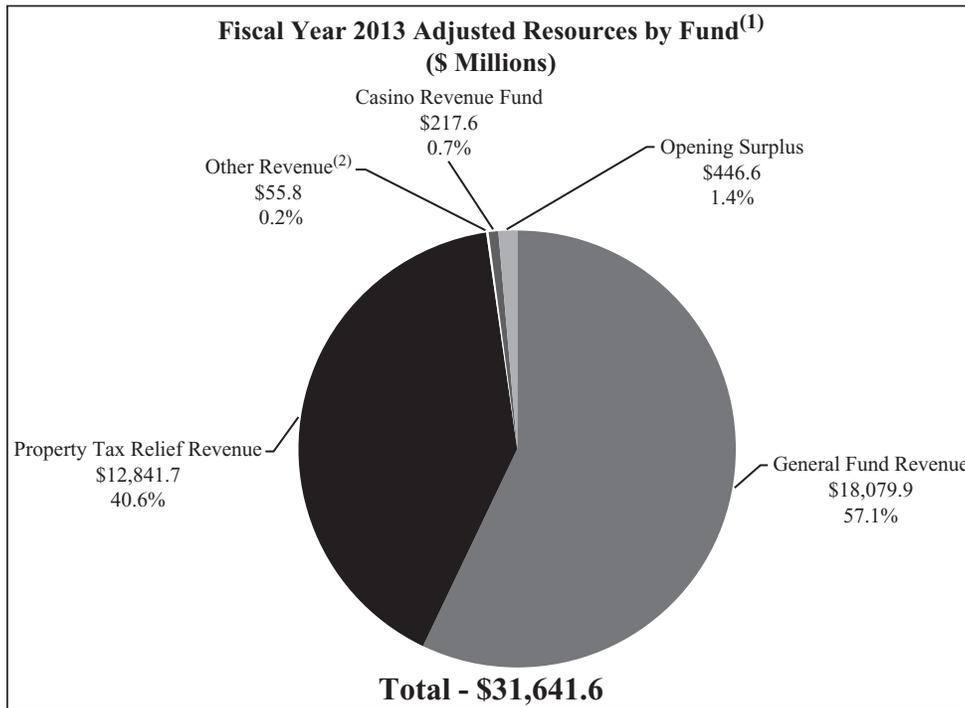
Budgeted State funds include the General Fund, the Property Tax Relief Fund, the Casino Revenue Fund, the Casino Control Fund and the Gubernatorial Elections Fund, but exclude federal funds and other non-budgeted funds. The annual Appropriations Act also provides for the appropriation of non-budgeted revenue, including primarily federal funds and a portion of the Energy Tax Receipts, to the extent such revenue is received and permits the corresponding increase of appropriation balances from which expenditures can be made. See “STATE FINANCES — New Jersey’s Accounting System” above and “SUMMARY OF REVENUES, APPROPRIATIONS AND UNDESIGNATED FUND BALANCES — BUDGETED STATE FUNDS” herein.

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

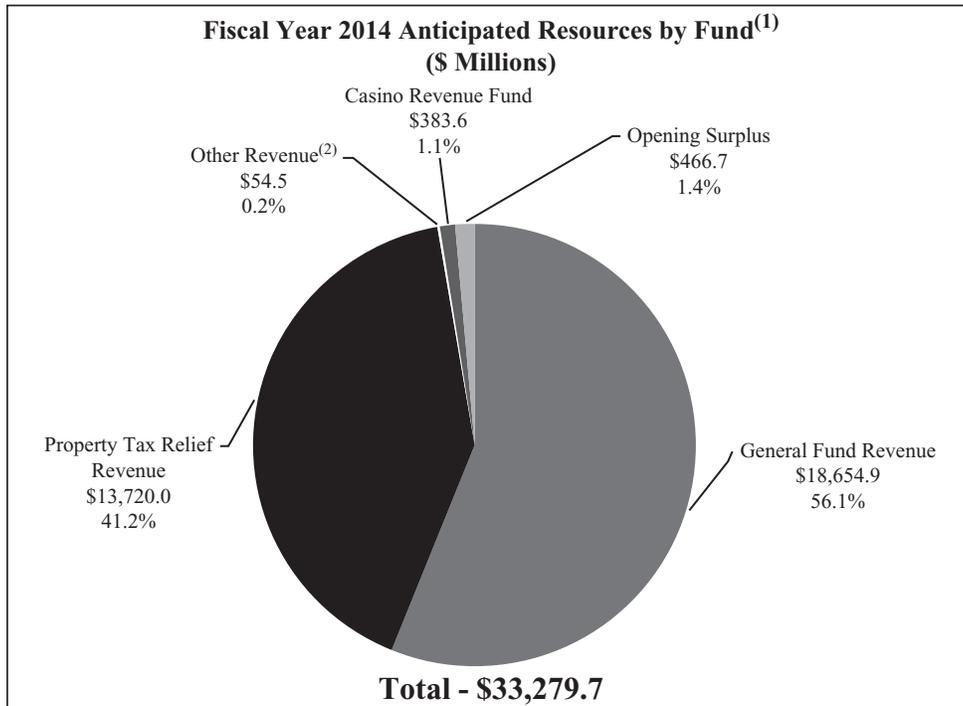
	<u>2014</u> <u>Estimated</u>	<u>2013</u> <u>Estimated</u>	<u>2012</u> <u>Actual</u>	<u>2011</u> <u>Actual</u>	<u>2010</u> <u>Actual</u>
July 1st Beginning Balances					
General Fund	\$ 465.1	\$ 441.4	\$ 864.1	\$ 794.2	\$ 614.2
Property Tax Relief Fund	—	2.4	5.8	10.0	—
Gubernatorial Elections Fund	—	1.0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

Notes:

- (1) The Surplus Revenue Fund and the Long Term Obligation and Capital Expenditure Fund previously included in this table have been excluded since no amounts have been available in such funds since 2009.
- (2) The "Property Tax Reform Account" was created in the Property Tax Relief Fund pursuant to an amendment to Article VIII, Section 1, Paragraph 7 of the State Constitution. Approved by the voters in 2006, the amendment provides that there shall be annually credited from the General Fund and placed in the Property Tax Reform Account an amount equal to the annual revenue derived from a tax rate of 0.5% imposed under the Sales and Use Tax Act. The State Constitution provides that the State Legislature shall annually appropriate such amount exclusively for the purpose of property tax reform.
- (3) Upon the end of the fiscal year, any unexpended or unencumbered balance in an appropriation reverts (lapses) to the June 30th ending balance, unless otherwise provided for in the annual Appropriations Act. Almost all of the Fiscal Year 2013 lapse relating to the Property Tax Relief Fund represents the deferral of Homestead Benefits originally scheduled to be paid during Fiscal Year 2013 to Fiscal Year 2014. See "FINANCIAL RESULTS AND ESTIMATES – Programs Funded Under Appropriations in Fiscal Year 2014 – *Grants-in-Aid*" herein.
- (4) The ending undesignated fund balance for Fiscal Year 2013 and opening undesignated fund balance for Fiscal Year 2014 are subject to adjustment pending completion of the annual audit. During Fiscal Year 2014, the ending undesignated fund balance for Fiscal Year 2014 may be revised as a result of changes in spending and/or anticipated revenues. See "FINANCIAL RESULTS AND ESTIMATES – Appropriations" herein.



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



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

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

Revenues

The following tables set forth actual revenues for Fiscal Years ended June 30, 2010 through 2012, and estimated revenues for Fiscal Years 2013 and 2014 for the General Fund, the Property Tax Relief Fund, the Gubernatorial Elections Fund, the Casino Control Fund and the Casino Revenue Fund, and such revenues as a percent of total revenue. The Fiscal Year 2013 estimates are as of June 30, 2013 and are subject to adjustment pending completion of the annual audit. The Fiscal Year 2014 estimates are as presented in the Fiscal Year 2014 Appropriations Act.

REVENUES
(\$ Millions)

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

- (1) The State has transferred to the Tobacco Settlement Financing Corporation (the "Corporation"), a special purpose entity established pursuant to L. 2002, c. 32 (the "Act"), the State's right to receive all tobacco settlement receipts (the "TSRs") expected to be received by the State after December 1, 2003 from the multi-state Master Settlement Agreement ("MSA") which settled litigation with the participating tobacco companies. The Corporation has pledged 76.26% of the TSRs as security for its bonds. In January 2007, the Corporation issued \$3,622,208,081.50 of its Tobacco Settlement Asset-Backed Bonds, Series 2007-1, the proceeds of which were used to refund in full, the prior Series 2002 and Series 2003 Tobacco Settlement Asset-Backed Bonds. The remaining 23.74% of the TSRs (the "Unpledged TSRs") are not pledged to the bonds and are payable to the State. Fiscal Year 2010, 2011 and 2012 reflect actual payments and Fiscal Year 2013 and 2014 reflect estimated payments received or to be received by the State from Unpledged TSRs.

In each of the years 2006 through and including 2012 certain of the tobacco companies withheld a portion of their annual payment (approximately \$30 million of a scheduled approximate \$242 million annual payment in 2006, approximately \$27 million of a scheduled approximate \$261 million annual payment in 2007, approximately \$22 million of a scheduled approximate \$284 million annual payment in 2008, approximately \$21 million of a scheduled approximate \$287 million annual payment in 2009, approximately \$27 million of a scheduled approximate \$266 million annual payment in 2010, and approximately \$35 million of a scheduled approximate \$261 million annual payment in 2011, and approximately \$32 million of a scheduled approximate \$263 million annual payment in 2012). That withholding was primarily based on claims, under the MSA, that the companies were entitled to a Non Participating Manufacturer ("NPM") Adjustment from the settling states, of which the State is one, because the states did not diligently enforce their statutes which requires tobacco companies that did not enter into the settlement to make certain payments for in-state tobacco product sales. For each year, the withholding related to enforcement efforts for the entire calendar year, three years prior to the date of payment (e.g. the 2006 withholding was related to enforcement efforts in calendar year 2003). The dispute for 2003 has been the subject of arbitration since July 2010. Arbitration of similar disputes for every year from 2004 through 2012 has awaited the conclusion of the arbitration for 2003. Because the MSA provides that states that are unsuccessful in the arbitration are responsible for the successful states' share of the NPM Adjustment, New Jersey was theoretically exposed to losing its entire MSA payment for each year it was unsuccessful in the arbitrations.

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

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

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

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

REVENUES
(% of Total)

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

Fiscal Year 2013 and Fiscal Year 2014 Estimated Resources

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

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

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

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

Casino Revenues — The Casino Revenue Fund accounts for the taxes imposed on the casinos and other related activities. They include casino parking fees, per room per day fees on casino hotel rooms, and a tax on multi-casino progressive slot machine revenue. Collections for Fiscal Year 2013 are estimated to decrease 9.1% from Fiscal Year 2012. Collections for Fiscal Year 2014 are estimated to increase by \$166 million from Fiscal Year 2013. Much of the anticipated rebound in revenues reflects the introduction of Internet gaming.

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

Potential Impacts on Fiscal Year 2013 and Fiscal Year 2014 Revenues

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

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

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

Federal Aid

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

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

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

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

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

Appropriations

Appropriations—Fiscal Year 2010 through Fiscal Year 2014

The following table sets forth the composition of annual appropriations, including supplemental appropriations and de-appropriations (except for Fiscal Year 2014) in Fiscal Years 2010 through 2014, if any, from the General Fund, the Property Tax Relief Fund, the Gubernatorial Elections Fund, the Casino Control Fund and the Casino Revenue Fund. Should tax revenues be less than the amount anticipated in the annual Appropriations Act, the Governor may, pursuant to statutory authority, prevent any expenditure under any appropriation. The amounts for Fiscal Years 2010 through 2012 are actual and final. The amounts for Fiscal Year 2013 are based on appropriations contained in the Fiscal Year 2013 Appropriations Act, plus net supplemental appropriations of \$35 million as of June 30, 2013 (including supplemental appropriations of \$400 million and de-appropriations of \$365 million), and are subject to adjustment pending completion of the annual audit. The amounts appropriated for Fiscal Year 2014 reflect the amounts shown in the Fiscal Year 2014 Appropriations Act.

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

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

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

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

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

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

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

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

Appropriations of Federal Aid

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

In addition, Medicaid disallowances may be issued in federal fiscal year 2013 (which ends September 30, 2013) or 2014 (which ends September 30, 2014) based on a series of federal Office of the Inspector General program audits of claim documentation and cost allocation methodologies. The Department of Human Services disputes these findings and is taking steps to minimize the final impact of these audits. Fifteen audits totaling approximately \$337.8 million are currently in draft or final form, but due to possible revisions or appeals, the final amounts and timing of any repayments are uncertain. The State currently has reserved \$33.7 million in federal revenues to offset these potential disallowances. See also “LITIGATION – *Medicaid, Tort, Contract, Workers’ Compensation and Other Claims*”.

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

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

State Unemployment Insurance Trust Fund

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

Under current State law, the State unemployment tax rate imposed on employers during a fiscal year is determined by State statutory formula based on the status of the Trust Fund in relation to total taxable wages as of March 31st of the preceding fiscal year. Because the Trust Fund is considered in deficit until the federal loans are repaid, such statutory formula provides for an increase in the employer tax rate. Subsequent legislation limited increases in employer taxes in Fiscal Years 2011 through Fiscal Year 2014 to less than that called for by such statutory formula. The federal government also imposes its own employer tax formula for states with an outstanding federal loan balance. The normal Federal Unemployment Tax Act (FUTA) rate is 0.6% of the first \$7,000 in wages per employee, up to \$42. The rate increases 0.3% each year a loan balance remains outstanding as of November 9th, with the increased rate in effect for the following calendar year. The rate paid in Calendar Year 2013 is 1.2% or up to \$84 per employee. This rate would increase to 1.5% or up to \$105 in Calendar Year 2014 pending the loan balance as of November 9th. The Fiscal Year 2014 contributions estimate above assumes no increase in the State employer tax rate and the minimal FUTA rate of 0.6%. No change in the employee rate has occurred.

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

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

- (1) Budgeted State Funds include the General Fund, the Property Tax Relief Fund, the Casino Revenue Fund, the Casino Control Fund and the Gubernatorial Elections Fund. These amounts do not reflect amounts included under the caption "Other Adjustments" in the table entitled "SUMMARY OF REVENUES, APPROPRIATIONS AND UNDESIGNATED FUND BALANCES — BUDGETED STATE FUNDS" above.
- (2) Reflects the reorganization of some functions among the Departments of Children and Families, Community Affairs, Education, Health, Human Services, Law and Public Safety, State and Treasury.
- (3) Pursuant to L. 2010, c. 34, the Department of the Public Advocate was abolished as a department of the Executive Branch of State government, effective June 30, 2010.

The following tables set forth appropriations by department and by major category for Fiscal Year 2014 and 2013.

**APPROPRIATIONS FOR BUDGETED STATE FUNDS(1)
FOR THE FISCAL YEAR ENDING JUNE 30, 2014
(\$ MILLIONS)**

<u>Government Branch</u>	<u>Direct State Services</u>	<u>Grants-In-Aid</u>	<u>State Aid</u>	<u>Capital Construction</u>	<u>Debt Service</u>	<u>Total</u>
Chief Executive	\$ 6.0	\$ —	\$ —	\$ —	\$ —	\$ 6.0
Agriculture	7.2	6.8	5.6	—	—	19.6
Banking and Insurance	63.4	—	—	—	—	63.4
Children and Families	268.1	781.9	—	—	—	1,050.5
Community Affairs	38.4	41.6	676.0	—	—	756.0
Corrections	959.2	104.8	20.5	—	—	1,084.5
Education	67.9	3.4	12,410.5	—	—	12,481.8
Environmental Protection	211.0	20.3	8.8	90.9	21.5	352.5
Health	45.5	325.4	—	—	—	370.9
Human Services	631.6	5,313.3	501.1	—	—	6,446.0
Labor and Workforce Development	92.4	66.9	—	—	—	159.3
Law and Public Safety	542.7	26.9	—	—	—	569.6
Military and Veterans' Affairs	91.5	2.6	—	—	—	94.1
State	28.1	1,183.3	15.0	—	—	1,226.4
Transportation	44.8	73.2	20.3	1,160.6	—	1,298.9
Treasury	456.4	949.6	437.6	—	298.2	2,141.8
Miscellaneous Commissions	0.8	—	—	—	—	0.8
Interdepartmental	2,855.7	1,101.7	—	144.3	—	4,101.7
Subtotal	<u>6,410.7</u>	<u>10,001.7</u>	<u>14,095.4</u>	<u>1,395.8</u>	<u>319.7</u>	<u>32,223.3</u>
Legislature	76.1	—	—	—	—	76.1
Judiciary	677.5	—	—	—	—	677.5
Grand Total	<u>\$7,164.3</u>	<u>\$10,001.7</u>	<u>\$14,095.4</u>	<u>\$1,395.8</u>	<u>\$319.7</u>	<u>\$32,976.9</u>

(1) Budgeted State Funds include the General Fund, the Property Tax Relief Fund, the Casino Revenue Fund, the Casino Control Fund, and the Gubernatorial Elections Fund. The appropriations are as contained in the Fiscal Year 2014 Appropriations Act.

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

<u>Government Branch</u>	<u>Direct State Services</u>	<u>Grants In-Aid</u>	<u>State Aid</u>	<u>Capital Construction</u>	<u>Debt Service</u>	<u>Total</u>
Chief Executive	\$ 6.0	\$ —	\$ —	\$ —	\$ —	\$ 6.0
Agriculture	7.1	6.8	5.6	—	—	19.5
Banking and Insurance	63.4	—	—	—	—	63.4
Children and Families	278.6	803.0	—	—	—	1,081.6
Community Affairs	35.6	38.1	668.5	—	—	742.2
Corrections	955.6	101.7	20.5	—	—	1,077.8
Education	73.4	2.4	11,689.3	—	—	11,765.1
Environmental Protection	207.4	16.7	7.1	85.8	19.3	336.3
Health	43.5	290.7	—	—	—	334.2
Human Services	630.0	5,306.9	516.6	—	—	6,453.5
Labor and Workforce Development	92.2	67.0	—	—	—	159.2
Law and Public Safety	544.5	22.4	—	—	—	566.9
Military and Veterans' Affairs	91.6	2.7	—	—	—	94.3
State	28.2	1,129.4	15.0	—	—	1,172.6
Transportation	83.9	68.2	24.6	984.0	—	1,160.7
Treasury	465.5	918.6	405.9	—	391.3	2,181.3
Miscellaneous Commissions	1.0	—	—	—	—	1.0
Interdepartmental	<u>2,478.0</u>	<u>1,055.3</u>	<u>—</u>	<u>191.3</u>	<u>—</u>	<u>3,724.6</u>
Subtotal	6,085.5	9,829.9	13,353.1	1,261.1	410.6	30,940.2
Legislature	76.7	—	—	—	—	76.7
Judiciary	673.0	—	—	—	—	673.0
Grand Total	<u>\$6,835.2</u>	<u>\$9,829.9</u>	<u>\$13,353.1</u>	<u>\$1,261.1</u>	<u>\$410.6</u>	<u>\$31,689.9</u>

(1) Budgeted State Funds include the General Fund, the Property Tax Relief Fund, the Casino Revenue Fund, the Casino Control Fund, and the Gubernatorial Elections Fund. Adjusted appropriations include supplemental appropriations and de-appropriations. Lapses in appropriations are not included. See "SUMMARY OF REVENUES, APPROPRIATIONS AND UNDESIGNATED FUND BALANCES — BUDGETED STATE FUNDS" herein.

