

In the opinion of Pearlman & Miranda, LLC, Bloomfield, New Jersey, Bond Counsel ("Bond Counsel") to the City (as defined herein), under existing statutes and court decisions, and assuming continuing compliance with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), interest on the Bonds (as defined herein) is excluded from gross income of the owners thereof for federal income tax purposes under Section 103 of the Code. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax imposed under the Code with respect to individuals and corporations, except that interest on the Bonds is included in "adjusted current earnings" in computing alternative minimum taxable income for purposes of the alternative minimum tax imposed by the Code on certain corporations. In the further opinion of Bond Counsel, under existing laws of the State of New Jersey, interest on the Bonds and any gain on the sale thereof are not includable in gross income under the New Jersey Gross Income Tax Act. See "TAX MATTERS" herein.

**CITY OF ATLANTIC CITY
COUNTY OF ATLANTIC, NEW JERSEY**

\$68,325,000

TAX APPEAL REFUNDING BONDS, SERIES 2017B

**(Qualified Pursuant to the Provisions of the Municipal Qualified Bond Act, P.L. 1976, c.38, as amended)
(Book-Entry Only) (Callable)**

Dated: Date of Delivery

Due: September 1, 2018 and, thereafter, March 1, as shown on the inside front cover

The \$68,325,000 aggregate principal amount of Tax Appeal Refunding Bonds, Series 2017B (Qualified Pursuant to the Provisions of the Municipal Qualified Bond Act, P.L. 1976, c. 38, as amended) (the "Bonds") of the City of Atlantic City, in the County of Atlantic, State of New Jersey (the "City") will be issued as fully registered Bonds and, when issued, will be registered in the name of, and held by, Cede & Co., as nominee for The Depository Trust Company ("DTC"). Purchases of the Bonds will be made in book-entry-only form (without certificates) in denominations of \$5,000 or any integral multiple thereof. So long as DTC, or its nominee Cede & Co., is the registered owner of the Bonds, payments of the principal of and interest on the Bonds are to be made directly by The Bank of New York Mellon, as paying agent (the "Paying Agent"), to Cede & Co., which is to remit such payments to the DTC participants, which in turn are to remit such payments to the beneficial owners of the Bonds. See "APPENDIX E – DTC AND BOOK-ENTRY ONLY SYSTEM" herein.

The Bonds shall be dated and shall bear interest from their date of delivery. Interest on the Bonds will be payable semiannually on March 1 and September 1 (each an "Interest Payment Date") in each year until maturity or prior redemption, commencing September 1, 2018. Principal of and interest on the Bonds will be paid to DTC by the Paying Agent. Interest on the Bonds will be credited to the participants of DTC as listed on the records of DTC as of each February 15 and August 15 (the "Record Dates") preceding an Interest Payment Date. The Bonds are subject to redemption prior to their stated maturities as described herein. See "THE BONDS – Redemption" herein.

The Bonds are issued pursuant to: (i) the Local Bond Law, *N.J.S.A. 40A:2-1 et seq.*, as amended and supplemented (the "Local Bond Law"), specifically *N.J.S.A. 40A:2-51*; (ii) the Municipal Qualified Bond Act, *N.J.S.A. 40A:3-1 et seq.*, as amended and supplemented (the "Municipal Qualified Bond Act"); (iii) the Municipal Stabilization and Recovery Act, P.L.2016, c. 4, as amended (*N.J.S.A. 52:27BBBB-1 et seq.*) (the "MSRA"); (iv) a refunding bond ordinance duly and finally adopted by the City Council of the City on August 9, 2017 (the "Refunding Bond Ordinance"); (v) a resolution duly adopted by the City Council of the City on August 9, 2017 (the "Resolution"); and (vi) certifications of the Director of the Local Finance Board of the New Jersey Department of Community Affairs, Division of Local Government Services ("Local Finance Board") pursuant to and in accordance with the MSRA (collectively, the "Director Certificates"). In addition the final adoption of the Refunding Bond Ordinance and the issuance and sale of the Bonds have been approved by resolutions adopted on August 9, 2017 by the Local Finance Board (collectively, the "LFB Resolutions" and, together with the Refunding Bond Ordinance, the Resolution and the Director Certificates, the "Authorizing Proceedings").

Pursuant to and in accordance with the Authorizing Proceedings, the proceeds of the Bonds will be used solely to: (i) pay amounts due resulting from the resolution of certain tax appeals for tax years 2013 through and including 2016; and (ii) pay for the costs of issuance of the Bonds. See "PLAN OF FINANCE" herein.

The full faith and credit of the City are irrevocably pledged to the payment of the principal of and interest on the Bonds. The Bonds are valid and legally binding unconditional general obligations of the City payable as to principal and interest from *ad valorem* taxes to be levied upon all taxable property in the City without limitation as to rate or amount. The Bonds are also entitled to the benefits of the Municipal Qualified Bond Act, which provides that the Treasurer of the State of New Jersey (the "State") is to withhold a portion of State aid payable to the City and forward such amount directly to the Paying Agent for the Bonds on or prior to each principal and/or interest payment date for the Bonds, which amount shall be solely used to make principal and interest payments on the Bonds. The funds withheld pursuant to the Municipal Qualified Bond Act are subject to appropriation by the State. Notwithstanding the foregoing, "municipal qualified revenues" (as such term is defined herein) in an amount sufficient to pay the aggregate principal of and interest due on the Bonds in any individual year that the Bonds are outstanding may not in the future be available for payment of the Bonds. As a result, Bondholders must consider the general credit and debt paying ability of the City in making an informed investment decision. See "SECURITY AND SOURCE OF PAYMENT – The Municipal Qualified Bond Act" and "RISK FACTORS" herein.

The Bonds are not a debt or obligation, legal, moral, or otherwise, of the State, or any county, municipality or political subdivision thereof, other than the City.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by ASSURED GUARANTY MUNICIPAL CORP.



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

The Bonds are offered when, as and if issued, and delivered to the Underwriter, subject to prior sale, withdrawal or modification of the offer without notice and to the approval of legality thereof by the law firm of Pearlman & Miranda, LLC, Bloomfield, New Jersey, and certain other conditions described herein. Certain legal matters will be passed upon for the City by its Attorney, Anthony Swan, Esquire, and for the Underwriter by its counsel, Parker McCay P.A., Mount Laurel, New Jersey. Acacia Financial Group, Inc., Mount Laurel, New Jersey, has served as financial advisor in connection with the issuance of the Bonds. Delivery of the Bonds is anticipated to be at the offices of the City's Bond Counsel or at such other place as agreed to with the Underwriter on or about October 4, 2017.

Morgan Stanley

Dated: September 20, 2017

**CITY OF ATLANTIC CITY
COUNTY OF ATLANTIC, NEW JERSEY**

\$68,325,000

TAX APPEAL REFUNDING BONDS, SERIES 2017B

**(Qualified Pursuant to the Provisions of the
Municipal Qualified Bond Act, P.L. 1976, c.38, as amended)**

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND CUSIPS

Maturity Date	Principal Amount	Interest Rate	Yield	CUSIP*
September 1, 2018	\$3,500,000	2.00%	1.19%	048339VL6
March 1, 2019	1,800,000	4.00	1.33	048339VM4
March 1, 2020	1,800,000	5.00	1.53	048339VN2
March 1, 2021	1,800,000	5.00	1.69	048339VP7
March 1, 2022	1,800,000	5.00	1.87	048339VQ5
March 1, 2023	1,820,000	5.00	2.05	048339VR3
March 1, 2024	1,915,000	5.00	2.25	048339VS1
March 1, 2025	2,015,000	5.00	2.41	048339VT9
March 1, 2026	2,115,000	5.00	2.55	048339VU6
March 1, 2027	2,225,000	5.00	2.66	048339VV4

\$12,960,000 5.00% Term Bond Due March 1, 2032; to Yield 3.05%** CUSIP* – 048339VW2

\$16,575,000 5.00% Term Bond Due March 1, 2037; to Yield 3.29%** CUSIP* – 048339VX0

\$18,000,000 4.00% Term Bond Due March 1, 2042; to Yield 3.80%** CUSIP* – 048339VY8

* A registered trademark of the American Bankers Association. CUSIP data herein are provided by Standard & Poor's CUSIP Service Bureau, Standard & Poor's Financial Services LLC Business. The CUSIP numbers listed above are being provided solely for the convenience of Bondholders only at the time of issuance of the Bonds and the City 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 Bonds as a result of 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 Bonds.

** Yield to first par call date of March 1, 2027.

**CITY OF ATLANTIC CITY
COUNTY OF ATLANTIC, STATE OF NEW JERSEY**

MAYOR

Donald A. Guardian

COUNCIL MEMBERS

Marty Small, Sr. – Council President
Aaron Randolph – Council Vice President
Chuen Cheng – Councilperson
Moisse Delgado – Councilperson At Large
Frank M. Gilliam, Jr. – Councilperson At Large
Jesse O. Kurtz – Councilperson
William Marsh – Councilperson
Kaleem Shabazz – Councilperson
George Tibbitt – Councilperson At Large

BUSINESS ADMINISTRATOR

Jason Holt, Esquire

**DIRECTOR OF REVENUE AND FINANCE/
CHIEF FINANCIAL OFFICER**

Michael P. Stinson, CPA

CITY CLERK

Paula Geletei

CITY SOLICITOR

Anthony Swan, Esquire
Atlantic City, New Jersey

CITY AUDITOR

Leon Costello, CPA, RMA
Ford-Scott & Associates, LLC
Ocean City, New Jersey

FINANCIAL ADVISOR

Acacia Financial Group, Inc.
Mount Laurel, New Jersey

BOND COUNSEL

Pearlman & Miranda, LLC
Bloomfield, New Jersey

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME WITHOUT PRIOR NOTICE.

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 BONDS IS MADE ONLY BY MEANS OF THIS ENTIRE OFFICIAL STATEMENT.

No broker, dealer, salesperson or other person has been authorized by the City to give any information or to make any representations, with respect to the Bonds, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. The information contained herein has been obtained from the City, DTC and other sources which are believed to be reliable; however, such information is not guaranteed as to accuracy or completeness, and is not to be construed as a representation or warranty of the City. 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 any of the information herein since the date hereof, or the date as of which such information is given, if earlier.

References in this Official Statement to laws, rules, regulations, ordinances, resolutions, agreements, reports and documents do not purport to be comprehensive or definitive. All references to such documents are qualified in their entirety by reference to the particular document, the full text of which may contain qualifications of and exceptions to statements made herein, and copies of which may be inspected at the offices of the City during normal business hours.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds in any jurisdiction in which it is unlawful for any person to make such an offer, solicitation or sale.

The Underwriter has reviewed the information in this Official Statement in accordance with and as part of its responsibilities to investors under the Federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guaranty the accuracy or completeness of such information.

Assured Guaranty Municipal Corp. ("AGM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "Bond Insurance" and "APPENDIX G – Specimen Municipal Bond Insurance Policy".

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

If and when included in this Official Statement, the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates," "assumes" and analogous expressions are intended to identify forward-looking statements and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those that have been projected. Such risks and uncertainties include, among others, changes in law and regulations, general economic and business conditions relating to the City, changes in political, social and economic conditions, regulatory initiatives and compliance with governmental regulations, litigation and various other events, conditions and circumstances, many of which are beyond the control of the City. These forward-looking statements speak only as of the date of this Official Statement. The City disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in the City's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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TABLE OF CONTENTS

	Page
INTRODUCTION	1
Authorization and Purpose for the Bonds.....	1
Historical Financial Strains Upon the City	2
Recent Legislative Action	2
THE BONDS	2
General Description of the Bonds.....	2
Redemption.....	3
Notice of Redemption.....	4
Book-Entry Only System.....	4
PLAN OF FINANCE.....	4
General	4
The Tax Appeals.....	5
Sources and Uses of Funds	5
Additional Tax Appeal Financings.....	6
SECURITY AND SOURCE OF PAYMENT	6
General Obligation Pledge.....	6
The Municipal Qualified Bond Act	6
BOND INSURANCE	11
Bond Insurance Policy	11
Assured Guaranty Municipal Corp.....	11
CITY OF ATLANTIC CITY	
MUNICIPAL QUALIFIED BONDS DEBT SERVICE SCHEDULE.....	13
INFORMATION REGARDING THE CITY OF ATLANTIC CITY	14
General	14
Casinos and Gaming.....	14
State Intervention and Takeover.....	16
Current Fiscal Affairs of the City	26
Tax Appeals.....	31
NO DEFAULT.....	31
CERTAIN STATUTORY PROVISIONS FOR THE PROTECTION OF GENERAL OBLIGATION	
DEBT	32
Application of the MSRA.....	32
Procedure for Authorization	32
Local Bond Law (<i>N.J.S.A. 40A:2-1 et seq.</i>)	32
Short-Term Financing.....	32
Refunding Bonds (<i>N.J.S.A. 40A:2-51 et seq.</i>)	33
Statutory Debt Limitation (<i>N.J.S.A. 40A:2-6</i>)	33
Exceptions to Debt Limitation - Extensions of Credit (<i>N.J.S.A. 40A:2-7</i>).....	33
Local Fiscal Affairs Law (<i>N.J.S.A. 40A:5-1 et seq.</i>)	34
Annual Financial Statement (<i>N.J.S.A. 40A:5-12 et seq.</i>).....	34
Investment of Municipal Funds	35
School Debt Subject to Voter Approval	35
FINANCIAL MANAGEMENT	35
Application of the MSRA.....	35
Accounting and Reporting Practices	35
Local Budget Law (<i>N.J.S.A. 40A:4-1 et seq.</i>)	36
Local Examination of Budgets (<i>N.J.S.A. 40A:4-78(b)</i>).....	36
State Supervision	37
Limitation on Expenditures ("CAP Law") and Property Tax Levy Limitation.....	37
Deferral of Current Expenses	38
Emergency Temporary Appropriations	38
Budget Transfers.....	38
Anticipation of Real Estate Taxes	39

**OFFICIAL STATEMENT
OF THE
CITY OF ATLANTIC CITY
COUNTY OF ATLANTIC, STATE OF NEW JERSEY**

**\$68,325,000
TAX APPEAL REFUNDING BONDS, SERIES 2017B
(Qualified Pursuant to the Provisions of the Municipal Qualified Bond Act, P.L. 1976, c. 38, as amended)**

INTRODUCTION

This Official Statement, which includes the cover and inside cover page hereof and appendices attached hereto, has been prepared by the City of Atlantic City, in the County of Atlantic, State of New Jersey (the "City") in connection with the sale and issuance of \$68,325,000 aggregate principal amount of Tax Appeal Refunding Bonds, Series 2017B (Qualified Pursuant to the Provisions of the Municipal Qualified Bond Act, P.L. 1976, c. 38, as amended) (the "Bonds"). This Official Statement has been authorized by: (i) the Director of the Division of Local Government Services of the New Jersey Department of Community Affairs (the "Director") pursuant to and in accordance with the Municipal Stabilization and Recovery Act, P.L.2016, c. 4, as amended (*N.J.S.A. 52:27BBB-1 et seq.*) (the "MSRA"); and (ii) the City Council of the City, and executed by and on behalf of the City by the Director of Revenue and Finance/Chief Financial Officer of the City and may be distributed in connection with the sale of the Bonds.

This Official Statement contains specific information relating to the Bonds including a general description of the Bonds, certain matters affecting the financing, certain legal matters, historical financial information and other information pertinent to the Bonds, including, without limitation, certain bondholder risks associated with the repayment of debt service on the Bonds. See "RISK FACTORS" herein. This Official Statement should be read in its entirety. All financial and other information presented herein has been provided by the City from its records, except for information expressly attributed to other sources. The presentation of information is intended to show recent historical information and, but only to the extent specifically provided herein, certain projections of the immediate future, and is not necessarily indicative of future or continuing trends in the financial position or other affairs of the City.

If and when included in this Official Statement, the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates," "assumes" and analogous expressions are intended to identify forward-looking statements and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those that have been projected. Such risks and uncertainties include, among others, changes in law and regulations, general economic and business conditions relating to the City, changes in political, social and economic conditions, regulatory initiatives and compliance with governmental regulations, litigation and various other events, conditions and circumstances, many of which are beyond the control of the City. These forward-looking statements speak only as of the date of this Official Statement. The City disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in the City's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Authorization and Purpose for the Bonds

The Bonds are issued pursuant to: (i) the Local Bond Law, *N.J.S.A. 40A:2-1 et seq.*, as amended and supplemented (the "Local Bond Law"), specifically *N.J.S.A. 40A:2-51*; (ii) the Municipal Qualified Bond Act, *N.J.S.A. 40A:3-1 et seq.*, as amended and supplemented (the "Municipal Qualified Bond Act" or "MQBA"); (iii) the MSRA; (iv) a refunding bond ordinance duly and finally adopted by the City Council of the City on August 9, 2017 (the "Refunding Bond Ordinance"); (v) a resolution duly adopted by the City Council of the City on August 9, 2017 (the "Resolution"); and (vi) certifications of the Director pursuant to and in accordance with the MSRA (collectively, the "Director Certificates").

In addition, on August 9, 2017, the Local Finance Board of the Division of Local Government Services of the New Jersey Department of Community Affairs (the "Local Finance Board") adopted separate resolutions (collectively, the "LFB Resolutions" and, together with the Refunding Bond Ordinance, the Resolution and the Director Certificates, the "Authorizing Proceedings") authorizing: (i) the final adoption of the Refunding Bond Ordinance; (ii) the issuance and sale of the Bonds as "qualified" bonds pursuant to the Municipal Qualified Bond Act; and (iii) the City to exceed its statutory debt limitation otherwise imposed by the Local Bond Law in connection with the issuance of the Bonds.

Pursuant to and in accordance with the Authorizing Proceedings, the proceeds of the Bonds will be used solely to: (i) pay amounts due resulting from the resolution of certain tax appeals for tax years 2013 through and including 2016; and (ii) pay for the costs of issuance of the Bonds. See "PLAN OF FINANCE" herein.

Historical Financial Strains Upon the City

Over the past five (5) years, the City has suffered from declining revenues, mainly due to the reduction in assessed valuations of casinos located in the City, increased competition from casinos located in nearby markets and the closure of five (5) casinos located in the City. The declining revenues have created a strain on the City's finances and a structural budget deficit. See "INFORMATION REGARDING THE CITY OF ATLANTIC CITY" and "RISK FACTORS" herein. As a result, the City has been subjected to State supervision of its finances, multiple credit rating downgrades, the appointment of an Emergency Manager by Governor Chris Christie (the "Governor") of the State pursuant to Executive Order No. 171, dated January 22, 2015 (the "Executive Order") and, by virtue of Local Finance Board approval on November 9, 2016, direct intervention and control by the State pursuant to the MSRA as more particularly described herein.

Recent Legislative Action

The MSRA was enacted by the State in an effort to provide financial, management and operational oversight to the City for such time as the State deems the City in "need of stabilization and recovery" in accordance with the MSRA. See "INFORMATION REGARDING THE CITY OF ATLANTIC CITY – State Intervention and Takeover – Municipal Stabilization and Recovery Act" and "RISK FACTORS" herein.

Further, the Casino Property Tax Stabilization Act, P.L.2016, c.5 (the "CPTSA") was enacted for the purpose of addressing the financial difficulties faced by the City resulting from the loss of property value in the City and the inconsistencies in property taxes collected and paid by casino properties in the City. In doing so, a measure of financial certainty has been implemented in the form of a specific payments in lieu of taxes to be paid to the City, the County of Atlantic, New Jersey (the "County") and the Atlantic City School District (the "School District") for a term of ten (10) years beginning with the 2017 tax year. See "INFORMATION REGARDING THE CITY OF ATLANTIC CITY – State Intervention and Takeover – Casino Property Tax Stabilization Act" and "RISK FACTORS" herein.

Notwithstanding the foregoing legislative initiatives, no assurances are made as to the long-term effect, outcome or fiscal impact upon the City.

THE BONDS

General Description of the Bonds

The Bonds are dated their date of issuance and shall mature in the principal amounts on the dates and in each of the years set forth on the inside front cover page hereof. The Bonds shall bear interest at the rates shown on the inside front cover page hereof from the date of delivery, which interest shall be payable

semiannually on the first (1st) day of March and September (each an "Interest Payment Date"), in each year until maturity or earlier redemption, as applicable, commencing September 1, 2018. Interest on the Bonds is calculated on the basis of twelve (12) thirty (30) day months in a three hundred sixty (360) day year and will be paid by check, draft or wire transfer mailed, delivered or transmitted to the registered owners of the Bonds as of the fifteenth day of the month prior to the respective Interest Payment Dates for the Bonds (the "Record Dates"), at the address shown on the registration books for the Bonds kept for that purpose by The Bank of New York Mellon, as Paying Agent (the "Paying Agent") for the Bonds. So long as the Bonds are registered to The Depository Trust Company, Jersey City, New Jersey ("DTC"), or its nominee, Cede & Co., payments of the principal of and interest on the Bonds will be made directly to DTC. Interest on the Bonds will be credited to the participants of DTC as listed on the records of DTC. See "Book-Entry Only System" herein.

Redemption

Optional Redemption

The Bonds maturing prior to March 1, 2028 are not subject to redemption prior to their stated maturities. The Bonds maturing on or after March 1, 2028 are subject to redemption prior to their stated maturities, in whole or in part (and if in part, in such order of maturity or within a maturity as the City shall specify, or if the City shall fail to specify, by lot or by such other method as the Paying Agent determines to be fair and reasonable), on any date on or after March 1, 2027, upon notice of redemption as provided herein, at a price of 100% of the par amount to be redeemed (the "Redemption Price"), plus accrued interest to the date fixed for redemption.

Mandatory Sinking Fund Redemption

The Bonds maturing on March 1, 2032 are subject to mandatory sinking fund redemption prior to maturity at a redemption price equal to one hundred percent (100%) of the principal amount thereof, plus interest accrued to the redemption date, on the following dates in the respective principal amounts set forth opposite such dates:

<u>March 1 of the Year</u>	<u>Principal Amount</u>
2028	\$2,340,000
2029	2,460,000
2030	2,585,000
2031	2,720,000
2032*	2,855,000

* Final maturity.

The Bonds maturing on March 1, 2037 are subject to mandatory sinking fund redemption prior to maturity at a redemption price equal to one hundred percent (100%) of the principal amount thereof, plus interest accrued to the redemption date, on the following dates in the respective principal amounts set forth opposite such dates:

<u>March 1 of the Year</u>	<u>Principal Amount</u>
2033	\$3,005,000
2034	3,160,000
2035	3,320,000
2036	3,490,000
2037*	3,600,000

* Final maturity.

The Bonds maturing on March 1, 2042 are subject to mandatory sinking fund redemption prior to maturity at a redemption price equal to one hundred percent (100%) of the principal amount thereof, plus interest accrued to the redemption date, on the following dates in the respective principal amounts set forth opposite such dates:

<u>March 1 of the Year</u>	<u>Principal Amount</u>
2038	\$3,600,000
2039	3,600,000
2040	3,600,000
2041	3,600,000
2042*	3,600,000

* Final maturity.

Notice of Redemption

Notice of redemption ("Notice of Redemption") shall be given by first class mail in a sealed envelope with postage prepaid to the registered owners of the Bonds not less than thirty (30) days, nor more than sixty (60) days prior to the date fixed for redemption. Such mailing shall be to the Owners of such Bonds at their respective addresses as they last appear on the registration books kept for that purpose by the Paying Agent. So long as The Depository Trust Company ("DTC") (or any successor thereto) acts as securities depository for the Bonds (the "Securities Depository"), such Notice of Redemption shall be sent directly to such Securities Depository and not to the Beneficial Owners of the Bonds. Any failure of the Securities Depository to advise any of its participants or any failure of any participant to notify any Beneficial Owner of any Notice of Redemption shall not affect the validity of the redemption proceedings. If the City determines to redeem a portion of the Bonds prior to maturity, the Bonds to be redeemed shall be selected by the City; the Bonds to be redeemed having the same maturity shall be selected by the Securities Depository in accordance with its regulations.

If Notice of Redemption has been given as described herein, the Bonds or the portion thereof called for redemption shall be due and payable on the date fixed for redemption at the Redemption Price, together with accrued interest to the date fixed for redemption. Interest shall cease to accrue on and after such redemption date.

Book-Entry Only System

For a description of the procedures and recordkeeping with respect to beneficial ownership interest in the Bonds, payment of principal and interest and other payments on the Bonds to Direct and Indirect Participants (as defined in Appendix E hereto) or Beneficial Owners (as defined in Appendix E hereto), confirmation and transfer of beneficial ownership interests in the Bonds and other related transactions by and between DTC, Direct Participants and Beneficial Owners, see Appendix E hereto.

PLAN OF FINANCE

General

Pursuant to and in accordance with the Authorizing Proceedings, the proceeds of the Bonds will be used solely to: (i) pay amounts due resulting from the resolution of tax appeals for tax years 2013 through and including 2016 as more particularly described under the subheading "The Tax Appeals" below; and (ii) pay costs of issuance of the Bonds.

The Tax Appeals

In addition to the recent settlement by the City of its largest outstanding tax appeal with Marina District Development Company, LLC (doing business as "The Borgata Casino and Hotel"), the City has remained in active discussions with various property owners in an effort to resolve certain of its larger outstanding tax appeals for the tax years 2013 through and including 2016. Those efforts have recently proven successful, yielding the resolution and settlement of the tax appeals described below.

Casino Gaming Properties

The City has settled outstanding tax appeals for certain properties presently or previously owned or controlled by Icahn Enterprises L.P. (the "Icahn Properties"). These settled tax appeals relate to three (3) separate properties commonly known as: "The Tropicana", "The Taj Mahal", and "The Plaza". The Taj Mahal was sold to Boardwalk 1000, LLC, a developer associated with Hard Rock International, in mid-April of 2017.

The settled tax appeals for The Plaza and for The Taj Mahal relate to tax years 2014 through 2016. For those tax years, the original aggregate assessments for: (i) The Plaza were \$210,000,000 (2014), \$90,600,000 (2015) and \$29,664,300 (2016), respectively; and (ii) The Taj Mahal were \$825,000,000 (2014), \$500,000,000 (2015) and \$225,147,300 (2016), respectively. The settled tax appeals for The Tropicana relate to tax appeals for 2015 and 2016. For each of those tax years, the original assessments for The Tropicana were \$580,000,000.

Beyond the three (3) Icahn Properties tax appeals as described above, the City has also settled the only remaining outstanding property tax appeals related to casino properties. These four (4) tax appeals each involve only the 2016 tax year and relate to the following casinos: Harrah's, Caesar's Atlantic City, Bally's, and Golden Nugget. For these 2016 tax year appeals, the original assessment for: (i) Harrah's was \$750,874,000; (ii) Caesar's Atlantic City was \$480,000,000; (iii) Bally's was \$188,000,000; and (iv) Golden Nugget was \$138,674,000.

Non-Casino Gaming Property

The City has also settled additional tax appeals related to a non-casino gaming property owned by Boardwalk Florida Enterprises. The tax appeals on this property relate to tax years 2013 through 2016. For each of such tax years, the original assessment was \$33,302,700.

Sources and Uses of Funds

The proceeds from the sale of the Bonds are expected to be applied as follows:

Sources of Funds:

Par Amount of Bonds	\$68,325,000.00
Original Issue Premium	<u>7,043,848.80</u>
Total Sources of Funds	<u>\$75,368,848.80</u>

Uses of Funds:

Fund Tax Appeals	\$71,664,726.20
Costs of Issuance ¹	<u>3,704,122.60</u>
Total Uses of Funds	<u>\$75,368,848.80</u>

¹ Includes, *inter alia*, Underwriter's discount, Paying Agent, bond insurance premium, rating agency fees, legal, financial advisor, accounting, printing, and fiduciary fees and other expenses incurred in connection with the issuance of the Bonds.

Additional Tax Appeal Financings

Although the City does not expect or anticipate the necessity to finance any additional outstanding tax appeals, the City is permitted, subject to the prior approval of: (i) the Director in accordance with the MSRA; (ii) the Local Finance Board in accordance with the Local Bond Law; and (iii) if applicable, the Municipal Qualified Bond Act, issue additional tax appeal refunding bonds or notes in future years to fund certain outstanding tax refunds owed to various City taxpayers from settlements and judgments of property tax appeals cases. Due to the uncertainty of the outcome of tax appeals filed by various taxpayers, the City cannot predict the principal amount of such tax appeal refunding bonds, if any, which may hereafter be issued. In addition, the City may, subject to the prior approval of the Director in accordance with the MSRA, partially or wholly fund certain non-casino tax appeal settlements by providing tax credits to taxpayers. The City can fund such credits either through the issuance of tax appeal refunding bonds or through other operating revenues on future budget appropriations.

Notwithstanding the foregoing, the State has enacted the CPTSA in an effort to stabilize the taxation of casino gaming properties in the City and to eliminate the impact of tax appeals of casino gaming properties upon the City for the ten (10) year period beginning in the 2017 tax year. See "INFORMATION REGARDING THE CITY OF ATLANTIC CITY – Casino Property Tax Stabilization Act" herein. As implemented, casino gaming properties will be precluded from filing tax appeals for the next ten (10) years beginning with the 2017 tax year. Notwithstanding the foregoing, no assurances can be made as to the successful implementation of the applicable provisions of the CPTSA or its fiscal impact on the City. See "SECURITY AND SOURCE OF PAYMENT – Casino Property Tax Stabilization Act" and "RISK FACTORS" herein.

SECURITY AND SOURCE OF PAYMENT

General Obligation Pledge

The Bonds constitute valid and binding, unconditional general obligations of the City and the full faith and credit of the City are pledged to the payment of the principal thereof and the interest thereon. As such, unless the Bonds are paid from other sources (such as State-aid payments withheld by the State Treasurer under the Municipal Qualified Bond Act and described and defined below as "Withheld State Aid Amounts" or from the IAT (as defined and described herein)), the City is authorized and required by law to levy *ad valorem* taxes, if necessary, on all real property taxable within the City for the timely payment of the principal of and interest on the Bonds without limitation as to rate or amount. The City is required to include the total amount of interest and principal due on all of its general obligation indebtedness for the then-current year in each annual municipal budget unless provision has been made for payment from other sources.

The Municipal Qualified Bond Act

General

In addition to being secured by the City's full faith and credit, the issuance of the Bonds as "qualified" bonds under the Bond Ordinance and pursuant to the Act, was approved by the Local Finance Board on August 9, 2017 and, accordingly, the Bonds are entitled to the benefits of the Municipal Qualified Bond Act.

Since the Act was enacted in 1976, many qualifying municipalities have issued "qualified" bonds, which are entitled to the benefits of the Municipal Qualified Bond Act. Based upon information provided by the Director, for State Fiscal Year 2017-18, the State appropriated \$185,710,719 in Municipal Qualified Revenues to twenty (20) municipalities in the State that supported principal and interest payments due on outstanding "qualified" bonds.

Pursuant to the Municipal Qualified Bond Act, a portion of certain State aid (as described below), in amounts sufficient to pay the principal of and interest on the Bonds, is to be withheld by the State Treasurer and forwarded by the State directly to the Paying Agent for the Bonds on or before the principal and interest payment dates for the Bonds (hereinafter referred to as the "Withheld State Amounts"). The Withheld State Amounts are to be deposited in an account established by the Paying Agent solely for the purpose of paying the principal of and interest on the Bonds.

Pursuant to the Municipal Qualified Bond Act, the City shall, within ten (10) days after the issuance of the Bonds, certify to the State Treasurer the name and address of the Paying Agent, and the maturity schedule, principal amounts of, interest rates on and dates of payment of the Bonds. After receipt of such certification from the City, the State Treasurer shall, in accordance with the Municipal Qualified Bond Act, withhold, with respect to such "qualified" bonds, from: (i) the amount of business personal property tax replacement revenues, gross receipts tax revenues, municipal purpose tax assistance fund distributions, State urban aid and State revenue sharing and any other funds appropriated as State Aid including Consolidated Municipal Property Tax Relief Aid ("CMPTRA"); and (ii) amounts appropriated by the State pursuant to the Energy Tax Receipts Property Tax Relief Act, P.L.1997, c.167 (*N.J.S.A. 52:27D-438 et seq.*) (the "Tax Relief Act") (such amounts referred to herein as "Energy Tax Receipts") and not otherwise dedicated by the State to specific municipal programs payable to the City, such amounts which will be sufficient to pay the debt service on such "qualified" bonds as the same shall mature and become due. Amounts derived from CMPTRA and Energy Tax Receipts withheld for the City and all other eligible municipalities under the Municipal Qualified Bond Act are hereinafter referred to as "Municipal Qualified Revenues". The Municipal Qualified Bond Act further provides that the State Treasurer shall, on or before each principal and interest payment date of the Bonds, forward Municipal Qualified Revenues appropriated by the State as Withheld State Aid Amounts to the Paying Agent for the Bonds for deposit to the account established with such Paying Agent for the sole purpose of paying the principal of and interest on the Bonds.