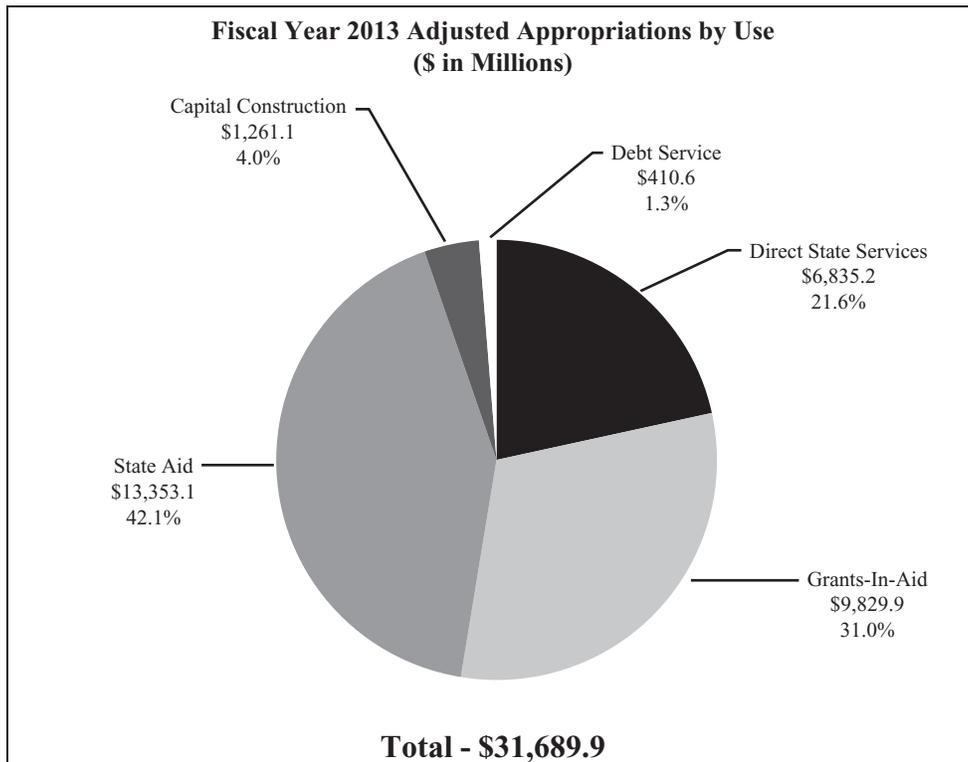
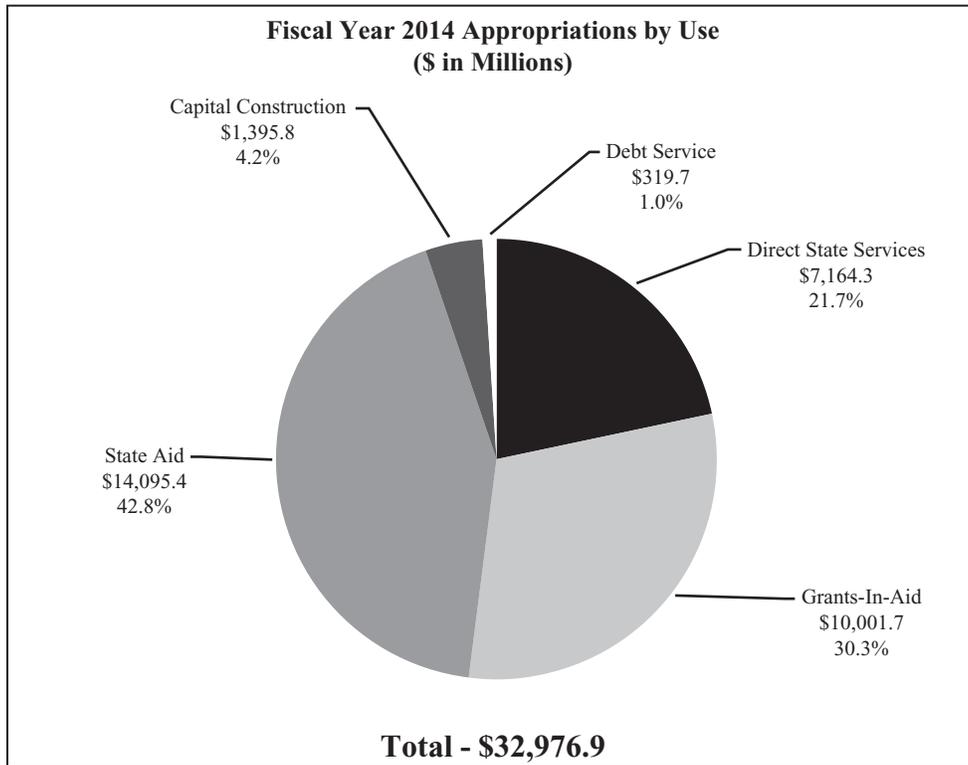
The following table sets forth, by major category, the original, supplemental appropriations and de-appropriations for Fiscal Year 2013 and the appropriations for Fiscal Year 2014 as contained in the Fiscal Year 2014 Appropriations Act.

SUMMARY OF APPROPRIATIONS
(\$ Millions)

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

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

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



Programs Funded Under Appropriations in Fiscal Year 2014

Of the \$32,976.9 million appropriated for Fiscal Year 2014 from the General Fund, the Property Tax Relief Fund, the Casino Control Fund, the Casino Revenue Fund and the Gubernatorial Elections Fund, \$14,095.4 million (42.8%) is appropriated for State Aid, \$10,001.7 million (30.3%) is appropriated for Grants-in-Aid, \$7,164.3 million (21.7%) is appropriated for Direct State Services, \$1,395.8 million (4.2%) is appropriated for Capital Construction and \$319.7 million (1.0%) is appropriated for Debt Service on State General Obligation Bonds. See “FINANCIAL RESULTS AND ESTIMATES – Appropriations” above.

State Aid

State Aid is the largest portion of Fiscal Year 2014 appropriations. These consist of payments to, or on behalf of, local government entities including counties, municipalities and school districts, to assist them in carrying out their local responsibilities.

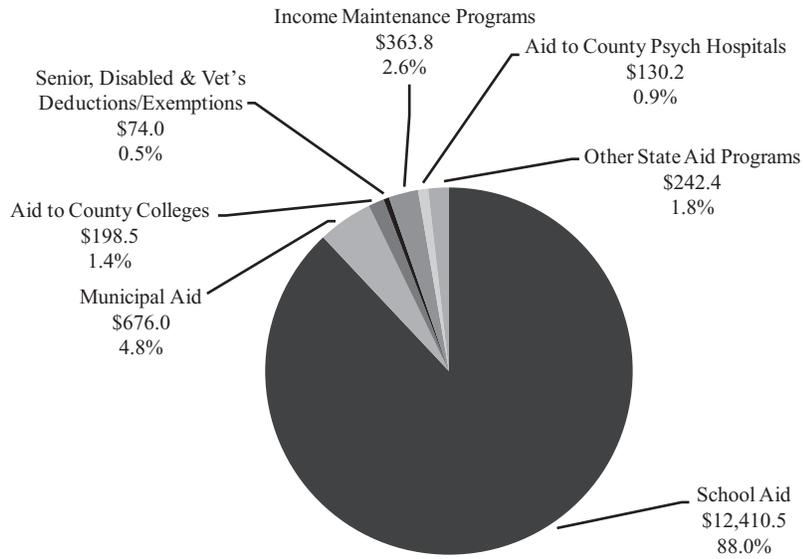
The largest State Aid appropriation, in the amount of \$12,410.5 million, is appropriated for local preschool, elementary and secondary education programs. Of this amount, \$8,574.0 million in formula aid for PreK-12 education, including School Choice Aid, will be distributed. The level of funding provided to districts in their Fiscal Year 2014 aid notices was calculated based on a methodology similar to that used in Fiscal Year 2013. Fiscal Year 2014 also includes a new aid category for districts spending significantly below the State-defined adequacy level and aid to ensure that no district receives less total K-12 formula aid than in Fiscal Year 2013. The methodologies used to calculate aid in both Fiscal Year 2013 and 2014 are different than the statutory funding formula. In addition to formula aid for PreK-12 education, \$522.5 million is appropriated for debt service on School Construction Bonds issued by the New Jersey Economic Development Authority, \$67.4 million is appropriated in School Building Aid to school districts, and \$57.4 million is appropriated for School Construction Debt Service Aid to school districts. Also, \$2,911.0 million is appropriated on behalf of school districts as the employers’ share of the Social Security and teachers’ pensions and benefits programs, including debt service on pension obligation bonds.

Appropriations to the Department of Community Affairs total \$676.0 million in State Aid for Fiscal Year 2014. Consolidated Municipal Property Tax Relief Aid is appropriated in the amount of \$575.9 million. These appropriations also include \$94.5 million for the Transitional Aid to Localities program. Under this program, aid is awarded through a competitive process and requires recipient municipalities to submit to additional State oversight, with the goal of reducing reliance on this aid in the future.

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

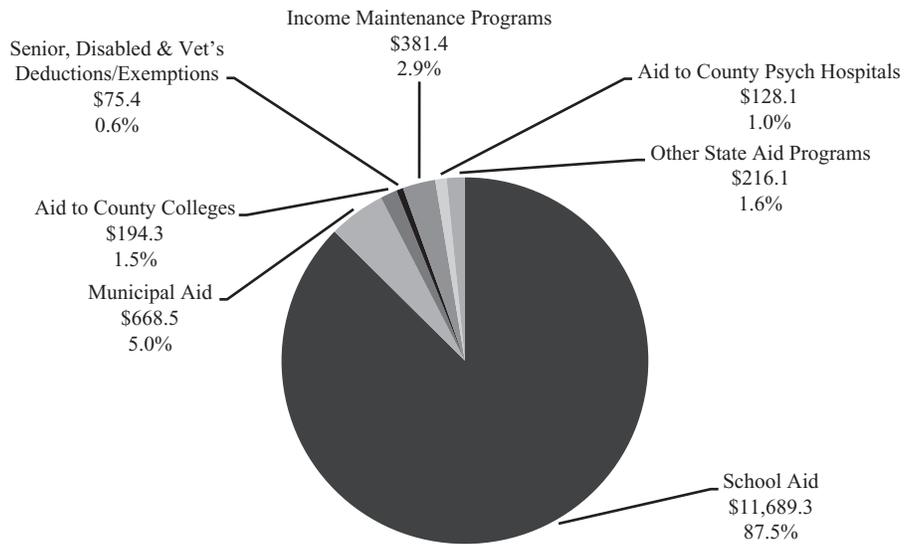
Appropriations for the Department of the Treasury total \$437.6 million in State Aid for Fiscal Year 2014. The principal programs funded by these appropriations are aid to county colleges (\$198.5 million) and the cost of property tax deductions for seniors, citizens with disabilities, and veterans (\$74.0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

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



Total - \$14,095.4

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



Total - \$13,353.1

Grants-in-Aid

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

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

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

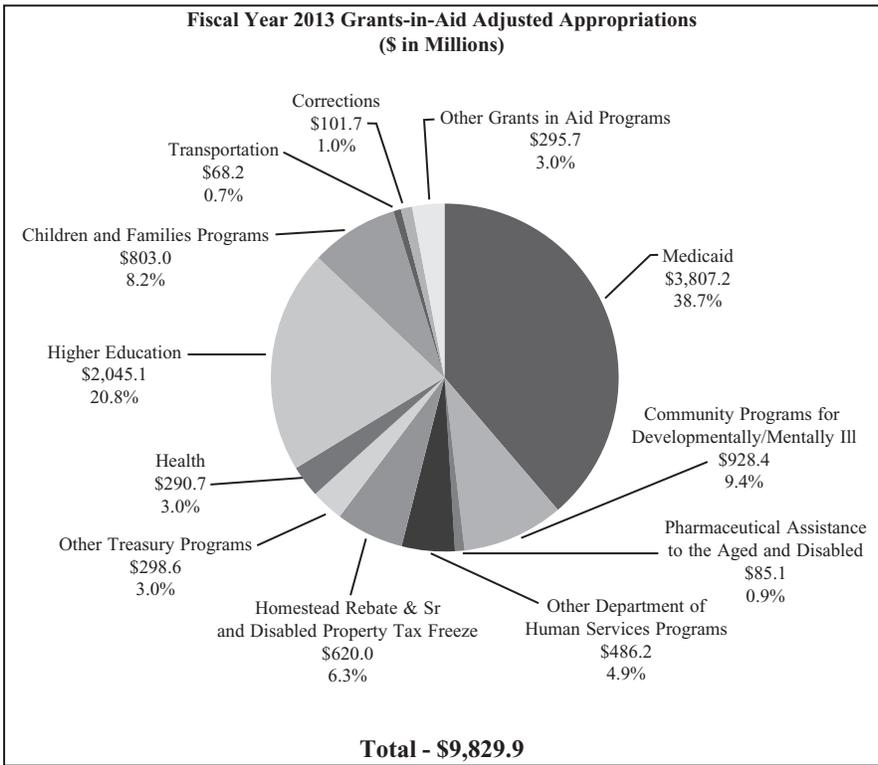
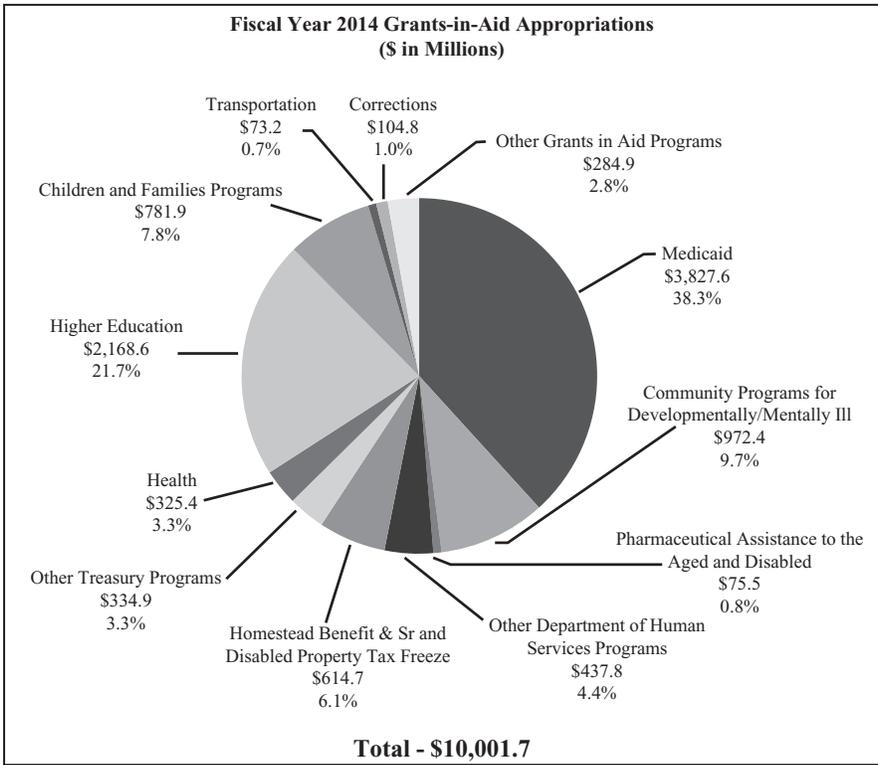
\$781.9 million is appropriated for programs administered by the Department of Children and Families. Of that amount, \$424.7 million is for child protective and permanency services, \$296.1 million is for children's system of care services, and \$61.2 million is for community programs intended to prevent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

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

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

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

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



Direct State Services

The third largest portion of the appropriations in Fiscal Year 2014 is to Direct State Services, which supports the operation of State government's departments, the Executive Office, several commissions, the State Legislature and the Judiciary. In Fiscal Year 2014, appropriations for Direct State Services aggregate to \$7,164.3 million. Some of the major appropriations for Direct State Services during Fiscal Year 2014 are described below.

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

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

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

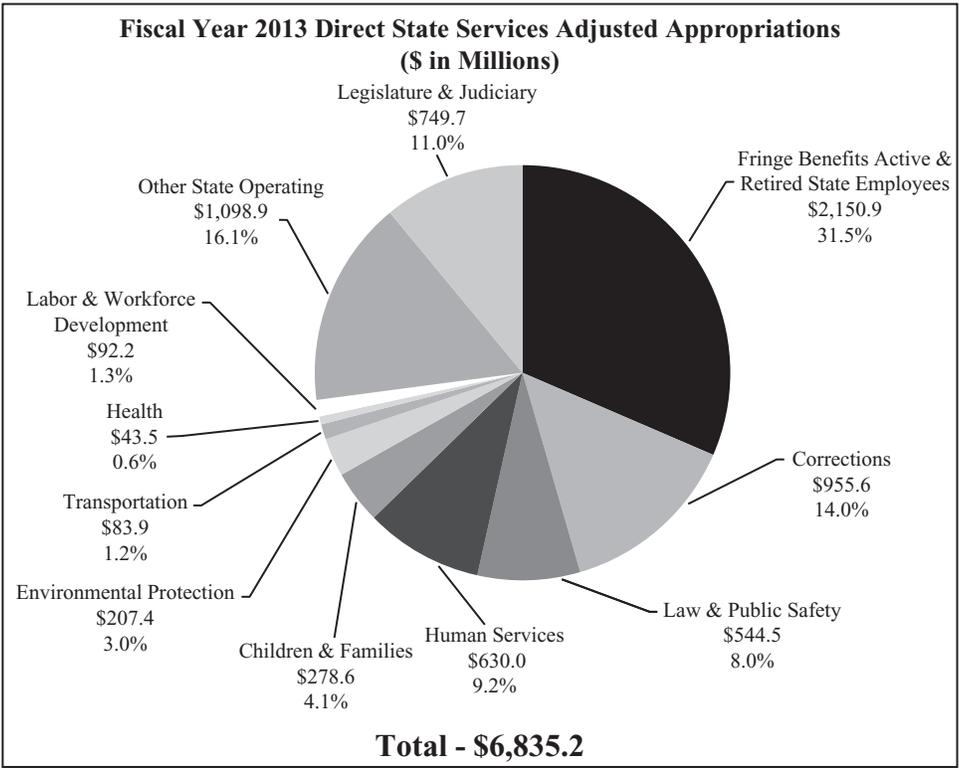
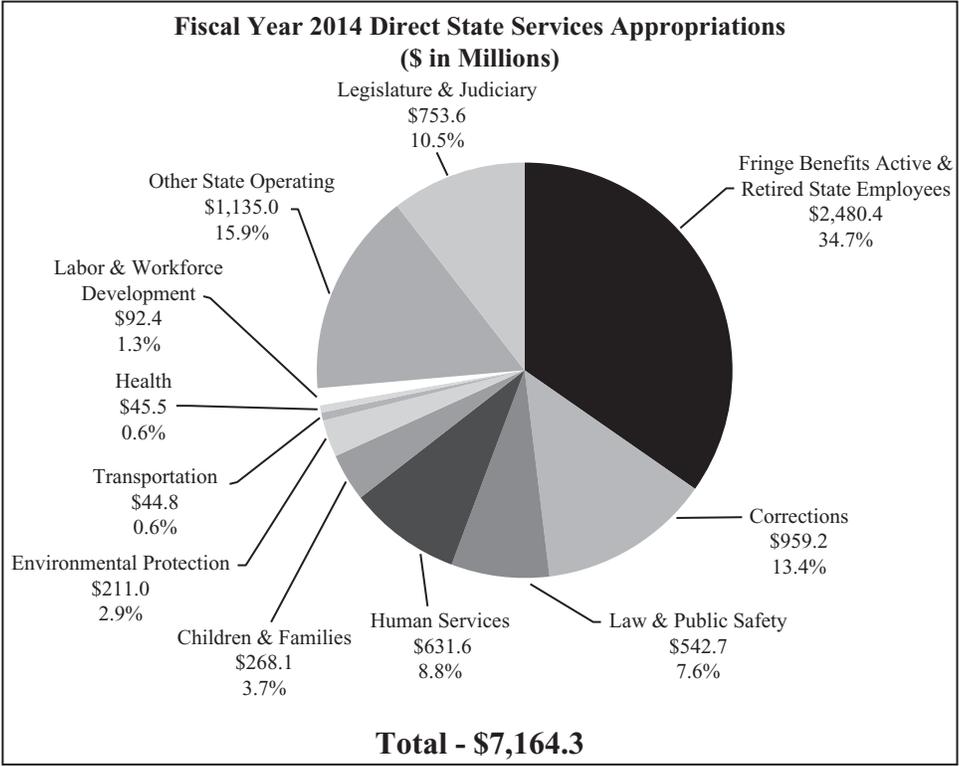
\$268.1 million is appropriated for programs administered by the Department of Children and Families for various children's services programs.

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

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

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

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



Capital Construction

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

All appropriations for such capital projects are subject to the prior review and recommendation of the New Jersey Commission on Capital Budgeting and Planning (the “Commission”). The Commission is charged with the preparation of the State’s seven-year Capital Improvement Plan. The Capital Improvement Plan is a detailed account of capital construction projects requested by State departments, agencies and institutions of higher education for the next three fiscal years and forecasts as to the requirements for capital projects for the four fiscal years following. The Capital Improvement Plan includes the Commission’s recommendations as to the priority of such capital projects and the means of funding them. The Capital Improvement Plan is also required to include a report on the State’s overall debt. This debt report includes information on the outstanding general obligation debt and debt service costs for the prior fiscal year, the current fiscal year, and the estimated amount for the subsequent five fiscal years. The report also provides similar information on capital leases and installment obligations. L.2009, c.304, enacted in January 2010, requires that the debt report also include data on other State liabilities as reported in the CAFR, as well as the unfunded actuarial accrued liability for pension plans and the actuarial accrued liability for other post-employment medical benefits.

For Fiscal Year 2014, requests for Capital Construction funding were substantially greater than the amount recommended by the Commission. The appropriations for Capital Construction contained in the Fiscal Year 2014 Appropriations Act are largely based on the recommendations of the Commission. There can be no assurance that the amounts appropriated are sufficient to maintain or improve the State’s capital facilities and infrastructure assets, or that such capital funding requests will not be substantially greater in future years.

Debt Service on General Obligation Bonds

The State finances certain capital projects through the sale of general obligation bonds of the State. These bonds are backed by the faith and credit of the State. Certain State tax revenues and certain other fees are pledged to meet the principal payments, interest payments, and redemption premium payments, if any, required to fully pay the bonds. For a listing of bonded indebtedness that was authorized and outstanding as of June 30, 2013, see “OUTSTANDING BONDED INDEBTEDNESS OF THE STATE” herein. The appropriation for debt service on the State’s general obligation bonds is \$319.7 million for Fiscal Year 2014 reflects anticipated savings from utilizing available, uncommitted amounts and residual project balances held in general obligation bond funds, available bond premium from the sale of general obligation bonds in May 2013, and normal reductions in scheduled payments for existing general obligation bond debt service. For more information, see “FINANCIAL RESULTS AND ESTIMATES – Appropriations” above.

Expenditures

As used herein, the term “expenditures” refers to a fiscal year’s net disbursements plus amounts obligated for payment in a subsequent fiscal year for both budgeted and non-budgeted funds. See “STATE FINANCES — New Jersey’s Budget and Appropriation System”. The table on the following page displays the expenditures for Fiscal Years 2010 through 2012.

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

EXPENDITURES
(\$ Millions)

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

Balance Sheets

The comparative balance sheets for the General Fund as of June 30, 2011 and 2012 and the balance sheets of the Casino Control Fund, the Casino Revenue Fund, the Gubernatorial Elections Fund and the Property Tax Relief Fund as of June 30, 2012 are set forth below:

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

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

Note:

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

See the 2012 CAFR incorporated herein by reference, for the notes, including Note 2, which are an integral part of these financials statements and for further information concerning the other funds of the State.

**BALANCE SHEETS
AS OF JUNE 30, 2012
(Audited)**

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

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

OUTSTANDING BONDED INDEBTEDNESS OF THE STATE

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

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

- (1) The amounts shown under the “Amount Retired” column include bonds for which provision for payment has been made through the issuance of refunding bonds.
- (2) The amount shown under the “Amount Authorized” column represents the aggregate amount of refunding bonds issued. The refunding bond act does not limit the amount of refunding bonds which may be issued, provided certain other restrictions are met. The issuance of refunding bonds may defease bonds previously issued under any bond act.

The following table sets forth the future debt service on outstanding general obligation bonds as of June 30, 2013.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 243,445,000	\$111,822,468	\$ 355,267,468
2015	309,770,000	98,826,888	408,596,888
2016	363,025,000	82,809,831	445,834,831
2017	235,120,000	67,242,963	302,362,963
2018	218,040,000	55,697,341	273,737,341
2019	216,555,000	44,653,197	261,208,197
2020	247,605,000	32,795,013	280,400,013
2021	185,700,000	21,917,863	207,617,863
2022	112,080,000	14,976,294	127,056,294
2023	57,100,000	10,589,656	67,689,656
2024	17,840,000	8,313,300	26,153,300
2025	18,550,000	7,599,700	26,149,700
2026	19,110,000	7,043,200	26,153,200
2027	19,875,000	6,278,800	26,153,800
2028	20,670,000	5,483,800	26,153,800
2029	21,495,000	4,657,000	26,152,000
2030	22,355,000	3,797,200	26,152,200
2031	23,250,000	2,903,000	26,153,000
2032	24,180,000	1,973,000	26,153,000
2033	25,145,000	1,005,800	26,150,800
Totals	<u>\$2,400,910,000</u>	<u>\$590,386,312</u>	<u>\$2,991,296,312</u>

TAX AND REVENUE ANTICIPATION NOTES

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

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

On July 1, 2013, the State Treasurer adopted a resolution authorizing the issuance of TRANs for Fiscal Year 2014. Pursuant thereto, on July 1, 2013, the State Treasurer entered into a Note Purchase Contract with Merrill Lynch, Pierce, Fenner & Smith Incorporated (“Merrill Lynch”) under which TRANs may be issued to and purchased by Merrill Lynch, in one or more series, from time to time, in an amount not to exceed \$2,500,000,000. The resolution also authorizes the State Treasurer to issue additional TRANs beyond those issued to Merrill Lynch, with no limitation on such amount.

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

OBLIGATIONS SUPPORTED BY STATE REVENUE SUBJECT TO ANNUAL APPROPRIATION

The State has entered into a number of leases and contracts described below (collectively, the “Agreements”) with several governmental authorities to secure the financing of various projects and programs in the State. Under the terms of the Agreements, the State has agreed to make payments equal to the debt service on, and other costs related to, the obligations sold to finance the projects, including payments on swap agreements

defined below. The State Legislature has no legal obligation to enact such appropriations, but has done so to date for all such obligations. The amounts appropriated to make such payments are included in the appropriation for the department, authority or other entity administering the program or in other line item appropriations. See “STATE FINANCES — New Jersey’s Budget and Appropriation System” and “FINANCIAL RESULTS AND ESTIMATES — Appropriations” herein. The principal amount of bonds which may be issued and the notional amount of swaps which may be entered into by such governmental authorities is, in certain cases, subject to specific statutory dollar ceilings or programmatic restrictions which effectively limit such amounts. In other cases, there are currently no such ceilings or limitations. In addition, the State Legislature may at any time impose, remove, increase or decrease applicable existing ceilings and impose, modify or remove programmatic restrictions. The State Legislature may also authorize new Agreements with the governmental authorities listed below or other governmental authorities to secure the financing of projects and programs in the future.

The State expects that additional obligations supported by State revenues subject to appropriation will be issued during Fiscal Year 2014. The amount of such obligations issued in the future could be significant. The amendment to the Debt Limitation Clause, described under “CERTAIN CONSTITUTIONAL PROVISIONS — Debt Limitations” herein, may inhibit the enactment of legislation authorizing obligations supported by State revenues subject to appropriation. The State Legislature is not legally obligated to appropriate amounts for the payment of such debt service in any year, and there can be no assurance that the State Legislature will make any such appropriations. Future legislative action may depend in part on various factors including the financial condition of the State.

The following tables set forth the bond obligations that are supported by State revenues subject to appropriation by the State Legislature. The first table summarizes by issuer and by program the principal amount outstanding on June 30, 2013 and the estimated Fiscal Year 2014 debt service on such obligations. The second table depicts the aggregate estimated future debt service as of June 30, 2013 on all such obligations subject to annual appropriation as described herein. The data contained in the tables has not been adjusted to reflect subsequent activity. The tables include certain data that are (1) for governmental entities or programs that are not considered part of the State’s long-term obligations for financial reporting purposes under generally accepted accounting principles or (2) for a component unit of the State. These items are therefore not reflected in Note 10 — Long-Term Obligations and the Schedule of Long-Term Debt in the 2012 CAFR. In addition, there are certain obligations which are included in such Note 10, which are not included in the following tables or elsewhere in this Appendix I.

SUMMARY OF OBLIGATIONS SUBJECT TO ANNUAL APPROPRIATION AS OF JUNE 30, 2013

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

- (1) Amounts for outstanding capital appreciation bonds do not include accretion from date of issuance.
- (2) For variable rate bonds, interest amounts were calculated using the rates in effect on June 30, 2013. (See “OBLIGATIONS SUPPORTED BY STATE REVENUE SUBJECT TO ANNUAL APPROPRIATION — Variable Rate Bonds” herein).
- (3) Amounts do not include contingent State contract bond obligations in connection with certain Standby Deficiency Agreements. See “OBLIGATIONS SUPPORTED BY STATE REVENUE SUBJECT TO ANNUAL APPROPRIATION — New Jersey Sports and Exposition Authority” herein for a description of such contingent obligations.

**ESTIMATED FUTURE DEBT SERVICE SUBJECT TO APPROPRIATION
AS OF JUNE 30, 2013**

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

- (1) For capital appreciation bonds, the original issue amount is reflected as principal and the accretion in value from the date of issuance is reflected as interest in the year of bond maturity.
- (2) For variable rate bonds, interest amounts were calculated using the rates in effect on June 30, 2013. (See "OBLIGATIONS SUPPORTED BY STATE REVENUE SUBJECT TO ANNUAL APPROPRIATION — Variable Rate Bonds" herein).
- (3) The principal amount includes \$20,000,000 State Building Revenue Bond Anticipation Notes, 2012 Series that mature December 18, 2013. It is anticipated that these Notes will be refunded prior to their maturity. Interest on the Notes is included in this table.
- (4) The principal amount includes \$119,060,000 School Facilities Construction Notes, 2012 Series G that mature February 1, 2015. It is anticipated that these Notes will be refunded prior to their maturity. Estimated interest on the Notes is included in this table.
- (5) The principal amount includes \$242,495,000 School Facilities Construction Notes, 2011 Series E that mature February 1, 2016. It is anticipated that these Notes will be refunded prior to their maturity. Estimated interest on the Notes is included in this table.
- (6) The principal amount includes \$119,060,000 School Facilities Construction Notes, 2012 Series H that mature February 1, 2017. It is anticipated that these Notes will be refunded prior to their maturity. Estimated interest on the Notes is included in this table.
- (7) The principal amount includes \$65,620,000 School Facilities Construction Notes, 2011 Series C; \$150,000,000 School Facilities Construction Notes, 2011 Series D; \$25,000,000 School Facilities Construction Notes, 2011 Series E and \$45,000,000 School Facilities Construction Notes, 2011 Series F that will mature February 1 2018. It is anticipated that these Notes will be refunded prior to their maturity. Estimated interest on the Notes is included in this table.
- (8) The principal amount includes \$60,850,000 School Facilities Construction Notes, 2013 Series I that mature September 1, 2025. It is anticipated that these Notes will be refunded prior to their maturity. Estimated interest on the Notes is included in this table.
- (9) The principal amount includes \$89,580,000 School Facilities Construction Notes, 2013 Series I that mature September 1, 2027 and \$230,085,000 School Facilities Construction Notes, 2013 Series I that mature March 1, 2028. It is anticipated that these Notes will be refunded prior to their maturity. Estimated interest on the Notes is included in this table.

Garden State Preservation Trust

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

New Jersey Building Authority

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

New Jersey Economic Development Authority

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

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

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

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

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

EFCFA was amended in July 2008 to increase the amount of bonds, notes or other obligations authorized to be issued by the NJEDA in additional aggregate principal amounts not to exceed: \$2,900,000,000 for the State

share of costs for school facilities projects in the “SDA Districts” (formerly “Abbott Districts”), \$1,000,000,000 for the State share of costs for school facilities projects in all other districts, and \$50,000,000 for the State share of costs for county vocational school district facilities projects. In regard to this increase in the amount of bonds authorized to be issued by NJEDA pursuant to this amendment, debt service on these bonds or refunding bonds issued by NJEDA and any additional costs authorized pursuant to Section 14 of EFCFA shall first be payable from revenues received from the New Jersey Gross Income Tax except that debt service on bonds issued to pay for administrative, insurance, operating and other expenses of the NJEDA and the Schools Development Authority in connection with school facilities projects shall be payable from the General Fund. The additional bonds issued pursuant to this amendment are also payable pursuant to the contract between the State Treasurer and the NJEDA, mentioned above, subject to appropriation by the State Legislature.

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

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

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

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

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

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

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

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

New Jersey Educational Facilities Authority

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

New Jersey Health Care Facilities Financing Authority

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

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

New Jersey Sports and Exposition Authority

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

In connection with the Atlantic City Convention Center Structured Lease Financing, the NJSEA issued its State Contract Bonds, Series B Standby Deficiency Agreement Series of 2001, Equity Termination Value Standby Deficiency Agreement Series of 2010 and Swap Payment Standby Deficiency Agreement Series of 2001, in the maximum amount payable as to principal and interest of \$100 million. These Standby Deficiency

Bonds also constitute additional bonds under the general resolution for this program, but are contingent obligations and no amounts are currently outstanding nor is it expected that the NJSEA will be required to make payments.

The Standby Deficiency Bonds are supported by a letter of credit from The Bank of New York Mellon, which expires in December 2014. The reimbursement obligation to The Bank of New York Mellon under the Letter of Credit and Reimbursement Agreement is secured by a State Contract Bond Equity Termination Value Standby Deficiency Agreement Series of 2010 in the maximum amount of \$73,307,206.98.

New Jersey Transportation Trust Fund Authority

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

Pursuant to the New Jersey Transportation Trust Fund Authority Act of 1984, as amended (the "TTFA Act"), the principal amount of the TTFA's bonds, notes or other obligations which could be issued in any fiscal year commencing with the fiscal year beginning July 1, 2006 and ending with the fiscal year beginning on July 1, 2010, generally could not exceed \$1,600,000,000 in any fiscal year, as such amount was required to be reduced in each of those fiscal years by the amount by which the appropriation of State funds to the Transportation Trust Fund Account for that fiscal year exceeded \$895,000,000; provided, however, that if a portion of that permitted amount of debt, less any reduction as provided above, was not incurred in a fiscal year, an amount not greater than the unused portion may be incurred in a subsequent fiscal year in addition to the amount otherwise permitted. As of June 30, 2013, such unused statutory bond cap was exhausted.

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

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

State of New Jersey Certificates of Participation

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

State Supported County College Bonds

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

Lines of Credit

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

Variable Rate Obligations

As of June 30, 2013, the independent State authorities shown below had in aggregate \$447,875,000 of variable rate demand bonds outstanding, with interest rates that reset daily or weekly. Such variable rate demand bonds are secured by respective agreements with the State Treasurer, and are further supported by bank-issued letters of credit.

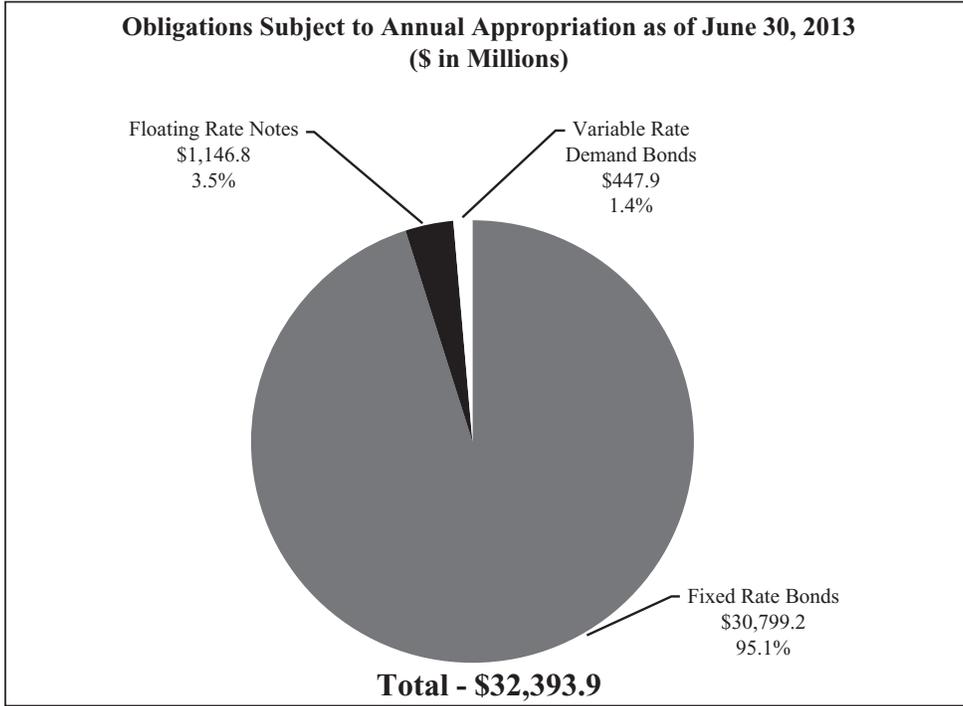
Additionally, as of June 30, 2013, the NJEDA had outstanding \$1,146,750,000 of floating rate notes, which bear interest at a rate that resets quarterly, monthly, or weekly based on either the London InterBank Offering Rate (“LIBOR”) plus a fixed spread or the Securities Industry and Financial Markets Association (“SIFMA”) rate plus a fixed spread. There are no letters of credit in support of these notes.

The following table provides a summary of the State-supported variable rate bonds outstanding as of June 30, 2013.

SUMMARY OF VARIABLE RATE OBLIGATIONS AS OF JUNE 30, 2013

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

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



Swap Agreements

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

Various independent State authorities have outstanding swap agreements with nine different counterparties. The following table sets forth for each swap agreement: the issuer, counterparty, outstanding notional amount, effective date, termination date, fixed rate and floating index as of June 30, 2013.

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

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

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

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

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

MORAL OBLIGATION FINANCING

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

The following table sets forth the moral obligation bonded indebtedness issued by State entities as of June 30, 2013.

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

New Jersey Housing and Mortgage Finance Agency

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

South Jersey Port Corporation

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

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

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

Higher Education Student Assistance Authority

The Higher Education Student Assistance Authority (“HESAA”) has not had a revenue deficiency which required the State to appropriate funds to meet its moral obligation. It is anticipated that the HESAA’s revenues will continue to be sufficient to pay debt service on its bonds.

STATE EMPLOYEES

Public Employer-Employee Relations Act

The State, as a public employer, is covered by the New Jersey Public Employer-Employee Relations Act, as amended (N.J.S.A. 34:13A-1 *et seq.*), which guarantees public employees the right to negotiate collectively through employee organizations certified or recognized as the exclusive collective negotiations representatives for units of public employees found to be appropriate for collective negotiations purposes. Approximately 62,000 full-time Executive Branch employees are paid through the State payroll system. Of the 62,000 employees, approximately 57,400 are represented by certified or recognized exclusive majority representatives and are organized into various negotiation units. There are twelve civilian units which presently represent more than 47,000 employees in the Executive Branch. The Health Care and Rehabilitation Services Unit is represented by the American Federation of State, County and Municipal Employees (“AFSCME”) and includes about 8,200 employees. The Administrative and Clerical Services Unit, the Primary Supervisory Unit, the Professional Unit and the Higher Level Supervisory Unit are all represented by the Communications Workers of America (“CWA”) and include about 6,300 employees, 9,600 employees, 14,800 employees and 2,900 employees, respectively, for total of 33,600 employees. The Crafts Unit, the Inspection and Security Unit, and the Operations, Maintenance and Services Unit are represented by the International Federation of Professional and Technical Engineers (“IFPTE”) and the New Jersey State Motor Vehicle Employees Union, Service Employees International Union (“SEIU”), and combined include about 4,700 employees. The Deputy Attorneys General (“DAsG”) unit and the State Government Managers (“Managers”) Unit are both represented by the International Brotherhood of Electrical Workers (“IBEW”) and include approximately 400 employees and 850 employees, respectively. There are approximately 10,000 employees represented by thirteen law enforcement units.

Negotiation Process

The New Jersey Public Employer-Employee Relations Act specifies a negotiation process for non-police and non-fire units which includes mediation and advisory fact-finding in the event of a negotiations impasse. This process is geared to the public employer’s budget submission process. Thus, in the case of the State, unless there is a multi-year agreement then in effect, negotiations begin in October of the year (or no later than 120 days) prior to the new budget, and the entire process, including mediation and fact-finding, should be completed prior to the Governor’s submission of the Governor’s Budget Message to the State Legislature in late January or early February of each year, so that the Governor’s Budget Message can reflect the results of negotiations. In the event that negotiations are not completed by the date of the Governor’s Budget Message, a later supplemental appropriations request may be made. The economic provisions included in these negotiated agreements generally take effect at the beginning of each fiscal year or at other times provided in the agreements. Police and fire negotiations units may also submit to mediation and fact-finding in the event that negotiations with the State produces an impasse and the parties agree to do so, but where no agreement is achieved by exhaustion of these processes, police and fire units are additionally entitled to submit their final demands to binding interest arbitration. Approximately 10,000 State employees come under the binding interest arbitration process. Of the 10,000, approximately 2,600 are in the State Police.