The Municipal Qualified Bond Act provides that, from the time Municipal Qualified Revenues are so withheld by the State Treasurer as Withheld State Amounts, all of such amounts paid or to be paid to and held by the Paying Agent shall be exempt from being levied upon, taken, sequestered or applied towards paying any debts of the City other than for payment of debt service on "qualified" bonds, including the Bonds.

The Municipal Qualified Bond Act further provides that, notwithstanding any other provision of law to the contrary, a statutory lien and trust is automatically and without further act or filing created and impressed upon the Withheld State Amounts, which statutory lien and trust shall be paramount and superior to all other liens and interests of any kind in favor of the holders of "qualified bonds", including the Bonds, for the sole purpose of paying the principal of and interest on "qualified bonds" issued by the City pursuant to the Municipal Qualified Bond Act. The lien created under the Municipal Qualified Bond Act for the benefit of bondholders, including the holders of the Bonds, is perfected without delivery, recording, or notice.

The Municipal Qualified Bond Act does not relieve the City of its obligation to include in its annual budget amounts necessary to timely pay, in each year, the principal of and interest maturing and coming due on "qualified" bonds issued by the City, including the Bonds; provided, however, that such amounts may, to the extent they are not needed to pay debt service on "qualified" bonds, including the Bonds, be applied to the payment of operating expenses of the City for the then current year, and conversely, if Municipal Qualified Revenues are not appropriated as Withheld State Amounts, such budgeted amounts shall be used solely to pay the principal and interest becoming due in such year on such "qualified" bonds of the City, including the Bonds.

The State has covenanted in the Municipal Qualified Bond Act with the purchasers, holders and owners, from time to time, of "qualified" bonds (including the Bonds) that it will not repeal, revoke, rescind, modify or amend the provisions of the Municipal Qualified Bond Act providing for the withholding of State

aid and other revenues and payment by the State of Municipal Qualified Revenues (including Withheld State Amounts for the Bonds) directly to the paying agents for "qualified" bonds (including the Bonds) in any way that would create any lien or charge on or pledge, assign, divert, withhold payment or other use of or deduction from such Municipal Qualified Revenues which is prior in time or superior in right to the payment provided in the Municipal Qualified Bond Act.

In addition, all Municipal Qualified Revenues (including Withheld State Amounts for the Bonds) deposited with paying agents for "qualified bonds" shall be subject to a statutory lien and trust, pursuant to which the provisions of the Local Government Services Modernization and Local Mandate Relief Act of 2015, P.L.2015, c.95 (the "Modernization Act") shall apply to all "qualified bonds" whether issued prior to or following enactment of the Modernization Act. Moreover, pursuant to the Municipal Qualified Bond Act, all persons shall be forever estopped from denying that "qualified bonds" (including the Bonds), whenever issued by the City, are entitled to the benefits of the provisions of the Municipal Qualified Bond Act, including but not limited to the statutory lien and trust created thereby.

Historically, the State has appropriated Municipal Qualified Revenues such that the amount thereof has been sufficient to timely pay principal of and interest on any and all "qualified bonds" issued pursuant to the Municipal Qualified Bond Act.

Notwithstanding any prior course of conduct by the State regarding the application of Municipal Qualified Revenues to the payment of the principal of and interest on bonds qualified pursuant to the Municipal Qualified Bond Act, there can be no assurance such course of action will continue.

Conditions of Qualification

In granting approvals for qualification of bonds by the City, the Director, pursuant to and in accordance with the MSRA, and the Local Finance Board, pursuant to the Municipal Qualified Bond Act, can impose certain conditions on City fiscal operations. The resolutions adopted on August 9, 2017 by the Local Finance Board, which, among other things, approved the issuance of the Bonds as "qualified" bonds under the Municipal Qualified Bond Act and the MSRA, require, among other things: (i) the chief financial officer of the City to file "Realized Revenue Statements" on a monthly basis with the Executive Secretary of the Local Finance Board; (ii) that, for the duration of outstanding "qualified" bonds of the City, all future capital authorizations whether fully funded or funded through bonds and/or notes shall require approval from the Local Finance Board after introduction of the ordinances related thereto and before final passage; (iii) that, as a condition for closing the Bonds, the chief financial officer of the City certify at time of closing that the State Treasurer has been notified as to the details of the Bonds pursuant to the Municipal Qualified Bond Act and, further, that said certification filed at closing shall also be promptly forwarded to both the State Treasurer, the Director and the Local Finance Board after closing; and (iv) that the City Council of the City adopt a resolution recognizing the provisos of the LFB Resolutions as binding obligations upon all officials of the City. The City Council is scheduled to adopt a resolution recognizing the provisos of the LFB Resolutions as binding obligations upon all officials of the City on September 6, 2017.

Municipal Qualified Revenues

The City has received Municipal Qualified Revenues in each of calendar years 1999 (the year of enactment of the Tax Relief Act) through 2017 consisting of: (i) State aid appropriated by the State to the City pursuant to the Tax Relief Act in calendar years 1999-2017; and (ii) CMPTRA in calendar years 2004 through 2007, inclusive, and in calendar years 2015, 2016 and 2017.

Energy Tax Receipts

Under the Tax Relief Act, municipalities are annually allocated at a minimum, a certain statutorily required amount of State aid. State aid allocated pursuant to the Tax Relief Act constitutes Municipal

Qualified Revenues¹. If the State fails to distribute aid attributable to the Tax Relief Act in any particular tax year to the municipalities in accordance with the requirements of such Act, the State is required to forfeit the collection of corporation business tax liabilities from all corporate taxpayers that are not public utilities for that tax year.² The State has never failed to distribute aid attributable to the Tax Relief Act. Under the Tax Relief Act, the City has received its statutorily required State aid in a minimum amount of at least \$6,260,714 since enactment of the Tax Relief Act.

Specifically, in each of the last ten (10) years, the City has received State aid pursuant to the Tax Relief Act in the following amounts:

Year Ending <u>December 31</u>	City Tax Relief Act <u>Allocation</u> *
2017	\$6,442,970
2016	6,260,714
2015	6,260,714
2014	6,260,714
2013	6,260,714
2012	6,260,714
2011	6,260,714
2010	6,260,714
2009	7,625,547
2008	7,582,967

* Source: Audit reports of the City.

Notwithstanding any prior course of conduct by the State regarding the provision of the State aid to the City, there can be no assurance such course of action will continue in the future.

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¹ The Tax Relief Act requires that each municipality be provided with an amount not less than the largest annual amount it received from the distribution of \$685,000,000 from the proceeds of the public utilities franchise and gross receipts taxes and unit-based energy taxes under P.L.1940, c.4 (*N.J.S.A. 54:30A-16 et seq.*) and P.L.1940, c.5 (*N.J.S.A. 54:30A-49 et seq.*) in calendar year 1994, 1995 or 1996, or initially proposed for distribution in 1997.

² The enforceability of this provision of the Tax Relief Act has never been considered or addressed by the courts of the State and no assurance can be given that the courts would enforce this provision.³ A portion of the State's CMPTRA appropriation supports municipal aid provided from the Energy Tax Receipts Property Tax Relief Fund.

CMPTRA

The State has been providing CMPTRA to municipalities for over twenty years and, since 1995, has been appropriating such aid in the State's annual Appropriations Act (the "Annual State Budget"). CMPTRA is a Municipal Qualified Revenue. The following table sets forth the amount of CMPTRA distributed by the State to municipalities for each of the last ten (10) State fiscal years¹:

State Fiscal Year Ending <u>June 30</u>	Total State-Wide CMPTRA <u>Appropriation*</u>
2018	\$639,238,000
2017	623,082,000
2016	594,082,000
2015	575,852,000
2014	553,587,000
2013	554,387,000
2012	505,387,000
2011	505,387,000
2010	776,778,000
2009	808,868,000

*Source: New Jersey Department of Treasury; Office of Management and Budget.

Historically, the amount of CMPTRA to be allocated and, ultimately, distributed to the State's municipalities is determined by the Division of Local Government Services within the New Jersey Department of Community Affairs (the "Division of Local Government Services"), in conjunction with the Office of Management and Budget within the New Jersey Department of Treasury, using both objective and subjective criteria to determine the individual municipality allocations. Not every municipality receives CMPTRA. Historically, the aggregate CMPTRA amount, but not the individual municipality allocations, has been included in the Annual State Budget.

Although the City has not historically required significant, if any, CMPTRA, due to the fact that the City uniquely benefitted from its casino population, recent events (including the state of the casino industry in the City) (See "INFORMATION REGARDING THE CITY OF ATLANTIC CITY – Casinos and Gaming" herein) have led to the determination by the State that the City should receive CMPTRA to assist it with financial imbalances. To that end, beginning in the State's Fiscal Year 2015-16 through and including State Fiscal Year 2016-2017, the City has received an aggregate of \$30,000,000 in CMPTRA (\$10,000,000 in State Fiscal Year 2015-16; and \$20,000,000 in State Fiscal Year 2016-17), which payments constitute Municipal Qualified Revenues.

For calendar year 2017, the total Municipal Qualified Revenues in the Governor's Fiscal Year 2017-18 Budget appropriated and allocated to the City are \$41,260,714 (consisting of \$6,442,970 of Energy Tax Receipts and \$34,817,744 of CMPTRA).

The CMPTRA amount included in the Annual State Budget and the CMPTRA amount allocated to each municipality receiving CMPTRA constitute, in combination with amounts appropriated by the State pursuant to the Tax Relief Act, Municipal Qualified Revenues. These amounts have historically been sufficient in each State fiscal year to cover all debt service on all "qualified" bonds issued by municipalities in the State under the Act; provided, however, that Municipal Qualified Revenues derived from the CPTSA are not included as Municipal Qualified Revenues for any municipalities other than the City.

¹ A portion of the State's CMPTRA appropriation supports municipal aid provided from the Energy Tax Receipts Property Tax Relief Fund.

Notwithstanding any of the foregoing regarding the Municipal Qualified Bond Act, there can be no assurance that the State Legislature will continue to appropriate Municipal Qualified Revenues in amounts sufficient to cover all debt service on all "qualified" bonds issued by municipalities in the State, including the Bonds. In addition, if the Annual State Budget is adopted on a delayed basis, no assurance can be given that the State Legislature will timely appropriate sufficient Municipal Qualified Revenues in the future to enable the Paying Agent to make timely payment of the principal of or interest on the Bonds.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. ("AGM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as Appendix G to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM's financial strength is rated "AA" (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA") and "A2" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On June 26, 2017, S&P issued a research update report in which it affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On December 14, 2016, KBRA issued a financial guaranty surveillance report in which it affirmed AGM's insurance financial strength rating of "AA+" (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

On August 8, 2016, Moody's published a credit opinion affirming its existing insurance financial strength rating of "A2" (stable outlook) on AGM. AGM can give no assurance as to any further ratings action that Moody's may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Capitalization of AGM

At June 30, 2017:

- The policyholders' surplus of AGM was approximately \$2,222 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$1,289 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.
- The net unearned premium reserves of AGM and its subsidiaries (as described below) were approximately \$1,699 million. Such amount includes (i) 100% of the net unearned premium reserves of AGM and AGM's wholly owned subsidiaries Assured Guaranty (Europe) plc, Assured Guaranty (UK) plc, CIFG Europe S.A. and Assured Guaranty (London) plc (together, the "AGM European Subsidiaries") and (ii) 60.7% of the net unearned premium reserve of MAC.

The policyholders' surplus of AGM and the contingency reserves and net unearned premium reserves of AGM and MAC were determined in accordance with statutory accounting principles. The net unearned premium reserves of the AGM European Subsidiaries were determined in accordance with accounting principles generally accepted in the United States of America.

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2016 (filed by AGL with the SEC on February 24, 2017);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2017 (filed by AGL with the SEC on May 5, 2017); and
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2017 (filed by AGL with the SEC on August 3, 2017).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters

AGM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "BOND INSURANCE".

**CITY OF ATLANTIC CITY
MUNICIPAL QUALIFIED BONDS DEBT SERVICE SCHEDULE**

Year	<u>Existing MQBA Debt Service</u>			<u>Bonds Debt Service</u>			Total MQBA Debt Service
	Principal	Interest	Debt Service	Principal	Interest	Debt Service	
2017	\$425,000	\$4,614,864	\$5,039,864	-	-	-	\$5,039,864
2018	425,000	7,274,725	7,699,725	\$3,500,000	\$2,827,869	\$6,327,869	14,027,594
2019	425,000	7,249,225	7,674,225	1,800,000	3,007,250	4,807,250	12,481,475
2020	2,795,000	7,158,350	9,953,350	1,800,000	2,926,250	4,726,250	14,679,600
2021	2,955,000	6,996,175	9,951,175	1,800,000	2,836,250	4,636,250	14,587,425
2022	3,130,000	6,822,900	9,952,900	1,800,000	2,746,250	4,546,250	14,499,150
2023	3,315,000	6,638,975	9,953,975	1,820,000	2,655,750	4,475,750	14,429,725
2024	3,510,000	6,443,750	9,953,750	1,915,000	2,562,375	4,477,375	14,431,125
2025	3,715,000	6,236,575	9,951,575	2,015,000	2,464,125	4,479,125	14,430,700
2026	3,935,000	6,016,725	9,951,725	2,115,000	2,360,875	4,475,875	14,427,600
2027	4,170,000	5,783,300	9,953,300	2,225,000	2,252,375	4,477,375	14,430,675
2028	4,420,000	5,535,350	9,955,350	2,340,000	2,138,250	4,478,250	14,433,600
2029	4,680,000	5,275,053	9,955,053	2,460,000	2,018,250	4,478,250	14,433,303
2030	4,950,000	5,000,616	9,950,616	2,585,000	1,892,125	4,477,125	14,427,741
2031	5,255,000	4,697,938	9,952,938	2,720,000	1,759,500	4,479,500	14,432,438
2032	5,585,000	4,365,750	9,950,750	2,855,000	1,620,125	4,475,125	14,425,875
2033	5,940,000	4,011,688	9,951,688	3,005,000	1,473,625	4,478,625	14,430,313
2034	6,320,000	3,634,125	9,954,125	3,160,000	1,319,500	4,479,500	14,433,625
2035	6,720,000	3,231,500	9,951,500	3,320,000	1,157,500	4,477,500	14,429,000
2036	7,150,000	2,802,125	9,952,125	3,490,000	987,250	4,477,250	14,429,375
2037	7,610,000	2,344,063	9,954,063	3,600,000	810,000	4,410,000	14,364,063
2038	8,095,000	1,855,500	9,950,500	3,600,000	648,000	4,248,000	14,198,500
2039	8,620,000	1,334,250	9,954,250	3,600,000	504,000	4,104,000	14,058,250
2040	9,175,000	777,938	9,952,938	3,600,000	360,000	3,960,000	13,912,938
2041	4,785,000	371,125	5,156,125	3,600,000	216,000	3,816,000	8,972,125
2042	<u>5,030,000</u>	<u>125,750</u>	<u>5,155,750</u>	<u>3,600,000</u>	<u>72,000</u>	<u>3,672,000</u>	<u>8,827,750</u>
Total*	\$123,135,000	\$116,598,338	\$239,733,338	\$68,325,000	\$43,615,494	\$111,940,494	\$351,673,826

* Totals may not add due to rounding.

For the calendar year ended December 31, 2016, the City received Municipal Qualified Revenues constituting Withheld State Amounts in the aggregate amount of \$26,260,714, of which \$5,201,463.33 was a Withheld State Amount for payment of the City's existing MQBA debt service equal to 5.05x debt service coverage. In connection with the State's fiscal year 2017/2018 budget, for the calendar year ended December

31, 2017, the City shall receive Municipal Qualified Revenues to constitute Withheld State Amounts in the aggregate amount of \$41,260,714. Based on this allocation, and assuming such Withheld State Amount remains constant throughout the life of the Bonds, estimated debt service coverage on the aggregate of existing MQBA debt service and proposed debt service on the Bonds ranges from a maximum of 4.67x to a minimum of 2.81x; provided, however, the City cannot guarantee that such amounts will remain constant over the life of the Bonds. See "SECURITY AND SOURCE OF PAYMENT – Municipal Qualified Bond Act" and "RISK FACTORS" herein.

INFORMATION REGARDING THE CITY OF ATLANTIC CITY

General

The City covers an area of approximately twelve (12) square miles in the County of Atlantic, New Jersey (the "County") and borders the Atlantic Ocean in southern New Jersey. It is located about 65 miles southeast of Philadelphia and 125 miles south of New York City. The location and climate of the City have traditionally enabled it to maintain itself as a recreational and resort center. In addition, casino gaming (which is discussed in further detail in Appendix A under the heading "LEGALIZED CASINO GAMING") has, since 1978, provided the principal attraction to the City, together with the historical draw and appeal of the City's beaches and boardwalk along the Atlantic Ocean. However, since the economic downturn of 2008, and the increase in casino gambling competition from neighboring states, the City casino industry's gambling revenues have suffered significantly, resulting in, among other things, significant tax appeals filed by casino owners and operators and, more recently, the closure of five (5) casinos in the City.

More detailed information concerning the City, including economic, financial, demographic and other relevant data, is set forth in Appendix A to this Official Statement, and under the subheadings "Casinos and Gaming," "State Intervention and Takeover," "Current Fiscal Affairs of the City" and "Tax Appeals" below.

Casinos and Gaming

Generally

Historically, the City was the second largest casino and gaming locale in the country (second only to Las Vegas, Nevada). At its peak in 2006, casino revenue in the City approached \$5.2 billion. In 2016, however, casino revenue was \$2.6 billion. Further, the City has lost a portion of its share of the regional gaming industry to newer casino venues located in other states and closer to major urban hubs.

The significant decline in City casino revenue over the last several years has had a material negative impact on the City tax base, with total assessed property values falling approximately 68% since 2008, and with the municipal tax rate increasing approximately 100% during the same period (the 2016 municipal tax rate was \$1.898 per \$100 of net assessed valuation). See Appendix A herein for a more complete discussion of City assessed valuations and tax rates.

Notwithstanding the foregoing, according to revenue statistics released on July 12, 2017 by the New Jersey Division of Gaming Enforcement, year-to-date casino revenue (excluding internet gaming) for the period ended June 30, 2017, totaled \$1.169 billion compared to \$1.151 billion for the prior period, reflecting an increase of 1.5%.

While the long-term historical trend for the City has been decreasing casino and gaming revenue, decreasing assessed property values and an increasing municipal tax levy, no assurances can be given as to future casino and gaming revenue, assessed property values or municipal tax levies for the City.

Recent Casino Closures

Since 2014, five (5) of the City's twelve (12) operating casinos closed, including Revel Atlantic City, LLC ("Revel") (then the City's largest taxpayer), Showboat (then the City's eighth largest taxpayer), Trump

Plaza (then the City's eleventh largest taxpayer), Trump Taj Mahal (then the City's fourth largest taxpayer) and The Atlantic Club (then the City's twelfth largest taxpayer). Together, the five (5) closed casino properties had a total of 6,453 rooms, represented 28.3% of the City's hotel capacity.

While it is impossible to predict the final fiscal impact that the closings (and future closings, if any) of casinos in the City (including those listed above) will ultimately have on the finances of the City in future years, the City believes that the closure of any additional casinos could have a material negative impact on the finances and fiscal strength of the City. In addition, unemployment for City and County residents resulting from the closure of the casinos described above increased by the thousands, and long-term unemployment may also result. Moreover, the closure of any of the remaining operating casinos may impact, not only the City's economy, but also the larger economy of the County through the loss of casino gaming revenue and other taxes imposed on casinos and other revenue to the City.

Redevelopment of Casino Properties and Additional Casino Development Projects

Notwithstanding the above-described casino closures, as more particularly described below, certain casino properties have been redeveloped for new purposes, new casino development projects have been announced, and additional casino and non-casino redevelopment is expected to occur in the near future.

In particular, in the fall of 2014, Bart Blatstein, of Blatstein's Tower Investments, purchased the Pier at Caesars for \$2.7 million. After completing an approximately \$50 million renovation and makeover, in June of 2015, Tower Investments, re-opened the pier as "The Playground at Caesars", a 500,000 square foot retail, dining and nightlife destination. In addition, after acquiring the Showboat from Stockton University, in July of 2016, Tower Investments re-opened the Showboat as an 852-room hotel.

In March of 2017, an investment group led by Hard Rock International (a subsidiary of Seminole Gaming) purchased The Taj Mahal (which was deed restricted as a non-casino property at the time of the purchase) and has announced its intention to re-open the property as the "Hard Rock Atlantic City Casino and Hotel" in the summer of 2018, with the aforementioned deed restriction removed prior to the opening thereof. If successfully re-opened, the new Hard Rock Atlantic City Casino and Hotel will be the largest hotel and casino property in the City.

In June of 2017, MGM Resorts International (owner of the Borgata) and Caesars Entertainment Corp. (owner of Caesars Atlantic City) announced plans for a new joint development project to be undertaken by both entities in the City although, as of the date hereof, no specific details have been announced as to the nature of the joint development project.

In July of 2017, it was announced that Tropicana Entertainment purchased the Chelsea Hotel with the intent to add the Chelsea Hotel to the Tropicana Atlantic City's operations as "The Chelsea Tower at Tropicana Atlantic City". In addition, Tropicana Entertainment announced its plans to construct a skyway bridge to connect the Chelsea Hotel property to The Tropicana.

In addition to the foregoing, Revel was sold to developer Glenn Straub for \$82 million in 2015. Although the developer has offered several proposals for the re-use and re-opening of Revel, as of the date hereof, no definitive plans are currently in place for the re-opening of Revel as a casino, as a hotel or for any other purpose.

While the City is actively seeking the redevelopment and re-use of closed casino properties, it is impossible to predict whether any of the remaining closed casino properties will, in fact, re-open in the foreseeable future or, if such properties do reopen, such properties will re-open as casino hotels or for any other purpose and the economic impact upon the City as a result thereof.

State Intervention and Takeover

Emergency Manager and Initial Stabilization Plan

Due to the deteriorating economic conditions in the City, on September 8, 2014, State leaders conducted a summit to discuss proposals aimed at stabilizing the fiscal health of the City. A second summit was convened on November 12, 2014 wherein a bi-partisan advisory commission appointed by the Governor provided a report outlining certain potential initiatives that could be implemented to achieve fiscal stabilization, boost revenue and attract more development to the City.

On January 22, 2015, the Governor convened the third summit in the City with casino executives, business leaders, union leaders, and state and local officials. During the summit, the Governor announced that he had signed the Executive Order authorizing the installation of an emergency management team to help stabilize the daily operations and finances of the City. The emergency management team consisted of an emergency manager ("Emergency Manager") and special counsel to the Emergency Manager. Kevin Lavin, a corporate finance consultant who specializes in helping troubled companies, was appointed the Emergency Manager for the City and served as an employee of the Division of Local Government Services. Kevyn Orr, a former corporate bankruptcy lawyer, who led Detroit through the largest municipal bankruptcy filing in U.S. history in 2014, was appointed as a consultant to the Division of Local Government Services.

The Executive Order also directed all State agencies and all officers, employees, agents, divisions, departments, bureaus, and authorities of the City to cooperate in the implementation of the Executive Order, and make available to the Emergency Manager, at his request, all financial and other information, documents, and records of, or pertaining to, the City.

The Emergency Manager released the 60-day report on March 23, 2015 (the "Report"). The Report provided a synopsis of the City's structural deficit and listed several potential options for balancing the City's budget in 2015 and addressing the City's near term liquidity issues. The Report can be viewed at <http://www.nj.gov/dca/news/news/2015/20150323.pdf>. The Report is not, however, incorporated by reference into this Official Statement.

The Report established a timeline for the creation and implementation of the Emergency Manager's Plan, which was divided into three Phases. Phase I ended with the delivery of the Report. Phase II occurred from April of 2015 through June 30, 2015. Phase III was scheduled to occur from July 1, 2015 and thereafter.

During Phase II, the Emergency Manager designed a detailed plan in order to propose: (i) appropriate restructuring options for the City; (ii) executing initial cash conservation strategies and cost saving opportunities; (iii) conducting full departmental reviews to identify potential revenue enhancements, costs savings, and required reinvestment or outsourcing/consolidation opportunities; (iv) working to understand future debt capacity, potential borrowing options, and long-term debt of the City as well as forecasting tax revenues and potential additional sources of revenues; (v) evaluating additional costs savings initiatives related to labor, vendors and other City operations; and (vi) negotiating with creditors, labor unions and other key stakeholders.

In furtherance of goals established for Phase II, in May of 2015, the Emergency Manager appointed Skadden, Arps, Slate, Meagher & Flom LLP, as Special Counsel, with expertise in negotiating and restructuring debts, as well as handling litigation relating thereto. In addition, Donald Steckroth, a former bankruptcy judge and a member of the law firm of Cole Schotz P.C., was engaged to serve as a consultant to the Emergency Manager. During Phase III, the Emergency Manager continued to implement the detailed restructuring plan identified in Phase II and continued negotiations with key stakeholders in an effort to achieve fiscal sustainability through actions taken and negotiated settlements achieved, including working closely with City, County and State officials to efficiently execute components of the restructuring.

Municipal Stabilization and Recovery Act

Notwithstanding the efforts made by the Emergency Manager pursuant to the Executive Order to stabilize the economic condition of the City as described above, severe fiscal and operation imbalances in the City persisted. As a result thereof, on May 27, 2016, the Governor signed into law the MSRA.

The MSRA requires a municipality deemed in need of stabilization and recovery to adopt a comprehensive recovery plan, and authorizes the State to stabilize such a municipality experiencing severe fiscal distress if it fails to adopt an acceptable recovery plan within 150 days. The MSRA defines a "municipality in need of stabilization and recovery" as a municipality that has experienced a decrease of more than 50 percent in its total assessed property values during the five-year period terminating at the end of the tax year immediately preceding enactment of the MSRA, and has experienced an increase in outstanding debt exceeding 50 percent during the immediately preceding five-year period, as determined by the Director. Pursuant to the MSRA, the Director may ascertain whether a municipality should be deemed a "municipality in need of stabilization and recovery," and if so, recommend that the Commissioner of New Jersey Department of Community Affairs (the "Commissioner") make such a determination.

In accordance with the foregoing, on June 6, 2016, the Director determined that the City qualified as a "municipality in need of stabilization and recovery" in accordance with the MSRA. Following that determination, and in accordance with the MSRA, within 150 days thereof, the City was required to adopt a five (5) year recovery plan (the "Recovery Plan"), which was to include a proposed balanced budget for the next fiscal year (i.e., 2017). On October 25, 2016, the Recovery Plan was submitted to the Commissioner for review. Following review, the Commissioner determined that the Recovery Plan was not likely to achieve financial stability for the City and rejected the City's Recovery Plan.

As a result thereof, on November 9, 2016, following a hearing of determination by the Local Finance Board, the Local Finance Board assumed, reallocated to, and vested in the Director, any of the functions, powers, privileges, and immunities of the governing body of the City set forth in any statute, regulation, ordinance, resolution, charter, or contract to which the City is a party that are, or may be, substantially related to the fiscal condition or financial rehabilitation and recovery of the City. As such, any actions or steps taken by the Director are deemed to be by, and on behalf of, the City. Notwithstanding this transfer, the City shall remain the party to any and all contracts of the City and neither the Local Finance Board nor the Director shall assume any contractual obligations or liability arising out of that contract or be subject to any claim for breach of that contract or any other claim related to that contract.

The duration of the transfer of the functions, powers, privileges, and immunities of the City will not, however, exceed the duration of the time the City is deemed a "municipality in need of stabilization and recovery" under the MSRA.

Authority Provided to the Director under the MSRA

The authorities granted to the Director by the Local Finance Board pursuant to MSRA extend to any and all actions that, in the exclusive discretion of the Director, may help stabilize the finances, restructure the debts, or assist in the financial rehabilitation and recovery of the City, including, but not limited to:

1. Implementing governmental, administrative, and operational efficiency and oversight measures;
2. Dissolving, terminating, transferring, abolishing, or otherwise disposing of any City authority, board, commission, or department, or any function thereof; provided, however, that no such action shall be taken until adequate provision has been made for the payment of the creditors or obligees of the entity to be impacted unless otherwise permitted by law;
3. Vetoing the minutes of the governing body of the City, any board, commission, or department of the City, and any independent board or authority in the City, including, but not limited to, the

housing authority, parking authority, redevelopment authority, planning board, and zoning board of adjustment;

4. Controlling litigation and the City's legal affairs, including, but not limited to, suing in the City's corporate name; prosecuting, defending, and resolving litigation, arbitration, disputes, and controversies; and retaining and directing corporation counsel and other special counsel as the Director may deem appropriate;

5. Selling, conveying, leasing, monetizing, or otherwise disposing of any interest in any City-owned assets, including but not limited to, any water, sewer, wastewater, and storm water infrastructure, equipment or facilities, services, and in any real property, including any improvements thereon; provided that the Director shall not sell, convey, lease, monetize, or otherwise dispose of any City-owned water asset pursuant to an agreement with a private entity until one year after the effective date of the MSRA (May 27, 2016) to allow the City to maximize the value of that asset;

6. Amending or terminating any existing contracts or agreements, which shall not include bonds, notes, indentures, or other similar financing instruments and documents to which the City is a party, in accordance with the terms thereof; or unilaterally amending or terminating any contracts or agreements which shall not include bonds, notes, indentures, or other similar financing instruments and documents to which the City is a party, provided that the Director determines that the unilateral termination or amendment is reasonable and directly related to stabilizing the finances or assisting with the fiscal rehabilitation and recovery of the City;

7. Unilaterally modifying, amending, or terminating any collective negotiations agreements, except those related to school districts, to which the City is a party, or unilaterally modifying, amending, or terminating the terms and conditions of employment during the term of any applicable collective negotiations agreement, or both, provided that the Director determines that the modifications, amendments, or terminations are reasonable and directly related to stabilizing the finances or assisting with the fiscal rehabilitation and recovery of the City;

8. Acting as the sole agent in collective negotiations on behalf of the City;

9. With respect to any expired collective negotiations agreement to which the City is a party, unilaterally modifying wages, hours, or any other terms and conditions of employment;

10. Unilaterally abolishing any non-elected positions in the City at any time;

11. Unilaterally appointing, transferring, or removing employees of the City, including, but not limited to, department heads and division heads, as the case may be, but excluding appointed officials who have obtained tenure in office;

12. Acting as the appropriate authority, including, without limitation, the appointing authority, for purposes of Title 40A of the New Jersey Statutes;

13. Entering into any agreement with the County, any of the other municipalities located in the County, or any instrumentality of the State to share or consolidate municipal services pursuant to any law applicable to consolidation or sharing of services, including, without limitation, the New Jersey Uniform Shared Services and Consolidation Act, P.L.2007, c.63 (*N.J.S.A. 40A:65-1 et al.*) and P.L.2015, c.279 (*N.J.S.A. 40A:14-90.1 et al.*);

14. Procuring any goods, services, commodities, information technology, software, hardware, or other items on behalf of the municipality in need of stabilization and recovery, in accordance with either the New Jersey Local Public Contracts Law, P.L.1971, c.198 (*N.J.S.A. 40A:11-1 et seq.*), or procurement laws applicable to the State;

15. Retaining any professionals on behalf of the City, and directing the work of professionals or any professionals previously retained by the City, in accordance with either the Local Public Contracts Law, P.L.1971, c.198 (*N.J.S.A. 40A:11-1 et seq.*) or procurement laws applicable to the State;

16. Retaining bond counsel, adopting bond ordinances to the extent necessary, making appropriate bond applications, and taking any other steps necessary to restructure and adjust debt, on behalf of the City;

17. Exercising on behalf of the City any authority granted to a municipality pursuant to the New Jersey Local Redevelopment and Housing Law, P.L.1992, c.79 (*N.J.S.A. 40A:12A-1 et al.*), the New Jersey Redevelopment Area Bond Financing Law, P.L.2001, c.310 (*N.J.S.A. 40A:12A-64 et seq.*) and the New Jersey Long Term Tax Exemption Law, P.L.1991, c.431 (*N.J.S.A. 40A:20-1 et seq.*) when the Director deems it necessary or appropriate to help stabilize the finances, restructure the debts, or assist with the financial rehabilitation and recovery of the City;

18. Authorizing and filing, on behalf of the City, subject only to the written approval of the majority of the members of the legislative Joint Budget Oversight Committee of the State (the "JBOC"), a petition and other pleadings and papers with any United States court or federal bankruptcy court for the purpose of effecting a plan of readjustment or composition of debts as set forth in *N.J.S.A. 52:27-40 et seq.*, and taking any other and further actions necessary or appropriate in connection with any case or proceeding; provided, however, that, pursuant to a resolution adopted on November 9, 2016, the Local Finance Board determined to withhold this specific power from the Director; and

19. Negotiating and executing any contracts, agreements, or other documents on behalf of the City as may be necessary or appropriate to effectuate any of the actions or steps specifically identified the MSRA or that may otherwise, as the Director deems necessary or appropriate, help stabilize the finances, restructure the debts, or assist with the financial rehabilitation and recovery of the City.