Contract Status

The State has entered into a four-year contract for Fiscal Years 2012-2015 with the IFPTE Local 195 and SEIU Local 518. The contract provides for across the board salary increases of 2.75% as follows: 0% in Fiscal Year 2012, 0% in Fiscal Year 2013, 1% in Fiscal Year 2014 and 1.75% in Fiscal Year 2015. Employees on the payroll as of July 1, 2011 and who are not eligible for an increment in Fiscal Year 2012 and Fiscal Year 2013 will receive a one-time cash bonus of \$450 on or about July 1, 2013, which will not be included in such employees’ base salary. Also, any employee making over \$55,000 is no longer eligible to receive a clothing allowance (subject to certain exceptions) or shift differential based on criteria set forth in the successor agreement. The annual clothing allowance payment was decreased from \$700 to \$550.

The State has entered into four-year contracts for Fiscal Years 2012-2015 with the four CWA units. The contracts provide for across the board salary increases of 2.75% as follows: 0% in Fiscal Year 2012, 0% in Fiscal Year 2013, 1% in Fiscal Year 2014 and 1.75% in Fiscal Year 2015. Employees on the payroll as of July 1, 2011 and who are not eligible for an increment in Fiscal Year 2012 and Fiscal Year 2013 will receive a one-time cash bonus of \$450, which will not be included in such employees' base salary. Also, any employee making over \$100,000 is no longer eligible to receive a clothing allowance (subject to certain exceptions) or shift differential based on criteria set forth in the successor agreement. The CWA units agreed to delete other monetary items from the successor agreement in exchange for a higher limitation on clothing allowance and shift differential. Specifically, the CWA units agreed to a deletion of a bonus to employees at a lower salary level. In addition, with regard to the clothing allowance, the CWA units agreed that in each of the four years of the successor agreement the application of new criteria for eligibility of clothing allowance would result in at least a twenty (20%) percent reduction in the number of employees who received an allowance in the final year of the parties' Fiscal Years 2007-2011 agreement. The annual clothing allowance payment was decreased from \$700 to \$550.

The State has entered into a four-year contract for Fiscal Years 2012-2015 with AFSCME. The contract provides for across the board salary increases of 2.75% as follows: 0% in Fiscal Year 2012, 0% in Fiscal Year 2013, 1% in Fiscal Year 2014 and 1.75% in Fiscal Year 2015. Employees on the payroll as of July 1, 2011 and who are not eligible for an increment in Fiscal Year 2012 and Fiscal Year 2013 will receive a one-time cash bonus of \$450 on or about July 1, 2013, which will not be included in such employees' base salary. Also, any employee making over \$55,000 is no longer eligible to receive a clothing allowance (subject to certain exceptions) or shift differential based on criteria set forth in the successor agreement. The annual clothing allowance payment was decreased from \$700 to \$550. This contract also contains a provision that no step increments shall be paid after June 30, 2015.

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

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

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

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

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

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

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

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

The contracts for the three State Police units, State Troopers Fraternal Association (“STFA — Troopers”), State Troopers Non-Commissioned Officers Association (“STNCOA — Sergeants”) and State Troopers Superior Officer Association (“STSOA — Lieutenants”), collectively representing approximately 2,500 members, expired on June 30, 2012. Negotiations for new contracts have commenced.

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

FUNDING PENSION PLANS

General. Almost all of the public employees of the State and its counties, municipalities and political subdivisions are members of pension plans administered by the State. The State operates seven defined benefit pension plans (collectively, the “Pension Plans”). Listed in order of active membership based on the most recent actuarial valuation reports dated July 1, 2012, the Pension Plans and their active and retired membership are as follows:

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

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

The State is not the only employer sponsoring PERS and PFRS. Local governments within the State participate as employers. In both of these Pension Plans, the assets that the State and the local governments contribute are invested together and generate one investment rate of return. However, both of these Pension Plans segregate the active and retired members and the related actuarial liabilities between the State and the local governments. As of June 30, 2012, those members of the PERS and PFRS for which the State is responsible for making contributions were, with respect to PERS, 84,910 active members and 49,341 retired members and, with respect to PFRS, 7,187 active members and 5,436 retired members.

Although PERS and PFRS segregate the active and retired members of the State and the local governments, under certain State statutes, the State is responsible for making certain contributions to PFRS and PERS on behalf of local employers. With respect to PERS, the normal cost portion of the actuarially recommended contribution relating to the retirement benefit increase provided to the local governmental members of PERS under L. 2001, c. 133 (“Chapter 133”), which is valued at \$46.7 million as of the July 1, 2012 PERS actuarial valuation, continues to be charged against the Benefit Enhancement Fund that was established for the local governmental employer component of PERS. The PERS actuarial valuation as of June 30, 2012 valued the Benefit Enhancement Fund in the local governmental portion of PERS at approximately \$259.1 million. Although local governmental employers participating in the PERS are, for the most part, responsible for funding the normal cost and the unfunded actuarial accrued liability relating to the local governmental members of PERS, Chapter 133 stipulates that if the assets in the Benefit Enhancement Fund are insufficient to pay the normal cost portion of these increased retirement benefits for a valuation period, the State will pay that amount of the normal cost portion for the local governmental employers not covered by the assets in the Benefit Enhancement Fund. Since the establishment of the Benefit Enhancement Fund in 2002, no amounts have been credited to the Fund other than investment earnings. However, as of the July 1, 2012 PERS actuarial valuation, the level of assets in the Benefit Enhancement Fund continue to be sufficient to meet this obligation. With respect to PFRS, the State makes a contribution to active and retired members of the local governments to cover certain retirement benefit enhancements. For Fiscal Year 2014, the Fiscal Year 2014 Appropriations Act includes a recommended contribution to the PFRS of \$170.6 million, of which \$73.2 million represents funding for local participant enhanced benefits. For Fiscal Years 2013 and 2012, the State contributed \$112.5 million and \$53.6 million, respectively, of which \$48.9 million in Fiscal Year 2013 and \$23.8 million in Fiscal Year 2012 was applied toward funding for enhanced benefits for local PFRS participants. Funding for PFRS enhanced benefits is increasing and is expected to continue to increase as a result of the State making phased-in contributions to the

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

State law provides that the retirement benefits of the Pension Plans are not subject to negotiations between the State and other public employers and the employee members of the Pension Plans.

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

The purpose of an actuarial valuation is to calculate the actuarial accrued liability in each of the Pension Plans, which estimates on the basis of demographic and economic assumptions the present value of benefits each of the Pension Plans will pay to its retired members and active members upon retirement. The State contracts with the independent actuaries to provide annual actuarial valuations for each of the Pension Plans performed in accordance with State statutes and generally recognized and accepted actuarial principles and practices. The actuarial valuation compares the actuarial accrued liability with the actuarial value of assets and any excess of that liability over the assets forms an unfunded actuarial accrued liability (“UAAL”) of the applicable Pension Plan. An actuarial valuation will express the percentage that a Pension Plan is funded through a “Funded Ratio” which represents the quotient obtained by dividing the actuarial value of assets of the Pension Plan by the actuarial accrued liability of the Pension Plan. An actuarial valuation will also state an actuarially recommended contribution rate, which is a recommended rate of covered payroll that the State and other sponsoring employers contribute to the applicable Pension Plan. The actuarially recommended contribution consists of two components: (1) normal cost which represents the portion of the present value of retirement benefits that are allocable to active members’ current year service, and (2) an amortized portion of the UAAL. The actuarially recommended contribution is determined in accordance with State statutes and is not the same as the Annual Required Contribution which is determined in accordance with Governmental Accounting Standards Board Statements No. 25 and 27 for purposes of meeting annual financial disclosure requirements. As is discussed below, the actual amounts that the State contributes to the Pension Plans each Fiscal Year are subject to annual appropriation by the State Legislature and can be and, over the last several years, have been less than the actuarially recommended contribution rates.

Ordinarily, the actuarial valuations of the Pension Plans are completed approximately 6-8 months after the end of a Fiscal Year. As a result, the actuarially recommended contribution rates of the actuarial valuations of the Pension Plans apply not to the Fiscal Year immediately following the Fiscal Year covered by the actuarial valuations but the second immediately following Fiscal Year. For example, the actuarially recommended rates of contribution in the actuarial valuations of the Pension Plans as of July 1, 2011 are applicable to the Fiscal Year ended June 30, 2013. See “FUNDING PENSION PLANS—*Current and Historical Contributions and Funding Status*” herein.

To calculate the actuarial value of assets and actuarial accrued liability of each of the Pension Plans, the actuarial valuations use several actuarial assumptions. The expected rate of return on assets used by the actuaries is established by the State Treasurer and the other assumptions, including assumed inflation rates and future pay increases, are approved by the applicable Pension Plan boards. Other assumptions used in the actuarial valuations include the age of retirement of active members, assumed rates of disability and post-employment life expectancies of retirees and beneficiaries. If the experience of the Pension Plans is different from these assumptions, the UAAL of the Pension Plans may increase or decrease to the extent of any variances. If the actual experience results in a material increase in the UAAL of the Pension Plans, the State’s future actuarially recommended rates of contribution would likely result in a material increase which would increase the State’s financial burden of its obligations to the Pension Plans in the long term. State law requires the Pension Plans to conduct experience investigations every three years, which examine the

demographic and economic assumptions used in the Pension Plans' actuarial valuations to ensure that those assumptions are consistent with the Pension Plans' respective historical experiences. Changes recommended by the actuaries are reviewed and considered for implementation by the appropriate Pension Board.

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

In the case of the expected rate of return of assets, the actual rate of return of the Pension Plans depends on the performance of the investment portfolio. The investment portfolio of the Pension Plans can be highly volatile. The value of the securities in the investment portfolio can dramatically change from one Fiscal Year to the next, which could, in turn, contribute to substantial increases or decreases in the applicable UAAL. For example, for Fiscal Years 2010 and 2011, the investment rate of return was 13.36% and 18.03% (excluding returns on PFRS mortgages for PFRS members), respectively, which had a positive impact on the overall UAAL of the Pension Plans. The investment rate of return for Fiscal Year 2012 was 2.52% (excluding returns on PFRS mortgages to PFRS members), which was below the assumed rate of return of 7.95% and caused the UAAL of the Pension Plans to increase. On a preliminary basis the annualized rate of return for Fiscal Year 2013 is in the 11-12% range and is subject to change. Annualized returns for the three-, five- and ten-year periods ending June 30, 2012 were 11.11%, 2.46% and 6.42%, respectively. The Division of Investment of the New Jersey Department of the Treasury, which is under the independent supervision of the State Investment Council, invests the assets of the Pension Plans. State law regulates the types of investments which are permitted.

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

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

In addition, the actuarial valuations of the Pension Plans use several actuarial methods to calculate the actuarial value of assets and actuarial accrued liability of the Pension Plans. For example, the Pension Plans use an asset valuation method of smoothing gains and losses in the market value of their assets over a five-year period to prevent extreme fluctuations that may result from temporary or cyclical economic and market conditions. As of June 30, 2012, the aggregate market value of all of the assets of the Pension Plans, as determined by the Pension Plans' actuaries, was approximately \$74.4 billion, which amount includes contribution receivables from the State and local governmental employers. To the extent these receivables do not materialize, adjustments will be made by the actuaries in the next year's valuations. As of June 30, 2012, the aggregate actuarial value of all assets of the Pension Plans was \$85.9 billion. Based on these figures, the Pension Plans have a net unsmoothed loss of approximately \$11.5 billion, which is the difference between the market value of their assets and the actuarial value of their assets which is calculated using the smoothing method.

Effective with the July 1, 2010 actuarial valuation, the Pension Plans, except the CP&FPF and the POPF, use the level dollar amortization method in place of the level percent of pay method previously used, to calculate the amount of the UAAL that is included in the actuarially recommended rates of contribution, which means that the actuary assumes that the State will pay the same dollar amount to amortize the UAAL in each year of the amortization period. The UAAL is being amortized over an open-ended 30 year period through the July 1, 2018 actuarial valuation. Beginning with the July 1, 2019 actuarial valuation, the UAAL will be amortized over a closed 30 year period until the remaining period reaches 20 years, when the amortization period will revert to an open-ended 20 year period. For a discussion of the impact of this, see “FUNDING PENSION PLANS—*Pension and Health Benefit Reform*” herein.

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

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

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

Benefits. Almost all State employees participate in one of the Pension Plans, with eight to ten years of employment required before retirement benefits become vested. Upon retirement, members of PERS and TPAF enrolled before May 22, 2010 are eligible for annual retirement benefits equal to 1/55 of final average compensation for each year of service credit. This is in accordance with legislation enacted by the State Legislature in 2001 which increased the retirement benefits under PERS and TPAF by changing the retirement benefit formula from 1/60 to 1/55 of final average compensation for each year of service. For members of PERS and TPAF enrolling on or after May 22, 2010, the annual retirement benefits will be based on 1/60 of final average compensation for each year of service credit. For members enrolled before May 22, 2010, final average compensation equals the average compensation for the final three years of service before retirement or highest three years’ compensation if other than the final three years. For members enrolling on or after May 22, 2010, the final average compensation equals the average compensation calculated using a five-year period instead of a three-year period. Also available to such participants are an early retirement benefit after 25 years of service or if enrolled on or after June 28, 2011, 30 years of service, and a veteran’s retirement benefit after 20 and 25 years of service, if age requirements for those retirement benefits are met. To qualify for full benefits under early retirement the member must be at least age 55 if enrolled before June 28, 2011. If the member is under age 55 an early retirement penalty applies. If the member enrolled on or after June 28, 2011 the member must be at least age 65 to receive full benefits.

Certain retirees also receive a cost-of-living adjustment in addition to their base retirement allowance under the State’s pension adjustment program. In accordance with the 2011 Pension and Health Benefit Reform Legislation, the pension adjustment program, which provides for an adjustment in retirement benefits after a participant in one of the Pension Plans has been retired for two years, has been suspended for all current and future retirees effective July 1, 2011. Under the suspension, retirees are no longer entitled to future cost-of-living

increases. However, cost-of-living benefits earned prior to the suspension continue to be paid. The pension adjustment program may be reactivated at a future date as specified in the statute (see “FUNDING PENSION PLANS—*Pension and Health Benefit Reform*” herein). The pension adjustment program is non-contributory and covers all eligible retirees and survivors of the Pension Plans. Prior to the suspension of pension adjustment benefits, eligible retirees received a cost-of-living adjustment based on 60.0% of the change in the Consumer Price Index from the year of retirement to the year immediately preceding the year of adjustment with no cap on the amount of such increase. In all Pension Plans, except CP&FPF and POPF, the Pension Plans directly fund the cost-of-living benefits and these cost-of-living benefits are included in the actuarial accrued liability of the Pension Plans. The State funds cost-of-living benefits in the CP&FPF and POPF on a “pay-as-you-go” basis.

Prior Legislative Changes Affecting Benefit Levels. The State Legislature has in the past adopted laws that increased the retirement benefits payable by the Pension Plans. The result of these increases in retirement benefits was to increase the actuarial accrued liability of the affected Pension Plans which also had the effect of increasing the actuarially recommended contributions for the State for the affected Pension Plans.

In addition, the State Legislature has in the past adopted laws that limited future retirement benefits payable by the Pension Plans. These laws are expected to limit the future growth of the actuarial accrued liability of the affected Pension Plans which also has the effect of limiting the growth of the actuarially recommended contributions for the State for the affected Pension Plans in future plan years. See “FUNDING PENSION PLANS—*Pension and Health Benefit Reform*” herein for a description of the changes enacted under the 2011 Pension and Health Benefit Reform Legislation.

The State Legislature also adopted laws in Fiscal Year 2010 affecting PERS and TPAF members enrolling on or after May 22, 2010 which limits membership in the Pension Plan to only full-time employees and changes the retirement benefit formula back to 1/60 of final average compensation for each year of service credit. The State Legislature also adopted a law in Fiscal Year 2009 which raised the minimum annual salary required to establish eligibility for membership under certain Pension Plans and increased the retirement age at which full pension benefits are payable from 60 to 62 for certain employees hired on or after November 2, 2008. The State Legislature also adopted laws in Fiscal Year 2007 which raised the employee contribution rate for PERS and TPAF active members from 5.0% to 5.5%, raised the early retirement age at which full retirement benefits are payable from 55 to 60 for new employees enrolled in the PERS and TPAF on or after July 1, 2007, and provides that new employees hired on or after July 1, 2007 are subject to a maximum compensation limit for PERS and TPAF pension contributions.

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

Pension and Health Benefit Reform. On June 28, 2011, the 2011 Pension and Health Benefit Reform Legislation was enacted that over the long-term is expected to improve the overall financial condition of the Pension Plans, raise the funded ratios of the Pension Plans to more financially sound levels, lower future actuarially recommended contributions from levels which likely would have been required without the 2011 Pension and Health Benefit Reform Legislation and reduce the unfunded actuarial accrued liability of the Pension Plans. See “FUNDING PENSION PLANS—*Impact of Pension Reforms on Overall Financial Condition of the Pension Plans*” herein. The major reform measures include raising the member contribution rates in the PERS, TPAF, PFRS, SPRS and JRS. In PERS and TPAF, the member contribution rate was increased from 5.5% to 6.5% with an additional 1% increase phased-in in equal increments over a seven-year period. In PFRS and SPRS, the member contribution rate increased from 8.5% to 10% and from 7.5% to 9%, respectively. In JRS, the member contribution rate is increasing an additional 9% from 3% to 12%. The JRS member contribution rate increase is being phased-in over a period of seven years. The reforms also include suspending pension adjustment benefits in all Pension Plans, limiting future retirement benefits payable to new members in the PERS and TPAF by increasing the service retirement age from 60 to 65 and the number years needed to qualify for early retirement benefits from 25 to 30 years with a one quarter of 1% reduction for each month under age 65, and reducing the special retirement benefit for new PFRS members from 65% of final compensation after 25 years of service and 70% of final compensation after 30 years of service to 60% of final compensation after 25 years and 65% after 30 years.

The pension reforms also include the establishment of new pension committees for the Pension Plans as follows: two new committees each in PERS and PFRS, one for the State part of the Pension Plan and one for the local part of the Pension Plan and one new committee each in TPAF and SPRS. These six new committees will have the discretionary authority when targeted funded ratios are achieved to modify the member contribution rate, formula for calculation of final compensation or final salary, fraction used to calculate a retirement allowance, and age at which a member may be eligible for service and early retirement benefits. The committees will also have the authority to reactivate the cost of living adjustment on pensions and to modify the basis for the calculation of the cost of living adjustment and set the duration and extent of the activation when targeted funded ratios are reached. However, no decision of the Pension Committees (or the State House Commission for the JRS) can be implemented if the direct or indirect result of the decision causes the funded ratio of the applicable Pension Plan to fall below the “targeted funded ratio”, as defined below, in any valuation period during the 30 years following the implementation of the decision as determined by the actuary for the applicable Pension Plan. The target funded ratio is initially set at 75% in Fiscal Year 2012 and increases annually in equal increments to 80% by Fiscal Year 2018. As of the July 1, 2012 actuarial valuations, none of the State-funded Pension Plans has a funded ratio above the target funded ratio. The SPRS reached the target funded ratio as of the July 1, 2011 actuarial valuation; however, it fell below the target funded ratio as of the most recent July 1, 2012 valuation. On the local government side, the PFRS-Local has a funded ratio above the target funded ratio as of the July 1, 2012 actuarial valuation. The PERS-Local reached the target funded ratio as of the July 1, 2011 actuarial valuation. However, it fell below the target funded ratio as of the most recent July 1, 2012 valuation. The pension committees for these three Pension Plans have been formed. The pension committees for PERS-State, TPAF and PFRS-State will be formed when the target funded ratio is reached in these Pension Plans.

The pension reforms also include a change in the amortization method that calculates the amount of the UAAL that is included in the annual pension contribution. Under the new amortization method, the UAAL will be amortized over an open-ended 30 year period and assumed to be paid in level dollars in each year of the amortization period. In addition, beginning with the July 1, 2019 actuarial valuation, the UAAL will be amortized over a closed 30 year period until the remaining period reaches 20 years, when the amortization period will revert to an open-ended 20 year period. This change in the amortization method will ensure that a portion of the UAAL is assumed to be retired in the year that the recommended rates calculated by the actuarial valuation are applied, assuming that the State makes the full actuarially recommended contribution. Previously, the UAAL was amortized over a 30-year period as a level percent of pay. When a UAAL is amortized on a level percentage of pay, the amortized portion of the UAAL is less in the earlier years of the assumed amortization schedule because payroll costs are assumed to increase over time. By changing the amortization of the UAAL to a level dollar amount, this will mean the assumed amortization schedule will be stable over the whole period, but it will also likely increase the amount of the State’s actuarially recommended contributions in the earlier years.

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

However, for PERS and TPAF, the annual Appropriations Acts for Fiscal Years 2004, 2005 and 2006 authorized the use of the Benefit Enhancement Fund (the “State BEF”) to offset the State’s contribution to PERS and TPAF for those years. The State BEF is a special reserve fund within PERS and TPAF, and the assets are included in the actuarial value of assets. The required normal contributions to provide retirement benefit increases under L 2001, Chapter 353 and Chapter 133 were charged against the State BEF. The fund was established in Fiscal Year 2002 and credited with excess assets equivalent to member contributions for Fiscal

Years 2000 and 2001 by transferring reserves in the Contingent Reserve Fund to the State BEF. Amounts in the State BEF for each of PERS and TPAF were calculated within the respective actuarial value of assets and the related retirement benefits were calculated within the respective actuarial accrued liabilities. Therefore, because the State used amounts from the State BEF to satisfy its contributions in Fiscal Years 2004 through 2006, from an actuarial perspective, the State did not contribute any funds to PERS or TPAF in Fiscal Years 2004 and 2005 and the State contributed minimal amounts in Fiscal Year 2006. Amounts in the State BEF available to be used to make the State contributions became fully depleted in Fiscal Year 2006 and the State made a contribution to PERS and TPAF representing approximately 57.5% of the actuarially recommended contributions of those Pension Plans for Fiscal Year 2007 and approximately 50% of the actuarially recommended contributions for Fiscal Year 2008.

For Fiscal Year 2009, although \$1.047 billion was included in the Fiscal Year 2009 Appropriations Act as the State's pension contribution to the Pension Plans, the actual contribution made by the State was \$106.3 million representing only 4.8% of the total actuarially recommended contribution to the Pension Plans of \$2.231 billion. This contribution, which was due on June 30, 2009, was paid by the State on September 14, 2009. For Fiscal Year 2010, although \$100 million was included in the Fiscal Year 2010 Appropriations Act as the State's contribution to the Pension Plans, the State did not make a contribution due to ongoing budgetary constraints. The \$100 million contribution originally expected to be made for Fiscal Year 2010 represented only 4% of the total actuarially recommended contribution for the State to the Pension Plans of \$2.519 billion. The State made no contribution to the Pension Plans in Fiscal Year 2011. The recommended contribution as determined by the actuaries for the Pension Plans for Fiscal Year 2011 was \$3.060 billion.

In accordance with Chapter 1, the State has resumed making the actuarially recommended contributions to the Pension Plans on a gradual basis over a period of seven years beginning with Fiscal Year 2012. For Fiscal Year 2012, pursuant to Chapter 1 and as provided in the Fiscal Year 2012 Appropriations Act, the State made a pension contribution of \$484.5 million to the Pension Plans, representing 1/7th of the full actuarially recommended contribution of \$3.391 billion determined on the basis of the revised July 1, 2010 valuations. For Fiscal Year 2013, pursuant to Chapter 1 and as provided in the Fiscal Year 2013 Appropriations Act, the State made a contribution of \$1.029 billion which represents 2/7th of the full actuarially recommended contribution for PERS, TPAF, PFRS, SPRS and JRS and the full actuarially recommended contribution for CP&FPF. The full recommended contribution of all Pension Plans for Fiscal Year 2013 was \$3.600 billion determined on the basis of the July 1, 2011 actuarial valuations. For Fiscal Year 2014, pursuant to Chapter 1 and as provided in the Fiscal Year 2014 Appropriations Act, the State is expected to make a contribution of \$1.676 billion which represents 3/7th of the full actuarially recommended contribution for PERS, TPAF, PFRS, SPRS and JRS and the full recommended contribution for CP&FPF. The full recommended contribution of all Pension Plans for Fiscal Year 2014 determined on the basis of the July 1, 2012 actuarial valuations is \$3.909 billion. In each subsequent fiscal year, Chapter 1 provides for the State's contribution to increase by at least an additional 1/7th of the actuarially recommended contribution so that full actuarially recommended contributions are made beginning in Fiscal Year 2018 and each year thereafter. The 2011 Pension and Health Benefit Reform Legislation contains a provision stating that members of the Pension Plans now have a contractual right to the annual required contribution made by the State and local participating employers and failure by the State and local employers to make annual required contributions is deemed an impairment of the contractual right of each member. This language may limit the State's ability to reduce or limit pension contributions in response to future budgetary constraints. Notwithstanding the foregoing, the State's contributions are subject to annual appropriation by the State Legislature. See "FUNDING PENSION PLANS—Impact of Pension Reforms on Overall Financial Condition of the Pension Plans" herein.

FUNDING STATUS
PENSION FUND ACTUARIAL LIABILITIES AND ASSETS(1)
Actuarial Valuations as of July 1, 2012
(In Millions)

<u>Pension Plan</u>	<u>Actuarial Value of Assets(2)</u>	<u>Actuarial Accrued Liability(3)</u>	<u>Unfunded Actuarial Accrued Liability(4)</u>	<u>Funded Ratio(5)</u>	<u>Market Value of Assets(6)</u>
State					
PERS	\$ 9,512.1	\$ 19,383.6	\$ 9,871.5	49.1%	\$ 8,390.0
TPAF	31,214.2	52,637.3	21,423.1	59.3%	26,038.0
PFRS	2,074.1	4,027.0	1,952.9	51.5%	1,829.4
CP&FPF	6.3	8.0	1.7	78.8%	5.8
SPRS	1,969.8	2,767.8	798.0	71.2%	1,755.4
JRS	278.5	605.2	326.7	46.0%	243.7
POPF	9.0	5.4	(3.6)	167.6%	9.0
Subtotal	<u>45,064.0</u>	<u>79,434.3</u>	<u>34,370.3</u>	<u>56.7%</u>	<u>38,271.3</u>
Local					
PERS	19,374.5	26,009.0	6,634.5	74.5%	16,785.7
PFRS	21,500.5	27,705.2	6,204.7	77.6%	19,296.2
Subtotal	<u>40,875.0</u>	<u>53,714.2</u>	<u>12,839.2</u>	<u>76.1%</u>	<u>36,081.9</u>
Total	<u>\$85,939.0</u>	<u>\$133,148.5</u>	<u>\$47,209.5</u>	<u>64.5%</u>	<u>\$74,353.2</u>

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

- (1) The State provides additional information concerning the Actuarial Value of Assets, Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of the Pension Plans under the caption "REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF FUNDING PROGRESS PENSION TRUST FUNDS AND HEALTH BENEFITS PROGRAM FUND" in the Required Supplemental Information portion of the 2012 CAFR.
- (2) The actuarial value of assets of each of the Pension Plans is set forth in the actuarial valuation relating to a Pension Plan and represents the market-related value of the assets held by the Pension Plan as adjusted to reflect various actuarial methods including the smoothing of actuarial losses and gains (including investment losses and gains) over a five-year period. The actuarial value of assets includes contribution receivables from the State and local participating employers, including additional contributions payable by the State and local employers to cover the cost of enhanced benefits offered under various early retirement incentive programs.
- (3) The actuarial accrued liability of each of the Pension Plans is set forth in the actuarial valuation relating to a Pension Plan and is an estimate based on demographic and economic assumptions of the present value of benefits that the Pension Plan will pay during the assumed life expectancies of the applicable retired members and active members after they retire. The actuarial accrued liability represents the present value of all pension benefits accrued to date, including the present value of enhanced benefits from various early retirement incentive programs offered by the State and local employers.
- (4) The UAAL of each of the Pension Plans is set forth in the actuarial valuation relating to a Pension Plan and reflects the amount of the excess of the actuarial accrued liability of a Pension Plan over its actuarial value of assets. The indicated amounts reflect the UAAL as calculated pursuant to the requirements of the Government Accounting Standards Board ("GASB") for purposes of presentation in the Comprehensive Annual Financial Report of the State ("CAFR"). These amounts differ immaterially from the UAAL of the Pension Plans calculated strictly pursuant to the actuarial methods required by State statutes and the actuarial assumptions adopted by the applicable Pension Plan boards.
- (5) The Funded Ratio of each of the Pension Plans is presented in the actuarial valuation relating to a Pension Plan and reflects the quotient obtained by dividing the actuarial value of assets of the Pension Plan by the actuarial accrued liability of the Pension Plan. The indicated percentages reflect the Funded Ratio as calculated pursuant to the requirements of the GASB for purposes of presentation in the CAFR. These percentages differ immaterially from the Funded Ratios of the Pension Plans calculated strictly pursuant to the actuarial methods required by State statutes and the actuarial assumptions adopted by the applicable Pension Plan boards.
- (6) The market value of assets as shown in the actuarial valuation reports for the Pension Plans and included in the table differs from the value of the investment portfolio of the Pension Plans as reported by the Division of Investment. The market value of assets of each of the Pension Plans is as set forth in the actuarial valuation reports for the Pension Plans and represents the full market value of the assets held by the Pension Plans, including expected receivable contributions from the State, local employers and participants, and excludes assets held in the Contributory Group Insurance Premium Fund and the Noncontributory Group Insurance Premium Fund.

HISTORICAL FUNDING STATUS
AGGREGATE PENSION FUND ACTUARIAL LIABILITIES AND ASSETS (1)
Actuarial Valuations as of July 1, 2006 through July 1, 2012
(in Millions)

<u>Valuation Year Ending June 30,</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Market Value of Assets</u>
State					
2006	\$50,659.2	\$67,266.3	\$16,607.1	75.3%	\$45,780.2
2007	52,433.4	71,655.8	19,222.4	73.2%	50,720.1
2008	52,718.2	75,763.2	23,045.0	69.6%	46,999.9
2009	50,229.5	80,956.2	30,726.7	62.0%	36,540.1
2010	48,078.5	73,713.9	25,635.4	65.2%	37,765.8
2011	46,697.6	76,805.7	30,108.1	60.8%	40,795.3
2012	45,064.0	79,434.3	34,370.3	56.7%	38,271.3
Local					
2006	\$34,981.1	\$43,181.5	\$ 8,200.4	81.0%	\$31,988.1
2007	37,190.7	46,326.3	9,135.6	80.3%	36,282.1
2008	38,655.2	50,044.3	11,389.1	77.2%	35,022.9
2009	38,890.1	53,972.1	15,082.0	72.1%	29,678.8
2010	38,849.8	49,520.7	10,670.9	78.5%	31,853.2
2011	40,024.1	51,657.7	11,633.6	77.5%	36,042.2
2012	40,875.0	53,714.2	12,839.2	76.1%	36,081.9

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

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

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

<u>Pension Plan</u>	<u>Actuarially Recommended Contributions (1)</u>	<u>Expected Contributions (2)(5)</u>	<u>Amount Unfunded (3)(5)</u>
State			
PERS	\$ 924.4	\$ 264.1	\$ 660.3
TPAF	2,151.0	614.6	1,536.4
PFRS (4)	393.6	112.5	281.1
CP&FPF	0.9	0.9	0.0
SPRS	89.5	25.6	63.9
JRS	40.8	11.6	29.2
POPF	0.0	0.0	0.0
Subtotal	<u>3,600.2</u>	<u>1,029.3</u>	<u>2,570.9</u>
Local			
PERS	740.6	740.6	—
PFRS	750.0	750.0	—
Subtotal	<u>1,490.6</u>	<u>1,490.6</u>	<u>—</u>
Total	<u>\$5,090.8</u>	<u>\$2,519.9</u>	<u>\$2,570.9</u>

Source: New Jersey Department of the Treasury, Division of Pensions and Benefits. Information regarding the actuarially recommended contributions was derived from the revised July 1, 2011 actuarial valuation reports for PERS, TPAF, PFRS, SPRS and JRS, which take into account changes to the investment return and salary growth assumptions, and the actuarial valuation reports as of July 1, 2011 for CP&FPF and POPF. Information regarding the actual contributions for the State is based on Chapter 1 which requires the State to make a contribution of at least 2/7th of the full actuarially recommended contribution in Fiscal Year 2013. Information with respect to the contributions of local governments paid in Fiscal Year 2013 was derived from the revised July 1, 2011 actuarial valuation reports for PERS and PFRS.

- (1) The actuarially recommended contributions to the indicated Pension Plans in Fiscal Year 2013 are based on the information contained in the actuarial valuations for the Pension Plans as of July 1, 2011. The July 1, 2011 actuarial valuations for PERS, TPAF, PFRS, SPRS and JRS were revised to reflect changes to the economic assumptions. Specifically, the assumed rate of return on investments was lowered from 8.25% to 7.95%, and the salary growth assumption was lowered by an average of 2% for the next five years and 0.75% thereafter. As a result of these changes to the economic assumptions, the actuarially recommended contributions for the State decreased by \$146.5 million from \$3.747 billion to \$3.600 billion, and the minimum 2/7th expected contribution decreased by \$41.8 million from \$1.071 billion to \$1.029 billion. On the local employer side, the actuarially recommended contribution decreased by \$108.0 million from \$1.608 billion to \$1.5 billion. The PERS and PFRS local employer pension contribution excludes early retirement incentive (ERI) contributions payable in Fiscal Year 2013 by local government employers who have adopted ERI programs for their employees.
- (2) Pursuant to Chapter 1, the State's minimum contribution to the Pension Plans in Fiscal Year 2013 is 2/7th of the full actuarially recommended contribution amount. Such contributions to the Pension Plans by the State are subject to appropriation by the State Legislature. For local participating employers, full contributions based on the actuarially recommended amounts are expected.
- (3) Represents the difference between the actuarially recommended pension contribution and the expected contribution from the State and the local participating employers.
- (4) The expected contribution by the State to the PFRS includes contributions on behalf of local active and retired members to cover certain benefit enhancements. Of the total expected contribution of \$112.5 million for Fiscal Year 2013, \$48.8 million represents contributions on behalf of local participants.
- (5) Estimated.

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

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

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

- (1) The actuarially recommended contributions to the indicated Pension Plans in Fiscal Year 2014 are based on the information contained in the actuarial valuations for the Pension Plans as of July 1, 2012. The PERS and PFRS local employer pension contribution excludes early retirement incentive (ERI) contributions payable in Fiscal Year 2014 by local government employers who have adopted ERI programs for their employees.
- (2) Pursuant to Chapter 1, the State's minimum contribution to the Pension Plans in Fiscal Year 2014 is 3/7th of the full actuarially recommended contribution amount. Such contributions to the Pension Plans by the State are subject to appropriation by the State Legislature. For local participating employers, full contributions based on the actuarially recommended amounts are expected.
- (3) Represents the difference between the actuarially recommended pension contribution and the expected contribution from the State and the local participating employers.
- (4) The expected contribution by the State to the PFRS includes contributions on behalf of local active and retired members to cover certain benefit enhancements. Of the total expected contribution of \$170.6 million for Fiscal Year 2014, \$73.2 million represents contributions on behalf of local participants.
- (5) Estimated.

AGGREGATE STATE & LOCAL EMPLOYER CONTRIBUTIONS TO PENSION PLANS
For the Fiscal Years Ending June 30, 2008 through June 30, 2014 (1)
(In Millions)

<u>Fiscal Year Ending June 30,</u>	<u>Actuarially Recommended Contributions(2)</u>	<u>Actual and Expected Contributions(3)</u>	<u>Amount Unfunded</u>
State			
2008	\$ 2,089.8	\$ 1,046.1	\$ 1,043.7
2009	2,230.7	106.3	2,124.4
2010	2,518.8	0.0	2,518.8
2011	3,060.5	0.0	3,060.5
2012	3,391.4	484.5	2,906.9
2013(4)	3,600.2	1,029.3	2,570.9
2014	3,908.9	1,675.6	2,233.3
Subtotal	<u>\$20,800.3</u>	<u>\$ 4,341.8</u>	<u>\$16,458.5</u>
Local			
2008	\$ 1,089.1	\$ 993.4	\$ 95.7
2009	1,168.7	1,043.9	124.8
2010	1,281.1	1,281.1	—
2011	1,611.3	1,611.3	—
2012	1,512.6	1,512.6	—
2013(4)	1,490.6	1,490.6	—
2014	1,572.3	1,572.3	—
Subtotal	<u>9,725.7</u>	<u>9,505.2</u>	<u>220.5</u>
Total	<u>\$30,526.0</u>	<u>\$13,847.0</u>	<u>\$16,679.0</u>

Source: New Jersey Department of the Treasury, Division of Pensions and Benefits. Information regarding the actuarially recommended contributions of the State was derived from the actuarial valuation reports as of July 1, 2006 through July 1, 2012. Information regarding the actual contributions of the State for Fiscal Years 2008 through 2013 was provided by the Division of Pensions and Benefits. Information regarding expected contributions of the State for Fiscal Year 2014 is as set forth in the Fiscal Year 2014 Appropriations Act. Information regarding the actuarially recommended contributions and the actual and expected contributions of local governments was derived from the actuarial valuation reports of PERS and PFRS as of July 1, 2006 through July 1, 2012.

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

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

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

The various reform measures are expected to positively impact State finances, lowering, over the long term, the actuarially recommended contributions required of the State from levels projected prior to the enactment of the 2011 Pension and Health Benefit Reform Legislation. After Fiscal Year 2018, the State expects the funded status of the Pension Plans will begin to improve and the UAAL will begin to decrease. These expectations assume the State will make full actuarially recommended contributions beginning in Fiscal Year 2018 and that the Pension Plans will otherwise have actual results that will match the assumptions of the Pension Plans. No assurance can be given as to

the level of the State's investment returns or the State's pension contributions in future fiscal years or as to the achievement of the other assumptions.

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

Impact of Financial Deterioration of Pension Plans on Benefit Payments. The continued financial deterioration of the Pension Plans will reduce the amount of assets the Pension Plans have to pay benefits to their members. As the financial condition of the Pension Plans has deteriorated, the Pension Plans' Annual Expenditures to Net Assets Ratio has generally increased since Fiscal Year 2005. To illustrate, from Fiscal Year 2007 to Fiscal Year 2012 the total net assets of all of the Pension Plans, which includes both the assets relating to State and local government active and retired members, as reported in their respective audited financial reports, decreased by \$12.0 billion from \$86.9 billion to \$74.9 billion, while total expenditures incurred by the Pension Plans over the same period increased by \$2.7 billion from \$6.0 billion to \$8.7 billion. The amount of these expenditures is expected to increase in future Fiscal Years. This resulted in an increase in the Annual Expenditures to Net Assets Ratio from 6.9% for Fiscal Year 2007 to 11.63% for Fiscal Year 2012. It is likely that the Annual Expenditures to Net Assets Ratio will worsen and increase in future Fiscal Years. Net assets represent the difference between a Pension Plan's total assets and its liabilities and mainly consist of investment holdings, which are stated at market value, and member and employer receivables. Expenditures include retirement benefit payments, including cost-of-living adjustments, contributory and noncontributory death benefit payments, member withdrawals and administrative expenses.

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

Risk Measures. The ratio of market value of assets to the prior year's benefit payments also provides an indication of the ability of the Pension Plans to meet their benefit obligations. The July 1, 2012 actuarial reports, which set forth the actuarial valuations as of June 30, 2012, include certain information described in the actuarial valuations as "risk measures" in either tabular or textual format for each of the individual Pension Plans. This information was designated to provide an indicator, described in several of the individual actuarial valuations as a "simplistic measure" of the number of years that the assets of the Pension Plans can cover benefit payments. The benefit payments used in the data are those actually paid out to retirees in Fiscal Year 2012 and exclude increases in the number of retirees, future increases in those payments, State and member contributions and investment income. Differences in the Pension Plans make the aggregation of such individual data in a single combined presentation inappropriate. For PERS-State, between June 30, 2011 and June 30, 2012, the ratio of market assets to the prior year's benefit payment worsened and decreased by 16% from 8.1 to 6.8. Between

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

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

Alternate Benefit Program. In addition to these defined benefit programs, the State also maintains the Alternate Benefit Program ("ABP"), which is a defined contribution plan for eligible employees of the public institutions of higher education in the State. Employer and employee contributions under the ABP are paid to authorized investment carriers who offer participants a variety of investment choices. The seven investment carriers for this program are ING Life Insurance and Annuity Company, Met Life, TIAA- CREF, VALIC, AXA Financial (Equitable), The Hartford and Prudential Retirement. The State pays the employer pension contribution to the ABP at a rate equal to 8.0% of the member's base salary. In addition, the State provides funding to cover the cost of noncontributory group life insurance and long-term disability insurance coverage for ABP participants. For Fiscal Years 2012 and 2013, the State contributed \$178.5 million and \$181.6 million, respectively, to cover pension contributions and to provide funding for noncontributory group life insurance and long-term disability benefits. For Fiscal Year 2014, the Fiscal Year 2014 Appropriations Act includes \$186.6 million to cover pension, noncontributory group life insurance, and long-term disability benefit costs. Since the ABP is a defined contribution plan and not a defined benefit plan, the State's sole obligation with respect to the ABP is to make the annual contributions and the State has no responsibility to ensure that the participating employees ultimately receive a level of benefit.