Any function, power, privilege, or immunity of the City's governing that is not assumed by the Local Finance Board and reallocated to and vested exclusively in the Director pursuant to the MSRA remains allocated to and vested in the governing body of the City unless and until such time as the function, power, privilege, immunity, or duty may be allocated to and vested exclusively in the Local Finance Board or the Director in accordance with the MSRA. Moreover, pursuant to the MSRA, the Local Finance Board or the Director is authorized exercise any power implied or incidental to a power that has been specifically allocated.

In addition to the above, pursuant to the MSRA, the Local Finance Board may (and has in the case of the City) authorize the Director to take any action authorized to be taken under the Local Bond Law and the Municipal Qualified Bond Act by the governing body of the City. In furtherance thereof, the Director has provided his authorization and approval in connection with the authorization and issuance of the Bonds.

Contracts for Public Safety

The MSRA directs and establishes specific practices and procedures for the negotiation of contracts between the City and its police and fire departments, but permits the Director, at his or her discretion, to cease or disallow specific procedures otherwise to be followed where impasses arise in contract negotiations. In addition, the MSRA permits the Director to review and specifically approve any arbitration award derived from such proceedings.

Annual Budgets

The MSRA permits the Director to prepare the City's annual budget or to instruct the City's governing body to prepare and submit a proposed annual budget. To the extent that the governing body of the City submits a proposed annual budget, the Director shall fix a date for the City's governing body to submit that budget to the Local Finance Board, and the Local Finance Board may approve the budget,

modify it or instruct the director to prepare an alternative budget thereafter. If the Director prepares the budget, it shall be submitted to the Local Finance Board for its approval. Once a budget is approved by the Local Finance Board, the budget shall be deemed adopted.

Early Retirement Incentives

The MSRA also authorizes the City to use early retirement incentives as a mechanism to help stabilize the finances, restructure the debts, or assist the financial rehabilitation and recovery of the City. In addition, pursuant to an August 2017 amendment to the MSRA, the City is required to offer an early retirement incentive to public safety employees prior to the implementation of a reduction in force by the City.

Required Amount of Aid

Pursuant to the MSRA, notwithstanding any law, rule, or regulation to the contrary, the amount of CMPTRA and Energy Tax Receipts property tax relief aid paid to City shall not be less than the amount certified for the City in the Certification of State Aid for Calendar Year 2016 and Fiscal Year 2017 Budgets issued by the Division of Local Government Services in the Department of Community Affairs.

Participation of Director in Public Meetings and Duration of Director Intervention

Pursuant to the MSRA, the Director, or the Director's designee, shall attend the regularly scheduled meetings of the governing body of the City. On or before the first day of the sixth (6th) year next following the determination that City was in "need of stabilization and recovery", the Director shall provide a final report to the Governor and State Legislature regarding the City.

Additional Professional Appointments

In order to assist the State and the Director with the ongoing supervision and oversight of the City while subject to the MSRA, the following professionals have been retained by the State to serve in the respective capacities set forth below:

- (i) Ernst & Young LLP, who has been retained to provide financial and other support services in anticipation of litigation regarding the City;
- (ii) Squire Patton Boggs (US) LLP, who has been retained to provide general legal advice in connection with the stabilization of the City including, but not limited to, providing specialized counsel in connection with bankruptcy and restructuring contingencies and counsel with regard to developing a five (5) year fiscal stability plan for the City (and, in connection with the development of such plan, Squire Patton Boggs (US) LLP has retained B. Riley & Co., LLC to provide financial consultancy and advisory services);
- (ii) HJA Strategies, who has been retained to provide expert/consulting services in anticipation of litigation involving the City; and
- (iii) Phoenix Consulting Group LLC, who has been retained to serve as an expert in anticipation of litigation for the State, including the Division of Local Government Services.

In addition to the foregoing, several law firms that currently represent the State in various matters, have been retained to assist and provide representation to the State in matters associated with the oversight of the City.

Continuation and Applicability of Local Government Supervision Act

Notwithstanding the application of the MSRA and the State's intervention of the City's operations, budgeting and finances thereunder, the City remains subject to the Local Government Supervision Act, *N.J.S.A. 52:27BB-1 et seq.* (the "Local Government Supervision Act"). In accordance therewith, in 2014, the City entered into a Memorandum of Understanding with the State (the "TA MOU"), pursuant to which

additional requirements are imposed upon the operation, budgeting and finances of the City. Certain substantive provisions of the TA MOU are set forth below as follows:

1. The City must first obtain approval from the Director for the creation of, or hiring for, any new employment positions;
2. Imposition of salary restraints on all elected officials and non-contractual employees;
3. The City must first obtain approval from the Director in connection with the hiring of legal services for the City;
4. Contracts and services pertaining to tax appeals, revaluation or assessments must be approved by the Director;
5. The City is not permitted to create any new services or expand existing services without prior approval of the Director;
6. The City is not permitted to expend funds on any out-of-State travel or overnight stays in the State without prior approval of the Director;
7. The City's "Pay-to-Play" Ordinance may not be modified without the approval of the Director;
8. The City is required to meet quarterly, or more often as requested by the Division of Local Government Services, with the Director and staff to discuss budget and fiscal progress;
9. All public contracting requires submission to and approval by the Director prior to the City authorizing services of any consultant or professional regardless of contract value;
10. Any restriction on tax exemptions and abatements and the correction of related payments in lieu of taxes require the Director's approval;
11. The City must submit to the Director a copy of all judgments or settlements in excess of \$100,000; and
12. Certain additional restrictions have been imposed related to longevity pay, assignment of individuals in acting capacity, salary increases, promotions and transfers.

The execution and delivery of the TA MOU was the result of ongoing State intervention beginning in 2010 after the Director initiated an action in New Jersey Superior Court, Law Division, Atlantic County, with the consent and support of the City, seeking a judicial determination pursuant to *N.J.S.A. 52:27BB-55(6)* for State supervision under the Local Government Supervision Act. Subsequent to the approval by the Superior Court that the City should be supervised by the Local Finance Board and the Director in accordance with the Local Government Supervision Act, and in accordance with a resolution adopted by the Local Finance Board on October 13, 2010, the City entered into a Memorandum of Understanding (the "Original MOU") pursuant to which, among other things, the Director would have direct supervision for the operations and finances of the City. Certain provisions of the Original MOU were modified and extended by revised Memoranda of Understandings through calendar year 2013. The TA MOU was executed and delivered in connection with calendar year 2014 and supersedes the Original MOU (and all extensions and modifications) in its entirety.

Casino Property Tax Stabilization Act

In addition to the MSRA, on May 27, 2016, the Governor signed into law the CPTSA for the purpose of addressing the financial difficulties faced by the City resulting from the loss of property value in the City by the provision of financial certainty to the casinos located in the City and to the City, the County and the

School District in the form of, among other things, a specific payment calculation and amount for certain qualifying casinos for a term of years, as described in more detail below.

Property Tax Exemption and PILOT for Casino Gaming Properties

In particular, beginning with calendar year 2017, and for the next succeeding nine (9) calendar years, "casino gaming properties" located in the City are exempt from local property taxation on real property and existing improvements, including accessory hotels, conference centers, parking garages, and other appurtenant facilities, except that any new improvement developed on a casino gaming property that is made outside of the perimeter footprint of any improvement existing as of the effective date of the CPTSA and any real property, not formerly qualified as casino gaming property, acquired after such date by an owner of casino gaming property shall not be exempt from local property taxation in any calendar year and shall be subject to local property taxation annually at the City's general property tax rate.

"Casino gaming properties" include one or more parcels of real property located in the City, and any adjacent property utilized in connection with such property, upon which there is located a facility licensed to be used for casino gaming in 2014 or thereafter, whether or not in actual operation, which has more than 500 guest hotel rooms, and is not subject to recorded covenants prohibiting casino gaming. The provisions of the CPTSA do not apply to any casino property that operates under a small scale casino facility license or a staged casino facility license pursuant to section 1 of P.L.2010, c.115 (*N.J.S.A. 5:12-80.1*).

In exchange for the property tax exemption, each owner of each casino gaming property is required to sign a 10-year financial agreement with the City for each casino gaming property promising to make quarterly payments to the City of its allocated portion of an annual payment in lieu of taxes (collectively, the "PILOT"), as more specifically described below.

The CPTSA provides that the total PILOT amount to be paid by all casino gaming properties for calendar year 2017 is \$120,000,000 (i.e., the aggregate PILOT to be paid all casino gaming property owners is \$120,000,000, which amount is divided among each casino gaming property according to a formula set forth in the CPTSA, and as described below). For calendar year 2018, and for each tax year thereafter, the base amount of the PILOT is to be determined based on the "gross gaming revenue" totals of all casino gaming properties. For each of these calendar years, the total amount of the PILOT will increase by two percent per year provided that there is no upward adjustment in the base amount of the PILOT. An upward adjustment occurs if the aggregate casino gross gaming revenue amount eclipses certain thresholds which would result in upward adjustments in \$10,000,000 increments depending on the threshold point exceeded.

The individual amount of the PILOT owed by each casino gaming property shall be calculated annually each calendar year using a formula implemented by the Local Finance Board, in consultation with the Division of Gaming and Enforcement, using the following criteria:

- (a) the geographic footprint of the real property, expressed in acres, owned by each casino gaming property;
- (b) the number of hotel guest rooms in each casino gaming property; and
- (c) the gross gaming revenue of the casino in each casino gaming property from the prior calendar year.

Each of the above criteria bear equal weight in the formula implemented by the Local Finance Board, in consultation with the Division of Gaming and Enforcement, provided that during calendar years 2017, 2018, 2019, 2020, and 2021, if the formula results in any individual casino gaming property being allocated an amount that is in excess of the total real property taxes due and payable by the casino gaming property in calendar year 2015, then that casino gaming property shall receive a credit against its IAT obligation under the applicable provisions of the Casino Control Act, P.L.1984, c.218 (*N.J.S.A. 52:12-1 et seq.*) (the "Casino Control Act"), as amended and supplemented (the in the amount of such excess. If, after that credit against the obligation of the operator of that property, that casino gaming property would still be

liable for a PILOT in excess of the total real property taxes due and payable by the casino gaming property in calendar year 2015, the casino gaming property shall not be required to make any additional PILOT payment. Instead, any additional amount that would have been owed by that casino gaming property shall be added, by proportional share, to the PILOT to be paid by every other casino gaming property, subject to the same above-described limitation and credit procedure, in order to provide the City the total amount of the PILOT due and owing for that calendar year.

When a new casino gaming property is added or when an existing casino gaming property no longer qualifies as a casino gaming property under the CPTSA, the City's financial agreement with each owner of each casino gaming property shall be amended to reflect the change and the allocation of the PILOT between the casino gaming properties.

The transition and timing of the implementation of the CPTSA required certain unexpected calculations to be performed during the first quarter of 2017 and thereby compelled the execution of "Interim Financial Agreements" with each casino gaming property for the 2017 tax year (the "Interim Financial Agreements").

Pursuant to such Interim Financial Agreements, with the exception of the Revel Casino (now operating as "TEN Casino") (who has contended that it should not be included as a casino gaming property under the CPTSA), the casino gaming properties subject to the CPTSA have paid their 2017 first, second and third quarter PILOT installments as calculated by the Local Finance Board in consultation with the Division of Gaming Enforcement. With respect to TEN Casino, the City maintains the position that Revel constitutes a casino gaming property under the CPTSA and that it is subject to the execution and delivery of a financial agreement for the payment of a PILOT. However, as of the date hereof, TEN Casino has not executed a financial agreement, including an Interim Financial Agreement, and is delinquent in the payment of its PILOT having made a first quarter payment in an amount less than its proportional share of the PILOT for such quarter and, as of the date hereof, no PILOT payment for the second and third quarters.

The calculations and discussions with casino gaming properties relating to the PILOT allocation for the 2018 tax year and beyond are ongoing and dependent upon certain factors still to be determined resulting from the anticipated opening in 2018 of the Hard Rock Atlantic City Casino and Hotel as well as what occurs with the final aggregate gross gaming revenue amount for the 2017 calendar year. The 2018 allocations will be finalized in advance of the first quarter of the 2018 tax year.

In addition to the amounts required to be remitted as a PILOT as described above, the owner of each casino gaming property is required to make a separate payment to the State in calendar years 2015 through and including 2023. The aggregate amount of these payments paid by the casino gaming properties must equal:

- (i) \$30,000,000 for calendar year 2015;
- (ii) \$30,000,000 for calendar year 2016;
- (iii) \$15,000,000 for calendar year 2017;
- (iv) \$10,000,000 for calendar year 2018;
- (v) \$5,000,000 for calendar year 2019;
- (vi) \$5,000,000 for calendar year 2020;
- (vii) \$5,000,000 for calendar year 2021;
- (viii) \$5,000,000 for calendar year 2022; and
- (ix) \$5,000,000 for calendar year 2023.

The owner of each casino gaming property where a casino is operated during the year in which the payments required by the CPTSA are due is required to remit its payment to the State. The funds comprised of the payments collected under the CPTSA are, thereafter, to be remitted from the State to the City, which, for purposes of preparing annual budgets pursuant to the "Local Budget Law," *N.J.S.A. 40A:4-1 et seq.*, must be applied to the City budget for the calendar year for which funds are provided and to no other City calendar year budget.

In addition, pursuant to the CPTSA, a portion of the annual PILOT moneys collected is required to be remitted to the County and to the School District in lieu of the City's tax levy for their own purposes. For the 2017 budget year: (i) 10.4% of the PILOT moneys collected by the City will be remitted to the County; and (ii) 36.25% of the PILOT moneys collected by the City will be remitted to the School District. The CPTSA does not, however, include any specific percentages of PILOT moneys to be remitted to the County, the School District or the Atlantic County Library System. Instead, the CPTSA provides that the annual amount of the aggregate PILOT payment to be distributed to the County is in the discretion of the Director. The amount to be appropriated to the School District is determined in the same manner as current law provides for *ad valorem* taxation. See "FINANCIAL MANAGEMENT" herein.

Outstanding Litigation Related to the CPTSA

Liberty and Prosperity Litigation

On April 18, 2016, Liberty & Prosperity 1776, Inc., a New Jersey registered non-profit corporation, along with several City and County residents (collectively, the "Liberty and Prosperity Plaintiffs") filed a complaint in the New Jersey Superior Court naming the Division of Local Government Services, the Director, the City and the State as defendants, pursuant to which the Liberty and Prosperity Plaintiffs sought an order: (i) compelling the City to prepare a "reduction-in- force" plan; (ii) containing a judicial declaration that eight (8) casinos located in the City were not "blight areas" or located within "blighted areas" in accordance with the New Jersey Local Redevelopment and Housing Law, P.L.1992, c.79 (*N.J.S.A. 40A:12A-1 et al.*); and (iii) enjoining and restraining the City from making payments to unsecured bondholders until the City "can make payroll and make its mandatory pension and benefit payments on a regular and consistent basis" (the "Liberty and Prosperity Suit").

On June 9, 2016, the Liberty and Prosperity Plaintiffs filed an Amended Complaint and Order to Show Cause seeking an order: (i) compelling the City to prepare a cash basis budget; (ii) enjoining the City from entering into financial obligations absent temporary appropriations; and (iii) enjoining and restraining the City from making payments to unsecured bondholders until the City can meet its payroll obligations and make its mandatory pension and benefit payments on a "regular and consistent basis." In Count Two of the Amended Verified Complaint, the Liberty and Prosperity Plaintiffs sought a judicial declaration that the CPTSA was unconstitutional as "special legislation" and was violative of the New Jersey Constitution's "Uniformity Clause" (referred to hereinafter as the "Constitutional Claim").

Following extensive briefing and argument related to the Liberty and Prosperity Plaintiffs' request to: (i) compel the City to prepare a cash basis budget; (ii) enjoin the City from entering into financial obligations absent temporary appropriations; and (iii) enjoin and restrain the City from making payments to unsecured bondholders until the City could meet its payroll obligations and make its mandatory pension and benefit payments on a "regular and consistent basis", the Superior Court entered a Final Order and Opinion dismissing the Liberty and Prosperity Plaintiffs' case on October 25, 2016 (the "October Final Order"). In addition, the case was entered as closed and disposed of on the New Jersey Automated Case Management System on October 26, 2016. As a result, the October Final Order was presumed to have disposed of the matter.

On May 1, 2017, the Liberty and Prosperity Plaintiffs submitted a letter to the Superior Court seeking clarification as to whether the October Final Order specifically disposed of the Constitutional Claim. On May 8, 2017, the Superior Court determined that additional review of the Liberty and Prosperity Plaintiffs' Constitutional Claim was warranted, entered a briefing schedule and scheduled oral argument relative to the Liberty and Prosperity Plaintiffs' Constitutional Claim.

County and Certain Constituent Municipalities

On June 19, 2017: (i) the County, filing by and through its County Executive, Dennis Levinson; (ii) the City of Somers Point; (iii) the Township of Hamilton; (iv) the Township of Egg Harbor; (v) the City of

Absecon; (vi) the City of Ventnor; and (vii) the Township of Weymouth, all of which are duly constituted bodies politic within the State of New Jersey (collectively, the "County Suit Plaintiffs" and, together with the Liberty and Prosperity Plaintiff, the "Plaintiffs") filed a complaint for Declaratory Judgment and Injunctive Relief seeking invalidation of the CPTSA (the "County Suit"). The County Suit alleges that the CPTSA is unconstitutional special legislation and is also violative of the Uniformity Clause of the New Jersey Constitution, Art. VIII, Sec. 1, para. 1(a). The County Suit further alleges that the CPTSA violates the Origination Clause, Art. IV, Sec. 6, para 1 of the New Jersey Constitution, by originating in the Senate.

Defendants in County Suit are comprised of the State of New Jersey, Governor Christopher J. Christie, in his official capacity, Attorney General Christopher S. Porrino, in his official capacity, the Director, in his official capacity, the Division and the Local Finance Board, the Director's Designee Jeffrey S. Chiesa, in his official capacity, the City and the City's Mayor, Donald Guardian, in his official capacity.

Consolidation of Liberty and Prosperity and County Matters

On June 29, 2017, the County Suit Plaintiffs filed a motion to consolidate the County Suit with the Liberty and Prosperity Suit. On July 19, 2017, the Superior Court granted the County Suit Plaintiffs' motion and consolidated the County Suit with the Liberty and Prosperity Suit (collectively referred to herein as the "Consolidated Matter").

On that same date, the Superior Court stayed all action pending at that time in the Liberty and Prosperity Matter and ordered the consolidated parties to appear before the Superior Court on August 15, 2017 for a Case Management Conference at which time the Court entered a Case Management Order establishing a schedule for the Consolidated Matter at which time the Court stayed any further case management activities to allow the parties to continue settlement discussions. The parties are expected to appear for another case management conference on September 29, 2017.

The City and the State, on behalf of itself and on behalf of all of the defendants of the Consolidated Matter, are of the belief, and continue to maintain the firm position, that the Constitutional Claims of the Plaintiffs in the Consolidated Matter are not supported in law. In furtherance of such position, the City and the State are of the belief that they have meritorious defenses to the Plaintiffs' claims and will be filing dispositive motions seeking dismissal of the Constitutional Claim and will vigorously defend against the Plaintiffs' claims. Notwithstanding the foregoing, courts have wide latitude in interpreting law and, as a result, no assurances can be given as to the final determination of the Superior Court as to the Constitutional Claim or any appeals thereof.

In the event that the Constitutional Claim is ultimately proven successful, all or a portion of the CPTSA could be deemed invalid or unconstitutional. In such event, among other things, the PILOT program to be utilized by the City and the casino gaming properties under the CPTSA (as described above) could be invalidated and the various casino gaming properties subject to the CPTSA could, thereafter, be subject to the otherwise applicable tax levy of the City, the County, the School District and the Atlantic County Library System. No assurances are given, however, as to the effect, if any, upon the finances, budget or operation of the City should the Constitutional Claim ultimately prove successful in repealing or otherwise invalidating all or a portion of the CPTSA.

Notwithstanding the above, neither the constitutionality of the CPTSA nor the outcome of the Constitutional Claim will have any effect on the operation of the Municipal Qualified Bond Act and its provision of security for the payment of the principal of and interest on the Bonds as described under the heading "SECURITY AND SOURCE OF PAYMENT – The Municipal Qualified Bond Act" herein.

Availability of Investment Alternative Tax for Debt Service on Bonds of the City

Pursuant to the CPTSA, beginning on May 27, 2016, through and including December 31, 2026, certain moneys received by the State Treasurer derived from the payment of the "investment alternative tax" pursuant to P.L.1984, c.218 (N.J.S.A. 5:12-144.1) and P.L.2013, c.27 (N.J.S.A. 5:12-95.19) of the Casino

Control Act, except for any amounts thereof previously pledged for the payment of bonds issued by the Casino Reinvestment Development Authority (the "CRDA") or otherwise contractually obligated by CRDA prior to the effective date of the CPTSA, or any bonds issued to refund such bonds, shall be allocated to the City for the purposes of paying debt service on bonds issued by City prior to and after May 27, 2016. ***Such amount does not, however, constitute "Municipal Qualified Revenues" and will not be included as "Withheld State Amounts" pursuant to the Municipal Qualified Bond Act.***

Pursuant to the Casino Control Act, commencing with the first annual tax return of any person licensed to operate a casino under the Casino Control Act ("Licensee") for any calendar year beginning after December 31, 1983, and for a term of fifty (50) years thereafter, Licensee's are required to either: (i) pay an "investment alternative tax" (the "IAT") on the "gross revenues" (as defined in section 24 of P.L.1977, c.110 (N.J.S.A. 5:12-24)) of the Licensee in the amount of 2.5% of those gross revenues; or (ii) invest 1.25% of their gross revenues in bonds issued by the CRDA to fund capital projects. In addition, pursuant to section 95.19 of the Casino Control Act, Licensee's are required to either: (i) pay an IAT on "internet gaming gross revenues" of the Licensee in the amount of 5.0% of such internet gross revenues; or (ii) invest 2.0% of such internet gaming gross revenues in bonds issued by the CRDA to fund capital projects.

"Internet gaming gross revenues" means the total of all sums actually received by a casino Licensee from Internet gaming operations, less only the total of all sums actually paid out as winnings to patrons. "Internet gaming" means the placing of wagers with a casino licensee at a casino located in the City using a computer network of both federal and non-federal interoperable packet switched data networks through which the casino licensee may offer authorized games to individuals who have established a wagering account with the casino licensee and who are physically present in the State, as authorized by rules established by the New Jersey Division of Gaming Enforcement.

In accordance with the Casino Control Act, each Licensee is required to pay to the State Treasurer on or before the 15th day of the first, fourth, seventh, and 10th months of each year as partial payment of the IAT an amount equal to 1.25% of the estimated gross revenues for the three-month period immediately preceding the first day of those months. In addition, each Licensee is entitled to an investment tax credit against the tax imposed (1) for the first 10 years of a Licensee's tax obligation, in an amount equal to twice the purchase price of bonds issued by CRDA purchased by the Licensee, or twice the amount of the investments authorized in lieu thereof, and (2) for the remainder of a Licensee's tax obligation, in an amount equal to twice the purchase price of bonds issued by CRDA purchased by the Licensee, or twice the amount of the investments authorized in lieu thereof, and twice the amount of investments made by a licensee in other approved eligible investments made pursuant to Casino Control Act.

While the City expects that the implementation of the CPTSA will have a positive impact for purposes of stabilization of finances and operation planning of the City, no assurances can be made that the amounts anticipated to be received from the PILOT and the IAT, or the future operation of some or all of the casino gaming properties, will be sufficient to provide adequate budgetary support for the City or to pay debt service on any bonds of the City issued after May 27, 2016, including the Bonds. See "RISK FACTORS – Implementation and Effect of MSRA and CPTSA Upon the City" herein.

Current Fiscal Affairs of the City

Budgets

Local Budget Law

Under the Local Budget Law, the City is required to submit a balanced budget to the State. The general budget document is comprised of: (i) revenue; and (ii) appropriations. Revenues are comprised of three categories: (i) anticipated fund balance; (ii) anticipated miscellaneous revenues (including the collection of delinquent taxes); and (iii) the municipal tax levy. Appropriations include the costs to operate the City for the calendar year. The municipal tax levy is a result of: appropriations, less anticipated fund

balance, less anticipated miscellaneous revenues. The City's annual budget is based on a calendar year (January 1 through December 31).

Pending the adoption of an operating budget for a fiscal year, the City operates under a temporary budget which may not exceed 26.25% of the previous fiscal year's adopted budget. In addition to the temporary budget, the City may approve emergency temporary appropriations for any purpose, which is not included in the temporary budget, for which appropriations may lawfully be made.

As prescribed by the Local Budget Law, adoption of the City's annual budget should occur by March 20 of each year, however, extensions may be granted by the Division of Local Government Services.

Application of the MSRA

Notwithstanding the above, the City is currently operating under State supervision pursuant to the MSRA and, as a result thereof, the Director is authorized to prepare the annual budget or instruct the governing body of the City to prepare and submit a proposed annual budget. If the governing body of the City is submitting a proposed annual budget, the Director is required to fix a date for the governing body of the City to submit such budget to the Local Finance Board, and the Local Finance Board may thereafter approve the budget, modify it or instruct the Director to prepare an alternative budget. If the Director prepares the budget, it shall be submitted to the Local Finance Board for its approval. Once a budget is approved by the Local Finance Board, the budget shall be deemed adopted.

The City, with approval from the Director, has heretofore submitted a proposed 2017 budget to the Local Finance Board for adoption. It is expected that the Local Finance Board will adopt the City's budget in the third quarter of 2017.

Historical and 2017 Budget

2015

The total amount of the City's 2015 adopted budget was \$262,445,114, which consisted of a tax levy of \$132,166,338 (based on a tax rate of \$1.798 per \$100 of net valuation taxable) and anticipated miscellaneous revenues of \$130,278,776.

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The budgeted appropriations of the City for 2015 were as follows:

Salaries and Wages	\$111,278,384
OE & Statutory	110,332,157
Deferred Charges	900,000
Capital	200,000
Debt Service	34,697,364
Reserve for Uncollected	<u>5,037,209</u>
 Total Budget Appropriations	 <u>\$262,445,114</u>

Anticipated miscellaneous revenues included in the City's 2015 budget were comprised of the following:

State aid without an offsetting appropriation	\$29,260,714
Grants with offsetting appropriations*	38,452,503
Revenues that may not recur	49,424,236
Local revenues (fees, permits etc.)	10,641,323
Delinquent taxes	2,500,000
Anticipated fund balance	<u>-</u>
Total Anticipated Miscellaneous Revenues	<u>\$130,278,776</u>

* Public and private revenues that can only be used to fund a specific purpose designated by the State.

2016

The total amount of the City's 2016 adopted budget was \$241,708,327, which consisted of a tax levy of \$126,437,859 (based on a tax rate of \$1.942 per \$100 of net valuation taxable) and anticipated miscellaneous revenues of \$115,270,468.

The budgeted appropriations of the City for 2016 were as follows:

Salaries and Wages	\$80,135,236
OE & Statutory	118,207,534
Deferred Charges	350,000
Capital	200,000
Debt Service	36,782,942
Reserve for Uncollected	<u>6,032,615</u>
 Total Budget Appropriations	 <u>\$241,708,327</u>

* Public and private revenues that can only be used to fund a specific purpose designated by the State.

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Anticipated miscellaneous revenues included in the City's 2016 budget were comprised of the following:

State aid without an offsetting appropriation	\$95,460,714
Grants with offsetting appropriations*	3,562,553
Revenues that may not recur	1,200,000
Local revenues (fees, permits etc.)	15,047,201
Delinquent taxes	-
Anticipated fund balance	-
Total Anticipated Miscellaneous Revenues	<u>\$115,270,468</u>

* Public and private revenues that can only be used to fund a specific purpose designated by the State.

For the fiscal years ending December 31, 2015 and 2016, the City received \$13,000,000 and \$26,200,000, respectively, of State aid in the form of Transitional Aid, \$10,000,000 and \$20,000,000, respectively, from CMPTRA and \$6,260,714 and \$6,260,714, respectively, in the form of Energy Tax Receipts revenue from the State. State aid has played a critical role, and will continue to do so for the immediate future, in the City's budget process.

Budget

As a result of, among other things, the recent closures and bankruptcy filings of various casinos located in the City as described above, tax revenues for the City will be reduced and will remain lower for the immediate future. As a result, in order to provide a balanced budget in 2017 and in future years, the City will be required to reduce expenditures.

For such purposes, the Director and the City's administration have conducted budget hearings with all City departments to review each department's requests for 2017 and have adopted a budget that includes expenditure reductions and other cost savings measures that include outsourcing, contract changes and other cost saving measures.

Pursuant to the TA MOU and the MSRA, the City submitted a proposed 2017 budget to the Director for review, which 2017 budget was introduced by the City Council on April 11, 2017. Thereafter, the proposed budget was submitted to the Local Finance Board for review and was adopted thereafter.

In addition to the foregoing, pursuant to the Local Government Supervision Act, the City is entitled to apply for and has received "Transitional Aid to Localities". For such purpose, the governing body of the City, with the approval by the Director, submitted the City's 2017 budget to the Local Finance Board for approval, which budget included an amount to be raised by local taxation for municipal purposes, which formed the basis for eligible Transitional Aid to be provided the City. The Local Finance Board adopted the City's 2017 budget at a hearing on July 11, 2017.

The total amount of the City's 2017 budget is \$222,142,711, which consists of a tax levy of \$56,906,370 (based on a tax rate of \$1.831 per \$100 of net valuation taxable) and anticipated miscellaneous revenues of \$165,236,341.

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The budgeted appropriations of the City for 2017 are as follows:

Salaries and Wages	\$67,833,899
OE & Statutory	118,205,769
Grants with offsetting appropriations	3,174,656
Deferred Charges	1,395,654
Capital	200,000
Debt Service	29,126,426
Reserve for Uncollected	<u>2,206,307</u>
 Total Budget Appropriations	 <u>\$222,142,711</u>

* Public and private revenues that can only be used to fund a specific purpose designated by the State.

Although not included in the City's adopted 2017 budget as deferred charges for (i) deficit in operations, (ii) deficits due to tax appeals, and (iii) prior outstanding payables, the State, as fiscal monitor of the City pursuant to the MSRA and the TA MOU, has made a final determination as to the amounts required to be included as appropriations in the 2017 budget for such deferred charges. In that regard, the City has a continuing line-item deferred charge on the balance sheet from its December 31, 2016 financial statements in the amount of \$8,615,182.24 for a deficit in operations from fiscal year 2012. Such deferred charged is being raised over a period of ten (10) years, with six (6) years remaining after 2017. The City also has a line-item deferred charge on the balance sheet from its December 31, 2016 financial statements in the amount of \$108,028,257.32 for deficit due to tax appeals, which amount was eliminated upon payment of a tax appeal settlement with Marina District Development Company, LLC (doing business as "The Borgata Casino and Hotel") on June 8, 2017. Finally, the City has a line-item deferred charge on the balance sheet from its December 31, 2016 financial statements in the amount of \$37,588,785.85 for prior outstanding payables representing certain payments not made by the City to the State pension system and health benefits. The City expects to raise amounts due for this deferred charge beginning in 2018 in accordance with the MSRA.

Anticipated miscellaneous revenues included in the City's 2017 budget are comprised of the following:

State aid without an offsetting appropriation:	
Transitional Aid	\$13,000,000
Consolidated Municipal Property Tax Relief Act	34,817,744
Energy Receipts Tax	6,442,970
ACA Funds	15,000,000
IAT Funds	14,000,000
Grants with offsetting appropriations*	3,074,656
Revenues that may not recur	45,038
Local revenues (fees, permits etc.)	14,924,191
Casino Gaming Properties PILOT	62,931,742
Delinquent taxes	1,000,000
Anticipated fund balance	<u>-</u>
Total Anticipated Miscellaneous Revenues	<u>\$165,236,341</u>

* Public and private revenues that can only be used to fund a specific purpose designated by the State.

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Tax Appeals

The City's strategy in all tax appeal negotiations is to arrive at settlements that reflect a compromised refund payment. To that end, to the extent settlements are reached, financing of such settlements may include a calibrated combination of the following sources of funding: (i) the "Reserves for Tax Appeals" line item in the City's budget; (ii) reductions in the property's assessment in future years; (iii) extended repayment terms being accepted by the property owner; (iv) credits against future taxes in lieu of an immediate refund; and (v) if deemed necessary, required or financially prudent, the issuance of additional tax appeal refunding bonds to fund remaining balances after employing the four other sources.

There are currently sixty (60) non-casino tax appeals pending in the Tax Court. Among these appeals, only eight (8) are related to properties with assessments in excess of \$5,000,000. While the precise exposure to the City from these appeals cannot be presently determined, the City estimates that the range of exposure is between \$5,000,000 and \$10,000,000; provided, however, that no assurances are given regarding the final dollar amount of any such appeals and the materiality of impact upon the City once determined.

The other forum for tax appeals in the State are the twenty-one (21) County Boards of Taxation. Tax appeals filed at such County Boards of Taxation relate to residential properties as well as commercial properties with assessments below \$1,000,000. The County Board of Taxation's jurisdiction each year is limited to that particular tax year. As such, tax appeals filed at the Atlantic County Board of Taxation are resolved at that level or, for the very small number of appeals not resolved, filed further into the Tax Court. For the City in the 2017 tax year, there are 5,143 pending appeals at the Atlantic County Board of Taxation. The City cannot estimate the precise aggregate exposure from such tax appeals, but presently estimates the exposure range to be between \$1,000,000 and \$2,000,000; provided, however, that no assurances are given regarding the final dollar amount of any such tax appeals and the materiality of impact upon the City once determined.

As described herein, the City has recently made significant progress in addressing what had been a large number of open tax appeals with a concomitantly high level of financial exposure. The goal of the City's current tax appeal negotiations, together with its related settlement financing plan, is to maintain a more stable financial position. In addition, by virtue of the implementation of the CPTSA as described herein, the reduction, and potential elimination, of casino-related tax appeals is occurring concurrently (See "Casino Property Tax Stabilization Act" under this heading for a more complete description of the CPTSA). As a result, the City anticipates that the resolution and funding of its non-casino tax appeal cases will be made on cash basis through its annual "Reserve for Tax Appeals" within each fiscal year budget.

Notwithstanding the foregoing paragraph, no assurances can be given, and none are given, as to the ultimate resolution of remaining outstanding tax appeals, and, if resolved favorably or unfavorably, the financial impact upon the City. In addition, though the City expects to fund future tax appeal settlements within its "Reserves for Tax Appeals" as an annual line item budget expense, no assurances are given that, if resolved favorably, the funding of remaining tax appeals will, in fact, be made through its annual "Reserve for Tax Appeals" within each fiscal year budget.

As referred to above, though the City is not expecting to do so, the City is permitted, subject to the prior approval of the Director pursuant to the MSRA, but not obligated, to fund the costs of any such finally adjudicated or settled tax appeals through, among other methods, the issuance of additional tax appeal refunding bonds in accordance with, among other things, the provisions of the Local Bond Law, the MSRA and, if applicable, the Municipal Qualified Bond Act. The City makes no representation as to whether it can or will issue tax credits or additional tax appeal refunding bonds in 2017 or later to fund such costs.

NO DEFAULT

The City has never defaulted in the payment of principal of, redemption premium, if any, and interest on any bonds, notes or other obligations of the City, nor are any payments of principal of or interest on the City's indebtedness past due.

CERTAIN STATUTORY PROVISIONS FOR THE PROTECTION OF GENERAL OBLIGATION DEBT

Application of the MSRA

Notwithstanding anything set forth under subheadings set forth under this heading ("CERTAIN STATUTORY PROVISIONS FOR THE PROTECTION OF GENERAL OBLIGATION DEBT"), for so long as the City is considered a "municipality in need of stabilization and recovery" pursuant to the MSRA, among other things: (i) all of the procedures related to the authorization of indebtedness; (ii) debt limitations and exceptions/extensions of credit; (iii) non-budgetary and financial activities; (iv) preparation and filing of financial statements; (v) investment of City funds and preparation of cash management plans; and (vi) utilization of borrowing capacity of the City for local school district debt, are within the direct control and subject to the oversight, authorization and approval of the Director and the Local Finance Board, as applicable. See "INFORMATION REGARDING THE CITY OF ATLANTIC CITY – Municipal Stabilization and Recovery Act" herein.

Procedure for Authorization

The City has no constitutional limit on its power to incur indebtedness other than that it may issue obligations only for public purposes pursuant to State statutes. The authorization and issuance of City debt, including the purpose, amount and nature thereof, the method and manner of the incurrence of such debt, the maturity and terms of repayment thereof, and other related matters are statutory. The City is not required to submit the proposed incurrence of indebtedness to a public referendum.

The City, by bond ordinance, may authorize and issue obligations for the financing of any capital improvement or property which it may lawfully acquire, or any purpose for which it is authorized or required by law to make an appropriation, except current expenses and payment of obligations (other than those for temporary financings). Bond ordinances must be finally adopted by the recorded affirmative vote of at least two-thirds of the full membership of the City Council. The Local Bond Law requires publication and posting of the bond ordinance or a summary thereof. If the bond ordinance requires approval or endorsement of the State, it cannot be finally adopted until such approval has been received. The Local Bond Law provides that a bond ordinance shall take effect twenty (20) days after the first publication thereof after final adoption. At the conclusion of the twenty-day period all challenges to the validity of the obligations authorized by such bond ordinance shall be precluded except for constitutional matters. Moreover, after issuance, all obligations are conclusively presumed to be fully authorized and issued by all laws of the State and any person shall be estopped from questioning their sale, execution or delivery by the City.

Local Bond Law (N.J.S.A. 40A:2-1 et seq.)

In addition to the applicability of the provisions of the Municipal Qualified Bond Act as described above, the Bonds are being issued pursuant to the provisions of the Local Bond Law. The Local Bond Law governs the issuance of bonds and notes to finance certain municipal capital expenditures. Among its provisions are requirements that bonds or notes must mature within the statutory period of usefulness of the projects being financed, that bonds be retired in either serial or sinking fund installments and that, unlike school debt, and with some exceptions, including self-liquidating obligations and those improvements involving certain State grants, a five percent (5%) cash down payment of the amount of bonds and notes authorized must be generally provided (except for refunding bonds). Such down payment must have been raised by budgetary appropriations, from cash on hand previously contributed for the purpose or by emergency resolution adopted pursuant to the Local Budget Law. All bonds and notes issued by the City are general "full faith and credit" obligations.

Short-Term Financing

Local governmental units, including counties, may issue bond anticipation notes to temporarily finance a capital improvement or project in anticipation of the issuance of bonds if the bond ordinance or

subsequent resolution so provides. Such bond anticipation notes for capital improvements, which are general obligations of the City, may be issued in an aggregate amount not exceeding the amount of bonds authorized in the ordinance, as may be amended and supplemented, creating such capital expenditure. A local unit's bond anticipation notes may be issued and renewed for periods not exceeding one (1) year, with the final maturity occurring and being paid no later than the first day of the fifth month following the close of the tenth fiscal year after the original issuance of the notes, provided that no notes may be renewed beyond the third anniversary date of the original notes and each anniversary date thereafter unless an amount of such notes, at least equal to the first legally payable installment of the anticipated bonds (the first year's principal payment), is paid and retired from funds other than the proceeds of obligations on or before the third anniversary date and each anniversary date thereafter.

Tax anticipation notes are limited in amount by law and, in the case of the City, may be renewed from time to time, but all such notes and renewals thereof must mature not later than April 30 of the succeeding fiscal year.

Refunding Bonds (*N.J.S.A. 40A:2-51 et seq.*)

Refunding bonds may be issued by a local unit pursuant to the Local Bond Law for the purpose of paying, funding or refunding its outstanding bonds, including emergency appropriations, emergency temporary appropriations, the actuarial liabilities of a non-State administered public employee pension system and amounts owing to others for taxes levied in the local unit, or any renewals or extensions thereof, and for paying the cost of issuance of refunding bonds. The Local Finance Board must approve the authorization of the issuance of refunding bonds. The Bonds are being issued to fund an appropriation made by the City for the purpose of paying the Tax Appeal.

Statutory Debt Limitation (*N.J.S.A. 40A:2-6*)

There are statutory requirements which limit the amount of debt which the City is permitted to authorize. The authorized bonded indebtedness of a municipality is limited by the Local Bond Law and other laws to an amount equal to three and one-half percent (3.50%) of its stated average equalized valuation basis, subject to certain exceptions noted below. *N.J.S.A. 40A:2-6*. The stated equalized valuation basis is set by statute as the average of the aggregate equalized valuations of all taxable real property, together with improvements to such property, and the assessed valuation of Class II railroad property within the boundaries of the City for each of the last three (3) preceding years as annually certified in the valuation of all taxable real property, in the Table of Equalized Valuations by the Director of the Division of Taxation, in the New Jersey Department of the Treasury (the "Division of Taxation"). *N.J.S.A. 40A:2-2*. Certain categories of debt are permitted by statute to be deducted for the purposes of computing the statutory debt limit. *N.J.S.A. 40A:2-43, -44*. The Local Bond Law permits the issuance of certain obligations, including obligations issued for certain emergency or self-liquidating purposes, notwithstanding the statutory debt limitation described above; but, with certain exceptions, it is then necessary to obtain the approval of the Local Finance Board. See "Exceptions to Debt Limitation - Extensions of Credit" below.

In connection with the issuance of the Bonds, the City will exceed the statutory debt limitation imposed by the Local Bond Law as described above. Notwithstanding the foregoing, pursuant to *N.J.S.A. 40A:2-7* (as more fully described below) the City is permitted to issue the Bonds in excess of such debt limitation.

Exceptions to Debt Limitation - Extensions of Credit (*N.J.S.A. 40A:2-7*)

The debt limit of the City may be exceeded with the approval of the Local Finance Board. If all or any part of a proposed debt authorization is to exceed its debt limit, the City must apply to the Local Finance Board for an extension of credit. The Local Finance Board considers the request, concentrating its review on the effect of the proposed authorization on outstanding obligations and operating expenses and the anticipated ability to meet the proposed obligations. If the Local Finance Board determines that a proposed

debt authorization is not unreasonable or exorbitant, that the purposes or improvements for which the obligations are issued are in the public interest and for the health, welfare and convenience or betterment of the inhabitants of the City and that the proposed debt authorization would not materially impair the credit of the City or substantially reduce the ability of the City to meet its obligations or to provide essential services that are in the public interest and makes other statutory determinations, approval is granted. In addition to the aforesaid, debt in excess of the debt limit may be issued to fund certain obligations, for self-liquidating purposes and, in each fiscal year, in an amount not exceeding two-thirds of the amount budgeted in such fiscal year for the retirement of outstanding obligations (exclusive of obligations issued for utility or assessment purposes) plus two-thirds of the amount raised in the tax levy of the current fiscal year by the local unit for the payment of bonds or notes of any school district.

As of December 31, 2016, the City's bonded indebtedness was equal to 2.578% of its stated 3-year average equalized valuation of \$8,695,098,227 (the "2016 Average Valuation") as shown in the City's calendar year 2016 annual debt statement (the "2016 Debt Statement"). Subsequent to the filing of the City's 2016 Debt Statement, on June 8, 2017, the City issued \$69,800,000 of its Tax Appeal Refunding Bonds, Series 2017A (the "2017A Bonds"), which further reduced the available borrowing capacity of the City. As of July 1, 2017, the City's bonded indebtedness was equal to 3.293% of the 2016 Average Valuation, which reflected the issuance of the 2017A Bonds.

In accordance with the Local Bond Law, in connection with the authorization for the issuance and sale of the Bonds, the City sought and received approval from the Local Finance Board to exceed its statutory debt limitation of 3.5%. As of September 1, 2017, the City's bonded indebtedness was equal to 4.18% of the 2016 Average Valuation, reflecting the issuance of the Bonds in an amount not to exceed \$80,000,000.

Upon the filing the City's December 31, 2017 annual debt statement in January 2018, the City's 3-year average equalized valuation will be further reduced as a result of: (i) final calculation of assessed valuations of real property in the City for fiscal year 2017; and (ii) the application of the CPTSA to casino gaming properties in the City, which will remove casino gaming properties from the City's assessed tax base for a term of 10 years, beginning in 2017. In doing so, the ratio of bonded indebtedness to average equalized valuation will increase. As a result, the City's borrowing capacity will remain above the statutorily mandate 3.5%, which will limit the City's ability to issue certain additional indebtedness without approval from the Local Finance Board. With respect to the removal of casino gaming properties from the City's assessed tax base under the CPTSA, it is presently unclear how such reduced assessed valuation will be treated when calculating the City's statutory debt limit.

Local Fiscal Affairs Law (*N.J.S.A. 40A:5-1 et seq.*)

The Local Fiscal Affairs Law regulates the non-budgetary financial activities of local governments, including counties. An annual, independent audit of the local unit's accounts for the previous year must be performed by a Registered Municipal Accountant licensed in the State of New Jersey. The audit, conforming to the Division of Local Government Services, "Requirements of Audit", must be completed within six (6) months (by June 30 of each year) after the close of the City's fiscal year ending each December 31, and must include recommendations for improvement of the local unit's financial procedures. The audit report must also be filed with the Clerk of the City and is available for review during regular business hours and shall, within five (5) days thereafter be filed with the Director. A synopsis of the audit report, together with all recommendations made, must be published in a local newspaper within thirty (30) days of the City's receipt of the audit report. Accounting methods utilized in the conduct of the audit conform to practices prescribed by the Division of Local Government Services, which practices differ in some respects from generally accepted accounting principles.

Annual Financial Statement (*N.J.S.A. 40A:5-12 et seq.*)

An annual financial statement ("Annual Financial Statement") which sets forth the financial condition of a local unit for the fiscal year must be filed with the Division of Local Government Services not

later than January 26 (in the case of a county) and not later than February 10 (in the case of a municipality) after the close of the calendar fiscal year, or not later than August 10 of the State fiscal year for those municipalities which operate on the State fiscal year. The Annual Financial Statement is prepared either by the Chief Financial Officer or the Registered Municipal Accountant for the local unit. Such Statement reflects the results of operations for the year of the current and utility funds. If the statement of operations results in a cash deficit, the deficit must be included in full in the succeeding year's budget.

Investment of Municipal Funds

Investment of funds by municipalities is governed by *N.J.S.A. 40A:5-14 et seq.* Such statute requires municipalities to adopt a cash management plan pursuant to the requirements outlined by said statute. Once a municipality adopts a cash management plan it must deposit or invest its funds pursuant to such plan. *N.J.S.A. 40A:5-15.1* provides for the permitted securities a municipality may invest in pursuant to its cash management plan. Some of the permitted securities are as follows: (i) obligations of, or obligations guaranteed by, the United States of America ("Government Obligations"); (ii) Government money market mutual funds which invest in securities permitted under the statute; (iii) bonds of certain Federal Government agencies having a maturity date not greater than 397 days from the date of purchase; (iv) bonds or other obligations of the particular municipality or school districts of which the local unit is a part or within which the school district is located; and (v) bonds or other obligations having a maturity date not greater than 397 days from the date of purchase and approved by the Division of Local Government Services. Municipalities are required to deposit their funds in banks satisfying certain security requirements set forth in *N.J.S.A. 17:9-41 et seq.* Municipalities are required to deposit their funds in interest-bearing bank accounts to the extent practicable and other permitted investments.

School Debt Subject to Voter Approval

State Law permits a school district, upon approval of the voters, to authorize school district debt, including debt in excess of its independent debt limit of four percent (4%) of the equalized valuation basis, by using the available borrowing capacity of the City. If such debt is in excess of the school district debt limit and the remaining borrowing capacity of the City, the State Commissioner of Education and the Local Finance Board must approve the proposed debt authorization before it is submitted to the voters.

FINANCIAL MANAGEMENT

Application of the MSRA

Notwithstanding anything set forth under subheadings set forth under this heading ("FINANCIAL MANAGEMENT"), for so long as the City is considered a "municipality in need of stabilization and recovery" pursuant to the MSRA, among other things: (i) all of the procedures related to accounting and reporting practices; (ii) budgeting pursuant to the Local Budget Law; (iii) examination of budgets; (iv) conditions for the imposition of State intervention; (v) limitations on expenditures and property tax levies; (vi) deferral of current expenses; (vii) emergency temporary appropriations; (viii) budget transfers; (ix) real estate taxes and reserves for collection of same; (x) miscellaneous revenues; (xi) the preparation and filing of debt statements; and (xii) capital improvement programs, are within the direct control and subject to the oversight, authorization and approval of the Director and the Local Finance Board, as applicable. See "INFORMATION REGARDING THE CITY OF ATLANTIC CITY – Municipal Stabilization and Recovery Act" herein.

Accounting and Reporting Practices

The accounting policies of the City conform to the accounting principles applicable to local governmental units which have been prescribed by the Division of Local Government Services. A modified accrual basis of accounting is followed with minor exceptions. Revenues are recorded as received in cash

except for certain amounts which may be due from other governmental units and which are accrued. Receivables for property taxes are recorded with offsetting reserves on the balance sheet of the City's Current Fund; accordingly, such amounts are not recorded as revenue until collected. Other amounts that are due to the City which are susceptible to accrual are also recorded as receivables with offsetting reserves and recorded as revenue only when received. Expenditures are generally recorded on the accrual basis, except that unexpended appropriations at December 31, unless canceled by the governing body, are reported as expenditures with offsetting appropriation reserves. Appropriation reserves are available, until lapsed at the close of the succeeding fiscal year, to meet specific claims, commitments or contracts incurred during the preceding fiscal year. Lapsed appropriation reserves are credited to the results of operations. As is the prevailing practice among municipalities and counties in the State, the City does not record obligations for accumulated unused vacation and sick pay.

Local Budget Law (*N.J.S.A. 40A:4-1 et seq.*)

The foundation of the State local finance system is the annual cash basis budget. Every local unit, including municipalities and counties, must adopt an annual operating budget in the form required by the Division of Local Government Services. Certain items of revenue and appropriation are regulated by law and the proposed operating budget must be certified as approved by the Director prior to final adoption of the budget by the City. The Local Budget Law requires each local unit to appropriate sufficient funds for payment of current debt service and the Director, or in the case of the local examination, the local unit may review the adequacy of such appropriations. Among other restrictions, the Director or, in the case of local examination, the local unit may examine the budget with reference to all estimates of revenue and the following appropriations: (i) payment of interest and debt redemption charges; (ii) deferred charges and statutory expenditures; (iii) cash deficit of the preceding year; (iv) reserve for uncollected taxes; and (v) other reserves and non-disbursement items. Taxes levied are a product of total appropriations, less non-tax revenues, plus a reserve predicated on the prior year's collection experience.

The Director, in reviewing the budget, has no authority over individual operating appropriations, unless a specific amount is required by law, but the budgetary review functions, focusing on anticipated revenues, and serves to protect the solvency of all local units. Pursuant to *N.J.S.A. 40A:4-22*, local budgets, by law and regulation, must be in balance on a "cash basis", i.e., the total of anticipated revenues must equal the total of appropriations. If in any year, the City's expenditures exceed its realized revenues for that year, then such excess (deficit) must be raised in the succeeding year's budget. Pursuant to the Local Budget Law and the MSRA, the City is required to have a balanced budget in which debt service is included in full for each fiscal year.

Pursuant to the Municipal Qualified Bond Act, the City is obligated to include in its annual budget amounts necessary to pay, in each year, the principal and interest maturing and becoming due on the Bonds and all other outstanding "qualified" bonds of the City. See "SECURITY AND SOURCE OF PAYMENT – The Municipal Qualified Bond Act" herein.

In accordance with the Local Budget Law and related regulations: (i) each local unit, with a population of more than 10,000 persons, must adopt and annually revise a six (6) year capital program; and (ii) each local unit, with a population of less than 10,000 persons, must adopt (with some exceptions) and annually revise a three (3) year capital program. The capital program, when adopted, does not constitute the appropriation of funds, but sets forth a plan of capital expenditures which the local unit may contemplate over the next six (6) years or the next three (3) years, as applicable. Expenditures for capital purposes may be made either by ordinances adopted by the governing body which set forth the items and the methods of financing, or from the annual operating budget. See "FINANCIAL MANAGEMENT – Capital Improvement Program" herein.

Local Examination of Budgets (*N.J.S.A. 40A:4-78(b)*)

Chapter 113 of the Laws of New Jersey of 1996 (*N.J.S.A. 40A:4-78(b)*) authorizes the Local Finance Board to adopt rules that permit certain municipalities to assume the responsibility, normally granted to the

Director, of conducting the annual budget examination required by the Local Budget Law. Since 1997 the Local Finance Board has developed regulations that allow "eligible" and "qualifying" municipalities to locally examine their budget every two (2) of three (3) years. Under the regulations prescribed by the Local Finance Board and the MSRA, the City is not eligible for local examination of its budget in 2017 or in subsequent years while the City is designated as "municipality in need of stabilization and recovery" pursuant to the MSRA.

State Supervision

State law authorizes State officials to supervise fiscal administration in any municipality which is in default on its obligations; which experiences severe tax collection problems for two (2) successive years; which has a deficit greater than four percent (4%) of its tax levy for two (2) successive years; which has failed to make payments due and owing to the State, county, school district or special district for two (2) consecutive years; which has an appropriation in its annual budget for the liquidation of debt which exceeds twenty-five percent (25%) of its total operating appropriations (except dedicated revenue appropriations) for the previous budget year; which has been subject to a judicial determination of gross failure to comply with the Local Bond Law, the Local Budget Law or the Local Fiscal Affairs Law which substantially jeopardizes its fiscal integrity; or is considered a "municipality in need of stabilization and recovery" in accordance with the MSRA. State officials are authorized to continue such supervision for as long as certain conditions exist, until the municipality operates for a fiscal year without incurring cash deficit or until the City is no longer deemed in need of stabilization and recovery.

The City is currently subject to State supervision in accordance with the MSRA and the TA MOU, each as described under the heading "INFORMATION REGARDING THE CITY OF ATLANTIC CITY – State Supervision and Takeover" herein.

Limitation on Expenditures ("CAP Law") and Property Tax Levy Limitation

N.J.S.A. 40A:4-45.4 places limits on municipal tax levies and expenditures, this law is commonly known as the "Cap Law" (the "Cap Law"). The Cap Law provides that the City shall limit any increase in its budget to 2.5% or the Cost-of-Living Adjustment, whichever is less, of the previous year's City tax levy, subject to certain exceptions. The Cost-of-Living Adjustment is defined as the annual percentage increase, rounded to the nearest half percent, in the Implicit Price Deflator for State and Local Government Purchases of Goods and Services produced by the United States Department of Commerce for the year preceding the current year as announced by the Director. However, pursuant to *See N.J.S.A. 40A:4-45.14*, in each year in which the Cost-of-Living Adjustment is equal to or less than 2.5%, the City may, by resolution approved by a majority vote of the full membership of the governing body, provide that the tax levy of the City for such year be increased by a percentage rate that is greater than the Cost-of-Living Adjustment, but not more than the 3.5% over the previous year's City tax levy. The Cost-of-Living Adjustment for State fiscal year 2016 was 0.5%. In addition, pursuant to Chapter 100 of the Laws of New Jersey of 1994 (*N.J.S.A. 40A:4-45.15a, -45.15b*) and Chapter 74 of the Laws of New Jersey of 2004, municipalities may "Cap Bank" under the Local Budget Law. Municipalities are permitted to appropriate available "CAP Bank" in either of the next two (2) succeeding years' final appropriations if its actual appropriations in a fiscal year are below the allowable Cost-of-Living Adjustment. Along with the permitted increases for total general appropriations there are certain items that are allowed to increase outside the "CAP".

Additionally, pursuant to P.L. 2010, c.44, effective July 13, 2010, a 2% cap on the tax levy of a municipality, county, fire district or solid waste collection district, with certain exceptions and subject to a number of adjustments has been imposed. The exclusions from the limit include increases required to be raised for capital expenditures, including debt service, increases in pension contributions in excess of 2%, certain increases in health care costs in excess of 2%, and extraordinary costs incurred by a local unit directly related to a declared emergency. The governing body of a local unit may request approval, through a public question submitted to the legal voters residing in its territory, to increase the amount to be raised by taxation, and voters may approve increases above 2% not otherwise permitted under the law by an affirmative vote of 50%.

The Division of Local Government Services has advised that counties and municipalities must comply with both the budget "cap" and the tax levy limitation. Neither the tax levy limitation nor the "Cap Law", however, limits the obligation of the City to levy *ad valorem* taxes upon all taxable property within the boundaries of the City to pay debt service on bonds and notes, including the Bonds.

Deferral of Current Expenses

Supplemental appropriations made after the adoption of the budget and determination of the tax rate may be authorized by the governing body of a local unit, including the City, but only to meet unforeseen circumstances, to protect or promote public health, safety, morals or welfare, or to provide temporary housing or assistance prior to the next succeeding fiscal year. However, with certain exceptions described below, such appropriations must be included in full as a deferred charge in the following year's budget. Any emergency appropriation must be declared by resolution according to the definition provided in a provision of the Local Budget Law, *N.J.S.A. 40A:4-48, -49*, and approved by at least two-thirds of full membership of the governing body. Pursuant to *N.J.S.A. 40A:4-49*, if such emergency appropriations exceed three percent (3%) of the adopted operating budget, consent of the Director is required.

Pursuant to *N.J.S.A. 40A:4-53, -54, -55, -55.1, -55.2, -55.3*, the exceptions are certain enumerated quasi-capital projects ("special emergencies") such as: (i) the repair and reconstruction of streets, roads or bridges damaged by snow, ice, frost, or floods, which may be amortized over three (3) years; and (ii) the repair and reconstruction of streets, roads, bridges or other public property damaged by flood or hurricane, where such expense was unforeseen at the time of budget adoption, the repair and reconstruction of private property damaged by flood or hurricane, tax map preparation, re-evaluation programs, revision and codification of ordinances, master plan preparations, drainage map preparation for flood control purposes, studies and planning associated with the construction and installation of sanitary sewers, authorized expenses of a consolidated commission, contractually required severance liabilities resulting from the layoff or retirement of employees and the preparation of sanitary and storm system maps, all of which projects set forth in this section (ii) may be amortized over five (5) years. Emergency appropriations for capital projects may be financed through the adoption of a bond ordinance and amortized over the useful life of the project as described above.

Emergency Temporary Appropriations

Emergency temporary appropriations may be declared for the period between the beginning of the current fiscal year and the date of the adoption of the budget for said year by resolution approved by at least two-thirds of full membership of the governing body and, in the case of the City while under State supervision pursuant to the MSRA, with prior approval from the Director and the Local Finance Board. The amount of the emergency temporary appropriation must be included in the budget for said year unless such amount is funded by the issuance of refunding bonds. Pursuant to and in accordance with *N.J.S.A. 40A:4-20* and *N.J.S.A. 40A:2-51*, a copy of the resolution making such emergency temporary appropriations must be filed with the Director.

Budget Transfers

Budget transfers provide a degree of flexibility and afford a control mechanism for local units, including counties. Pursuant to *N.J.S.A. 40A:4-58, -59*, transfers between major appropriation accounts are prohibited, except for: (i) during the first three (3) months of a current fiscal year, appropriation reserves may be transferred to the immediately preceding year's budget; and (ii) transfers between major appropriation accounts are permitted during the last two (2) months of a current fiscal year. Both types of transfers require a two-thirds vote of the full membership of the governing body. Although sub-accounts within an appropriation account are not subject to the same year-end transfer restriction, they are subject to internal review and approval. Generally, transfers cannot be made from the down payment account, contingent expenses, capital improvement fund or from other sources as provided in the statute.

Anticipation of Real Estate Taxes

N.J.S.A. 40A:4-29 provides limits for the anticipation of delinquent tax collections: "[t]he maximum which may be anticipated is the sum produced by the multiplication of the amount of delinquent taxes unpaid and owing to the local unit on the first day of the current fiscal year by the percentage of collection of delinquent taxes for the year immediately preceding the current fiscal year."

In regard to current taxes, *N.J.S.A. 40A:4-41(b)* provides that: "[r]eceipts from the collection of taxes levied or to be levied in the municipality, or in the case of a county for general county purposes and payable in the fiscal year shall be anticipated in an amount which is not in excess of the percentage of taxes levied and payable during the next preceding fiscal year which was received in cash by the last day of the preceding fiscal year."

This provision requires that an additional amount (the "reserve for uncollected taxes") be added to the tax levy required to balance the budget so that when the percentage of the prior year's tax collection is applied to the combined total, the sum will at least equal the tax levy required to balance the budget. The reserve requirement is calculated as follows:

$$\begin{array}{rcl} \text{Total of Local, County,} & & \\ \text{and School Levies} & - & \text{Anticipated Revenues} & = & \text{Cash Required from Taxes to Support} \\ & & & & \text{Local Municipal Budget and Other Taxes} \\ \\ \text{Cash Required from Taxes to Support Local Municipal Budget and Other Taxes} & = & \text{Amount to be} \\ \text{Prior Year's Percentage of Current Tax Collection (or Lesser \%)} & & \text{Raised by} \\ & & \text{Taxation} \end{array}$$

Anticipation of Miscellaneous Revenues

N.J.S.A. 40A:4-26 provides that, "[n]o miscellaneous revenues from any source shall be included as an anticipated revenue in the budget in an amount in excess of the amount actually realized in cash from the same source during the next preceding fiscal year, unless the director shall determine upon application by the governing body that the facts clearly warrant the expectation that such excess amount will actually be realized in cash during the fiscal year and shall certify such determination, in writing, to the local unit."

No budget or amendment thereof shall be adopted unless the Director shall have previously certified his approval of such anticipated revenues except that categorical grants-in-aid contracts may be included for their face amount with an offsetting appropriation. The fiscal years of such grants rarely coincide with a municipality's calendar fiscal year. Grant revenues are fully realized in the year in which they are budgeted by the establishment of accounts receivable and offsetting reserves.

Debt Statements

The City must report all new authorizations of debt or changes in previously authorized debt to the Division through the filing of Supplemental and Annual Debt Statements. The Supplemental Debt Statement must be submitted to the Division of Local Government Services before final passage of any debt authorization other than a refunding debt authorization. Before the end of the first month (January 31) of each fiscal year of the City, the City must file an Annual Debt Statement which is dated as of the last day of the preceding fiscal year (December 31) with the Division of Local Government Services and with the City Clerk. This report is made under oath and states the authorized, issued and unissued debt of the City as of the previous December 31. Through the Annual and Supplemental Debt Statements, the Division of Local Government Services monitors all local borrowing. Even though the City's authorizations are within its debt limits, the Division of Local Government Services is able to enforce State regulations as to the amounts and purposes of local borrowings.

Capital Improvement Program

In accordance with the Local Budget Law, the City must adopt and may from time to time amend rules and regulations for capital budgets, which rules and regulations must require a statement of capital undertakings underway or projected for a period not greater than over the next ensuing three (3) years as a general improvement program. The Capital Budget and Capital Improvement Program must be adopted as part of the annual budget pursuant to *N.J.A.C. 5:30-4.1 et seq.* The Capital Budget does not by itself confer any authorization to raise or expend funds, rather it is a document used for planning. Specific authorization to expend funds for such purposes must be granted, by a separate bond ordinance, by inclusion of a line item in the Capital Improvement Section of the budget, by an ordinance taking money from the Capital Improvement Fund, or other lawful means.

In accordance with the Local Budget Law and related regulations: (i) each local unit, with a population of more than 10,000 persons, must adopt and annually revise a six (6) year capital program; and (ii) each local unit, with a population of less than 10,000 persons, must adopt (with some exceptions) and annually revise a three (3) year capital program. The capital program, when adopted, does not constitute the appropriation of funds, but sets forth a plan of capital expenditures which the local unit may contemplate over the next six (6) years or the next three (3) years, as applicable. Expenditures for capital purposes may be made either by ordinances adopted by the governing body which set forth the items and the methods of financing, or from the annual operating budget.

TAX ASSESSMENT AND COLLECTION

Assessment and Collection of Taxes

Property valuations (assessments) are determined on true values as arrived at by the cost approach, market data approach and capitalization of net income (where applicable). Current assessments are the result of maintaining new assessments on a "like" basis with established comparable properties for newly assessed or purchased properties resulting in a decline of the assessment ratio to true value to its present level. This method assures equitable treatment to like property owners.

Upon the filing of certified adopted budgets by the City, the local school district and the County, the tax rate is struck by the County Board of Taxation based on the certified amounts in each of the taxing districts for collections to fund the budgets. The statutory provisions for the assessment of property, levying of taxes and the collection thereof are set forth in *N.J.S.A. 54:4-1 et seq.* and, in the case of casino gaming properties, as set forth the CPTSA. Special taxing districts are permitted in the State for various special services rendered to the properties located within the special district.

Tax bills are sent in June of the current fiscal year. Taxes are payable in four quarterly installments on February 1, May 1, August 1 and November 1. The August and November tax bills are determined as the full tax levied for municipal, county and school purposes for the current municipal fiscal year, less the amount charged for the February and May installments for municipal, county and school purposes in the current fiscal year. The amounts due for the February and May installments are determined by the municipal governing body as either one-quarter or one-half of the full tax levied for municipal, county of school purposes for the preceding fiscal year.

Tax installments not paid on or before the due date are subject to interest penalties of eight percent (8%) on the first \$1,500 of the delinquency and, then eighteen percent (18%) per annum on any amount in excess of \$1,500. A penalty of up to six percent (6%) of the delinquency in excess of \$10,000 may be imposed on a taxpayer who fails to pay that delinquency prior to the end of the tax year in which the taxes become delinquent. Delinquent taxes open for one year or more are annually included in a tax sale in accordance with State statutes. Tax title liens are periodically assigned to the City Solicitor (as defined herein) for *in rem* foreclosures in order to acquire title to these properties.