Defined Contribution Retirement Program. The State Legislature adopted legislation in the Fiscal Year ending June 30, 2007, L. 2007,c.92, amended by L. 2007, c.103, L. 2008, c.89, and L. 2010, c.1, which required the establishment of the Defined Contribution Retirement Program (the "DCRP"). The DCRP includes a defined contribution plan providing pension benefits for elected and appointed officials and for certain PERS, TPAF, PFRS and SPRS employees with pensionable wages in excess of the Social Security wage base limit and certain part-time employees ineligible for membership in the PERS and TPAF. The DCRP also includes noncontributory group life insurance and long-term disability benefits for participants. The employee pension contribution rate for the DCRP is 5.5%. Employers are required to contribute an additional 3.0% of base salary on behalf of employees enrolled in the plan to fund pension benefits. With regard to PERS, TPAF, PFRS and SPRS members that are enrolled in the DCRP because their pensionable wages exceed the Social Security wage base limit, contributions are based on compensation in excess of the Social Security wage base limit.

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

For Fiscal Years 2012 and 2013, the State contributed \$719,578 and \$969,981, respectively, on behalf of enrolled State employees to cover pension benefit costs. For Fiscal Year 2014, the Fiscal Year 2014 Appropriations Act includes \$1,280,000 as the State's contribution to the DCRP to cover pension benefit costs. With regard to noncontributory group life and long-term disability insurance benefits, for Fiscal Year 2012 and 2013, the State contributed \$58,128 and \$216,484, respectively, to cover noncontributory insurance benefit costs. For Fiscal Year 2014, the Fiscal Year 2014 Appropriations Act includes \$349,000 to fund noncontributory insurance costs.

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

Noncontributory Life Insurance. The State funds noncontributory insurance benefit costs for active and retired State employees. State appropriations are received on a monthly basis to cover actual benefit charges incurred and payable to beneficiaries of active and retired State employees plus administrative fees charged by the insurance providers. The State funds these benefit costs on a pay-as-you-go basis and does not actuarially determine the future liability of these benefit costs; therefore benefit costs can fluctuate from year to year. For Fiscal Years 2012 and 2013, the State expended \$67.5 million and \$79.5 million, respectively, to cover noncontributory insurance benefit costs of the Pension Plans. For Fiscal Year 2014, the Fiscal Year 2014 Appropriations Act includes \$75.2 million to fund noncontributory insurance benefit costs.

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

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

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

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

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

FUNDING POST-RETIREMENT MEDICAL BENEFITS

In addition to the pension benefits, the State provides post-retirement medical (PRM) benefits for certain State and other retired employees meeting the service credit eligibility requirements. This includes retired State employees of PERS, TPAF, PFRS, SPRS, JRS and ABP; local retired TPAF and other school board employees; and some local PFRS retirees. To become eligible for this State-paid benefit, a member of these Pension Plans must retire with 25 or more years of pension service credit or on a disability pension. These benefits are provided through the State Health Benefits Program (SHBP) and the School Employees' Health Benefits Program (SEHBP). The SHBP and the SEHBP are administered by the Division of Pensions and Benefits. The benefits provided include medical, prescription drug, and Medicare Part B and Part D reimbursement for covered retirees, spouses and dependents. In Fiscal Year 2013, the State paid PRM benefits for 130,448 State and local retirees.

The State funds post-retirement medical benefits on a "pay-as-you-go" basis, which means that the State does not pre-fund, or otherwise establish a reserve or other pool of assets against the PRM expenses that the State may incur in future years. For Fiscal Year 2012 and Fiscal Year 2013, the State contributed \$1.225 billion and \$1.398 billion, respectively, to pay for PRM benefits for the eligible retirees in these groups mentioned above. For Fiscal Year 2014, the Fiscal Year 2014 Appropriations Act includes \$1.558 billion in funding for pay-as-you-go PRM costs. The increase in the State's pay-as-you-go contribution is attributable to rising health care costs as well as an increase in the number of participants qualifying for State-paid PRM benefits at retirement. The State expects that funding to cover the pay-as-you-go PRM benefit costs will continue to increase going forward; however, as a result of health reform measures enacted by the State in 2011, including a requirement that certain future retirees eligible for State-paid coverage contribute toward such coverage, the rate of growth in the State's contribution should begin to decrease in the future. (See "FINANCING POST-RETIREMENT MEDICAL BENEFITS — *Pension and Health Benefits Reform*" herein.

In accordance with the provisions of GASB Statements No. 43 and 45, the State is required to quantify and disclose its obligations to pay PRM to current and future retirees. Based on the most recent valuation of these benefits and as summarized in the report, "Postemployment Benefits Other Than Pension Actuarial Valuation," submitted to the Division of Pensions and Benefits by Aon Hewitt in May 2013, the Fiscal Year 2012 actuarial accrued liability of the State to provide PRM to active and retired members of the Pension Plans, which is based upon GASB Statement No. 43 results as of July 1, 2012, has been measured to be \$51,502.6 million, an increase of \$2,553 million or 5.22% as compared to the Fiscal Year 2011 actuarial accrued liability of \$48,949.7 million. An informational copy of the valuation report will be posted on the Division of Pensions and Benefits' website at <http://www.state.nj.us/treasury/pensions/financial-rprts-home.htm>. GASB Statement No. 45 does not impose any requirement on the State to pre-fund its PRM actuarial accrued liability.

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

	GASB Statement No. 43 Results(\$ millions) as of July 1, 2012		
	State	Education-State	Total
Actuarial Accrued Liability*			
Active	\$10,277.1	\$18,087.8	\$28,364.9
Retired	\$ 9,042.6	\$14,095.1	\$23,137.7
Total	\$19,319.7	\$32,182.9	\$51,502.6

*Assuming no pre-funding of obligations

The amounts set forth in this table exclude the actuarial accrued liability of the Local Governmental Employers who are participating in the State Health Benefits Program. The PRM actuarial accrued liability for the local governmental employers is \$12,378.1 million. The State has no legal responsibility with respect to the PRM obligations of Local Governmental Employers.

Aon Hewitt calculated the State PRM actuarial accrued liability based on plan provisions, as provided by the State, along with certain demographic and economic assumptions recommended by Aon Hewitt and approved by the State, and which conform to the requirements of GASB Statement No. 43 and Statement No. 45. Aon Hewitt

used the Projected Unit Credit Actuarial Method to calculate the PRM actuarial accrued liability of the State and local participating employers. Many of the actuarial assumptions used to project the PRM actuarial accrued liability are the same as those used to determine the accrued actuarial liabilities of the Pension Plans. The discount rate used to determine the retiree healthcare liabilities is 4.5%, which is the maximum discount rate that GASB Statement No. 43 and Statement No. 45 permit when employers do not pre-fund their PRM actuarial accrued liabilities. When projecting the growth of expected claims of the lifetimes of the qualifying retirees, (1) Aon Hewitt assumed that pre-age 65 healthcare expenses would increase at a rate of 8.5% in Fiscal Year 2013 and decrease to a 5.0% long-term trend for all medical benefits after 8 years, post-age 65 healthcare expenses for the HMO plans would increase at a rate of 8.5% in Fiscal Year 2013 and decrease to a 5.0% long-term trend after 8 years and post-age 65 healthcare expenses for the PPO plans would increase at a trend rate of 5% per year and (2) Aon Hewitt assumed that prescription drug expenses would increase at a rate of 8.5% for current and future retirees in Fiscal Year 2013 and decrease to a 5.0% long-term trend rate after 8 years. For additional information regarding the PRM actuarial accrued liability of the State and local employers, including a detailed description of the related actuarial methods and assumptions, refer to the July 1, 2012 State of New Jersey, Postemployment Benefits Other Than Pension Actuarial Valuation. An informational copy of the valuation report will be posted on the Division of Pensions and Benefits' website at: <http://www.state.nj.us/treasury/pensions/financial-rprts-home.htm>. The valuation reports for the years July 1, 2006 through July 1, 2011 are posted on the web site.

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

<u>Actuarial Valuation Date</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAA as a Percentage of Covered Payroll</u>	<u>Actual Pay- As You-Go Contribution</u>
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
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

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

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

Pension and Health Benefits Reform. On June 28, 2011, the Governor signed into law health benefits reform as part of the 2011 Pension and Health Benefits Reform Legislation which requires all public employees participating in the SHBP and SEHBP to contribute more toward their health insurance coverage. The legislation

also requires certain future retirees eligible for State-paid health insurance coverage at retirement to contribute toward the cost of their post-retirement medical coverage. Specifically, the 2011 Pension and Health Benefits Reform Legislation requires active employees to pay a percentage of the premium for the level of coverage selected by the employee. The percentage will vary based on the employee's base salary and the coverage level and will range from 3% for the lowest paid employees to 35% for the highest paid employees. For those employees employed as of June 28, 2011, the contribution rates will be phased-in over a four year period in increments of 25% per year. New employees hired on or after June 28, 2011 will be required to contribute at the full rate. The 2011 Pension and Health Benefits Reform Legislation establishes a minimum employee contribution of 1.5% of salary in the first year due to the 4-year phase-in provision; however, beginning in the second year of the 4-year phase-in period, which commenced in July 2012, most employees were required to pay a higher contribution based on the new percentage as reflected on the premium tables. Pursuant to the 2011 Pension and Health Benefits Reform Legislation, future retirees eligible for PRM coverage who on June 28, 2011 had less than 20 years of creditable service will also be required to pay a percentage of the cost of their health care coverage at retirement under the new law provided they retire with 25 or more years of pension service credit. However, the percentage of the premium for which the retiree will be responsible will be determined based on the retiree's annual retirement benefit and level of coverage.

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

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

LITIGATION

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

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

FiberMark claims it is the successor to a 1991 landfill agreement (“1991 Agreement”), by which FiberMark was obligated to receive and treat leachate from the neighboring landfill in FiberMark’s waste water treatment lagoons before discharge into the Musconetcong River. FiberMark claims that as part of a voluntary Chapter 11 bankruptcy petition for reorganization filed in the State of Vermont, the bankruptcy court granted FiberMark’s motion to reject the 1991 Agreement on June 23, 2005. FiberMark claims it has had no responsibility to treat the leachate from the neighboring landfill since that date and has suffered damages from DEP’s alleged illegal discharges of leachate onto Warren Glen, and that DEP forced FiberMark to continue treating leachate discharged from the neighboring landfill from March 2006 through September 13, 2007. In April 2007, DEP successfully rerouted the leachate so that it no longer runs onto Warren Glen and is permanently enjoined, on a prospective basis, from allowing leachate to run onto Warren Glen pursuant to a partial consent judgment entered into by the parties on September 12, 2007 in a related case, *FiberMark North America Inc. v. Jackson*, previously filed in the United States District Court. The State filed its answer to FiberMark’s complaint filed in State court on June 23, 2008. The trial on this matter began on May 4, 2009. At the conclusion of FiberMark’s presentation of its case on May 7, 2009, DEP moved to dismiss the matter, which the court granted. On May 26, 2009, Fibermark filed several motions with the court. Fibermark also filed a notice of appeal with the Appellate Division. On July 6, 2009, Fibermark filed a motion with the Appellate Division requesting the Appellate Division compel the court to decide the motions previously filed with the court. By order dated September 18, 2009, the Appellate Division temporarily remanded the matter for 30 days to the court, for the trial judge to rule on the post-judgment motions previously filed with the court. On October 23, 2009, the court issued a decision from the bench denying FiberMark’s motions. On October 28, 2009, the trial judge issued a written Supplemental Memorandum of Decision on Motion. This matter was returned to the Appellate Division. Oral argument was held on May 3, 2011. On August 5, 2011, the Appellate Division issued a decision affirming the trial court’s decision in part, reversing in part and remanding for further proceedings.

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

However, the Appellate Division reversed the trial court’s dismissal of the nuisance claim and remanded this claim to the trial court. Specifically, the Appellate Division concluded that the issue of whether DEP’s actions to stop the leachate flow were reasonable could not be resolved against FiberMark in the context of a

motion to dismiss. The Appellate Division also ruled held that FiberMark should be permitted to seek reimbursement for the costs it incurred in continuing to operate the leachate treatment lagoons after it stopped operating the paper mill.

FiberMark filed a notice of petition for certification with the Supreme Court on August 24, 2011 and, on September 19, 2011, the Supreme Court notified the parties that the FiberMark notice of petition for certification was filed out of time. The trial court has declined to stay the proceedings on remand, and DEP filed a motion for summary judgment on the nuisance claims remanded to the trial court on October 5, 2011. On February 15, 2012, a jury trial commenced in this matter. On February 22, 2012, the jury returned a verdict in favor of DEP, finding that DEP did not commit a nuisance. On March 7, 2012, FiberMark filed a motion seeking a new trial. The trial court denied FiberMark's motion for a new trial on April 27, 2012. On June 18, 2012, FiberMark filed a notice of appeal. Briefing of this matter is complete. The parties await scheduling of oral argument. The State is vigorously defending this matter.

New Jersey Department of Environmental Protection et al. v. Occidental Chemical Corporation, et al. In December 2005, the DEP, the Commissioner of DEP, and the Administrator of the New Jersey Spill Compensation Fund (collectively, "Plaintiffs") filed suit in the Superior Court, Law Division, Essex County against Occidental Chemical Corporation ("Occidental"), Maxus Energy Corporation ("Maxus"), Tierra Solutions, Inc. ("Tierra"), Repsol YPF, S.A. ("Repsol"), YPF, S.A. ("YPF"), YPF Holdings, Inc. and CLH Holdings, Inc. seeking costs and damages relating to the discharge of dioxin into the Passaic River and its environs by Diamond Shamrock Corporation, a predecessor of defendant Occidental. In November 2008, Maxus and Tierra filed counterclaims against the Plaintiffs seeking, among other things, (a) contribution under the New Jersey Spill Compensation and Control Act, *N.J.S.A.* 58:10-23.11 to -23.24 (the "Spill Act"), for an equitable share of any Passaic River cleanup and removal costs and damages for which Maxus and Tierra may be found liable, (b) claims under the Environmental Rights Act, *N.J.S.A.* 2A:35A-1 to 35A-14, and an injunction against the issuance of permits issued in violation of *N.J.S.A.* 58:14-7 and -8; (c) the abatement of discharges of untreated or inadequately treated wastewater in the Newark Bay Complex; the abatement of pollution sources from outside the Newark Bay Complex; and an order removing DEP as trustee for natural resources within the Newark Bay Complex, (d) a judgment finding DEP liable for aiding and abetting discharges of polluting matter into the Passaic River, and an injunction prohibiting DEP from permitting or condoning the further discharge of polluting matter into the Passaic River or its tributaries, (e) the reduction or extinction of any judgment rendered against Maxus and Tierra under the doctrine of recoupment, (f) a judgment that DEP is liable for public nuisance in the event that all or part of the Newark Bay Complex is determined to be a public nuisance, (g) an order imposing on the Plaintiffs an equitable share of any relief the court might order on the Plaintiffs' public nuisance claims, (h) an order setting off the Plaintiffs' share of liability for discharges of hazardous substances into the Newark Bay Complex and an order setting off any benefits that the Plaintiffs have received from activities that contaminated the Newark Bay Complex against any liability that Maxus and Tierra may have, and (i) contribution for a proportionate share of cleanup and removal costs, damages or other losses for which Maxus and Tierra may be held liable or that they have incurred or may incur for the Newark Bay Complex. In February 2009, Maxus and Tierra filed third party complaints against the State, the Department of Agriculture ("NJDA"), New Jersey Transit and the Department of Transportation ("NJDOT"), among others, seeking contribution from each of these third party defendants. With respect to NJDOT, Maxus and Tierra allege that hazardous substances were discharged into the Newark Bay Complex from the Kearny Oil Lake Site while NJDOT owned and operated that site and that NJDOT is a discharger under the Spill Act. With respect to the NJDA, Maxus and Tierra allege that mosquito spraying conducted by the NJDA in the vicinity of the Passaic River or its tributaries contributed to the contamination in the Passaic River. NJDOT and NJDA joined in separate motions to dismiss portions of the third party complaint filed by Maxus and Tierra. In December 2010, the Special Master assigned to this matter recommended the dismissal of certain of Maxus and Tierra's counterclaims against Plaintiffs and cross claims against the State, as a third-party defendant. Specifically, the Special Master recommended dismissal of Maxus and Tierra's claims: (1) against DEP and the State involving their regulatory roles, including those for failure to enforce the law; (2) involving the State's ownership of submerged lands; (3) alleging that DEP and/or the State improperly issued certain permits; (4) against DEP involving spraying of DDT; (5) against DEP and the State involving the Kearny Oil Lake site; and (6) against DEP and the State alleging violation of the Public Trust Doctrine. Maxus and Tierra appealed the Special Master's recommendation to the court. On March 8, 2011, the

court adopted the Special Master's recommendations and dismissed certain of Maxus and Tierra's claims against DEP and all of the claims against the State, as third party defendant. The dismissal of these claims against the State, as third party defendant, and against DEP were embodied in an order dated May 11, 2011.

On January 26, 2011, the Special Master recommended the denial of the motions of NJDOT and NJDA to dismiss portions of the third party complaint filed by Maxus and Tierra. NJDOT and NJDA filed motions to appeal the Special Master's recommendation during February 2011. In April 2011, the court upheld the recommendations of the Special Master and denied NJDOT, NJDA and other third party defendants' motions to dismiss. On May 25, 2011, the Appellate Division granted certain third party defendants' requests for leave to appeal the court's denials of the motions to dismiss. The third party defendants filed motions to stay the trial proceedings with the court, but the court denied those motions. The third party defendants thereafter filed motions to stay proceedings at the trial level with the Appellate Division, which denied those motions on September 6, 2011. The denials of the motions to dismiss were affirmed by the Appellate Division on April 24, 2012. On September 21, 2012, the court ordered a ninety day stay of certain third party proceedings, including those against NJDOT and NJDA, pending the outcome of settlement negotiations. This stay has been continued until further order of the court.

On July 19, 2011, the court ruled that Occidental, as the successor to Diamond Shamrock Chemicals Company ("Diamond Shamrock"), is strictly, jointly and severally liable under the Spill Act for all cleanup and removal costs associated with the hazardous substances discharged by Diamond Shamrock from the Lister Avenue Site into the Passaic River between 1951 and 1969. A similar judgment was rendered under the Spill Act against Tierra on August 24, 2011, on the basis that Tierra, the current owner of Diamond Shamrock's Lister Avenue Site, knowingly took title to the contaminated Lister Avenue Site. The court also granted Occidental's motion for partial summary judgment against Tierra, finding that Tierra was liable to Occidental in contribution on the same basis. On that same date, Occidental also obtained a judgment against Maxus on a claim for indemnity under a 1986 Stock Purchase Agreement, whereby Occidental purchased all of the stock of Diamond Shamrock from Maxus. The court found that Maxus was liable to Occidental in perpetuity for any cleanup and removal costs paid by Occidental as the successor to Diamond Shamrock. On May 21, 2012, the court granted the State's motion for partial summary judgment against Maxus on liability, finding Maxus, as the alter ego of Tierra, strictly liable, jointly and severally under the Spill Act for all cleanup and removal costs associated with the hazardous substances discharged at and from the Lister Avenue site. The judgment against Maxus concluded the liability phase of the action. The damages phase of this litigation has been stayed until further order of the court.