The provisions of Chapter 99 of the Laws of New Jersey of 1997 allow a municipality to sell its total property tax levy to the highest bidder either by public sale with sealed bids or by public auction. The purchaser shall pay the total property tax levy bid amount in quarterly installments or in one annual installment. Property taxes will continue to be collected by the municipal tax collector and the purchaser will receive as a credit against his payment obligation the amount of taxes paid to the tax collector. The purchaser is required to secure his payment obligation to the municipality by an irrevocable letter of credit or surety bond. The purchaser is entitled to receive, all delinquent taxes and other municipal charges owing, due and payable upon collection by the tax collector. The statute sets forth bidding procedures, minimum bidding terms and requires the review and approval of the sale by the Division of Local Government Services.

As more specifically described above, tax installments due and owing and not otherwise paid shall, if not paid by certain dates fixed by statute, become subject to certain interest penalties until paid. In addition, pursuant to the authority provided to the City by *N.J.S.A. 54:4-1 et seq.*, and as more particularly described above under the subheading "-Tax Assessment and Collection of Taxes", the City is permitted to conduct a tax lien sale in order to sell its interest in the uncollected taxes pursuant to a public sale. The City traditionally conducts a tax lien sale each December.

Tax Appeals

New Jersey Statutes provide a taxpayer with remedial procedures for appealing an assessed valuation that the taxpayer deems excessive. The taxpayer has a right to file a petition on or before the 1st day of April of the current tax year for its review or the 1st day of May for municipalities that have conducted revaluations. The County Board of Taxation and the Tax Court of New Jersey have the authority after a hearing to increase, decrease or reject the appeal petition. Adjustments by the County Board of Taxation are usually concluded within the current tax year and reductions are shown as cancelled or remitted taxes for that year. If the taxpayer believes the decision of the County Board of Taxation to be incorrect, appeal of the decision may be made to the Tax Court of New Jersey. State tax court appeals tend to take several years to conclude by settlement or trial and any losses in tax collection from prior years, after an unsuccessful trial or by settlement, are charged directly to operations. In March of 2017 as in most previous years, the City conducted a tax lien sale for certain tax appeals. See "INFORMATION REGARDING THE CITY OF ATLANTIC CITY – Municipal Stabilization and Recovery Act; and Tax Appeals" herein.

During the period in which the CPTSA is in effect (presently tax years 2017 through 2027), casino gaming properties are not permitted to file tax appeals. See "INFORMATION REGARDING THE CITY OF ATLANTIC CITY – Casino Property Tax Stabilization Act" herein. In addition, and as more particularly described above, the City has undertaken substantial measures to resolve and settle its largest tax appeals with the expectation to fund future tax appeals through its annual budget, though no assurances or guarantees are made by the City as to the nature and size of future tax appeals or the ability of the City to pay for same through its annual budget.

RISK FACTORS

In making a decision as to whether to purchase the Bonds, potential investors should consider certain risks and investment considerations which could affect the ability of the City to pay debt service on the Bonds and which could affect the marketability of or the market price for the Bonds. These risks and investment considerations are discussed throughout this Official Statement. Certain of these risks and considerations are set forth in this section, but this section is not intended to be comprehensive or to be a compilation of all possible risks and investment considerations, nor a substitute for an independent evaluation of the information set forth in and presented in this Official Statement, which each investor should read in its entirety in order to make an informed investment decision.

Additional risks and uncertainties not currently known by the City, or that the City does not currently consider to be material, or that are generally applicable to all municipalities and their ability to repay

obligations, may exist. Any one or more of the factors discussed herein, and other factors not described herein, could lead to a decrease in the market value or liquidity of the Bonds. There can be no assurance that other risk factors not discussed below will not become material in the future. Prospective investors are advised to consider the following risk factors, among others, and to review the other information incorporated by reference into this Official Statement in evaluating an investment in the Bonds.

Implementation and Effect of MSRA and CPTSA Upon the City

While the City expects that the implementation of the MSRA and the CPTSA will have a positive impact for purposes of stabilization of finances and operational planning of the City. No assurances can be made that the imposition of the controls and monitoring provided by the MSRA will yield positive benefits in the long term or that the City will require maintenance as a "municipality in need of stabilization and recovery" for the foreseeable future. In addition, no assurances can be made that the amounts anticipated to be received from the PILOT and the IAT pursuant to the CPTSA, or the future operation of some or all of the casino gaming properties, will be sufficient to provide adequate budgetary support for the City or to pay debt service on any bonds of the City issued after May 27, 2016, including the Bonds.

Litigation Resulting from the MSRA

As a result of the implementation of the MSRA, certain legal challenges have been filed in connection with existing labor contracts for certain of the City's employees subject to existing union contracts, each of which is described under the heading "LITIGATION – Labor and Employment Matters" herein. No assurances are given as to the final, fully adjudicated outcome of such legal challenges.

As of the date hereof, no other legal proceedings or other actions have been instituted challenging the directives or obligations implemented by the MSRA or seeking invalidation or amendment of the MSRA itself. However, no assurances can be given that such legal proceedings or other action seeking judicial intervention or seeking regulatory, administrative and/or legislative relief or intervention will not in the future be filed or instituted. In addition, no assurances are given as to the effect, if any, of such judicial, regulatory, administrative or legislative intervention or relief upon the finances, budget or operation of the City.

Litigation Resulting from the CPTSA

As more particularly described under the heading "INFORMATION REGARDING THE CITY OF ATLANTIC CITY – State Intervention and Takeover – Casino Property Tax Stabilization Act – Outstanding Litigation Related to the CPTSA" above, certain legal action has been instituted challenging, among other things, the constitutionality of the CPTSA (i.e., the Constitutional Claim) for which the City and the State are expected to file dispositive motions seeking dismissal of such Constitutional Claim. Specifically, the City and the State, on behalf of itself and on behalf of all Defendants in the Consolidated Matter are of the belief, and continue to maintain the firm position, that the Constitutional Claims of the Plaintiffs in the Consolidated Matter are not supported in law. In furtherance of such position, the City and the State are of the belief that they have meritorious defenses to the Plaintiffs' claims.

Notwithstanding the City's belief that the motion to dismiss the Constitutional Claim is likely to be granted, courts have wide latitude in interpreting law and, as a result, no assurances can be given as to the final determination of the Superior Court or any appeals thereof.

In addition, no assurances are given as to the effect, if any, upon the finances, budget or operation of the City if the Constitutional Claim ultimately proves successful in repealing or otherwise invalidating of all or a portion of the CPTSA.

Appropriation of State Aid

The State aid available to municipalities in any fiscal year is subject to appropriation by the State Legislature. Moreover, the State is not required to continue to make payments of Municipal Qualified

Revenues or any other funds appropriated as State aid, nor is the State limited or prohibited from repealing or amending any law heretofore or hereinafter enacted for the payment or apportionment of such amounts or the manner, time, or amount thereof.

Notwithstanding the foregoing, the Municipal Qualified Bond Act provides that, notwithstanding any other provision of law to the contrary, a statutory lien and trust is automatically and without further act or filing created and impressed upon Municipal Qualified Revenues when and if appropriated, which statutory lien and trust shall be paramount and superior to all other liens and interests of any kind in favor of the holders of "qualified bonds", including the Bonds, for the sole purpose of paying the principal of and interest on "qualified bonds" (including the Bonds) issued by the City pursuant to the Municipal Qualified Bond Act. See "SECURITY AND SOURCE OF PAYMENT – Municipal Qualified Bond Act" herein.

Limitations of Remedies in Bankruptcy

In the event of the filing by the City for bankruptcy protection (See "MUNICIPAL BANKRUPTCY" herein), no assurances can be given that revenues will be available to creditors of the City for the payment of any indebtedness of the City. No representation can be made by the City that, if conditions so warrant, the City will not seek bankruptcy protection in accordance with applicable law. No New Jersey municipality has successfully filed a petition for bankruptcy under the Bankruptcy Code. The lack of precedent in New Jersey makes the risks associated with such a case difficult to assess. Further, there are no court decisions construing the Municipal Qualified Bond Act or *N.J.S.A. 52:27-40 et seq.* (governing bankruptcy filings by municipalities in New Jersey) in the context of any bankruptcy case. For a description of the City's ability to file for bankruptcy and the process that the City and the State are statutorily required to follow in order for the City to file for bankruptcy under State law, see "MUNICIPAL BANKRUPTCY" below.

General Economic and Political Risks

The financial performance of the City will be affected by, and will be subject to, general economic and political events and conditions that will change in the future to an extent and with effects that cannot be determined at this time. These general economic and political events and conditions include, among other things, budgetary pressures, changes in the City's tax base, further declines in revenues of the casino industry, disruptions in credit and financial markets; political gridlock concerning, among other matters, tax and spending policies; economic, financial and political developments in the City and the State; budget and debt limit controversies, at the State level and locally; and unusually large numbers of business failures and policy responses, or lack thereof, to the foregoing.

Access to and Availability of State Aid

The City is dependent, in part, on financial assistance from the State. However, if the State should experience difficulty in borrowing funds in anticipation of the receipt of State taxes or received in amounts less than anticipated, as the case may be, in order to pay State aid to municipalities and school districts in the State, including the City, in any year, the City may be affected by a delay, until sufficient taxes have been received by the State to make State aid and Municipal Qualified Revenue payments to the City or to holders of the Bonds. In several recent years, payments of State aid to the City have been delayed which resulted from the State's delay in adopting its budget and appropriating State aid to municipalities and school districts, and consequent delay in State borrowing to finance such appropriations.

Although it is expected that the State aid will be available in sufficient amounts to timely pay debt service on the Bonds, there can be no assurance that such State aid will be sufficient to pay debt service on the Bonds. To the extent State aid are insufficient to pay debt service on the Bonds or eliminated entirely, the Bonds are general obligations of the City and, unless paid from other sources, the City is authorized and required by law to levy, to the extent necessary, *ad valorem* taxes on all real property taxable within the City, without limitation as to rate or amount.

Financial Status of City

Although the City is required to adopt balanced budgets each year, recent budgets have included the imposition of significant tax increases. Given the decline in its tax base as well as appeals from its largest taxpayers, the City may face additional challenges to the adoption of balanced cash basis budgets for future years. Continuing access to the State's Transitional Aid program, the availability of CMPTRA, and Energy Tax Receipts, and anticipated revenues generated from the PILOT program under the CPTSA cannot be assured.

To that end, the City will need to explore, and is required to explore pursuant to the MSRA, additional actions, including, among other things, additional property tax increases, other revenue sources, additional reductions in labor force, and/or consolidation or regionalization of City services in order to meet required budgetary needs. Additional actions may also be required in subsequent fiscal years. Certain of the actions may require approvals of third parties (such as the Director and the Local Finance Board). However, no representation is made regarding whether such actions will be taken or such third-party approvals obtained.

Uncertainty with Regard to Redevelopment Projects

Notwithstanding the recent re-purposing and redevelopment of certain casino properties in the City as described under the heading "INFORMATION REGARDING THE CITY OF ATLANTIC CITY – Casinos and Gaming; Redevelopment of Casino Properties and Additional Casino Development Projects", no assurances can be given that: (i) such redevelopment will prove successful and/or have a material positive impact upon the City; or (ii) additional redevelopment will continue to be undertaken in the City, whether related to casino properties or otherwise.

Additional Casino Closures and Casino Bankruptcies

As more fully described under the heading "INFORMATION REGARDING THE CITY OF ATLANTIC CITY – Casinos and Gaming", since 2014, five (5) casinos closed and several others have entered bankruptcy proceedings. The closure of additional casinos in the City (or the filing of additional bankruptcy proceedings by any casinos) may have an adverse impact upon the City as casino properties account for a significant share of the City's assessed valuation, provide a significant number of jobs for residents of the City and the County and provide significant revenue to the City in the form of taxes and PILOTs paid. No assurances can be given, and no representations are made, however, as to whether additional casino closures will occur (or whether additional casinos will institute bankruptcy proceedings) and, if so, the impact of such casino closures (or bankruptcy proceedings by casinos) upon the City.

Increased Gaming Competition and Proposals for Additional Casinos

For the vast majority of the period in which gaming has been legal in the City, the City's only other domestic gaming competition, to the extent that material competition existed at all, was found in the gaming properties located in the State of Nevada. More recently, the gaming industry has seen significant regionalization as a result of the legalization of gambling in major urban hubs located in proximity to the City with legalized gambling now permitted in: (i) eastern portions of the Commonwealth of Pennsylvania; (ii) upstate portions of the State of New York and in the Borough of Queens; (iii) throughout the State of Delaware; (iv) portions of the State of Maryland; (v) eastern portions of the State of Connecticut; (vi) portions of the Commonwealth of Massachusetts; and (vii) throughout the State of Rhode Island. Such regionalization has led to increased competition for the City and has resulted in decreased revenues for the City's casinos. No representations can be given, however, as to the continued and future effects of such regionalization upon the City or the gaming industry located therein.

In addition to the regionalized gaming as described above, in November of 2016, a consequential ballot referendum occurred in the State that would have, if approved, allowed casinos to be built in the

northern portion of the State (including in Jersey City and East Rutherford, each of which is located in close proximity to the City of New York), thereby ending the City's 40-year monopoly for legalized gambling in the State, which, if approved, would have provided additional competition for the gaming industry in the City. The referendum was soundly defeated by a margin of nearly 4 opposed to 1 in favor. Notwithstanding this result, a renewed ballot referendum as to whether casinos may be built in other portions of the State is permitted to be placed on the State ballot in 2018. No representations, however, can be given as to whether an additional ballot question will be included in 2018, what such a ballot question might authorize in terms of casino expansion beyond the City, or the likelihood of success (or failure) of such ballot question if appearing in 2018. While no assurances are given as to the ultimate expansion of casinos in northern New Jersey, the effects of such additional casinos on the gaming industry in the City would likely be material.

Further, in addition to a recently opened casino in the Borough of Queens (one of the five (5) Boroughs of the City of New York) several proposals have been provided to the New York State Gaming Commission requesting approval for the expansion of gambling into the Borough of Manhattan. To date, the New York State Gaming Commission has not reached any decision, nor granted any approvals, in response to such requests. However, if approved, such gaming properties would provide addition competition for the gaming industry in the City. No representations, however, can be given as to whether the New York State Gaming Commission will authorize the expansion of gambling in the State of New York into the Borough of Manhattan, nor can any representations be given, and none are given as to the effects of such additional casinos on the gaming industry in the City if permitted.

Future Capital Needs

The City, as a result of the recent financial constraints imposed upon it by virtue of casino closures and other fiscal limitations, has not undertaken a variety of capital improvement projects including, but not limited to, certain infrastructure improvements. Such capital improvement projects, if undertaken, may be paid for through the City's budget and/or through the issuance and sale of bonds, notes or other obligations in accordance with the MSRA.

Access of City to Capital Markets

There can be no assurance or guarantee that the City will be able to effectively access the capital markets for this or any future borrowing or that there will be a secondary market for the Bonds or, if a secondary market exists, that any Bonds can be sold for any particular price. Prices of note or bond issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price. No assurance can be given that the market price for the Bonds will not be affected by the introduction or enactment of any future legislation.

Changes in Tax Law

From time to time, the President of the United States, the United States Congress and/or state legislatures have proposed and could propose in the future, legislation that, if enacted, could cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent owners of the Bonds from realizing the full current benefit of the tax status of such interest. Clarifications of the Internal Revenue Code of 1986, as amended (the "Code"), or court decisions may also cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation. The introduction or enactment of any such legislative proposals or any clarification of the Code or court decisions may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any such pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion. See "TAX MATTERS – Changes in Federal and State Tax Law" below.

Force Majeure

The City is located on the Atlantic Ocean shoreline and has been, and may from time to time in the future be, subject to severe rain, wind, flooding and other naturally occurring events. Such events have previously caused significant damage to the City and have resulted in material economic, financial and operational impacts upon the City and the surrounding region. Such events may occur again in the future and may, if significant enough, have a material impact upon the City, its economy, finances and operations, as well as that of the surrounding region. The City cannot, however, predict, and does not predict, the occurrence of any such events or the impact of same.

Other Factors

In addition, the financial condition of the City as well as the market for the Bonds could be affected by a variety of factors, some of which are beyond the City's control. There can be no assurance that adverse events in the State and in other jurisdictions of the country, including, for example, the seeking by a municipality or large taxable property owner of remedies pursuant to the federal Bankruptcy Code or otherwise, will not occur which might affect the market price of and the market for the Bonds. If a significant default or other financial crisis should occur in the affairs of the State or any of its agencies or political subdivisions or in other jurisdictions of the country thereby further impacting the acceptability of obligations issued by borrowers within the State, both the ability of the City to arrange for additional borrowings, and the market for and market value of outstanding debt obligations, including the Bonds, could be adversely affected.

TAX MATTERS

Federal Income Tax Treatment

The Code establishes certain requirements that must be met at the time of, and on a continuing basis subsequent to, the issuance of the Bonds in order for interest thereon to be and remain excluded from gross income of the owners thereof for federal income tax purposes under Section 103 of the Code. Noncompliance with such requirements could cause such interest to be included in gross income of the owners thereof for federal income tax purposes retroactive to the date of issuance of the Bonds, regardless of when such noncompliance occurs. The City has covenanted to comply with the provisions of the Code applicable to the Bonds, and has covenanted not to take any action or fail to take any action that would cause interest on the Bonds to lose the exclusion from gross income of the owners thereof under Section 103 of the Code.

The opinions described under "Tax Opinions" below assume the accuracy of certain representations and compliance by the City with covenants designed to satisfy the requirements of the Code (the "Covenants"). The tax certificate of the City that will be delivered concurrently with the delivery of the Bonds (the "Tax Certificate"), will contain provisions and procedures regarding compliance with the requirements of the Code. The City, in executing the Tax Certificate, will certify to the effect that the City expects and intends to comply with the provisions and procedures contained therein. Bond Counsel has expressed no opinion regarding other federal tax consequences arising with respect to the Bonds.

In rendering the opinions described below with respect to the Bonds, Bond Counsel has relied upon the Covenants and has assumed the material accuracy of the representations, statements of intention and reasonable expectation, and certifications of fact contained in the Tax Certificate.

Tax Opinions

In the opinion of Pearlman & Miranda, LLC, Bond Counsel, under existing statutes and court decisions, interest on the Bonds is excluded from gross income of the owners thereof for federal income tax

purposes pursuant to Section 103 of the Code. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax imposed under the Code with respect to individuals and corporations, except that interest on the Bonds is included in "adjusted current earnings" in computing alternative minimum taxable income for purposes of the alternative minimum tax imposed by the Code on certain corporations.

Bond Counsel is further of the opinion that, under existing laws of the State of New Jersey, interest on the Bonds and any gain on the sale thereof are not includable in gross income under the New Jersey Gross Income Tax Act.

Original Issue Premium

The initial public offering price of each maturity of the Bonds is greater than the stated redemption price thereof at maturity. The difference between the initial public offering price for each Bond and the stated redemption price at maturity is "original issue premium." For federal income tax purposes, original issue premium is amortizable periodically over the term of a Bond through reductions in the holder's tax basis for the Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Amortizable premium is accounted for as reducing the tax-exempt interest on the Bond rather than creating a deductible expense or loss. Purchasers of the Bonds should consult their tax advisors for an explanation of the accrual rules for original issue premium and any other federal, state or local tax consequences of the purchase of Bonds with original issue premium.

Backup Withholding

Payments of interest on tax-exempt obligations, including the Bonds, are generally subject to Internal Revenue Service information reporting by the payor and "backup withholding" if the recipient has not furnished the payor with a completed Form W-9, certifying the recipient's tax identification number or basis for exemption. "Backup withholding" means that the payor will withhold tax from the interest payments at the backup withholding rate, currently 28%. If an owner purchasing any Bond through a brokerage account has executed a Form W-9 in connection with the account, as generally can be expected, there should be no backup withholding on the Bond interest. In any event, backup withholding does not affect the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's federal income tax once the required information is furnished to the Internal Revenue Service.

Certain Federal Tax Consequences

The accrual or receipt of interest on the Bonds may otherwise affect the federal income tax liability of the owners of the Bonds. The extent of these other tax consequences will depend upon such owner's particular tax status and other items of income or deduction. Bond Counsel has expressed no opinion regarding any such consequences. Purchasers of the Bonds, 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 or railroad retirement benefits, taxpayers otherwise entitled to claim the earned income credit, taxpayers entitled to claim the refundable credit in Section 36B of the Code for coverage under a qualified health plan or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the Bonds.

Changes in Federal and State Tax Law

The opinions of Bond Counsel are rendered as of their date and Bond Counsel assumes no obligation to update or supplement its opinions to reflect any facts or circumstances that may come to its attention or any changes in law or the interpretation thereof that may occur after the date of its opinions.

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under federal or state law or otherwise prevent beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such court decisions could affect the market price or marketability of the Bonds, even if such changes are made after the issuance of the Bonds.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the Bonds, including legislation, court decisions or administrative actions, whether at the federal or state level, may affect the exclusion from gross income of interest on the Bonds or the tax consequences of ownership of the Bonds. No assurance can be given that any pending or future legislation, or clarifications or amendments to the Code, if enacted into law, will not contain provisions which could directly or indirectly reduce the benefit of the exclusion of interest on the Bonds from gross income for federal tax purposes or any state tax benefit.

PROSPECTIVE PURCHASERS OF THE BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO ANY PENDING OR PROPOSED FEDERAL OR STATE TAX LEGISLATION, REGULATIONS OR LITIGATION, AND REGARDING THE IMPACT OF ANY FUTURE LEGISLATION, REGULATIONS OR LITIGATION, AS TO WHICH BOND COUNSEL EXPRESSES NO OPINION.

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

See Appendix C for the complete text of the proposed form of Bond Counsel's legal opinion with respect to the Bonds.

LITIGATION

As of the date hereof, to the knowledge of Anthony Swan, Esq., Atlantic City, New Jersey (the "City Solicitor"), there is no litigation of any nature now pending or threatened, restraining or enjoining the issuance or the delivery of the Bonds, challenging the validity or enforceability of the Bonds, or in any manner questioning the authority or the proceedings for the issuance of the Bonds or contesting the corporate existence or the boundaries of the City or the title of any of the present officers of the City, or, except as otherwise described herein under the heading "INFORMATION REGARDING THE CITY OF ATLANTIC CITY – State Intervention and Takeover; Casino Property Tax Stabilization Act; Outstanding Litigation Related to the CPTSA", the levy or the collection of any taxes to pay the principal of or the interest on the Bonds. A certificate to such effect will be executed by the City Solicitor and delivered to the Underwriter at the closing.

To the knowledge of the City Solicitor, except for the litigation related to the CPTSA described under the heading "INFORMATION REGARDING THE CITY OF ATLANTIC CITY – State Intervention and Takeover; Casino Property Tax Stabilization Act; Outstanding Litigation Related to the CPTSA", and the property tax appeal credits, settlements and judgments successfully litigated against the City, as described above under the heading "INFORMATION REGARDING THE CITY OF ATLANTIC CITY – Tax Appeals", no litigation is presently pending or threatened that, in the opinion of the City Solicitor, and based upon representations of the Chief Financial Officer, would have a material adverse impact on the financial condition of the City if adversely decided.

The City and, in some instances, its officers and/or employees, in their official capacity, are defendants in certain lawsuits which may be categorized as follows:

Negligence Actions: There are presently lawsuits alleging tortuous conduct and claiming damages against the City and defended by the City Solicitor's Office or contracted outside counsel. The City is self-insured to cover losses in connection with these cases. Additionally, the City retains an excess liability insurance policy which provides coverage of \$11 million in excess of the City's self-insured retention of \$1.25 million.

Prerogative Writ Action: There are presently several Prerogative Writ cases challenging municipal actions against the City and defended by the City Solicitor's Office or contracted outside counsel. At this time, it does not appear that any of these actions will have a materially adverse impact on the City.

Land Use Actions: The City is not a defendant in any suit concerning requirements for installation or the financing or operation of sewer or water utilities or other improvements with respect to any land use questions whereby the outcome would have a material adverse effect upon the financial status of the City.

Labor and Employment Matters: As described above under the heading "RISK FACTORS – Litigation Resulting from the MSRA", certain labor matters have recently been filed against the City. Each of such matters is described immediately below.

IAFF Local 198 v. City of Atlantic City et al. (Docket No.: ATL-L-222-17)

Plaintiffs International Association of Fire Fighters, AFL-CIO, Local 198 and William DiLorenzo (collectively, the "AFL-CIO Plaintiffs") commenced this action against defendants, the City, Charles Richman, Timothy Cunningham and Jeffrey Chiesa (collectively, "AFL-CIO Defendants") by way of Order to Show Cause on February 2, 2017, challenging the constitutionality of the MSRA and the AFL-CIO Defendants' actions thereunder. Later that same day, the Superior Court of New Jersey entered a Temporary Restraining Order enjoining and restraining the AFL-CIO Defendants from (a) implementing any layoffs of Atlantic City Firefighters; (b) altering the current schedules of Atlantic City Firefighters; or (c) implementing, among other things, any of the changes to the AFL-CIO Plaintiffs' contract.

On March 17, 2017, the Honorable Julio L. Mendez, A.J.S.C. entered an order (the "March 17 Order") (a) granting the AFL-CIO Plaintiffs' request for injunctive relief as to the City's proposal to reduce the workforce to 125 fire fighters and (b) denied the remainder of the AFL-CIO Plaintiffs' request for temporary relief, and ordered that the temporary restraints be lifted effective at the close of business on Monday, March 20, 2017. In the court's accompanying opinion rejecting the AFL-CIO Plaintiffs' constitutional challenges to the MSRA, Judge Mendez held that (a) "the [MSRA] was duly enacted by the State of New Jersey in response to the well documented financial distress of Atlantic City;" and (b) "the [MSRA] is a proper exercise of the State's inherent police power to pass legislation when it is necessary for the public welfare, health, and safety." (March 17 Order pp. 27-28).

On March 22, 2017, the Honorable Mark H. Sandson, P.J.CH. entered an order staying the March 17 Order for 20 days so that the AFL-CIO Plaintiffs could seek leave for a stay pending appeal from the Superior Court, Appellate Division. On April 5, 2017, the Appellate Division (a) denied the AFL-CIO Plaintiffs' motion for leave to appeal from paragraph two of the March 17, 2017 Order; (b) denied the AFL-CIO Plaintiffs' motion to stay paragraph two of the March 17, 2017 Order pending appeal; and (c) extended the stay of the March 17 Order until April 13, 2017.

The AFL-CIO Plaintiffs thereafter applied for emergent relief with the Supreme Court of New Jersey. On April 11, 2017, the Supreme Court denied the AFL-CIO Plaintiffs' request for permission to file an emergent motion and any related request for a temporary stay. Thereupon, the City implemented those changes to the parties "Collective Negotiations Agreement" that the Court had not enjoined. On April 28, 2017, the AFL-CIO Plaintiffs filed a First Amended Complaint and later filed a Second Amended Complaint on May 15, 2017.

On June 5, 2017, the AFL-CIO Defendants filed a motion to dismiss the Second Amended Complaint in its entirety. Oral argument was held in connection with that motion on August 17, 2017. The Court has yet to enter a decision in connection with the motion to dismiss.

On July 7, 2017, the AFL-CIO Defendants filed an application requiring Plaintiffs to show how, if at all, public safety would be impacted by a reduction in the Atlantic City Fire Department to 125 fire fighters. Oral argument was held on August 4, 2017. On August 25, 2017, the Court issued a written Opinion and Order in connection with that application. In its August 25 Opinion, the Court held that a reduction below 180 firefighters would upset public safety in the City, and further enjoined the AFL-CIO Defendants from reducing the number of fire fighters to below 180 other than through attrition and retirements. The AFL-CIO Defendants have filed a motion for reconsideration of the portion of the August 25 Opinion and Order that prohibits the AFL-CIO Defendants from reducing the Atlantic City Fire Department to below 180 fire fighters.

The Atlantic City Policemen's Benevolent Association Local 24, et al v. Christopher J. Christie, et al
(Docket No. ATL-L554-17)

Plaintiffs Atlantic City Policemen's Benevolent Association Local 24, the Atlantic City Superior Officers' Association, Matthew Rogers and Frank Brennan (collectively, the "PBA Plaintiffs") commenced this action against defendants Governor Christopher J. Christie, the City, Charles Richman, Timothy Cunningham and Jeffrey Chiesa (collectively, the "PBA Defendants") by way of Order to Show Cause on March 15, 2017 (the "PBA Order to Show Cause"), challenging the constitutionality of the MSRA and the PBA Defendants' actions thereunder. On March 17, 2017, the Court entered a temporary restraining order enjoining and restraining the PBA Defendants from (a) modifying wages or terms and conditions of employment between the City and the PBA Plaintiffs and (b) restraining the PBA Defendants from discharging, suspending, or managing any of the PBA Plaintiff's members currently employed by the City, among other things. The Superior Court held oral argument in connection with the PBA Order to Show Cause on April 10, 2017, and issued its Opinion and Order on May 23, 2017. In its May 23, 2017 Opinion, the Court found that the MSRA is constitutional and does not violate the Collective Negotiations, Takings, Due Process, Equal Protection, Special Legislation, Contracts, or Civil Service Clauses of the State Constitution. The Court lifted the temporary restraints, and denied Plaintiffs' petition for a preliminary injunction regarding reforms relating to (a) salary scale, (b) overtime calculus, (c) health insurance coverage, (d) longevity and educational incentive pay, (e) workers' compensation benefits, and (f) terminal leave over \$15,000. The Court, however, found that the PBA Plaintiffs had demonstrated a likelihood that they would prevail on their claims that the (a) reduction in the Police Force and (b) changes to the work schedule would jeopardize public safety.

On June 6, 2017, the PBA Defendants filed a motion to dismiss the Complaint in its entirety. Oral argument was held in connection with that motion on August 17, 2017. A decision on that motion is still pending.

On August 31, 2017, the Court entered an Order referring this matter to mediation before the Honorable Richard Williams (Ret.). The mediation is scheduled to take place on October 10, 2017.

AFSCME New Jersey & Thomas Flynn v. City of Atlantic City, et al. (Docket No.: ATL-L-1347-17)

Plaintiffs AFSCME New Jersey, a labor organization and the exclusive recognized collective bargaining representative of a collective bargaining unit to Lifeguards, Lead Lifeguards, Lieutenants and Sr. Lieutenants employed by the Atlantic City Beach Patrol, and Thomas Flynn, III (collectively, the "AFSCME Plaintiffs") commenced this action against defendants the City, Timothy Cunningham and Jeffrey Chiesa (collectively, the "AFSCME Defendants") by filing a Complaint in Lieu of Prerogative Writs challenging the validity of certain modifications made by the AFSCME Defendants to the pension eligibility rules for City's lifeguards. The AFSCME Defendants have filed a motion to dismiss the complaint, which motion is still pending.

In addition to the above matters, there are various labor and employment matters against the City and defended by the City Attorney's Office or contracted outside counsel. In all cases, the City is self-insured and there are appropriate reserves sufficient to cover losses based on experience. Additionally, the City retains an excess Workers' Compensation insurance policy providing coverage in excess of the City's self-insured retention. To the knowledge of the City Solicitor, the existing cases are covered under the self-insurance program with insurance excess coverage.

APPROVAL OF LEGAL PROCEEDINGS

All legal matters incident to the authorization, the issuance, the sale and the delivery of the Bonds are subject to the approval of Bond Counsel to the City, whose approving legal opinion will be delivered with the Bonds substantially in the form set forth as Appendix C hereto. Certain legal matters will be passed on for the City by the City Solicitor and for the Underwriter by its counsel, Parker McCay P.A., Mount Laurel, New Jersey.

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

MUNICIPAL BANKRUPTCY

General

The undertakings of the City should be considered with reference to 11 *U.S.C.* § 101 *et seq.*, as amended and supplemented (the "Bankruptcy Code"), and other bankruptcy laws affecting creditors' rights and municipalities in general. The Bankruptcy Code permits any political subdivision, public agency, or instrumentality of the State that is insolvent or unable to meet its debts to commence a voluntary bankruptcy case by filing a petition with a bankruptcy court pursuant to Chapter IX of the Bankruptcy Code for the purpose of effecting a plan to adjust its debts; directs such a petitioner to file with the court a list of petitioner's creditors; provides that a petition filed under this chapter shall operate as a stay of the commencement or continuation of any judicial or other proceeding against the petitioner; grants priority to certain debts owed; and provides that the plan must be accepted in writing by or on behalf of creditors holding at least two-thirds in amount and more than one half in number of the allowed claims of at least one (1) impaired class. The Bankruptcy Code specifically does not limit or impair the power of a state to control by legislation or otherwise, the procedures that a municipality must follow in order to take advantage of the provisions of the Bankruptcy Code.

The Bankruptcy Code provides that special revenues acquired by the debtor after the commencement of the case shall remain subject to any lien resulting from any security agreement entered into by such debtor before the commencement of such bankruptcy case. However, special revenues acquired by the debtor after commencement of the case shall continue to be available to pay debt service secured by those revenues. Furthermore, the Bankruptcy Code provides that a transfer of property of a debtor to or for the benefit of any holder of a bond or note, on account of such bond or note, may not be avoided pursuant to certain preferential transfer provisions set forth in such Bankruptcy Code.

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New Jersey

Generally

Pursuant to *N.J.S.A. 52:27-40 et seq.*, any municipality in the State, including the City, has the power to file a petition or petitions with any United States court or court in bankruptcy under the provisions of the Bankruptcy Code for the purpose of effecting a plan of readjustment of its debts or for the composition of its debts (collectively, a "plan of readjustment"); provided, however, (i) the filing of any such petition by a municipality must be authorized by an ordinance of the governing body of such municipality which has been adopted by the affirmative vote of not less than two-thirds of all of the members elected to such governing body, and (ii) such petition or petitions may not be so filed unless the prior approval of the Local Finance Board, as successor to the Municipal Finance Commission, is first obtained. Additionally, no plan of readjustment filed with or in the proceedings upon any such petition shall be approved by the court, put into temporary effect or finally confirmed without the approval of the Local Finance Board nor may any municipality accept any such plan as changed or modified after its filing with the court without express authority from the Local Finance Board to do so.

Pursuant to *N.J.S.A. 52:27-40 et seq.*, the Local Finance Board has the discretion to approve or not approve the filing of any petition by a municipality for the purpose of effecting readjustment of its debt which the municipality proposes to file and any plan of readjustment filed with or in the proceedings upon any such petition; provided, however, that no such plan of readjustment shall provide for the payment of fees, compensation, reimbursement or other allowances for attorneys, agents, committees or other representatives of creditors of the municipality except with the express written approval of the Local Finance Board of every such payment. The approval of the Local Finance Board of any petition, plan of readjustment or other papers to be filed in any United States court or court in bankruptcy, or of any ordinance to be approved by the Local Finance Board, is required to be requested by the filing in the office of the Local Finance Board of a certified copy of a resolution of the governing body of such municipality, which has been adopted by the affirmative vote of not less than two-thirds of all of the members elected to such governing body, requesting such approval, together with a true and correct certified transcript of any proceedings relating to such petition, plan of readjustment, other papers or ordinance, and the authorization thereof. The approval of the Local Finance Board of any petition, plan of readjustment or other papers filed or to be filed in a United States court or court in bankruptcy is evidenced only by the written endorsement of the Local Finance Board on the petition, plan of readjustment or other papers so filed and the approval of the Local Finance Board of any ordinance of the governing body of the municipality is evidenced only by the written endorsement of the Local Finance Board on a certified copy of such ordinance.

Applicability of Municipal Qualified Bond Act

Pursuant to the Municipal Qualified Bond Act, Withheld State Amounts are forwarded by the State Treasurer directly to the Paying Agent for the Bonds on or before the principal and interest payment dates for the Bonds and are to be deposited in an account established by the Paying Agent solely for the purpose of paying the principal of and interest on the Bonds. At no time are such Withheld State Amounts paid to or controlled by the City.

In addition, pursuant to the Municipal Qualified Bond Act, and notwithstanding any other provision of law to the contrary, such Withheld State Amounts are automatically subject to an express statutory lien and trust without further act or filing, which statutory lien and trust is paramount and superior to all other liens and interests of any kind in favor of the holders of "qualified" bonds under the Municipal Qualified Bond Act, including the Bonds. In addition, pursuant to the Municipal Qualified Bond Act, the lien created for the benefit of bondholders, including the holders of the Bonds, is perfected without delivery, recording, or notice. See "SECURITY AND SOURCE OF PAYMENT – Municipal Qualified Bond Act" herein.

Notwithstanding the foregoing, if and to the extent that the City were to file a petition under Chapter IX of the Bankruptcy Code for bankruptcy protection, the precise effect of the lien established by the Municipal Qualified Bond Act for Withheld State Amounts for the payment of the principal of and interest

on the Bonds is uncertain as the applicable provisions of the Municipal Qualified Bond Act have not, to date, been subject to legal challenge.

Implication of the MSRA

Pursuant to section 5(a)(3)(t) of the MSRA, while the City is designated as a "municipality in need of stabilization and recovery", the Director has conditional statutory authority to authorize and file, on behalf of the City, subject only to the written approval of the majority of the members of the JBOC, a petition and other pleadings and papers with any United States court or federal bankruptcy court for the purpose of effecting a plan of readjustment or composition of debts as set forth in *N.J.S.A. 52:27-40 et seq.*, and taking any other and further actions necessary or appropriate in connection with any case or proceeding.

Notwithstanding the foregoing provisions of the MSRA related to conditional authority of the Director to seek bankruptcy protection, pursuant to a resolution adopted on November 9, 2016, the Local Finance Board determined to withhold such authority from the Director. As a result, the implementation of the MSRA has not changed the otherwise applicable statutory procedures to be followed by the City in connection with any bankruptcy proceedings of the City under State law and under Chapter IX of the Bankruptcy Code.

Atlantic City

The City has not sought permission from the Local Finance Board to file, nor has the Director recommended, a bankruptcy petition. The above references to the Bankruptcy Code or N.J.S.A. 52:27-40 et seq. should not create any implication that the City expects to utilize the benefits of such laws, or that if utilized, the filing of a bankruptcy petition would be approved by the Local Finance Board or JBOC, as the case may be, or that any proposed plan would include a dilution of the source of payment of and security for the Bonds, or that the Bankruptcy Code or applicable State law could not be amended after the date hereof.

Opinion of Bond Counsel

Although the City has not authorized, nor has the Director recommended or sought, the filing of any bankruptcy petition or indicated in any manner that it expects to utilize the benefits of the provisions of the Bankruptcy Code or *N.J.S.A. 52:27-40 et seq.* described above, simultaneously with the issuance of the Bonds, Bond Counsel will be delivering its legal opinion to the City in substantially the form attached to this Official Statement as Appendix F relating to the characterization and treatment of the Withheld State Amounts for purposes of any proceeding commenced by the City under the Bankruptcy Code. Reference is hereby made to Appendix F for the full text of the opinion to be rendered by Bond Counsel for a complete description of all provisions thereof, including all of the assumptions, limitations and qualifications contained therein.

CONTINUING DISCLOSURE

In order to assist the Underwriter in complying with the requirements of Rule 15c2-12, as amended ("Rule 15c2-12"), promulgated under the Securities Exchange Act of 1934, as amended, the City will enter into a Continuing Disclosure Undertaking in substantially the form of Appendix D to this Official Statement, which should be read in its entirety.

The City has entered into various continuing disclosure undertakings relating to its previously issued bonds, and bonds for which the City is considered an obligated party, and has made certain continuing disclosure undertakings in the Official Statements pursuant to which such bonds were issued.

The City failed to comply with certain of its previous continuing disclosure undertakings in the following respects: (i) the City did not timely file its Audited Financial Statements for the years ended December 31, 2011 and 2013; (ii) the City did not timely file its budgets, as required by certain of its undertakings, for the years ended December 31, 2011 through 2014, and for the year ended December 31,

2016; (iii) the City was late in filing material event notices with respect to certain underlying and insured rating changes; and (iv) the City was late in filing certain financial information and operating data required by various undertakings, for the years ended December 31, 2011 through 2013. The City has made all the filings necessary to bring it into compliance. As of the date hereof, the City is in compliance in all material respects with its previous undertakings with regard to continuing disclosure for prior obligations issued.

The City has undertaken certain steps necessary to ensure future compliance with Rule 15c2-12 including, without limitation, engaging NW Financial Group LLC ("NW") as dissemination agent for a one (1) year period with respect to the Bonds and with respect to all of the City's other outstanding bonds. In connection therewith, NW has been tasked with, among other things, monitoring compliance with the City's ongoing continuing disclosure obligations and making necessary filings to the Municipal Securities Rule Making Board's Electronic Municipal Market Access data site.

LEGALITY FOR INVESTMENT

The State and all public officers, municipalities, counties, political subdivisions and public bodies, and agencies thereof, all banks, bankers, trust companies, savings and loan associations, savings banks and institutions, building and loan associations, investment companies, and other persons carrying on banking business, all insurance companies, and all executors, administrators, guardians, trustees, and other fiduciaries may legally invest any sinking funds, moneys or other funds belonging to them or within their control in any bonds of the City, including the Bonds, and such Bonds are authorized security for any and all public deposits.

UNDERWRITING

Pursuant a Bond Purchase Contract dated the date hereof, the Underwriter has agreed, subject to certain customary conditions precedent to closing, to purchase the Bonds at a purchase price of \$75,012,841.91. The purchase price reflects the principal amount of the Bonds in the amount of \$68,325,000.00, plus original issue premium in the amount of \$7,043,848.80 and less an Underwriter's discount in the amount of \$356,006.89. The Bonds are being offered to the public at the yields set forth on the inside front cover page of this Official Statement, which yields may be changed from time to time by the Underwriter without notice. The Bonds may be offered and sold to dealers, including the Underwriter and dealers acquiring the Bonds for their own account or any account managed by them, at yields higher than the public offering yields. The Underwriter's obligations are subject to certain conditions precedent, which if satisfied, will obligate the Underwriter to purchase all of the Bonds if any of the Bonds are purchased.

The following four (4) paragraphs have been furnished by the Underwriter for inclusion in this Official Statement. The City does not guarantee the accuracy or completeness of the information contained in such paragraphs and such information is not to be construed as a representation of the City.

The Underwriter and its affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial services. Under certain circumstances, the Underwriter and its affiliates may have certain creditor and/or other rights against the City in connection with such activities.

In the various course of their various business activities, the Underwriter and its affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investments and trading activities may involve or relate to assets, securities and/or instruments of the City (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the City.

The Underwriter and its affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

The Underwriter has entered into a retail distribution arrangement with its affiliate, Morgan Stanley Smith Barney LLC. As part of this arrangement, the Underwriter may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, the Underwriter may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

RATINGS

S&P and Moody's are expected to assign ratings and outlooks of "AA" (stable outlook) and "A2" (stable outlook), respectively, to the Bonds based upon the issuance of the Policy by AGM upon delivery of the Bonds.

S&P and Moody's have assigned enhanced ratings and outlooks of "BBB+" (stable outlook) and "Baa1" (stable outlook), respectively, to the Bonds based on the enhancement provided by the provisions of the Municipal Qualified Bond Act for the payment of the principal of and interest on the Bonds.

No rating has been assigned to the Bonds without regard to the Municipal Qualified Bond Act or the Policy. However, S&P and Moody's presently provide underlying ratings and outlooks of "CCC" (developing outlook) and "Caa3" (positive outlook), respectively, for the City. For information on the current general obligation bond ratings of the City, see Appendix A – "INFORMATION REGARDING THE CITY - General Obligation Bond Ratings".

Explanations of the significance of the ratings may be obtained from the S&P at 55 Water Street, New York, New York 10041 and from Moody's at 7 World Trade Center, 250 Greenwich Street, New York, New York 10007. Such ratings reflect only the views of S&P and Moody's, respectively, and an explanation of the significance of the ratings may be obtained from S&P and Moody's, as applicable. There is no assurance that the ratings will continue for any period of time or that they will not be revised or withdrawn entirely by S&P or Moody's, if in their respective judgment, circumstances so warrant. Any revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

The City has not agreed to maintain any particular rating on the Bonds. As set forth in the Continuing Disclosure Undertaking, the City has agreed to give notice of any actual ratings changes to the attention of the owners of the Bonds.

FINANCIAL STATEMENTS

The financial statements of the City for the year ended December 31, 2016 are presented in Appendix B to this Official Statement (the "Financial Statements"). The Financial Statements have been audited by Ford-Scott & Associates, Ocean City, New Jersey, an independent auditor (the "Auditor"), as stated in its report appearing in Appendix B to this Official Statement. See "APPENDIX B – Audited Financial Statements for the Year Ended December 31, 2016."

FINANCIAL ADVISOR

Acacia Financial Group, Inc., Mount Laurel, New Jersey served as financial advisor to the City (the "Financial Advisor") with respect to the issuance of the Bonds. This Official Statement has been prepared

with the assistance of the Financial Advisor. Certain information set forth herein has been obtained from the City and other sources, which are deemed reliable, but no warranty, guaranty or other representation as to the accuracy or completeness is made as to such information contained herein.

There is no assurance that any of the assumptions or estimates contained herein will be realized. The Financial Advisor is a financial advisory and consulting organization, and is not engaged in the business of underwriting, marketing or trading municipal securities or any other negotiable instrument.

PREPARATION OF OFFICIAL STATEMENT

The City hereby states that the descriptions and statements herein, including the financial statements, are true and correct in all material respects and it will confirm same to the Underwriter by certificates signed by the Director of Revenue and Finance/Chief Financial Officer of the City.

All other information has been obtained from sources that the City considers to be reliable and it makes no warranty, guaranty or other representation with respect to the accuracy and completeness of such information.

Bond Counsel has participated in the preparation of this Official Statement on behalf of the City, but has not participated in the preparation of the budget, financial or statistical information in this Official Statement, nor has it verified the accuracy, completeness or fairness thereof and, accordingly, takes no responsibility and expresses no opinion with respect to such budget, financial or statistical information.

The Financial Advisor has participated in the preparation of this Official Statement on behalf of the City, but has not participated in the preparation of the budget, financial or statistical information in this Official Statement, nor has it verified the accuracy, completeness or fairness thereof and, accordingly, takes no responsibility and expresses no opinion with respect to such budget, financial or statistical information.

ADDITIONAL INFORMATION

Inquiries regarding this Official Statement, including information additional to that contained herein, may be directed to Michael P. Stinson, CPA, Director of Revenue and Finance/Chief Financial Officer of the City at (609) 347-5800 or to the Financial Advisor at (856) 234-6697.

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MISCELLANEOUS

This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or holders of any of the Bonds. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as opinions and not as representations of fact. 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 have been no changes in the affairs in the City since the date thereof. The information contained in the Official Statement is not guaranteed as to accuracy or completeness.

CITY OF ATLANTIC CITY,
IN THE COUNTY OF ATLANTIC,
STATE OF NEW JERSEY

By /s/ Michael P. Stinson
Michael P. Stinson, CPA,
Director of Revenue and Finance/
Chief Financial Officer

September 20, 2017

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APPENDIX A

**CERTAIN GENERAL INFORMATION CONCERNING
THE CITY OF ATLANTIC CITY,
IN THE COUNTY OF ATLANTIC, STATE OF NEW JERSEY**

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INFORMATION REGARDING THE CITY¹

The following material presents certain economic and demographic information of the City of Atlantic City (the "City"), in the County of Atlantic (the "County"), State of New Jersey (the "State").

General Information

The City covers an area of approximately twelve (12) square miles and borders the Atlantic Ocean in the County, located in the southern portion of the State. It lies about sixty-five (65) miles southeast of Philadelphia and one hundred twenty-five (125) miles south of New York City. The location and climate of the City have traditionally enabled it to maintain itself as a recreational and resort center. In addition, casino gaming (which is discussed in further detail under the heading "LEGALIZED CASINO GAMING") has, for more than thirty-five (35) years, provided another attraction to go along with the existing beaches, boardwalk and ocean.

City municipal offices are located in an office building of adequate size in center-city. The office building was constructed in 1969 by the Atlantic County Improvement Authority, which leased the building to the City under a lease-purchase agreement until September 9, 1997. On such date, the lease was terminated and the office building was deeded to the City.

General Obligation Bond Ratings and Outlooks

As of the posting of this document, the outstanding general obligation bond ratings and outlooks of the City are as follows:

Standard & Poor's ² :	CCC (Developing Outlook)
Moody's Investors Service ³ :	Caa3 (Positive Outlook)

Form of Government

The City is governed by a Mayor-Council form of government with an appointed Business Administrator, which began on July 1, 1982, when the Mayor and nine Council members took office. Three of the Council members are elected at-large for four-year terms. The remaining six members are elected from wards. On November 7, 2000, the voters of the City approved a further change in the City's form of government, from a non-partisan to a partisan form of government. Under the partisan form of government, elections are held in November rather than May and elected terms begin on January 1st rather than July 1st.

Under the Mayor-Council form of government, the Business Administrator⁴ is appointed by the Mayor with the advice and consent of the Council and supervises all City departments as well as assists the Mayor in the preparation of the annual operating and capital budgets.

The City Council adopted an Administrative Code, by ordinance, which established the following departments: Administration, Revenue and Finance, Planning and Development, Public Works, Public Safety, Health and Human Services, License and Inspection, and Human Resources.

By virtue of Local Finance Board approval on November 9, 2016, the City is under direct State intervention and control pursuant to and in accordance with the Municipal Stabilization and Recovery Act, P.L.2016, c. 4 (N.J.S.A. 52:27BBBB-1 et seq.) ("MSRA").

Transportation

The City is accessible by land via the Garden State Parkway, a major north-south artery which is adjacent to the City and provides access to New York City, and the Atlantic City Expressway, which leads directly to Philadelphia. The Garden State Parkway going south connects with the Cape May-Lewes ferry service, which provides a convenient, modern method of crossing the Delaware Bay to points south. The South Jersey Transportation Authority constructed a \$330 million tunnel and roadway that links the Atlantic City Expressway with the Marina District. The New Jersey

¹ Source: *The City, unless otherwise indicated.*

² Please refer to S&P Global Ratings report dated March 7, 2017.

³ Please refer to Moody's Investors Service report dated May 11, 2017.

⁴ Pursuant to the MSRA, the Business Administrator is currently a State employee.

Transit Rail Terminal is located within the Convention Center and connects the City to Philadelphia at 30th Street Station and Amtrak's Northeast corridor lines.

Atlantic City International Airport (approximately fifteen miles distant) provides both commuter and regular air travel to and from five (5) cities year round and an additional five (5) cities on a seasonal basis.

Utilities/Public Works

Electricity is provided by the Atlantic City Electric Company and gas is provided by South Jersey Gas Co., a subsidiary of South Jersey Industries, Inc.

Sewerage facilities are provided by the Atlantic City Sewerage Company, a privately-held concern which, in turn, is a participant in the Atlantic County Utilities Authority, a public body created by resolution of the Atlantic County Board of Chosen Freeholders for the purpose of relieving waters in the Atlantic County Coastal Region from pollution or threatened pollution and for the improvement of conditions affecting public health. The Atlantic County Utilities Authority completed the construction of a wastewater treatment system for the Atlantic County Coastal Region and began operations on October 19, 1978. The Atlantic City Sewerage Company pays to the Atlantic County Utilities Authority annual service charges based on its percentage participation in the system.

The Atlantic City Municipal Utilities Authority ("ACMUA"), established by the City government, acquired the City Water Utility in 1980 and has assumed its operation. The ACMUA is solely responsible for operating, maintaining, managing, and improving the water system in the City. The ACMUA has the ability to deliver 21 million treated gallons of water per day (gpd). The peak single day requirement in 2016¹ was 16.388 million gpd and in 2015 was 15.315 million gpd.

City Employees

For the past five (5) years, and as of the dates shown below, the City reported the following number of full-time City employees.

<u>As of</u>	<u>Full-Time Employees</u>
8/1/2017	819
10/1/2016	894
8/1/2015	1,179
10/10/2014	1,238
7/1/2013	1,267
8/1/2012	1,274

¹ Source: ACMUA 2016 Annual Report.

Labor Contracts

Under the laws of the State, municipal employees have certain organizational and representational rights, which include the right to organize, to negotiate collectively through representatives of their choosing and to engage in lawful concerted activities for negotiating. State law prohibits strikes by public employees and there have been no strikes by municipal employees in the City since employees were granted the right to negotiate collectively. Under the terms of the Local Government Supervision Act, the Local Finance Board has the ability to be involved in the City's collective bargaining agreements. However, this authority has been enhanced pursuant to the MSRA. The Designee of the Director of the Division of Local Government Services has been given broad and sweeping authority to impact collective bargaining agreements.

As of August 15, 2017, the City's employees are organized into eight (8) collective bargaining units, as described below:

<u>Bargaining Unit</u>	<u>Job Category</u>	<u>Membership</u>	<u>Expiration Date</u>	<u>Number of Members¹</u>
PBA Local 24	Uniform Police	Police	12/31/2021 ²	249
Superior Officer's Assoc.	Captains/Lieutenant	Police	12/31/2021 ²	18
IAFF Local 198	Uniform Firefighters	Firefighters	12/31/2021 ³	201
AFL-CIO #2303	Blue Collar	Pub Works & Maint.	12/31/2014*	109
AFL-CIO-2303C	Beach Patrol	Lifeguards	12/31/2021 ⁴	135
GWU#910	Supervisors	Supervisors	12/31/2014*	64
ACWCPA	White Collar	All Others	12/31/2014*	268
IBEW #351	Construction Inspectors	Const. Inspectors	12/31/2014*	6
		Total:		1,050

* No new contracts have been entered into. The bargaining units continue to work under the terms of the expired contracts.

Retirement Systems

Substantially all full-time permanent or qualified City employees who began employment after 1944 must enroll in one of two retirement systems depending upon their employment status. These systems were established by acts of the State Legislature. Benefits, contributions, means of funding and the manner of administration are set by State law. The Division of Pensions, within the New Jersey Department of Treasury (the "Division"), is the administrator of the funds with the benefit and contribution levels set by the State. The City is enrolled in the Public Employees' Retirement System ("PERS") and the Police and Firemen's Retirement System ("PFRS").

The State sponsors and administers a defined contribution public employee retirement program covering certain state and local government employees which include those City employees who are eligible for pension coverage. The Defined Contribution Retirement Program ("DCRP") was established as of July 1, 2008 under the provisions of Chapter 92, P.L. 2008 and Chapter 103, P.L. 2008 (NJSA43:15C-1 et seq.). The DCRP is a cost sharing multiple-employer defined contribution pension fund. The DCRP provides eligible members, and their beneficiaries with a tax-sheltered, defined contribution retirement benefit, along with life insurance and disability coverage. Vesting and benefit provisions are established by NJSA 43:15C-1 et seq.

Pension Information⁵

Employees, who are eligible to participate in a pension plan, are enrolled in PERS or PFRS, administered by the Division. The Division annually charges municipalities and other participating governmental units for their respective contributions to the plans based upon actuarial calculations. The employees contribute a portion of the cost.

¹ Includes part-time and seasonal employees.

² As per Order of Hon. Assignment Judge Julio L. Mendez and Notice of Implementation dated June 7, 2017.

³ As per Notices of Implementation dated March 21, 2017 and July 12, 2017 and Order of Hon. Assignment Judge Julio L. Mendez dated March 17, 2017 and July 6, 2017.

⁴ As per Notice of Implementation dated May 19, 2017.

⁵ Source: State of New Jersey Department of Treasury, Division of Pensions and Benefits.

Lifeguards are required to enroll in a separate pension established under N.J.S.A. 43:13-23 (the "Plan"). The lifeguards contribute 4% of their salary to their pension and the City is required to budget the projected annual participants' distribution. The Plan is administered by a commission appointed by the Mayor.

The following table sets forth the City's annual pension payments and contributions to the Social Security System for the past five fiscal years.

ANNUAL PAYMENTS/CONTRIBUTIONS AS OF DECEMBER 31

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012¹</u>
A) Public Employees' Retirement System	\$4,363,865	\$ 0 ²	\$3,534,671	\$3,747,827	\$3,986,983
Social Security	2,524,120	3,134,205	3,426,666	3,485,016	3,485,016
Consolidated Police & Firemen's Pension Fund	0	416	404	685	342
B) Police & Firemen's Retirement System	15,605,750	83,762 ³	14,323,085	14,669,897	14,818,152
Defined Contribution Retirement	26,053	35,511	41,903	39,999	35,000
Lifeguard Pension	1,098,595	1,007,594	820,003	832,458	797,233
Pension Increase Act – CPF	18,582	54,902	48,191	36,502	104,670
Early Retirement – PERS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>790,431</u>
	<u>\$23,636,965</u>	<u>\$4,316,390</u>	<u>\$22,194,923</u>	<u>\$22,948,039</u>	<u>\$24,017,827</u>

Education⁴

The Atlantic City School District (the "School District") is coterminous with the boundaries of the City. The Board of Education of the City of Atlantic City (the "Board") is comprised of nine members, serving three-year staggered terms. The Superintendent is appointed by, and responsible to, the Board and is the executive in charge of the instruction program and personnel. The School Business Administrator/Board Secretary, also appointed by and responsible to the Board, oversees the business functions of the School District.

The School District is a Type II school district and provides a full range of educational services appropriate to pre-kindergarten through grade twelve (12), including regular and special education programs. The School District has send-receive agreements with the Brigantine City School District, Ventnor City School District, Margate City School District, and Longport Borough School District, allowing each of these school districts to send their ninth through twelfth grade students to the Atlantic City High School on a tuition basis. These agreements can only be severed by the New Jersey Commissioner of Education.

School District Staff

The Superintendent is the chief executive officer of the Board and is in charge of carrying out Board policies. The Board Secretary/School Business Administrator is the chief financial officer of the Board and must submit monthly financial reports to the Board and annual reports to the New Jersey Department of Education.

The following table presents the number of full and part-time teaching professionals and support staff of the School District as of June 30 for each of the past five (5) years.

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Teaching Professionals	753	752	837	823	823
Support Staff	<u>317</u>	<u>322</u>	<u>397</u>	<u>376</u>	<u>375</u>
Total Full & Part Time Employees	<u>1,070</u>	<u>1,074</u>	<u>1,234</u>	<u>1,199</u>	<u>1,198</u>

¹ The City elected to defer 50% of the PERS and PFRS payments due in 2009 which deferrals were repaid in 2012.

² PERS Payment of \$3,985,571 was deferred and not yet paid as of 8/24/16.

³ PFRS Payment of \$14,660,769 was deferred and not yet paid as of 8/24/16.

⁴ Source: Comprehensive Annual Financial Report of the School District.

School District Enrollments¹

The following table presents the historical average daily pupil enrollments for the past five (5) school years.

Pupil Enrollment		
<u>School Year</u>		<u>Enrollment</u>
2016	- 2017	7,054
2015	- 2016	7,155
2014	- 2015	7,188
2013	- 2014	7,221
2012	- 2013	7,290

Description of School Facilities¹

The Board presently operates the following school facilities:

<u>Facility</u>	<u>Construction</u>	<u>Grade Level</u>	<u>Student Enrollment (as of 6/30/17)</u>
Atlantic City High School	1994	9-12	1,896
Brighton Avenue	1916	K-5	368
Chelsea Heights School	1950	K-8	373
Dr. Martin Luther King Jr. School Complex	1976	Pre K-8	636
New York Avenue School	2004	Pre K-8	569
Pennsylvania Avenue	2012	K-6	555
Richmond Avenue	2012	K-6	665
Sovereign Avenue School	2004	Pre K-8	743
Texas Avenue School	1928	K-8	551
Uptown School Complex	1977	K-8	601
Venice Park School	1950	Pre K	97

Population²

The following table summarizes population increases and decreases for the City, the County, and the State.

<u>Year</u>	<u>City</u>		<u>County</u>		<u>State</u>	
	<u>Population</u>	<u>% Change</u>	<u>Population</u>	<u>% Change</u>	<u>Population</u>	<u>% Change</u>
2010	39,558	(2.37)	274,549	8.71	8,791,894	4.49
2000	40,517	6.66	252,552	12.58	8,414,350	8.85
1990	37,986	(5.51)	224,327	15.56	7,730,188	4.96
1980	40,199	(16.01)	194,119	10.90	7,365,001	2.75
1970	47,859	(19.62)	175,043	8.80	7,168,164	18.15

¹ Source: Comprehensive Annual Financial Report of the School District.

² Source: United States Department of Commerce, Bureau of the Census.

Employment and Unemployment Comparisons¹

For the following years, the New Jersey Department of Labor reported the following annual average employment information for the City, the County, and the State.

<u>City</u>	<u>Total Labor Force</u>	<u>Employed Labor Force</u>	<u>Total Unemployed</u>	<u>Unemployment Rate</u>
2017 ⁽²⁾	15,300	14,000	1,300	8.7%
2016	15,258	13,717	1,525	10.1
2015	15,913	13,819	2,094	13.2
2014	16,700	14,200	2,500	15.0
2013	16,477	13,765	2,712	16.5
2012	16,794	13,871	2,923	17.4
<u>County</u>				
2017 ⁽²⁾	125,200	117,200	8,000	6.4%
2016	124,050	114,867	9,175	7.4
2015	127,700	115,700	12,000	9.4
2014	132,700	118,700	14,000	10.5
2013	132,840	116,879	15,961	12.0
2012	135,626	117,774	17,852	13.2
<u>State</u>				
2017 ⁽²⁾	4,547,700	4,351,700	196,000	4.3%
2016	4,559,375	4,336,358	222,983	4.9
2015	4,543,800	4,288,800	255,000	5.6
2014	4,513,600	4,209,700	303,900	6.7
2013	4,585,550	4,198,492	387,058	8.4
2012	4,595,500	4,159,300	436,200	9.5

Income³

<u>Income (as of 2010)</u>	<u>City</u>	<u>County</u>	<u>State</u>
Median Household Income	\$28,526	\$55,222	\$71,180
Median Family Income	33,587	68,652	86,779
Per Capita Income	19,840	27,613	35,768

Comparison of Tax Levies and Collections⁴

<u>Year</u>	<u>Tax Levy</u>	<u>Current Year Collection</u>	<u>Current Year Percentage of Collection</u>
2016 ⁽⁵⁾	\$243,392,800	\$231,758,652	95.22%
2015 ⁽⁶⁾	240,246,154	236,406,571	98.40
2014 ⁽⁷⁾	347,223,794	337,094,258	97.08
2013 ⁽⁸⁾	358,998,095	354,102,158	98.64
2012 ⁽⁹⁾	363,741,586	358,976,575	98.69

¹ Source: New Jersey Department of Labor, Office of Research and Planning, Division of Labor Market and Demographic Research, Bureau of Labor Force Statistics, Local Area Unemployment Statistics.

² 2017 Employment and Unemployment Comparisons are as of June 2017.

³ Source: US Bureau of the Census 2010.

⁴ Source: Annual Audit Reports of the City.

⁵ Reduced by \$8,120,219 in successful tax appeals.

⁶ Reduced by \$11,502,196 in successful tax appeals.

⁷ Reduced by \$31,083,726 in successful tax appeals.

⁸ Reduced by \$7,202,241 in successful tax appeals.

⁹ Reduced by \$27,796,636 in successful tax appeals.

Delinquent Taxes and Tax Title Liens¹

<u>Year</u>	<u>Amount of Tax Title Liens</u>	<u>Amount of Delinquent Tax</u>	<u>Total Delinquent</u>	<u>% of Tax Levy</u>
2016	\$10,907,385	\$8,716,807	\$19,624,192	7.80%
2015	9,094,923	686,027	9,780,320	4.07
2014	6,376,804	1,577,837	7,954,641	2.29
2013	5,218,101	2,738,661	7,956,762	2.22
2012	4,016,847	71,562	4,088,409	1.12

Property Acquired by Tax Lien Liquidation¹

<u>Year</u>	<u>Amount</u>
2016	\$29,087,600
2015	31,224,800
2014	30,672,100
2013	29,563,900
2012	27,022,200

Tax Rates per \$100 of Net Valuations Taxable and Allocations²

The table below lists the tax rates per \$100 of net valuation taxable for City residents for the past five (5) years.

<u>Year</u>	<u>Municipal</u>	<u>Local School</u>	<u>County</u>	<u>Total Taxes</u>
2017	\$1.831	\$1.349	\$0.241	\$3.421
2016	1.941	1.536	0.383	3.860
2015	1.798	1.239	0.385	3.422
2014	1.794	1.197	0.357	3.348
2013	1.384	0.929	0.229	2.542
2012	1.131	0.742	0.292	2.165

¹ Source: Annual Audit Reports of the City.

² Source: 2016-2012 - Abstract of Ratable and State of New Jersey -- Property Taxes; 2017 - the City.

Valuation of Property^{1, 2}

<u>Year</u>	<u>Aggregate Assessed Valuation of Real Property</u>	<u>Aggregate True Value of Real Property</u>	<u>Ratio of Assessed to True Value</u>	<u>Assessed Value of Personal Property</u>	<u>Equalized Valuation</u>
2017 ³	\$3,106,630,700	\$3,068,580,304	101.24%	Not Available	Not Available
2016	6,509,752,640	6,430,020,387	101.24	\$6,128,664	\$6,436,149,051
2015	7,342,866,355	8,394,725,454	87.47	7,027,851	8,401,753,305
2014	11,266,179,115	11,260,548,841	100.05	6,538,788	11,267,087,629
2013	14,394,905,145	15,084,255,627	95.43	7,968,531	15,092,224,158
2012	18,078,249,000	15,016,404,186	120.39	9,086,367	15,025,490,553

Classification of Ratables^{4, 5}

The table below lists the comparative assessed valuation for each classification of real property within the City for the past five (5) years.