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

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

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

Defendant Occidental Chemical Corporation is not participating in the Settlement Agreement. If the Settlement Agreement is approved by the court, certain State claims against Occidental would continue to be litigated. Occidental's fraudulent conveyance claims against Repsol, S.A. and YPF, S.A. would also continue to be litigated. The trial dates for both sets of claims will be set by future order of the court. The State is vigorously defending this matter.

Powell v. State. On September 12, 2011, seven State and local employees filed suit in Superior Court, Law Division, Mercer County, subsequently transferred to Burlington County, against the State, various Executive Branch officials, and the State Legislature challenging various provisions of Chapter 78 that concern health benefits on various State constitutional law grounds, including Article I, Section 19 (Right to Organize Clause), Article IV, Section 7, Para. 9 (Special Legislation Clause), Article IV, Section 6, Para. 1 (Taxation Clause), Article VIII, Section 1, Para. 7 (Bill Origination Clause) and Article VI, Section 6, Para. 6 (Diminution Clause of Judicial Compensation Clause). On October 20, 2011 and November 16, 2011, respectively, the State Legislative Branch Defendants and the State Executive Branch Defendants filed motions to dismiss for failure to state a claim upon which relief may be granted. The court bifurcated the State Legislative Branch Defendants' motion to dismiss from the State Executive Branch Defendants' motion to dismiss. The court granted the State Legislative Branch Defendants' motion to dismiss on August 24, 2012. Oral argument on the State Executive Branch Defendants' motion to dismiss was scheduled for September 28, 2012. However, on September 27, 2012, Judge Baldwin adjourned on his own initiative, the oral argument on the State Executive Defendants' motion to dismiss. Judge Baldwin also adjourned on his own initiative the hearing on the State Executive Defendants' motion to dismiss. On March 8, 2013, the court granted the State Executive Defendants' motion to dismiss. The State employees did not appeal. However, three municipal firefighters appealed. Their brief was filed on July 31, 2013. The State is vigorously defending this matter.

Berg v. Christie. On December 2, 2011, a number of retired Deputy Attorneys General and retired Assistant Attorneys General filed a lawsuit in Superior Court, Law Division, Mercer County against various State officials challenging the constitutionality of Section 25 of Chapter 78, which temporarily suspends the payment of pension adjustments to retired public employees. The plaintiffs allege violation of multiple provisions of both the State and federal constitutions and seek monetary damages, injunctive relief, and a declaratory judgment. On February 2, 2012, the State filed a motion to dismiss for failure to state a claim upon which relief may be granted. Plaintiffs' opposition brief and cross-motion for summary judgment was filed on March 16, 2012. On April 16, 2012, the New Jersey Education Association and other labor organizations (collectively, the "NJEA") filed a motion to intervene or, in the alternative, to be permitted to submit an amicus brief. On April 20, 2012, the Plaintiffs and the State submitted letters opposing NJEA's motion to participate as an intervenor or amicus. On April 23, 2012, the court granted NJEA's motion to intervene permissively. On June 7, 2012, the court entered an Order granting the State's motion to dismiss, denying Plaintiffs' cross-motion for summary judgment, and dismissing Plaintiffs' Complaint. On June 20, 2012, the court issued an amended Order that 1) converted the State's motion to dismiss into a motion for summary judgment, 2) granted the State's motion for summary judgment, 3) denied the Plaintiffs' cross-motion for summary judgment, 4) dismissed the Plaintiffs' Complaint, 5) dismissed NJEA's Complaint-in-Intervention, and 6) vacated its June 7, 2012 Order. Plaintiffs filed an appeal on August 1, 2012. The NJEA, as Plaintiff-Intervenors, filed a notice of appeal and a motion to consolidate their appeal with the appeal that the Berg Plaintiffs' have filed. On October 4, 2012, the Appellate Division consolidated *Berg v. Christie* and the appeal of the NJEA Plaintiff-Intervenors which challenged the provision of Chapter 78 that temporarily suspends future COLA payments. The Appellants have submitted their initial merits brief. The State's opposition brief was filed on June 24, 2013. The State is vigorously defending this matter.

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

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

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

Pfizer Inc. et al. v. Director, Division of Taxation. Two taxpayers, Pfizer Inc. ("Pfizer") and Whirlpool Properties, Inc. ("Whirlpool"), challenged the New Jersey Tax Court's affirmance of the facial constitutionality of the Corporation Business Tax ("CBT") "Throw-Out Rule," which affected the amount of taxable income taxpayers "allocate" to the State through 2010. In pursuit of their facial challenges, the taxpayers asserted that the Throw-Out Rule (which requires the exclusion of certain receipts from the CBT "allocation formula") violates the Due Process and Commerce Clauses of the United States Constitution as well as various equitable principles. Two *amici curiae* further claimed that the Throw-Out Rule violates the Supremacy Clause of the United States Constitution. On May 29, 2008, the Tax Court granted the Division's cross-motion to sustain the facial constitutionality of the Throw-Out Rule. The Tax Court found that, on its face, this rule did not violate any of the constitutional provisions raised. Taxpayers' "as-applied" challenges remain. The taxpayers sought interlocutory review in the Appellate Division, which was denied. In August 2008, Pfizer and Whirlpool sought leave for interlocutory review in the New Jersey Supreme Court. The New Jersey Supreme Court granted interlocutory review, but concurrently remanded to the Appellate Division for review on the merits. All parties briefed the facial constitutionality issue and the Appellate Division heard oral argument on November 16, 2009. On July 12, 2010, the Appellate Division affirmed the Tax Court's decision on the facial constitutionality of the Throw-Out Rule. On October 21, 2010, the Supreme Court granted the taxpayers' motion for leave to appeal. On May 3, 2011, Pfizer and the Division settled their dispute concerning the facial constitutionality of the Throw-Out Rule. On May 4, 2011, the Whirlpool matter was argued before the Supreme Court. By a unanimous opinion dated July 28, 2011, the New Jersey Supreme Court affirmed, with modification, the facial constitutionality of the Throw-Out Rule. Whirlpool's "as applied" constitutional challenge remains for adjudication by the Tax Court of New Jersey. Discovery in this matter is ongoing with respect to Whirlpool's "as applied" constitutional challenge. Whirlpool has filed a motion for partial summary judgment. The State is vigorously defending this matter.

Banc of America Consumer Card Holdings Corporation v. Director, Division of Taxation. On or about August 5, 2011, Banc of America Consumer Card Holdings Corporation ("BOA") filed a complaint in the Tax Court of New Jersey, contesting the Division's May 9, 2011 denial of a CBT refund for tax periods January 1, 2006 through December 31, 2008. BOA does not challenge the State's jurisdiction to impose CBT. BOA alleges that its income from intangibles should be sourced to BOA's alleged commercial domicile outside

of the State. The State filed an answer to the complaint on October 4, 2011, and an amended answer on March 6, 2012. The case is currently in discovery. The State is vigorously defending this matter.

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

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

James Liik, et al v. N.J. Dept of Corrections and Civil Service Commission. This matter was filed in the Mercer County, New Jersey Superior Court, Law Division in November 2009 (the “2009 Case”). The Liik plaintiffs, five senior corrections officers and PBA Local 105, filed a complaint on their own behalf and all similarly situated individuals, demanding lost wages and benefits they allegedly would have received but for their improper designation as non-employee trainees under a 1998 pilot program that established correction officer recruit trainee as a new job classification. Recruit trainees under the program were considered students, rather than regular employees, and they were paid a weekly stipend while in training, rather than the salary of a corrections officer recruit. The complaint alleged a violation of constitutional due process principles, a violation of state statutory civil rights protections, a breach of a statutory and regulatory contract, a breach of a quasi-contract, a breach of an implied in fact contract and that the 1998 pilot program unjustly enriched the State because of the failure of the State to pay wages and benefits of a regular employee to recruit trainees. The complaint also demands punitive damages, as well as attorney fees and costs.

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

The State defendants filed motions to dismiss the complaint in the 2009 Case and the Liik plaintiffs filed a cross-motion for summary judgment. The trial court dismissed all causes of action, except for the implied in fact contract claim and judgment in favor of the plaintiffs was entered on this claim. In addition, the trial court granted a motion by the Liik plaintiffs to certify the lawsuit as a class action consisting of all recruit trainees during the years 1999 to 2009. On August 18, 2011, the State filed a motion for leave to appeal the trial court’s order denying the State’s motion to dismiss the complaint in its entirety and the granting of summary judgment to the plaintiffs on the their implied in fact contract claim. On October 7, 2011, the Appellate Division denied the State’s motion for leave to appeal. Discovery is continuing on the issue of damages on the implied in fact contract claim. The State filed a motion for partial summary judgment on the issue of damages on April 11, 2012. The State is vigorously defending this matter.

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

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

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

Medicaid, Tort, Contract, Workers' Compensation and Other Claims. The Office of the Inspector General of the U.S. Department of Health & Human Services ("OIG") has conducted and continues to conduct various audits of Medicaid claims for different programs administered by the State's Department of Human Services ("DHS"). Currently, these audits span time periods between July 27, 2003 and December 31, 2007. The OIG audits, which have primarily focused on claim documentation and cost allocation methodologies, recommend that certain claims submitted by DHS be disallowed. OIG submits its recommendations on disallowances to the Centers for Medicare and Medicaid Services ("CMS") which may, in whole or in part, accept or disagree with the OIG's recommendations. If the OIG's recommendations are not challenged by the State or are upheld by CMS, DHS will be required to refund the amount of any disallowances. However, DHS is disputing OIG's audit findings. In addition, the State has currently reserved certain revenues that would mitigate, but not completely offset, the State's exposure assuming CMS upholds the OIG's recommended claim disallowances. Given that the State is currently disputing and appealing the OIG audit findings, it cannot estimate any final refund amounts or the timing of any refund payments that may be due to CMS. These current audits and any future audits of Medicaid claims submitted by DHS may result in claim disallowances which may be significant. The State is unable to estimate its exposure for these claim disallowances. See "FINANCIAL RESULTS AND ESTIMATES—Appropriations—*Appropriations of Federal Aid*" for additional discussion of currently pending audits.

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

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

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

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

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

that were primarily paid out of the UMDNJ Self Insurance Reserve Fund created pursuant to the New Jersey Tort Claims Act (N.J.S.A. 59:1-1 *et seq.*). An independent study estimated an aggregate potential exposure of \$148,897,000 for tort and medical malpractice claims for UMDNJ pending as of December 31, 2012. As a result of the enactment of the New Jersey Medical and Health Sciences Education Restructuring Act, L. 2012, c. 45 (the "Restructuring Act"), all of UMDNJ has been transferred to Rutgers, The State University ("Rutgers"), with the exception of the School of Osteopathic Medicine which has been transferred to Rowan University ("Rowan"), and University Hospital in Newark, New Jersey now exists as a separate instrumentality of the State. All claims and liabilities of UMDNJ associated with the transferred facilities have been transferred to Rutgers, Rowan and University Hospital, as applicable. Pursuant to the Restructuring Act, Rutgers and Rowan each entered into a memorandum of understanding with the State Treasurer pursuant to which the State shall pay from a self-insurance reserve fund established for each entity medical malpractice claims occurring prior to and post the effective date of the transfers, which was July 1, 2013. The Restructuring Act also provides for University Hospital's medical malpractice claims to be covered by a self-insurance reserve fund established by the State Treasurer and University Hospital entered into a memorandum of understanding with the State Treasurer for such claims. All claims, other than medical malpractice claims, incurred by UMDNJ with respect to the UMDNJ facilities transferred to Rutgers will be paid for by Rutgers out of its own funds. All claims, other than medical malpractice claims, incurred by Rowan will be paid from the Tort Claims Fund. The State is unable to estimate its exposure for these claims.

APPENDIX I-A

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

The CAFR for the Fiscal Year ended June 30, 2012 has been separately filed with the MSRB and is incorporated by specific reference in this Appendix I and is considered to be a part hereof.

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APPENDIX I-B
DEMOGRAPHIC AND ECONOMIC INFORMATION

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TABLE I
STATE OF NEW JERSEY
THIRTY LARGEST
NON-GOVERNMENTAL EMPLOYERS
2013

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

Source: New Jersey Business Magazine, August 2013

TABLE II
POPULATION CHANGES

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

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

TABLE III
TOTAL PERSONAL INCOME
NEW JERSEY, SELECTED NEIGHBORING STATES AND THE UNITED STATES
2002-2012 (Dollars in Millions)

Calendar Years	Total Personal Income			
	New Jersey	New York	Pennsylvania	United States
2002	341,558	678,393	387,664	9,054,702
2003	347,692	695,392	399,547	9,369,072
2004	365,260	741,167	417,791	9,928,790
2005	379,650	786,512	432,248	10,476,669
2006	411,429	851,437	462,704	11,256,516
2007	436,120	915,526	489,076	11,900,562
2008	454,206	949,250	512,992	12,451,660
2009	430,956	902,385	496,664	11,852,715
2010	443,742	952,673	514,352	12,308,496
2011	462,495	995,185	538,909	12,949,905
2012	475,393	1,019,514	556,692	13,401,869

Calendar Years	Total Personal Income As A Percent of 2000 Base			
	New Jersey	New York	Pennsylvania	United States
2002	104.8	103.1	104.8	105.8
2003	106.7	105.7	108.0	109.5
2004	112.0	112.7	112.9	116.1
2005	116.5	119.5	116.8	122.5
2006	126.2	129.4	125.1	131.6
2007	133.8	139.2	132.2	139.1
2008	139.3	144.3	138.7	145.6
2009	132.2	137.2	134.3	138.5
2010	136.1	144.8	139.0	143.9
2011	141.9	151.3	145.7	151.4
2012	145.8	155.0	150.5	156.7

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

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

TABLE IV

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

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

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

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

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

TABLE V

**PER CAPITA PERSONAL INCOME
NEW JERSEY, SELECTED NEIGHBORING STATES AND THE UNITED STATES
2002-2012**

<u>Calendar Years</u>	<u>Per Capita Personal Income</u>			
	<u>New Jersey</u>	<u>New York</u>	<u>Pennsylvania</u>	<u>United States</u>
2002	39,936	35,448	31,438	31,481
2003	40,423	36,264	32,288	32,295
2004	42,302	38,660	33,664	33,909
2005	43,880	41,108	34,719	35,452
2006	47,500	44,567	36,984	37,725
2007	50,256	47,852	38,927	39,506
2008	52,141	49,408	40,674	40,947
2009	49,221	46,739	39,210	38,637
2010	50,428	49,119	40,444	39,791
2011	52,430	51,126	42,291	41,560
2012	53,629	52,240	43,611	42,772

<u>Calendar Years</u>	<u>Per Capita Personal Income As A Percent of United States</u>			
	<u>New Jersey</u>	<u>New York</u>	<u>Pennsylvania</u>	<u>United States</u>
2002	126.9	112.6	99.9	100.0
2003	125.2	112.3	100.0	100.0
2004	124.8	114.0	99.3	100.0
2005	123.8	116.0	97.9	100.0
2006	125.9	118.1	98.0	100.0
2007	127.2	121.1	98.5	100.0
2008	127.3	120.7	99.3	100.0
2009	127.4	121.0	101.5	100.0
2010	126.7	123.4	101.6	100.0
2011	126.2	123.0	101.8	100.0
2012	125.4	122.1	102.0	100.0

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

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

TABLE VI
WAGE AND SALARY WORKERS IN NONAGRICULTURAL ESTABLISHMENTS
ANNUAL AVERAGES BY NAICS INDUSTRY DIVISIONS, NEW JERSEY, 2002-2012
(In thousands)

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

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

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

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

TABLE VII
AVERAGE ANNUAL UNEMPLOYMENT RATES
NEW JERSEY AND UNITED STATES
2002-2012

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

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

TABLE VIII
AVERAGE HOURLY WAGES (NAICS)
PRODUCTION WORKERS ON MANUFACTURING PAYROLLS
NEW JERSEY AND SELECTED NEIGHBORING STATES
2002-2012

<u>Calendar Years</u>	<u>New Jersey</u>	<u>New York</u>	<u>Pennsylvania</u>
2002	15.19	16.75	14.75
2003	15.45	16.78	14.99
2004	15.89	17.29	15.16
2005	16.33	17.77	15.26
2006	16.56	18.29	15.38
2007	17.22	18.49	15.48
2008	17.89	18.58	15.61
2009	18.31	18.54	16.28
2010	18.80	18.39	16.88
2011	19.03	18.46	17.49
2012	19.23	18.61	18.26

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

TABLE IX
NEW VEHICLE SALES
NEW JERSEY
2002-2012

<u>Calendar Years</u>	<u>Total Vehicles</u>		
	<u>Annual</u>	<u>Monthly Average</u>	<u>% change</u>
2002	610,422	50,869	—
2003	627,499	52,292	2.8%
2004	640,787	53,399	2.1%
2005	624,000	52,000	-2.6%
2006	621,298	51,775	-0.4%
2007*	591,694	49,308	-4.8%
2008	499,554	41,630	-15.6%
2009	399,852	33,321	-20.0%
2010	420,014	35,001	5.0%
2011	458,042	38,170	9.1%
2012	498,054	41,505	8.7%

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

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

TABLE X**NAICS COMPOSITION OF NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT
NEW JERSEY AND THE UNITED STATES: 2012**

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

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

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

TABLE XI**DOLLAR AMOUNT OF ANNUAL NONRESIDENTIAL CONSTRUCTION
AUTHORIZED BY BUILDING PERMITS, 2005 TO 2012**

Calendar Year	Estimated Nonresidential Costs (\$M)	% Change
2005	6,241.7	—
2006	7,287.1	16.7%
2007	7,054.5	-3.2%
2008	7,968.1	13.0%
2009	4,971.4	-37.6%
2010	4,811.5	-3.2%
2011	6,091.8	26.6%
2012	5,576.1	-8.5%

Source: New Jersey Department of Community Affairs.

**APPENDIX I-C
SUMMARY OF PRINCIPAL
STATE TAXES**

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Summary of Principal State Taxes

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

Alcoholic Beverage Tax

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

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

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

Casino Control Tax

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

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

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

Cigarette Tax and Tobacco Products Wholesale Tax

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

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

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

Clean Communities and Recycling Grant User Fee (User Fee)

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

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

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

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

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

To determine the tax liability of a corporation’s business activity in the State of New Jersey, a three-fraction apportionment formula is used. The three-fraction formula determines the proportion of income subject to tax by measuring the activities of the corporation in the State to the total activity of the corporation. The apportionment formula consists of a double-weighted sales fraction, a property fraction, and a payroll fraction. Some of a corporation’s income derived from other states is not taxed by those states. As a result, the apportionment

formula omits these sales from the denominator of the sales fraction, which increases the sales fraction. The “throw out” of these sales increases the portion of entire net income of a corporation apportioned to New Jersey. For privilege periods beginning on or after July 1, 2010, *P.L. 2008, c. 120* eliminates the throw-out provision in the apportionment formula. *P.L. 2011, c. 59* changes the three-fraction apportionment formula to a single sales fraction. The change in the apportionment method will be phased in over three years as follows: the sales fraction will account for 70% of the three-fraction formula for the 2012 privilege period, 90% for the 2013 privilege period, and 100% for the 2014 privilege period. For the 2012 and 2013 privilege periods, the property and payroll fractions evenly account for the remainder of the formula. The law also provides for a specialized sales fraction formula for airlines calculated as a ratio of airline revenue miles in this State divided by the airline’s total revenue miles. *P.L. 2011, c. 59*. Taxpayers who allocate less than 100% of income to New Jersey are no longer required to show that a regular place of business exists outside of this State. *P.L. 2008, c. 120*.

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

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

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

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

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

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

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

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

However, for privilege periods 2012 and forward, the minimum tax amounts set forth above are reduced by 25% for S corporations. *P.L. 2011, c. 84*. The minimum tax for members of an affiliated group or a controlled group, as defined by federal tax law with a total payroll of \$5 million or more, remains at \$2,000 annually. *P.L. 2006 c. 38*.

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

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

Effective June 29, 2004, for privilege periods beginning during the 2004 and 2005 calendar years, "Net Operating Loss" deductions will be allowed to reduce the entire net income subject to corporate business tax to 50% of what it would otherwise be. *P.L. 2004, c. 47*. With respect to privilege periods beginning in the 2006 calendar year, Net Operating Loss deductions return to full deductibility. *P.L. 2004, c. 47*. In addition, under *P.L. 2004, c. 47*, the date on which the amount of the disallowed Net Operating Loss carryover deduction would otherwise expire is extended to a period equal to the period for which application of the Net Operating Loss was disallowed. To encourage businesses to invest in the State of New Jersey, *P.L. 2008, c. 102* extended the number of years to which a corporation business taxpayer can deduct net operating losses from its taxable income. For privilege periods ending after June 30, 2009, the net operating loss deduction period is extended from seven years to twenty years. Net operating losses for privilege periods ending before June 30, 2009 continue to have a seven-year deduction period.