<u>Year</u>	<u>Vacant Land</u>	<u>Residential</u>	<u>Farm</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Apartments</u>	<u>Total</u>
2016	\$415,929,500	\$1,685,997,740	\$0	\$4,251,201,600	\$4,972,800	\$151,651,000	\$6,509,752,640
2015	462,757,500	1,910,222,855	0	4,792,899,500	4,069,800	172,916,700	7,342,866,355
2014	768,923,100	2,100,464,715	0	8,207,089,300	4,069,800	185,632,200	11,266,179,115
2013	990,057,400	2,276,786,145	0	10,931,800,500	4,434,800	191,826,300	14,394,905,145
2012	1,047,061,800	2,529,214,300	0	14,273,972,200	4,484,800	223,515,900	18,078,249,000

¹ Source: 2016-2012: Abstract of Ratable and State of New Jersey -- Table of Equalized Valuations.

² Source: 2017: Equalization Table, County of Atlantic for the Year 2017; Preliminary; Certain information to be finalized and/or updated upon finalization of the County of Atlantic 2017 Abstract of Ratable.

³ Due to the MSRA and the CPTSA (hereinafter defined), casino properties in the City are being specially assessed in the form of specific payments in lieu of taxes to be paid to the City, the County of Atlantic and the Atlantic City School District for a term of ten (10) years, commencing in calendar year 2017. Due to this property tax abatement, the assessed valuations of the casino properties are removed from the tax base which drastically reduces the size of the overall assessed valuation of real property that the general tax rate is applied against, as shown in the chart.

⁴ Source: Abstract of Ratables and State of New Jersey -- Property Value Classification.

⁵ Due to the MSRA and the CPTSA (hereinafter defined), casino properties in the City are being specially assessed in the form of specific payments in lieu of taxes to be paid to the City, the County of Atlantic and the Atlantic City School District for a term of ten (10) years, commencing in calendar year 2017. Due to this property tax abatement, the assessed valuations of the casino properties are removed from the tax base which drastically reduces the size of the overall assessed valuation of real property that the general tax rate is applied against. Upon release of the 2017 Abstract of Ratable, the 2017 Classification of Ratable chart will show this reduction from 2016.

Largest Non-Casino Taxpayers

The twenty (20) largest non-casino taxpayers in the City in 2017 and their assessed valuations are listed below (taxpayers with an * have tax appeals pending on their property):

<u>Name of Taxpayer</u>	<u>Property Assessed</u>	<u>2017 Assessed Valuation</u>
1) Trump Taj Mahal Assoc.	Trump Taj Mahal Casino/Hotel	\$224,681,400
2) Mirage A C Corp (MAC)*	Land Holdings	153,454,596
3) Flagship Resorts	Time Share Condominiums	51,743,300
4) TJM Atlantic City LLC*	Claridge Hotel	40,337,000
5) Fairfield Resorts	Time Share Condominiums	35,985,900
6) TJM AC Hotel LLC	Former Atlantic Club Hotel	35,907,700
7) Boardwalk Piers	Former Sands Casino/Hotel Site	33,012,400
8) AC Holding Corp*	Land Holdings	32,044,800
9) Atlantic Palace Condominium Assoc.	Condominiums/Timeshare	24,153,300
10) Showboat Renaissance	Former Showboat Casino/Hotel	23,000,000
11) CRDA	Sheraton Hotel	22,900,000
12) Boardwalk Regency Corp	The Pier @ Caesars + Employee Office	15,080,700
13) Grand Prix Atlantic City	Quality Inn	13,700,000
14) Atlantic Ventures, LP	Chelsea Village Apartments	13,100,000
15) CRDA/Renaissance*	Renaissance Plaza (Retail)	13,000,000
16) Trump Plaza Corp	Trump Plaza Casino/Hotel	11,735,615
17) Thermal Energy Limited Prtnshp	Thermal Energy Facility	11,039,300
18) Atlantic City Development Corp	Future site of Stockton University	10,849,900
19) The Ocean at 101 Boardwalk	Waterside Apartments	9,400,000
20) Arctic Realty Co., LLC	Arctic Realty Co., LLC	8,911,800

Largest Casino Taxpayers (PILOT Participants)

Pursuant to the Casino Property Tax Stabilization Act, P.L.2016, c.5 (the "CPTSA"), for the purpose of addressing the financial difficulties faced by the City resulting from the loss of property value in the City and the inconsistencies in property taxes collected and paid by casino properties in the City, a measure of financial certainty has been implemented in the form of specific payments in lieu of taxes to be paid to the City, the County of Atlantic and the Atlantic City School District for a term of ten (10) years. The CPTSA provides that the total PILOT amount to be paid by all casino gaming properties for calendar year 2017 is \$120,000,000 (i.e., the aggregate PILOT to be paid by all casino gaming property owners is \$120,000,000, which amount is divided among each casino gaming property according to a formula set forth in the CPTSA). Casino properties affected by the CPTSA and their 2017 PILOT share percentages are listed below:

<u>Taxpayers (PILOT Participants)</u>	<u>Description</u>	<u>2017 PILOT Percentage (%)</u>
Marina District Development Corp ¹	Borgata Casino/Hotel	25.37%
Marina Associates	Harrah's Casino/Hotel	19.57%
Adamar of New Jersey	Trop World Casino/Hotel	12.26%
Boardwalk Regency	Caesars Casino/Hotel	9.94%
Revel Atlantic City LLC ²	Revel Casino/Hotel	6.94%
Bally Park Place, Inc.	Ballys Park Place Casino/Hotel	9.68%
Golden Nugget Atlantic City	Golden Nugget Casino/Hotel	7.69%
Resorts International Inc.	Resorts Casino/Hotel	8.56%

¹ On June 8, 2017, the City paid the Borgata \$72,000,000 in settlement of tax appeals filed for tax years 2009 through and including 2015.

² Closed as of September 2, 2014.

Financial Operations¹

The following table summarizes the City's Current Fund budget for 2017 and the past five (5) fiscal years ending December 31. This summary should be used in conjunction with the tables from which it is derived.

Summary of Current Fund Budget						
<u>Anticipated Revenues</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Fund Balance	\$0	\$0	\$0	\$0	\$0	\$0
Miscellaneous Revenues	164,236,341	115,270,468	127,778,776	58,208,769	32,050,736	29,732,862
Receipts from Delinquent Taxes	1,000,000	0	2,500,000	1,000,000	4,500,000	500,000
Amount to be Raised by Taxes for Support of Municipal Budget	59,906,370	126,437,859	132,166,338	202,155,401	209,203,904	204,484,929
Total Revenue:	<u>\$222,142,711</u>	<u>\$241,708,327</u>	<u>\$262,445,114</u>	<u>\$261,364,170</u>	<u>\$245,754,640</u>	<u>\$234,717,791</u>
<u>Appropriations</u>						
General Appropriations inside "CAPS"	\$184,513,010	\$176,560,556	\$162,705,435	\$185,112,992	\$187,522,938	\$186,858,584
Operations outside "CAPS"	4,701,314	7,641,699	57,476,799	24,768,695	5,360,750	10,236,181
Deferred Charges	1,395,654	14,490,514	2,328,307	5,150,499	11,284,029	2,141,521
Capital Improvement Fund/Projects	200,000	200,000	200,000	4,373,759	500,000	250,000
Municipal Debt Service	29,126,426	36,782,942	34,697,364	36,895,825	36,752,330	32,510,182
Reserve for Uncollected Taxes	<u>2,206,307</u>	<u>6,032,615</u>	<u>5,037,209</u>	<u>5,062,400</u>	<u>4,334,593</u>	<u>2,721,323</u>
Total Appropriations:	<u>\$222,142,711</u>	<u>\$241,708,327</u>	<u>\$262,445,114</u>	<u>\$261,364,170</u>	<u>\$245,754,640</u>	<u>\$234,717,791</u>

Fund Balance - Current Fund²

The following table lists the City's fund balance and amount utilized in the succeeding year's budget for the Current Fund for the past five (5) fiscal years ending December 31.

<u>Year</u>	<u>Balance 12/31</u>	<u>Utilized in Budget of Succeeding Year</u>
2016	\$11,775,316	\$0
2015	4,947,434	0
2014	3,110,408	0
2013	2,257,628	0
2012	2,257,628	0

¹ Source: Annual Adopted Budgets of the City.

² Source: Annual Audit Reports of the City.

DEBT INFORMATION FOR YEAR ENDED DECEMBER 31, 2016

City Indebtedness as of December 31, 2016¹

General Purpose Debt

Serial Bonds*	\$223,646,000
Bond Anticipation Notes	0
Bonds and Notes Authorized but Not Issued	480,000
Other Bonds, Notes and Loans	<u>14,719,148</u>
Total:	\$238,845,148

Local School District Debt

Serial Bonds	\$70,696,000
Temporary Notes Issued	0
Bonds and Notes Authorized but Not Issued	<u>0</u>
Total:	\$70,696,000

Self-Liquidating Debt

Serial Bonds	\$0
Bond Anticipation Notes	0
Bonds and Notes Authorized but Not Issued	0
Other Bonds, Notes and Loans	<u>0</u>
Total:	\$0

TOTAL GROSS DEBT **\$309,541,148**

Less: Statutory Deductions	
General Purpose Debt	\$14,719,148
Local School District Debt	70,696,000
Self-Liquidating Debt	<u>0</u>
Total:	\$85,415,148

TOTAL NET DEBT **\$224,126,000**

**Includes outstanding bonds as of December 31, 2016 in the amount of \$53,335,000 issued under the Municipal Qualified Bond Act.*

¹ Source: 2016 Annual Debt Statement of the City.

Overlapping Debt as of December 31, 2016

<u>Name of Related Entity</u>	<u>Related Entity City Debt Outstanding</u>	<u>Percentage¹</u>	<u>City Share</u>
Local School District	\$70,696,000	100.00%	\$70,696,000
County	152,426,901	20.45	31,178,859
Municipal Utilities Authority*	14,719,148	100.00	<u>14,719,148</u>
Net Indirect Debt			116,594,007
Net Direct Debt			<u>224,126,000</u>
Total Net Direct and Indirect Debt			<u>\$340,720,007</u>

**The Atlantic City Municipal Utilities Authority is self-liquidating.*

Debt Limit as of December 31, 2016

Average Equalized Valuation Basis (2014, 2015, 2016)	\$8,695,098,227
Permitted Debt Limitation (3 1/2%)	304,328,437
Less: Net Debt	<u>224,126,000</u>
Remaining Borrowing Power	<u>\$80,202,437</u>
Percentage of Net Debt to Average Equalized Valuation	2.578%
Gross Debt Per Capita based on 2010 population of 39,558	\$7,825
Net Debt Per Capita based on 2010 population of 39,558	\$5,666

DEBT INFORMATION AS OF SEPTEMBER 1, 2017**City Indebtedness as of September 1, 2017****General Purpose Debt**

Serial Bonds ²	\$282,596,000
Bond Anticipation Notes	0
Bonds and Notes Authorized but Not Issued ³	80,480,000
Other Bonds, Notes and Loans	<u>12,899,788</u>
Total:	\$375,975,788

Local School District Debt

Serial Bonds	\$67,521,000
Temporary Notes Issued	0
Bonds and Notes Authorized but Not Issued	<u>0</u>
Total:	\$67,521,000

Self-Liquidating Debt

Serial Bonds	\$0
Bond Anticipation Notes	0
Bonds and Notes Authorized but Not Issued	0
Other Bonds, Notes and Loans	<u>0</u>
Total:	\$0

TOTAL GROSS DEBT**\$443,496,788**

¹ City percentage of County debt is based on the City's share of total equalized valuation in the County for calendar year 2016.

² Includes outstanding bonds as of September 1, 2017 in the amount of \$122,710,000 issued under the Municipal Qualified Bond Act.

³ Includes the not to exceed borrowing amount of \$80,000,000 for the issuance of the 2017B Bonds.

Less: Statutory Deductions	
General Purpose Debt	<u>\$12,899,788</u>
Local School District Debt	67,521,000
Self-Liquidating Debt	<u>0</u>
Total:	\$80,420,788
TOTAL NET DEBT	<u>\$363,076,000</u>

Overlapping Debt as of September 1, 2017

<u>Name of Related Entity</u>	<u>Related Entity City Debt Outstanding</u>	<u>Percentage¹</u>	<u>City Share</u>
Local School District	\$67,521,000	100.00%	\$67,521,000
County	143,070,343	20.45	29,257,885
Municipal Utilities Authority*	<u>12,899,788</u>	100.00	<u>12,899,788</u>
Net Indirect Debt			109,678,673
Net Direct Debt			<u>363,076,000</u>
Total Net Direct and Indirect Debt			<u>\$472,754,673</u>

**The Atlantic City Municipal Utilities Authority is self-liquidating.*

Estimated Debt Limit as of September 1, 2017²

Average Equalized Valuation Basis (2014, 2015, 2016) ³	\$8,695,098,227
Permitted Debt Limitation (3 1/2%)	304,328,437
Less: Net Debt	<u>363,076,000</u>
Remaining Borrowing Power	<u>(58,747,563)</u>
Percentage of Net Debt to Average Equalized Valuation	4.18%
Gross Debt Per Capita based on 2010 population of 39,558	11,211
Net Debt Per Capita based on 2010 population of 39,558	9,178

¹ City percentage of County debt is based on the City's share of total equalized valuation in the County for calendar year 2016.

² The City, as of September 1, 2017, exceeded its statutory debt limitation of 3.5%. The City, in connection with the issuance of the 2017B Bonds, received approval from the Local Finance Board to exceed its statutory debt limitation.

³ Assumes the three (3) year average equalized valuation basis as of December 31, 2016 Annual Debt Statement. It should be noted that upon filing the City's December 31, 2017 Annual Debt Statement in January of 2018, the three (3) year average equalized valuation will be reduced due to factoring in the 2017 equalized valuation in the three (3) year calculation. This will result in further increases in the percentage of net debt to average equalized valuation and further limits the City's debt capacity and ability to issue debt in the near future.

CITY TOURISM INDUSTRY

State Tourism District

In July of 2010, Governor Christie announced plans for the improvement of the City's entertainment and gaming districts. Under the plan and based upon a February 2010 State commission review, a State Tourism District (the "Tourism District") was created in the City and overseen by the State. The Governor's plan increased marketing efforts of the City's entertainment, meeting and convention businesses as well as sought to improve transportation options to the City. A master plan for the Tourism District, which includes gaming and non-gaming attractions, was finalized on February 1, 2012. Under a resolution adopted by the Casino Reinvestment Development Authority ("CRDA") in April of 2011, CRDA was designated to oversee the Tourism District which includes the Boardwalk, The Walk outlet stores, and the City's Marina District. CRDA is authorized, among other things, to facilitate development by assuming planning, zoning, and other land use functions. The City's former Special Improvement District, which was funded by a special tax on businesses in the central business district to improve such district, was made part of the Tourism District.

Over the past several years, the Governor and State Legislature have taken various actions to centralize redevelopment and tourism development efforts for the City. Efforts that were previously undertaken by various State and local entities are now the responsibility of CRDA. Redevelopment and tourism development has been centered in CRDA, focusing its existing powers and expanding its responsibilities and powers. Since 2011, CRDA has: (i) developed the master plan for the Tourism District and taken over city planning responsibilities and land use powers from the City for the Tourism District; (ii) taken over management of the Special Improvement District with its Clean & Safe program and expanded the "Ambassador Corp" from 15 to 75; (iii) taken over the management of the Atlantic City Convention Center Project - outsourcing management of both facilities and marketing of Boardwalk Hall to Global Spectrum and the sales and marketing of the Atlantic City Convention Center to Meet AC, Inc.; and (iv) refocused its reinvestment initiatives exclusively in City, and expanded the reinvestment activities to include non-gaming amenities within the casino properties (i.e., Bass Pro Shop retail complex, Resorts Margaritaville and Harrah's Conference Center). In April 2017, the master plan was amended to bolster the original document and include a statement of objectives, land use element and housing element.

CRDA has been spearheading the mission of the Tourism District by efforts to: (i) grow the convention meeting and group tourism business during peak and off-peak periods at the Convention Center, (ii) expand the use of Boardwalk Hall for signature entertainment events; and (iii) diversify the City's regional economy by increasing demand for non-gaming amenities and attractions, including restaurants, retail and ancillary businesses and uses that support the tourism industry.

Atlantic City Alliance

The Atlantic City Alliance ("ACA"), a private non-profit that was created in accordance with chapter 18 of the Laws of 2011 of the State (the "2011 Act"), is a partner with CRDA, but privately funded. The mission of the ACA is to revitalize and rebuild the City's reputation and to broaden the destination's appeal beyond a gaming area to a multi-night, year-round destination in order to drive increased visitation. The ACA is funded at \$150 million over a five year period. Funds are derived from casino contributions, mandated by the 2011 Act. The ACA is responsible for the multi-million dollar tourism marketing campaign; "Do Anything, Do Everything, Do AC" that was first launched in the spring of 2012. The goal of the campaign is to make visitors aware of the oceanfront location of the City and the wide variety of visitor activities and amenities available for visitors to enjoy year round. The ACA is also responsible for creating destination-wide events and works, not only with CRDA, but also with the private industry, the City and the State on a range of programs.

Visitor Statistics¹

The following table shows annual visitor statistics for the years 2012 through and including 2016.

Annual Trips to the City

<u>Year</u>	<u>Car²</u>	<u>Air³</u>	<u>Bus</u>	<u>Rail</u>	<u>Total</u>	<u>Percent Change</u>
2016	18,809,694	1,207,273	1,123,553	1,100,269	22,240,789	0.16%
2015	18,552,596	1,200,295	1,267,510	1,185,164	22,205,563	(4.30%)
2014	19,088,597	1,211,667	1,688,221	1,215,008	23,203,493	(6.00%)
2013	20,223,208	1,136,350	2,079,580	1,245,979	24,685,117	(4.41%)
2012	20,593,433	1,385,878	2,539,926	1,305,470	25,824,707	(4.59%)

Convention Industry

The City, through the "Meet AC" campaign has been working to expand the number of conventions and visitors to the City. With the facilities offered by Boardwalk Hall (hereinafter defined) and the Atlantic City Convention Center (the "Convention Center"), the City is able to accommodate a substantial number of conventions and special events.

The Atlantic City Convention Center Project (the "Convention Center Project") consists primarily of: (i) the operation of the East and West Halls (as hereinafter defined) which the New Jersey Sports and Exposition Authority ("NJSEA") acquired by lease from the Atlantic County Improvement Authority ("ACIA"), and (ii) the acquisition from ACIA by lease of a site in the City, and the construction thereon, and operation of a new convention center, known as the Atlantic City Convention Center. The West Hall and the Convention Center were subsequently conveyed by ACIA to NJSEA.

Original Convention Halls

The original convention halls (including the East and West halls) (the "Boardwalk Hall") are located on an approximately 10-acre site within the City, bounded by the Boardwalk, Mississippi Avenue, Pacific Avenue and Florida Avenue. The Boardwalk Hall consists primarily of: (i) two main convention halls (the east hall of approximately 119,500 square feet of contiguous exhibit space (the "East Hall") and the west hall of approximately 181,000 square feet of contiguous exhibit space (the "West Hall")); (ii) a ballroom of approximately 23,100 square feet; (iii) street level garage/alternate exhibition space of approximately 118,000 square feet; and (iv) approximately 30,000 square feet of meeting rooms. The East Hall has historically served as a convening place for national and international organizations and as host venue for the Miss America Pageant, except during the years 2005-2012 when the Pageant changed locations. The Pageant returned to the East Hall in 2013. The East Hall was listed on the New Jersey State Register of Historic Places on March 2, 1993 and the United States Register of Historic Places as a National Historic Landmark on February 27, 1987. As part of the Convention Center Project, the East Hall was substantially renovated in 2001. The restored and renovated East Hall houses a 10,000-14,000 seat special events center to host concerts, boxing, sporting events, family shows, ice shows and other public events. The total cost of the renovation was approximately \$99,543,000.

Convention Center

The Convention Center is located on an approximately 30-acre site at the foot of the Atlantic City Expressway within the City. Completed in May 1997, the Convention Center consists primarily of approximately 486,000 square feet of contiguous exhibit space, approximately 114,000 square feet of meeting space and approximately 648,000 square feet of garage space. The total cost of constructing the Convention Center was approximately \$265,500,000. In addition, the ACIA invested approximately \$90,000,000 to finance site acquisition, improvement and environmental remediation costs, certain relocation expenses, engineering and architectural specifications for the construction of the Convention Center and the completion of a rail terminal (which is currently serviced by New Jersey Transit Corporation).

¹ Source: South Jersey Transportation Authority website- www.sjta.com.

² Cars include only those going through the Pleasantville Plaza.

³ Air traffic includes all passengers traveling through the Atlantic City International Airport.

Events held in the City attract a large number of visitors. The table below lists the expected attendance of the ten most popular events held at the Convention Center during the twelve (12) months as indicated:

**Atlantic City Convention Center
Top 10 Expected Events¹
May 2017 – May 2018**

Event	Expected Attendance
2017 NJEA Annual Meeting	35,000
Atlantic City Classic Car Show	30,000
NJSLSM 2017 Annual Fall Conference	22,000
Spirit Cheer Competition 2018	22,000
AnimeNEXT 2017	15,000
Triple Play 2017	8,000
2017 Annual NJ School Board Workshop	7,500
2018 Imprinted Sports Wear Show	7,000
Police Security Expo	6,500
North American Spirit Nationals	6,000

There can be no assurance that the actual attendance at any of these events will be as set forth above.

Harrah's Waterfront Conference Center²

In addition to the conference and convention opportunities provided by Boardwalk Hall and the Convention Center, Harrah's Resort recently constructed a \$126 million Waterfront Conference Center overlooking the Atlantic Ocean and the iconic marina district. The 100,000 square-foot meeting space offers planners the unique experience to sleep, eat, and meet all in one location with more than 2,500 hotel rooms available. This versatile space with two 50,000 square-foot ballrooms can be configured 200 different ways, making more than 60 smaller rooms to accommodate meetings of all sizes.

LEGALIZED CASINO GAMING

Background

On November 2, 1976, in a State constitutional referendum, the electorate approved legalized casino gambling exclusively in the City. The enabling legislation, the Casino Control Act, P.L. 1977, Ch. 110, was signed on June 2, 1977. It created a State regulatory agency known as the Casino Control Commission and outlined procedures, eligibility, restrictions and limitations on gambling; defined types of hotels eligible for licenses; specified the annual license fees to be used to pay all commission and related administrative costs; and established a State tax on casino gambling to be utilized for seniors and persons with disabilities programs.

The creation of the City's casino gaming industry has profoundly affected the social and economic fabric of the entire region of the County and even has had implications for the financial climate of the State. Since the economic downturn of 2008 and due to an increase in competition from neighboring states, however, gambling revenues for the City's casino industry have suffered, resulting in significant tax appeals, and more recently, the closures of five (5) casino/hotel properties.

Casino Industry³

Casino licenses are issued to approved hotels which meet a variety of requirements, the most significant of which is a minimum of five hundred (500) rooms containing at least three hundred twenty-five (325) square feet each for the accommodation of overnight guests. The following is a list of casino hotels which were in operation at the end of 2016 (four casino/hotels closed in 2014 and Trump Taj Mahal closed in October 2016), along with the date of their opening and the total number of guest rooms available.

¹ Source: Meet AC website- www.meetinac.com.

² Source: Caesar's Entertainment- Harrah's Resort Waterfront Conference Center.

³ Source: New Jersey Division of Gaming Enforcement and New Jersey Casino Control Commission.

<u>Casino Name</u>	<u>Dated Opened</u>	<u>Guest Rooms (as of 6/30/17)</u>	<u>Total Employees (as of 7/1/17)</u>
Resorts Casino Hotel ¹	May 1978	942	2,135
Caesars Atlantic City Hotel Casino ²	June 1979	1,141	3,075
Bally's Park Place Casino Hotel & Tower	December 1979	1,251	2,619
Harrah's Marina Hotel Casino	November 1980	2,587	3,694
Tropicana Casino & Entertainment Resort	November 1981	2,047	3,230
Golden Nugget Hotel & Casino	May 2011 ³	716	2,422
Borgata	July 2003	<u>2,767</u>	<u>6,165</u>
Total:		<u>11,451</u>	<u>23,340</u>

In October 2016, Trump Taj Mahal ceased casino operations. At the time of closure, Trump Taj Mahal had 2,010 guest rooms. In March 2017, the Trump Taj Mahal property was sold to a group of investors (which was deed restricted as a non-casino property at the time of purchase). The property is now expected to be renovated and converted into the Hard Rock Atlantic City Casino and Hotel and reopen in the summer of 2018.

Casino Employment⁴

The table below lists the total number of casino employees at the end of each year for the past ten (10) years and at the start of July 2017, which primarily reflects a reduction in employment as a result of the closure of five (5) casinos, as described in "Closed Casinos and Chapter 11 Bankruptcy Filing".

<u>Calendar Year</u>	<u>Total Employees</u>
2017*	23,340
2016	22,005
2015	23,615
2014	24,843
2013	32,457
2012	34,754
2011	32,823
2010	34,145
2009	36,082
2008	38,585
2007	40,788

*As of July 1, 2017

¹ Total employees for Resorts Casino Hotel include people employed by Resorts Digital Gaming, NJ.

² Total employees for Caesars include people employed by Caesars Enterprise Service and Caesars Interactive Entertainment, NJ.

³ The original predecessor to Golden Nugget Hotel & Casino opened in June 1985.

⁴ Source: State of New Jersey Casino Control Commission; As of December of each year, unless otherwise indicated; The figures reflect total number of employed positions in the casino industry and make no distinction between full or part time employment.

Assessed Valuation History

A summary of assessed valuations since 2011, along with any revisions to such assessments, for the twelve (12) casino/hotel properties in operation at the start of 2015 is included on the following page. Casino properties assessed values are based on one of three approaches: (i) comparable sales; (ii) capitalization of income; or (iii) cost. Due to the City's implementation of a revaluation in 2007, the economic downturn in the national economy in 2008, and an increase in competition from neighboring states, gambling revenues in the City have decreased since 2008.

<u>Property</u>	2011		2012		2013	
	<u>Original Assessed Valuation⁽¹⁾</u>	<u>Revised Assessed Valuation⁽²⁾</u>	<u>Original Assessed Valuation⁽¹⁾</u>	<u>Revised Assessed Valuation⁽²⁾</u>	<u>Original Assessed Valuation⁽¹⁾</u>	<u>Revised Assessed Valuation⁽²⁾</u>
Borgata Casino/Hotel	2,262,391,300	1,691,224,600	2,262,391,300	1,691,224,600	2,260,470,200	1,600,983,500
Harrah's Casino/Hotel	2,324,046,900	1,819,980,700	1,469,980,700	1,469,980,700	1,469,980,700	1,372,065,023
Revel Casino/Hotel ⁽³⁾	821,411,700	821,411,700	1,470,000,000	1,475,000,000	1,150,000,000	1,150,000,000
Caesars Casino/Hotel	1,698,906,000	1,698,906,000	1,048,906,000	994,362,800	1,048,906,000	1,048,906,000
Trump Taj Mahal Casino/Hotel ⁽⁷⁾	1,633,094,900	1,224,400,000	1,625,504,800	1,000,000,000	1,000,000,000	1,000,000,000
Ballys Park Place Casino/Hotel	1,034,870,900	950,000,000	1,492,289,800	700,000,000	700,000,000	653,940,300
Trop World Casino Hotel	1,258,906,600	750,432,000	1,258,906,600	801,420,400	700,000,000	700,000,000
Showboat Casino/Hotel ⁽⁵⁾	625,000,000	625,000,000	625,000,000	592,382,000	625,000,000	583,875,000
Trump Plaza Casino/Hotel ⁽⁴⁾	723,084,000	340,357,980	723,084,000	184,000,000	250,000,000	250,000,000
Golden Nugget Casino/Hotel	653,447,400	653,395,600	653,447,400	653,395,600	175,000,000	244,400,100
Atlantic Club/Hilton ⁽⁶⁾	541,318,400	300,000,000	300,000,000	165,000,000	165,000,000	165,000,000
Resorts Casino/Hotel	<u>479,311,300</u>	<u>165,000,000</u>	<u>165,000,000</u>	<u>165,000,000</u>	<u>165,000,000</u>	<u>165,000,000</u>
Total:	14,055,789,400	11,040,108,580	13,094,510,600	9,891,766,100	9,709,356,900	8,934,169,923
<u>Property</u>	2014		2015		2016	
	<u>Original Assessed Valuation⁽¹⁾</u>	<u>Revised Assessed Valuation⁽²⁾</u>	<u>Original Assessed Valuation⁽¹⁾</u>	<u>Revised Assessed Valuation⁽²⁾</u>	<u>Original Assessed Valuation⁽¹⁾</u>	<u>Revised Assessed Valuation⁽²⁾</u>
Borgata Casino/Hotel	1,500,000,000	1,151,325,300	925,000,000	850,000,000	850,000,000	850,000,000
Harrah's Casino/Hotel	950,000,000	950,000,000	950,000,000	750,000,000	750,000,000	664,126,000
Revel Casino/Hotel ⁽³⁾	1,150,000,000	1,150,000,000	1,150,000,000	225,000,000	133,000,000	133,000,000
Caesars Casino/Hotel	625,000,000	625,000,000	625,000,000	480,000,000	480,000,000	426,000,000
Trump Taj Mahal Casino/Hotel ⁽⁷⁾	825,000,000	328,812,500	825,000,000	225,150,000	224,681,400	111,150,000
Ballys Park Place Casino/Hotel	250,000,000	250,000,000	250,000,000	188,000,000	188,000,000	167,000,000
Trop World Casino Hotel	680,000,000	680,000,000	680,000,000	245,000,000	580,000,000	295,000,000
Showboat Casino/Hotel ⁽⁵⁾	400,252,200	400,252,200	n/a	400,252,200	32,000,000	32,000,000
Trump Plaza Casino/Hotel ⁽⁴⁾	210,000,000	82,000,000	210,000,000	30,000,000	29,664,300	11,535,200
Golden Nugget Casino/Hotel	244,400,100	140,000,000	140,000,000	140,000,000	140,000,000	108,912,000
Atlantic Club/Hilton ⁽⁶⁾	165,000,000	60,000,000	60,000,000	60,000,000	37,500,000	37,500,000
Resorts Casino/Hotel	<u>120,000,000</u>	<u>120,000,000</u>	<u>120,000,000</u>	<u>110,000,000</u>	<u>110,000,000</u>	<u>110,000,000</u>
Total:	7,119,652,300	5,937,390,000	5,935,000,000	3,393,402,200	3,554,845,700	2,946,223,200

(1) Source: Top 25 Taxpayer list for each year provided by the City Tax Assessor.

(2) Source: City. All settlements are concluded.

(3) Closed as of September 2, 2014.

(4) Closed as of September 16, 2014.

(5) Closed as of August 31, 2014.

(6) Closed as of January 31, 2014.

(7) Closed as of September 2, 2016.

n/a =no revision to the assessment

State Gaming Tax¹

The State receives a tax on gross casino revenues from the City's gaming operations, which is used primarily to fund programs for senior citizens and the disabled in the State. For land-based casino operations, the tax is based on 8.0% of gross casino revenues, less a deduction for Promotional Gaming Credits (since 2008). The land-based taxable gross revenue and related tax are presented in the following table:

<u>Calendar Year</u>	<u>Total Gross Casino Revenues (\$000's)</u>	<u>Tax Paid to the State (\$000's)</u>
2017*	1,416,627	102,847
2016	2,405,323	175,719
2015	2,414,336	174,670
2014	2,616,435	186,910
2013	2,860,153	203,965
2012	3,047,469	216,725
2011	3,316,159	236,129
2010	3,564,495	260,940
2009	3,943,124	295,309
2008	4,545,228	360,250
2007	4,894,337	393,707

**As of July 31, 2017. Unaudited and Subject to Change.*

Internet gaming operations in New Jersey commenced in November 2013. Internet gross revenue is taxed at a 15% rate. The Internet gross revenue and related tax are presented in the following table:

<u>Calendar Year</u>	<u>Total Internet Gross Revenues (\$000's)</u>	<u>Tax Paid to the State (\$000's)</u>
2017*	142,096	21,314
2016	196,859	29,528
2015	149,030	22,354
2014	123,097	18,465
2013	8,371	1,256

**As of July 31, 2017. Unaudited and Subject to Change.*

CRDA and Casino Investment Alternative Tax

CRDA was established in 1984 pursuant to Chapter 218 of P.L. 1984, effective December 19, 1984 (the "Act") as a public body corporate and politic, constituting an instrumentality of the State. CRDA is governed by a board of seventeen (17) members ("CRDA Board"). Six (6) members are appointed by the Governor with the advice and consent of the State Senate. Two (2) members appointed by the Governor are casino industry representatives. Two (2) members are appointed by the Governor upon recommendation of the President of the State Senate. Two (2) members are appointed by the Governor upon recommendation of the Speaker of the General Assembly. One (1) member is also a member of the Casino Control Commission appointed by the Governor. One (1) member shall be either Commissioner of the Department of Commerce and Economic Development or the Commissioner of the Department of Community Affairs or an additional member of the Casino Control Commission, as appointed by the Governor. The Mayor of the City, the State Treasurer and the State Attorney General are also members of the CRDA Board. Upon its creation, CRDA had a statutory obligation to distribute reinvestment tax moneys throughout the State over a 50-year period. Subsequently, through the establishment of the Tourism District, all reinvestment of funds will remain in the City.