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

the United States (but excluding qualified production property that was grown or extracted by the taxpayer). Chapter 127 also defines the statutory term “manufactured or produced” for CBT purposes, which definition limits the term consistent with the other amendments implemented by c. 127 (*P.L.* 2005, c. 127, effective July 6, 2005).

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

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

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

Cosmetic Medical Procedures Gross Receipts Tax

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

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

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

Energy Tax Receipts

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

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

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

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

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

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

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

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

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

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

Gross Income Tax (GIT)

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

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

service in the United States Armed Forces are included. *P.L.* 2001, c. 84. However, for taxable years beginning on or after January 1, 2004, *P.L.* 2005, c. 63 excludes from taxable income housing and subsistence allowances received by New Jersey National Guard members on State Active duty, and by members of the U.S. Armed Forces' active and reserve components (effective April 7, 2005).

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

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

P.L. 2000, c. 80 created an Earned Income Tax Credit ("EITC") program in New Jersey. Effective January 1, 2007, an eligible New Jersey resident can claim a credit based upon a percentage of the individual's federal EITC, which is allowed and applied for, under section 32 of the federal Internal Revenue Code of 1986 (26 U.S.C. 32). *P.L.* 2008, c. 109. The credit percentages for eligible claimants are as follows: 20% from 2003 through 2007, 22.5% in 2008, 25% for 2009, and 20% for 2010 and thereafter. *P.L.* 2010, c. 27.

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

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

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

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

For the same taxable periods, *P.L.* 2005, c. 127 disallows (*i.e.*, "uncouples") the deduction for certain qualified production activities income, which deduction is allowed for federal income tax purposes under the American Jobs Creation Act of 2004 (Pub. L. 108-377). Specifically, Section 2 of c. 127 specifies that the deduction of any amounts pursuant to § 199 of the federal Internal Revenue Code of 1986, 26 U.S.C. 199, shall

be disallowed. However, this disallowance shall not apply to amounts deducted pursuant to section 199 of the federal Internal Revenue Code of 1986 that are exclusively based upon domestic production gross receipts of the taxpayer, or allocable to the taxpayer under that section, which are derived only from any lease, rental, license, sale, exchange, or other disposition of qualifying production property.

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

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

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

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

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

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

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

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

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

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

Hazardous Substance Transfer Tax and Hazardous Substance Cleanup and Remediation Fees

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

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

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

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

Homestead Property Tax Credit Act

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

Currently, the credit or rebate is calculated based upon a percentage of the property taxes, not in excess of \$10,000, paid by the claimant on the claimant’s homestead as follows:

For Resident Taxpayer With 2011 Tax

Year Gross Income:	Benefit Calculation
Not over \$50,000	Multiply the amount of the 2006 property taxes paid by 10%
Over \$50,000 but not over \$75,000	Multiply the amount of the 2006 property taxes paid by 6.67%
Over \$75,000	Not eligible

Taxpayers who are 65 years or older, or a taxpayer who is allowed to claim a personal deduction as a blind or disabled taxpayer, shall be allowed a homestead credit or rebate calculated based upon a percentage of the property taxes, not in excess of \$10,000, paid by the claimant on the claimant’s homestead as follows:

For Resident Taxpayer With 2011 Tax

Year Gross Income:	Benefit Calculation
Not over \$100,000	Multiply the amount of the 2006 property taxes paid by 10%
Over \$100,000 but not over \$150,000 ...	Multiply the amount of the 2006 property taxes paid by 5%
Over \$150,000	Not eligible

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

Homestead Property Tax Reimbursement

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

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

Hotel and Motel Occupancy Fee

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

In addition, the law authorizes an optional tax, which applies to most municipalities, at the rate of 1% for Fiscal Year 2004 and up to 3% for Fiscal Year 2005 and thereafter. Where a municipality imposes the optional tax, any unpaid tax is subject to interest at 5% per annum. *P.L. 2010, c. 55*. Some municipalities have existing hotel taxes, such as Atlantic City, the Wildwoods, Newark and Jersey City. The combined rates of the new fee imposed under *P.L. 2003, c. 114*, plus the Sales and Use Tax and any tax and assessment imposed under *P.L. 1992, c. 165*, section 4 cannot exceed 14% (*P.L. 2006, c. 44*). In municipalities with existing hotel taxes pursuant *P.L. 1981, c. 77*, the law provides that the State will receive a 1% hotel and motel occupancy fee. *P.L. 2003, c. 114*.

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

Insurance Premiums Tax

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

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

Chapter 128 modifies the insurance premiums tax treatment of health service corporations. Specifically the Act amends the maximum tax rule, which rule caps taxable premiums at 12.5% of total premiums for any company whose taxable premiums in New Jersey exceed 12.5% of its total taxable premiums. The amendment excludes all health service corporations established pursuant to the provisions of *P.L. 1985, c. 236* (C. 17:48A-1 *et seq.*) from the coverage of the cap. Additionally, the Act imposes the insurance premium tax on all premiums

of health services corporations and on any life, accident or health insurance corporation in which a health services corporation owns stock in, controls, or with which it otherwise becomes affiliated (*P.L. 2005, c. 128*, effective July 2, 2005). Effective January 1, 2009, accident and health insurance premiums are excluded from the taxable premiums cap. *L. 2009, c. 75*.

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

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

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

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

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

Litter Control Tax

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

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

Communities and Recycling Grant User Fee,” above. As amended, the Litter Control Tax was scheduled to expire on December 31, 2000 (*P.L.* 1995, c. 301). The Clean Communities and Recycling Grant Act affirms the Legislature’s intent to repeal the Litter Control Tax. (*P.L.* 2002, c. 128, § 12).

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

Local Tire Management Program Fee

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

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

Motor Fuels Tax

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

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

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

Nursing Home Quality of Care Improvement Fund Act

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

Petroleum Products Gross Receipts Tax

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

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

Current Rate: 23/4%. For fuel oil, aviation fuel and motor fuels, tax is fixed at \$0.04 a gallon. *P.L.* 2000, *c.* 48.

Public Community Water System Tax

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

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

Realty Transfer Tax

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

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

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

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

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

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

Roadside Sign Control and Outdoor Advertising Fee

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

Sales and Use Tax

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

As of October 1, 2006, the scope of the Sales and Use Tax Act is broadened to include “digital property” and some services. Digital property includes delivered music, ringtones, movies, books, audio and video works and similar products where the customer is granted a right or license to use, retain, or make a copy of such an item. *P.L. 2006, c. 44. P.L. 2011, c. 49* deleted the term “digital property” and replaced the term with “specified digital product.”

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

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

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

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

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

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

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

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

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

Sanitary Landfill Facility Taxes

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

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

Savings Institution Tax

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

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

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

Solid Waste Recycling Facility Tax

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

Former Rate: \$1.50/ton

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

Current Rate (2008): \$3.00/ton

Spill Compensation and Control Tax

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

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

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

Sports and Entertainment District Urban Revitalization Taxes

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

Transfer Inheritance and Estate Tax

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

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

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

Tourism Tax

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

Current Rate: not to exceed 2%.

Voice Grade Access Line and Service Number Fees

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

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

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

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APPENDIX II
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

FORMS OF CONTINUING DISCLOSURE AGREEMENTS

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Continuing Disclosure Agreement

This Continuing Disclosure Agreement (the “Disclosure Agreement”) is made as of the ___ day of November, 2013 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-Third Supplemental State Building Revenue Bond Resolution adopted by the Authority on October 16, 2013 (collectively, the “Resolution”). This Disclosure Agreement is entered into in connection with the issuance and sale by the Authority of its State Building Revenue Bond Anticipation Notes, 2013 Series (the “Bond Anticipation Notes”).

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 Bond Anticipation Notes (collectively, the “Noteholders”) 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 Bond Anticipation Notes.

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 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 Bond Anticipation Notes.

“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, 2014 and March 15 of each year during which any of the Bond Anticipation Notes 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 Bond Anticipation Notes: "STATE FINANCES", "FINANCIAL RESULTS AND ESTIMATES", "OUTSTANDING BONDED INDEBTEDNESS OF THE STATE", "TAX AND REVENUE ANTICIPATION NOTES", "OBLIGATIONS SUPPORTED BY STATE REVENUE SUBJECT TO ANNUAL APPROPRIATION", "MORAL OBLIGATION FINANCING," "STATE EMPLOYEES", "FUNDING PENSION PLANS," "FUNDING POST-RETIREMENT MEDICAL BENEFITS" and "LITIGATION", and (ii) "COMPREHENSIVE ANNUAL FINANCIAL REPORT", being the audit report prepared annually by the Office of the State Auditor with respect to the State's general purpose financial statements for each year, as set forth in Appendix A attached to such Appendix I described above, all such financial information included in clause (ii) above being prepared using the accounting standards set forth in subsection (b) of this Section 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 Significant 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 Bond Anticipation Notes, or other material events affecting the tax status of the Bond Anticipation Notes;
- (7) Modifications to rights of Noteholders, if material;

- (8) Bond calls, if material, and tender offers;
- (9) Defeasances of the Bond Anticipation Notes;
- (10) Release, substitution, or sale of property securing repayment of the Bond Anticipation Notes, if material;
- (11) Rating changes relating to the Bond Anticipation Notes;
- (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 Bond Anticipation Notes or the change of name of a trustee for the Bond Anticipation Notes, 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 Bond Anticipation Notes 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 Bond Anticipation

Notes or when the Treasurer or the Authority is no longer an Obligated Person (as defined in the Rule) with respect to the Bond Anticipation Notes.

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 Bond Anticipation Notes affected by such failure, shall), or any Noteholder 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 Noteholder 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 Noteholders, and each Noteholder 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 the Trustee, shall apply to the performance by the Dissemination Agent of its obligations 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
c/o Office of Public Finance
50 West State Street, 5th Floor
P.O. Box 005
Trenton, New Jersey 08625
Attn: Director, Office of Public Finance

(iii) If to the Dissemination Agent:

U.S. Bank National Association
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 *NJ.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 Arcario, Executive Director

TREASURER, STATE OF NEW JERSEY

By: _____
Andrew P. Sidamon-Eristoff

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 Authority: **New Jersey Building Authority**

Name of Bond Anticipation Note affected: \$_____ **State Building Revenue
Bond Anticipation Notes, 2013 Series**

Date of Issuance of the affected Bond Anticipation Note: _____, 2013

NOTICE IS HEREBY GIVEN that the Treasurer of the State of New Jersey has not provided a Treasurer's Annual Report with respect to the above named Bond Anticipation Note as required by Section 3 of the Continuing Disclosure Agreement dated _____, 2013 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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Continuing Disclosure Agreement

This Continuing Disclosure Agreement (the “Disclosure Agreement”) is made as of the ___ day of November, 2013 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-Third Supplemental State Building Revenue Bond Resolution adopted by the Authority on October 16, 2013 (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, 2013 Series A (the “Tax-Exempt Bonds”) and its State Building Revenue Refunding Bonds, 2013 Series B (Federally Taxable) (the “Taxable Bonds” and, together with the Tax-Exempt Bonds, 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 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, 2014 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", "OUTSTANDING BONDED INDEBTEDNESS OF THE STATE", "TAX AND REVENUE ANTICIPATION NOTES", "OBLIGATIONS SUPPORTED BY STATE REVENUE SUBJECT TO ANNUAL APPROPRIATION", "MORAL OBLIGATION FINANCING," "STATE EMPLOYEES", "FUNDING PENSION PLANS," "FUNDING POST-RETIREMENT MEDICAL BENEFITS" and "LITIGATION", and (ii) "COMPREHENSIVE ANNUAL FINANCIAL REPORT", being the audit report prepared annually by the Office of the State Auditor with respect to the State's general purpose financial statements for each year, as set forth in Appendix A attached to such Appendix I described above, all such financial information included in clause (ii) above being prepared using the accounting standards set forth in subsection (b) of this Section 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 Significant 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 Tax-Exempt Bonds, or other material events affecting the tax status of the Tax-Exempt 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 the Trustee, shall apply to the performance by the Dissemination Agent of its obligations 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
c/o Office of Public Finance
50 West State Street, 5th Floor
P.O. Box 005
Trenton, New Jersey 08625
Attn: Director, Office of Public Finance

(iii) If to the Dissemination Agent:

U.S. Bank National Association
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 Arcario, Executive Director

TREASURER, STATE OF NEW JERSEY

By: _____
Andrew P. Sidamon-Eristoff

U.S. BANK NATIONAL ASSOCIATION,
as Dissemination Agent

By: _____
Authorized Officer

EXHIBIT A

NOTICE OF FAILURE TO FILE AN ANNUAL REPORT

Name of Authority: **New Jersey Building Authority**

Name of Bond issue affected: \$ _____ **State Building Revenue Refunding Bonds,
2013 Series A and**

**\$ _____ State Building Revenue Refunding Bonds,
2013 Series B (Federally Taxable)**

Date of Issuance of the affected Bond issue: _____, 2013

NOTICE IS HEREBY GIVEN that the Treasurer of the State of New Jersey has not provided a Treasurer's Annual Report with respect to the above named Bond issued as required by Section 3 of the Continuing Disclosure Agreement dated _____, 2013 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 REGARDING THE 2013 SERIES
OBLIGATIONS**

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[UPON ISSUANCE AND DELIVERY OF THE 2013 SERIES OBLIGATIONS, WOLFF & SAMSON PC, BOND COUNSEL TO THE AUTHORITY, IS EXPECTED TO RENDER ITS APPROVING LEGAL OPINION IN SUBSTANTIALLY THE FOLLOWING FORM.]

[CLOSING DATE]

Treasurer of the State of New Jersey
Trenton, New Jersey

New Jersey Building Authority
Trenton, New Jersey

Re: New Jersey Building Authority
State Building Revenue Bond Anticipation Notes, 2013 Series,
State Building Revenue Refunding Bonds, 2013 Series A, and
State Building Revenue Refunding Bonds, 2013 Series B (Federally Taxable)

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 Bond Anticipation Notes, 2013 Series (the "Bond Anticipation Notes"), \$_____ aggregate stated principal amount of State Building Revenue Refunding Bonds, 2013 Series A (the "2013 Series A Bonds") and \$_____ aggregate stated principal amount of State Building Revenue Refunding Bonds, 2013 Series B (Federally Taxable) (the "2013 Series B Bonds") and together with the 2013 Series A Bonds, the "2013 Series Bonds"). The Bond Anticipation Notes and the 2013 Series Bonds (collectively, the "Obligations") are dated, mature and bear interest upon the terms and conditions stated therein in the Resolution (as hereinafter defined). The Obligations 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 Obligations 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 (the "State Building Revenue Bond Resolution"), as supplemented and amended to the date hereof, including by the Twenty-Third Supplemental State Building Revenue Bond Resolution adopted on October 16, 2013 (the "Twenty-Third Supplemental Resolution"), and the 2013 Series Certificate executed by an Authorized Authority Official dated the date hereof (the "Series Certificate"). The State Building Revenue Bond Resolution, as heretofore amended and supplemented, including as amended and supplemented by the Twenty-Third Supplemental Resolution and the Series Certificate, is collectively referred to herein as the "Resolution."

The Bond Anticipation Notes are being issued for the purpose of (i) financing a portion of the Costs of the 2012 Series Additional Project consisting of two projects known as: "Exterior

Envelope Restoration and Repairs for the New Jersey Executive State House” and “Relocation of the Mechanical and Electrical Equipment Room in the New Jersey State House Garage” all as more fully set forth in the respective project reports approved by the Authority on May 10, 2012, which were approved by the New Jersey Commission on Capital Budgeting and Planning on May 29, 2012 and submitted by the Authority to the President of the Senate and the Speaker of the General Assembly on June 5, 2012 and as approved by concurrent resolution of the Senate and the General Assembly by Senate Concurrent Resolution No. 119 approved on June 21, 2012 and June 25, 2012, respectively, (ii) paying, at maturity, the principal of the Prior Bond Anticipation Notes, and (iii) paying costs of issuing the Bond Anticipation Notes.

The 2013 Series Bonds are being issued for the purpose of (i) refunding all or a portion of the Bonds to be Refunded in the amounts determined as set forth in the Resolution, (ii) paying all or a portion of the termination costs attributable to the Swap Agreements, and (iii) paying the costs of issuance of the 2013 Series Bonds.

The 2013 Series Bonds are Refunding Bonds as contemplated by and defined in the Resolution. The Bond Anticipation Notes are a Series of Additional Bonds as contemplated by and defined in the Resolution. The Obligations 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.

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 Obligations (i) the proceeds of the sale of the Obligations, (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 Obligations 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 Obligations. The Obligations 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 Obligations are issued in fully registered form, initially registered in the name of and held by Cede & Co., as nominee for The Depository Trust Company, New York, New York

(“DTC”), an automated depository for securities and clearinghouse for securities transactions. Purchases of the Obligations 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 Obligations, payments of the principal of and interest on the Obligations will be made by the Trustee directly to Cede & Co., as nominee for DTC. Disbursal of such payments to the beneficial owners of the Obligations is the responsibility of the DTC direct and indirect participants.

In our capacity as Bond Counsel to the Authority with respect to the Obligations, we have examined the proceedings related to the authorization of the Obligations, 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 November __, 2013 relating to the Obligations, the Obligations and the Continuing Disclosure Agreement; (d) the various certificates listed in the closing index for and relating to the Obligations; (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 Obligations 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 November __, 2013 with respect to the Obligations (the “Tax Certificate”), on which we have relied in rendering the opinions set forth in the following paragraph 6, and where we have deemed appropriate, representations or other certifications of public officials.

The Internal Revenue Code of 1986, as amended (the “Code”) imposes certain requirements that must be met on the date of issuance of the Bond Anticipation Notes and the 2013 Series A Bonds, (collectively, the “Tax-Exempt Obligations”) and on a continuing basis subsequent to the issuance of the Tax-Exempt Obligations in order for interest on the Tax-Exempt Obligations 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 that will impair the exemption of interest on the Outstanding Bonds from federal income taxes, (ii) that it will comply with the provisions and procedures set forth in the Tax Certificate and (iii) 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 Tax-Exempt Obligations 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, 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:

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 Obligations.

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 Obligations 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 on the Tax-Exempt Obligations (i) is excludable from gross income for purposes of federal income taxation under Section 103 of the Code and (ii) is not an item of tax preference to be included in calculating alternative minimum taxable income under the Code for purposes of the alternative minimum tax imposed with respect to individuals and corporations. We express no opinion as to the treatment of interest on the Tax-Exempt Obligations in determining “adjusted current earnings” for purposes of the federal alternative minimum tax imposed on corporations. In rendering the opinions set forth in this paragraph, we have assumed compliance by the Authority with all requirements of the Code that must be satisfied subsequent to the issuance of the Tax-Exempt Obligations 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 Tax-Exempt Obligations to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Tax-Exempt Obligations.

[We are further of the opinion that the difference between the principal amount of the Tax-Exempt Obligations maturing on _____ (the “Discount Bonds”) and their initial offering price to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of such Discount Bonds of the same maturity was sold, constitutes original issue discount which is excluded from

gross income for federal income tax purposes to the same extent as interest on the Discount Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each Discount Bond, and the basis of each Discount Bond acquired at such initial offering price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount.]

[Under Section 171(a)(2) of the Code, no deduction is allowed for the amortizable bond premium (determined in accordance with Section 171(b) of the Code) on the Tax-Exempt Obligations. Under Section 1016(a)(5) of the Code, however, an adjustment must be made to the owner's basis in such bond to the extent of any amortizable bond premium that is disallowable as a deduction under Section 171(a)(2) of the Code.]

We express no opinion regarding any other federal tax consequences arising with respect to the Tax-Exempt Obligations.

7. Based upon existing law, interest on the Obligations and net gains from the sale of the Obligations 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 Obligations or any tax consequences arising with respect to the Obligations 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 Obligations, and the enforceability of the Obligations, the Resolution, the Lease, the Ground Lease and the other documents mentioned herein are subject to and may be limited by any applicable 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 each of the Obligations 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 Obligations.

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

Very truly yours,

APPENDIX V

BONDS TO BE REFUNDED

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APPENDIX V

BONDS TO BE REFUNDED

<u>Bond</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Redemption Price</u>
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