¹ Source: New Jersey Division of Gaming Enforcement. Total Gross Casino Revenues shown prior to the deduction for Promotional Gaming Credits.

Casino Investment Alternative Tax¹

Pursuant to the Act, each licensed casino hotel is required to either pay 2.5% of its land-based gross revenues as a tax or invest 1.25% of its land-based gross revenues in CRDA projects. Internet gaming operations in New Jersey commenced in November 2013. Pursuant to the Act, each licensed casino hotel that conducts Internet gaming operations is required to either pay 5.0% of its Internet gross revenues as a tax or invest 2.5% of its Internet gross revenues in CRDA projects. The Act provides that investments may take the form of: 1) taxable or tax-free bonds issued to the casino licensees at a discounted rate; 2) direct investment in projects approved by CRDA; or 3) CRDA approved donations.

Pursuant to the CPTSA, beginning on May 27, 2016, through and including December 31, 2026, certain moneys received by the State Treasurer derived from the payment of the "investment alternative tax" pursuant to the Act shall be allocated to the City for the purposes of paying debt service on bonds issued by the City prior to and after May 27, 2016, except for: 1) any amounts thereof previously pledged for the payment of bonds issued by CRDA or otherwise contractually obligated by CRDA prior to the effective date of the CPTSA, or any bonds issued to refund such bonds and 2) for calendar years 2017 through and including 2021, investment alternative tax credits due to casino gaming properties whose PILOT allocation exceeds the total real property taxes due and payable in calendar year 2015.

The Investment Alternative Tax obligations funded by the casino industry are presented in the following table and are based upon 1.25% of land-based gross revenues and, beginning in November 2013, 2.5% of Internet gross revenues:

Calendar Year	Investment Alternative Tax Deposits (\$000's)
2017*	21,260
2016	34,988
2015	33,905
2014	35,783
2013	35,953
2012	38,114
2011	41,474
2010	44,565
2009	49,289
2008	56,819
2007	61,517

**As of July 31, 2017. Unaudited and Subject to Change.*

¹ Source: New Jersey Division of Gaming Enforcement.

Parking Fee Revenue¹

Pursuant to the Parking Fee Statute, P.L. 1993 c159, as amended, on July 1, 2003, the State increased the minimum casino hotel parking fee from \$2.00 to \$3.00, and directed \$1.50 of the fee to be deposited in the Casino Revenue Fund in State fiscal years 2004 through 2006. Beginning in State fiscal year 2007 and thereafter, the State directed \$0.50 of the \$3.00 fee to be deposited into the Casino Revenue Fund, and the remaining \$2.50 to be transferred to CRDA. The historic Parking Fee collections for the past ten (10) years and year to date 2017 are as follows:

Calendar Year	Total Annual Revenue (\$000's)	Percentage Change From Prior Year
2017*	9,588	n/a
2016	21,405	0.93%
2015	21,207	(13.87%)
2014	24,622	(11.77%)
2013	27,907	(3.04%)
2012	28,782	1.25%
2011	28,427	(4.66%)
2010	29,816	(5.28%)
2009	31,477	(8.49%)
2008	34,398	(4.08%)
2007	35,860	(3.31%)

**As of June 2017. Unaudited and Subject to Change*

Other Taxes and Fees¹

Other taxes and fees collected in the City by the State or CRDA, but not by the City, include, among others, the Luxury Tax, Promotional Fee, and Hotel Room Fee. The amount of such taxes and fees for the past ten (10) years is shown below and year to date 2017.

Calendar Year	Luxury Tax² (\$000's)	Promotional Fee³ (\$000's)	Hotel Room Fee⁴ (\$000's)
2017*	13,398	3,715	5,276
2016	29,204	8,248	11,511
2015	30,006	8,296	11,856
2014	34,751	9,818	14,039
2013	35,519	10,822	15,638
2012	35,486	10,794	15,618
2011	31,515	10,573	15,446
2010	28,479	9,940	15,382
2009	26,374	10,697	15,228
2008	27,608	10,460	15,171
2007	27,977	10,257	14,541

** As of June 2017. Unaudited and Subject to Change.*

¹ Source: New Jersey Division of Gaming Enforcement; Summary of Atlantic City Taxes and Fees Report dated August 22, 2017; Parking Fee Revenue: State of New Jersey Casino Control Commission; Luxury Tax and Tourism Promotion Fee: State of New Jersey Office of Management and Budget, Legislative Manual; Hotel Room Fee: State of New Jersey Division of Taxation.

² The Luxury Tax applies to the receipts from specified retail sales within the City, including alcoholic beverages, hotel room rentals, and cover charges for entertainment. The tax rate is 3% on alcoholic beverages sold by the drink and 9% on other taxable sales (subject to a 13% maximum rate when combined with the NJ Sales and Use Tax). Proceeds from the Luxury Tax support debt service on Luxury Tax bonds and the operation of the Convention Center and Boardwalk Hall.

³ A Tourism Promotion Fee of either \$1 or \$2 per day is charged for each room rental in a hotel, motel, inn, rooming house, etc. in the City. This fee applies to each room either occupied or possessed by guests, other than as a place of assembly. The fee is also due with respect to "complimentary" occupancies. The rate of \$2 per day applies to each occupied room in the case of hotels which provide casino gambling. The \$1 per day rate applies to each occupied room in all other facilities. The Tourism Promotion Fee supports the operation of the Atlantic City Convention Center and Visitors Association (now under CRDA).

⁴ The proceeds from the \$3.00 Hotel Room Fee are used to fund debt service on CRDA Hotel Room Fee Revenue Bonds. Effective July 1, 2006, the remaining Hotel Room Fees after debt service are split between the Casino Revenue Fund (66.7%) and the CRDA (33.3%).

Non-Casino Development

CRDA Projects:

CRDA assisted with the construction of 86,000 square foot, \$34 million Bass Pro Shops store located on Atlantic Avenue, at the main entrance to the City, near The Walk outlet stores. The Bass Pro Shops opened in April 2015.

Numerous housing developments are either under construction or on the drawing board. Boraie Development LLC is developing an \$81 million apartment complex on eight (8) acres of land located in the south inlet area of Atlantic City. The Beach at South Inlet will have two hundred fifty (250) apartments with a courtyard, pool, a gym and residents lounge. The project is being backed by a \$15 million loan from the CRDA, in line with the CRDA's strategy of diversifying the City's economy as well as \$45 million in loans from two other State agencies. The project broke ground in December 2016 and is expected to be completed by July 2018. Procida Realty & Construction Corporation is building single family homes and townhouses in the City. The Breakers at Atlantic City will include twelve (12) luxury oceanfront residential townhomes built along the boardwalk, with one hundred forty (140) more units planned for a future phase.

Source: CRDA

Other¹:

The City is considering the sale and development of Bader Field, which is currently zoned for casino development and owned by the City. The City is working to determine the highest and best use of the property.

The first phase, a \$21 million makeover of a \$112 million renovation to the Steel Pier was completed with a season opening of Memorial Day weekend 2012. Currently the Steel Pier in the City is building one of the country's largest ferris wheel featuring enclosed gondolas for year round rides with stunning views of the City and the Atlantic Ocean. The ferris wheel has been delivered into the country, but construction on site has not begun to date. Several other new attractions have been recently added. They include The Flying Dutchman, Surf's Up and Loco Motion, as well as the Mix, a new high speed \$1 million thrill ride that soars over the ocean and the Freedom Flyer, a pendulum like swing ride that whisks riders back and forth and upside down.

Philadelphia developer Bart Blatstein reopened the Pier Shops at Caesars as "The Playground", a five hundred thousand (500,000) square foot shopping and entertainment complex. The Playground recently announced a change in business plan for the retail and entertainment center according to philly.com. Blatstein has assumed the role of landlord, and will employ operators for the various venues at The Playground.

NewCast Call Center BPO finished construction of two hundred (200) work spaces hosting three hundred (300) staffers as well as thirty-two (32) supervisors. NewCast Call Center BPO renovated two floors in the Claridge Hotel in the City to be used as call centers and are processing calls for several industries including retail, insurance, and tech support 24 hours a day.

Stockton University is developing a new campus in the Chelsea Heights area of the City that will include academic facilities, new student housing, retail and parking. The University Academic Improvements will consist of approximately fifty-six thousand (56,000) square feet and will offer academic and administrative space to accommodate a diverse schedule of classes at the facility. Academic facilities will include general classrooms, computer labs, a technology lab and a number of areas allowing for student project work and study. The new student housing will be comprised of a new two hundred seventeen thousand (217,000) square foot residential building that will provide housing for five hundred thirty-three (533) students ("University Housing Improvements"), primarily in 4-bedroom single or 2-bedroom double configurations. The parking project will be constructed adjacent to the new student housing and will include approximately seven (7) stories with a total of eight hundred sixty-six (866) parking spaces ("Parking Structure"). The retail portion of the parking project will consist of seven thousand five hundred (7,500) square feet and will front on Atlantic Avenue with a service corridor located to the rear of the space ("Garage Retail Improvements").

¹ *Source: County of Atlantic – Atlantic County Improvement Authority Major Economic Projects and Activity Report*

APPENDIX B

**AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

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Independent Auditor's Report

The Honorable Mayor and
Members of City Council
City of Atlantic City, New Jersey

Report on the Financial Statements

We have audited the accompanying balance sheets - regulatory basis of the various funds and account group of the City of Atlantic City, as of December 31, 2016 and 2015, the related statement of operations and changes in fund balance - regulatory basis for the years then ended, and the related statement of revenues - regulatory basis and statement of expenditures - regulatory basis of the various funds for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division"), and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S Generally Accepted Accounting Principles.

As described in Note 1 of the financial statements, the financial statements are prepared by the City of Atlantic City on the basis of the financial reporting provisions prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of New Jersey.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S Generally Accepted Accounting Principles" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the City of Atlantic City as of December 31, 2016 and 2015, or changes in financial position for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the regulatory basis balance sheets and account group as of December 31, 2016 and 2015, the regulatory basis statements of operations for the years then ended and the regulatory basis statements of revenues and expenditures for the year ended December 31, 2016 in accordance with the basis of financial reporting prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey as described in Note 1.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Atlantic City's basic financial statements. The supplementary information listed in the table of contents and schedule of expenditures of federal awards, as required by Office of Management and Budget Uniform Guidance and the schedule of expenditures of state financial assistance as required by NJ OMB 15-08 and the letter of comments and recommendations section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information listed in the table of contents and the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), *Audits of States, Local Governments, and Non-Profit Organizations*, the schedule of and the schedule of expenditures of state financial assistance as required by NJ OMB 15-08 are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information listed in the table of contents is presented for the purposes of additional analysis and is not a required part of the financial statements. Because of the significance of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, it is inappropriate to and we do not express an opinion on the supplementary information referred to above.

The letter of comments and recommendations section has not been subject to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2017 on our consideration of the City of Atlantic City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Atlantic City's internal control over financial reporting and compliance.

Ford, Scott & Associates, L.L.C.
FORD, SCOTT & ASSOCIATES, L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

Leon P. Costello
Leon P. Costello
Certified Public Accountant
Registered Municipal Accountant
No. 393

April 14, 2017

**CURRENT FUND
COMPARATIVE BALANCE SHEET - REGULATORY BASIS
AS OF DECEMBER 31,**

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
Regular Fund:		
Cash:		
Cash Treasurer	\$ 42,342,849.18	29,777,037.69
Cash - Collector	-	-
Cash - Change	1,470.00	1,470.00
Total Cash	<u>42,344,319.18</u>	<u>29,778,507.69</u>
Other Receivables:		
Due from State - Chapter 20 P.L. 1971	131,994.95	134,459.95
Due from State - Qualified Bonds	2,336,487.49	3,289,975.85
Due from State - ACA/IAT	4,390,712.00	30,000,000.00
Due from Atlantic County	14,403.27	-
Total Other Receivables	<u>6,873,597.71</u>	<u>33,424,435.80</u>
Receivables and Other Assets with Full Reserves:		
Delinquent Property Taxes Receivable	8,716,806.54	686,026.71
Tax Title and Other Liens	10,907,384.86	9,094,292.76
Property Acquired for Taxes - at Assessed Valuation	29,087,600.00	28,874,400.00
Demolition Assessments and Liens	2,928,829.08	4,037,562.21
Revenue Accounts Receivable	93,474.56	89,182.19
Advance from AC Endowment Fund	3,000,000.00	3,000,000.00
Interfund Receivable:		
Animal Control Fund	388.80	1,134.00
CDBG	105,659.05	1,531,079.27
Federal and State Grant Fund	3,098,512.95	4,753,377.74
Trust	158,316.53	3.29
Total Receivables and Other Assets	<u>58,096,972.37</u>	<u>52,067,058.17</u>
Deferred Charges:		
Deficit in Operations	8,615,182.24	9,845,922.24
Deficit Due to Tax Appeals	108,028,257.32	63,483,815.00
Prior Outstanding Payables	37,588,785.85	37,743,249.74
Special Emergency Appropriation	-	350,000.00
Total Deferred Charges	<u>154,232,225.41</u>	<u>111,422,986.98</u>
Total Regular Fund	<u>261,547,114.67</u>	<u>226,692,988.64</u>
Federal and State Grant Fund:		
Cash	48,947.02	48,942.16
Federal and State Grants Receivable	41,391,511.80	58,537,490.78
Due from Trust Fund - Other	756.09	756.09
Total Federal and State Grant Fund	<u>41,441,214.91</u>	<u>58,587,189.03</u>
Total Current Fund	<u>\$ 302,988,329.58</u>	<u>285,280,177.67</u>

The accompanying Notes to Financial Statements are an integral part of this statement

**CURRENT FUND
COMPARATIVE BALANCE SHEET - REGULATORY BASIS
AS OF DECEMBER 31,**

<u>LIABILITIES, RESERVES AND FUND BALANCE</u>	<u>2016</u>	<u>2015</u>
Regular Fund:		
Liabilities:		
Appropriation Reserves	\$ 14,590,487.73	13,440,357.21
Reserve for Encumbrances	3,812,002.38	3,909,631.78
Accounts Payable	423,335.63	406,503.49
Accrued Interest Payable on Judgement	14,648,002.00	14,648,002.00
Prior Outstanding Open Payables	37,588,785.85	37,743,249.74
Prepaid Taxes	840,825.85	1,237,391.88
Overpaid Taxes	89,073,638.39	62,002,242.21
Local School Tax Payable	9,242,106.69	0.75
County Added Tax Payable	-	39,636.47
Due to Atlantic City MUA	4,716.74	-
Due to State:		
Marriage Licenses	1,830.00	4,690.00
CCO Fees	68,035.00	42,558.00
Interfund Payable:		
Other Trust Funds	11,696,017.72	15,124,910.69
Other		
Payroll Deductions Payable	1,917,540.37	2,788,330.39
AC Endowment Fund	1,320,669.42	1,320,537.38
Reserve for Revaluation	900,000.00	900,000.00
Reserve for Performance Bonds	205,862.89	205,862.89
Reserve for Police Property Room	50,338.71	50,338.71
Reserve for State Tax Appeals Pending	2,917,116.04	15,421,145.62
Reserve for FEMA	1,985,407.71	-
Reserve for Preparation of Approved Tax Map	188,107.55	188,107.55
Miscellaneous Reserves	200,000.00	205,000.00
	<u>191,674,826.67</u>	<u>169,678,496.76</u>
Reserve for Receivables and Other Assets	58,096,972.37	52,067,058.17
Fund Balance	<u>11,775,315.63</u>	<u>4,947,433.71</u>
Total Regular Fund	<u>261,547,114.67</u>	<u>226,692,988.64</u>
Federal and State Grant Fund:		
Unappropriated Reserves	81,000.16	83,845.13
Appropriated Reserves	29,359,232.34	43,768,349.16
Encumbrances Payable	8,902,469.46	9,981,617.00
Due to Current Fund	3,098,512.95	4,753,377.74
Due to Agencies	-	-
Total Federal and State Grant Fund	<u>41,441,214.91</u>	<u>58,587,189.03</u>
Total Current Fund	<u>\$ 302,988,329.58</u>	<u>285,280,177.67</u>

The accompanying Notes to Financial Statements are an integral part of this statement

**CURRENT FUND
COMPARATIVE STATEMENT OF OPERATIONS AND CHANGES
IN FUND BALANCE - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31,**

	2016	2015
Revenue and Other Income Realized		
Fund Balance	\$ -	-
Miscellaneous Revenue Anticipated	117,925,436.54	130,102,029.22
Receipts from Delinquent Taxes	-	1,585,954.45
Receipts from Current Taxes	231,758,652.44	236,406,571.75
Non Budget Revenue	2,365,801.32	2,235,815.89
Other Credits to Income:		
Unexpended Balance of Appropriation Res.	12,830,933.29	12,350,954.59
Grants Canceled	49,027.54	162,018.19
Interfund Returned	3,015,931.92	
Reserves and Accounts Payables Canceled	709,137.00	2,267,673.45
Reserve for State Tax Appeals	16,404,029.58	13,728,301.38
Total Income	<u>385,058,949.63</u>	<u>398,839,318.92</u>
Expenditures		
Budget and Emergency Appropriations:		
Appropriations Within "CAPS"		
Operations:		
Salaries and Wages	80,139,236.00	74,976,264.00
Other Expenses	72,332,688.74	83,108,294.88
Deferred Charges & Statutory Expenditures	38,229,145.61	6,399,162.38
Appropriations Excluded from "CAPS"		
Operations:		
Salaries and Wages	-	14,805,000.00
Other Expenses	8,783,628.77	42,819,848.42
Capital Improvements	200,000.00	200,000.00
Debt Service	36,782,824.09	34,697,364.38
Deferred Charges	350,000.00	900,000.00
Local District School Tax	100,077,234.00	91,060,723.00
County Tax	24,901,259.50	28,259,234.47
County Share of Added Tax	-	39,636.47
Interfund Created		6,165,449.09
Refund of Prior Year's Revenue	31,021.42	193,014.92
Other: deferred charges		
Prior Year Overpayments	73,645,235.90	62,564,114.38
Judgement for Interest on Tax Appeals		14,648,002.00
Total Expenditures	<u>435,472,274.03</u>	<u>460,836,108.39</u>
Excess/(Deficit) in Revenue	(50,413,324.40)	(61,996,789.47)

The accompanying Notes to Financial Statements are an integral part of this statement

**CURRENT FUND
COMPARATIVE STATEMENT OF OPERATIONS AND CHANGES
IN FUND BALANCE - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31,**

	<u>2016</u>	<u>2015</u>
Adjustments to Income before Fund Balance:		
Expenditures included above which are by		
Statute Deferred Charges to Budgets of		
Succeeding Year	57,241,206.32	63,483,815.00
Emergency Appropriation		
Special Emergency Appropriation		350,000.00
Total Adjustments	<u>57,241,206.32</u>	<u>63,833,815.00</u>
Statutory Excess to Fund Balance	<u>6,827,881.92</u>	<u>1,837,025.53</u>
Fund Balance January 1	<u>4,947,433.71</u>	<u>3,110,408.18</u>
	11,775,315.63	4,947,433.71
Decreased by:		
Utilization as Anticipated Revenue	<u>-</u>	<u>-</u>
Fund Balance December 31	<u>\$ 11,775,315.63</u>	<u>4,947,433.71</u>

**CURRENT FUND
STATEMENT OF REVENUES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Anticipated		Realized	Excess or (Deficit)
	Budget	N.J.S. 40A:4-87		
Fund Balance Anticipated	-			-
Total Fund Balance Anticipated	-	-	-	-
Miscellaneous Revenues:				
Section A: Local Revenues				
Licenses:				
Alcoholic Beverages	140,000.00		174,741.00	34,741.00
Other	800,000.00		955,032.83	155,032.83
Fees and Permits	1,500,000.00		1,527,676.93	27,676.93
Fines and Costs:				-
Municipal Court	1,400,000.00		1,436,227.32	36,227.32
Interest and Costs on Taxes	2,000,000.00		600,392.32	(1,399,607.68)
Interest Earned on Investments	20,000.00		34,705.45	14,705.45
Parking Meters	500,000.00		611,407.13	111,407.13
Boardwalk Tram Fees	105,000.00		126,000.00	21,000.00
Refunds and Reimbursements	1,500,000.00		4,804,223.65	3,304,223.65
Rent and Sale of City Property	475,000.00		160,834.35	(314,165.65)
Towing Fees	390,000.00		300,619.00	(89,381.00)
Payments in Lieu of Taxes				
Magellan Manor	75,000.00		86,592.00	11,592.00
Metropolitan Plaza	28,000.00		29,099.66	1,099.66
New York Ave Apt	108,553.00		111,668.30	3,115.30
Elliot House	44,574.00		44,574.00	-
School House Liberty	29,790.00		50,850.96	21,060.96
Town House Terraces East I	68,784.00		76,498.00	7,714.00
Atlantic City Townhouse	-			-
Baltic Plaza Apt	100,000.00		108,000.00	8,000.00
Best of Life Park	120,000.00		197,634.00	77,634.00

CURRENT FUND
STATEMENT OF REVENUES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Anticipated		
	Budget	N.J.S. 40A:4-87	
			Realized
			Excess or (Deficit)
Community Haven	350,000.00		404,207.00
Hamilton Venice Apartments	67,500.00		57,513.00
Bright's Villa North	10,000.00		(9,987.00)
Barclay Arms	42,000.00		(10,000.00)
Brigantine Homes	90,000.00		22,185.60
The Walk Phase I	648,000.00		38,730.00
The Walk Phase II	300,000.00		648,048.01
The Walk Phase III	100,000.00		258,236.57
Atlantic Marina	450,000.00		91,717.00
			460,884.00
Total Section A: Local Revenues	11,462,201.00	-	13,550,298.08
			2,088,097.08
Section B: State Aid Without Offsetting Appropriations			
Consolidated Municipal Property Tax Relief Act	20,000,000.00		19,999,999.99
Energy Receipts Tax	6,260,714.00		6,260,714.00
Transitional Aid	26,200,000.00		26,200,000.00
ACA Funds	30,000,000.00		30,000,000.00
IAT Funds	13,000,000.00		13,000,000.00
			(0.01)
Total Section B: State Aid Without Offsetting Appropriations	95,460,714.00	-	95,460,713.99
			(0.01)
Section C: Uniform Construction Code Fees			
Uniform Construction Code Fees	1,500,000.00		1,987,295.33
			487,295.33
Total Section C: Uniform Construction Code Fees	1,500,000.00	-	1,987,295.33
			487,295.33
Section F: Special Items - Public and Private Programs			
Off-Set with Appropriations			
Clean Communities	98,461.24		98,461.24
Drunk Driving Enforcement Fund	2,849.83		2,849.83
COPS in Shops	5,000.00		5,000.00
			-
			-
			-

The accompanying Notes to Financial Statements are an integral part of this statement

CURRENT FUND
STATEMENT OF REVENUES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Anticipated		Realized	Excess or (Deficit)
	Budget	N.J.S. 40A:4-87		
Body Wom Cameras	30,000.00		30,000.00	-
Winter Wonderland Festival	17,125.00		17,125.00	-
NJ Body Armor	23,035.81		23,035.81	-
Alliance on Alcoholism and Drugs	30,059.00		30,059.00	-
AC Devco	170,000.00		170,000.00	-
AC Housing Authority	30,000.00		30,000.00	-
FEMA Assistance to Firefighters	185,651.00		185,651.00	-
AC Meals on Wheels	12,090.00		12,090.00	-
County Environmental Health Act	48,000.00		48,000.00	-
NJ BPU - LEDLighting Upgrad	2,000,000.00		2,000,000.00	-
NJ DOT - Rsurface Ventnor Ave	196,000.00		196,000.00	-
Harold Brown Memorial Park	666,296.00		666,296.00	-
Hazardous Discharge - Riverside Business Park	47,985.00		47,985.00	-
NJ DEP Acquisition - Altman Playground		378,271.25	378,271.25	-
Brownfields - Bungalow Park Site Cleanup		163,658.00	163,658.00	-
Brownfields - Delta Basin Site Cleanup		200,000.00	200,000.00	-
Brownfields - Hazardous Contamination		200,000.00	200,000.00	-
Brownfields - Petroleum Contamination		200,000.00	200,000.00	-
Total Section F: Special Items - Public and Private Programs	3,562,552.88	1,141,929.25	4,704,482.13	-
Off-Set with Appropriations				
Section G: Other Special Items				
Uniform Fire Safety Act	225,000.00		230,690.88	5,690.88
Atlantic City Municipal Utilities Authority	700,000.00		702,658.00	2,658.00
Interlocal Agreements				-
Pleasantville BOE	160,000.00		-	(160,000.00)
CRDA - Tourism District Class 2's Officers	1,000,000.00		217,160.13	(782,839.87)
Sale of Municipal Assets	1,200,000.00		1,072,138.00	(127,862.00)

The accompanying Notes to Financial Statements are an integral part of this statement

CURRENT FUND
STATEMENT OF REVENUES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Anticipated		Realized	Excess or (Deficit)
	Budget	N.J.S. 40A:4-87		
Total Section G: Other Special Items	3,285,000.00	-	2,222,647.01	(1,062,352.99)
Total Miscellaneous Revenues:	115,270,467.88	1,141,929.25	117,925,436.54	1,513,039.41
Receipts from Delinquent Taxes			-	-
Amount to be Raised by Taxes for Support of Municipal Budget				
Local Tax for Municipal Purposes	123,637,277.47		110,012,192.42	(13,625,085.05)
Library Tax	2,800,581.64		2,800,581.64	-
Total Amount to be Raised by Taxes for Support of Municipal Budget	126,437,859.11	-	112,812,774.06	(13,625,085.05)
Budget Totals	241,708,326.99	1,141,929.25	230,738,210.60	(12,112,045.64)
Non- Budget Revenues:				
Other Non- Budget Revenues:			2,365,801.32	2,365,801.32
\$	241,708,326.99	1,141,929.25	233,104,011.92	(9,746,244.32)

**CURRENT FUND
STATEMENT OF REVENUES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Analysis of Realized Revenues

Allocation of Current Tax Collections:

Revenue from Collections	\$ 231,758,652.44
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Less: Reserve for Tax Appeals Pending	-
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Net Revenue from Collections	231,758,652.44
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Allocated to:

School, County and Other Taxes	124,978,493.50
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Balance for Support of Municipal Budget Appropriations	106,780,158.94
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Increased by:

Appropriation "Reserved for Uncollected Taxes"	6,032,615.12
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Amount for Support of Municipal Budget Appropriations	112,812,774.06
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Receipts from Delinquent Taxes:

Delinquent Tax Collection	\$ -
Tax Title Lien Collections	-

Total Receipts from Delinquent Taxes

Analysis of Non-Budget Revenue:

Miscellaneous Revenue Not Anticipated:

Demolition Arrears and Liens	113,016.17
Delinquent Tax Collection	271,776.68
Tax Title Lien Collections	577,294.54
Other Liens	11,695.73
PILOT's not Anticipated	513,359.81
Police Detail	371,230.76
ACBOE Gasoline and Trash	51,710.06
Mortgage Registrations	208,200.00
Miscellaneous	247,517.57

Total Miscellaneous Revenue Not Anticipated:	\$ 2,365,801.32
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Tax Collector	973,783.12
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Treasurer	1,392,018.20
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	\$ 2,365,801.32
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CURRENT FUND
STATEMENT OF EXPENDITURES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Appropriations		Paid or Charged	Expended		(Over expended) Unexpended Balance Cancelled
	Budget	Budget After Modifications		Encumbered	Reserved	
OPERATIONS WITHIN "CAPS"						
DEPARTMENT OF ADMINISTRATION						
Mayor's Office						
Salaries and Wages	\$ 273,075.00	273,075.00	265,087.05		7,987.95	-
Other Expenses	29,500.00	29,500.00	4,688.96	2,367.00	22,444.04	-
Business Administrator						
Salaries and Wages	238,970.00	238,970.00	237,434.85		1,535.15	-
Other Expenses	808,900.00	808,900.00	452,508.72	164,251.87	192,139.41	-
Administrative Services - Mail Room						
Salaries and Wages	68,868.00	68,868.00	68,784.12		83.88	-
Other Expenses	171,200.00	171,200.00	144,455.29	5,035.69	21,709.02	-
Solicitor's Office						
Salaries and Wages	750,764.00	750,764.00	726,954.22		23,809.78	-
Other Expenses	1,632,160.00	1,632,160.00	505,361.44	220,888.97	905,909.59	-
Prosecutor's Office						
Salaries and Wages	371,949.00	371,949.00	344,274.76		27,674.24	-
Other Expenses	37,550.00	37,550.00	9,369.12	3,382.46	24,798.42	-
Public Defender						
Salaries and Wages	298,240.00	298,240.00	250,898.13		47,341.87	-
Other Expenses	48,600.00	48,600.00	14,501.82	6,632.70	27,465.48	-
Insurance						
Unemployment	1,300,000.00	1,300,000.00	1,300,000.00		-	-
Liability	6,353,587.00	6,353,587.00	5,820,556.32	65,152.00	467,878.68	-
Workers Compensation	5,631,000.00	5,631,000.00	5,505,655.30		125,344.70	-
Employee Group	32,740,000.00	32,740,000.00	31,656,479.77	127,703.98	955,816.25	-
Health Waiver - Employee Opt Out	100,000.00	100,000.00	89,546.16		10,453.84	-
Social Services Agencies	14,500.00	14,500.00			14,500.00	-
Municipal Court						
Salaries and Wages	1,095,525.00	1,095,525.00	1,050,916.71		44,608.29	-
Other Expenses	88,889.00	88,889.00	25,096.95	17,910.27	45,881.78	-
Assessor						
Salaries and Wages	237,967.00	237,967.00	236,092.62		1,874.38	-
Other Expenses	495,857.00	495,857.00	166,421.48	175,127.63	154,307.89	-
MIS						
Salaries and Wages	289,373.00	289,373.00	269,311.88		20,061.12	-
Other Expenses	431,500.00	431,500.00	239,660.55	92,446.62	99,392.83	-
DEPARTMENT OF HUMAN RESOURCES						
Director's Office						
Salaries and Wages	90,000.00	90,000.00	90,000.00		-	-

The accompanying Notes to Financial Statements are an integral part of this statement

CURRENT FUND
STATEMENT OF EXPENDITURES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Appropriations		Paid or Charged	Expended		(Over expended) Unexpended Balance Cancelled
	Budget	Budget After Modifications		Encumbered	Reserved	
Other Expenses	100,689.00	100,689.00	53,789.83	7,062.68	39,836.49	-
Personnel Division						
Salaries and Wages	392,412.00	392,412.00	322,154.61		70,257.39	-
Health Division						
Salaries and Wages	81,610.00	81,610.00	54,936.30		26,673.70	-
DEPARTMENT OF PLANNING AND DEVELOPMENT						
Director's Office						
Salaries and Wages	209,583.00	209,583.00	198,857.13		10,725.87	-
Other Expenses	46,900.00	46,900.00	10,472.71	3,775.00	32,652.29	-
Planning Division						
Salaries and Wages	244,336.00	248,336.00	240,931.58		7,404.42	-
Other Expenses	111,165.00	107,165.00	22,167.54	2,736.53	82,260.93	-
Zoning Board						
Other Expenses	17,000.00	17,000.00	8,000.00		9,000.00	-
City Engineer						
Salaries and Wages	469,980.00	469,980.00	469,352.21		627.79	-
Other Expenses	252,900.00	252,900.00	64,910.87	79,750.57	108,238.56	-
Economic Development - CDBG						
Salaries and Wages	100,000.00	100,000.00	86,290.59		13,709.41	-
DEPARTMENT OF REVENUE AND FINANCE						
Director's Office						
Salaries and Wages	218,574.00	218,574.00	217,991.03		582.97	-
Other Expenses	117,900.00	117,900.00	80,526.51	23,816.00	13,557.49	-
Comptroller's Office						
Salaries and Wages	751,817.00	751,817.00	719,936.15		31,880.85	-
Other Expenses	94,639.00	94,639.00	23,242.30	3,167.31	68,229.39	-
Tax Collector's Office						
Salaries and Wages	327,423.00	327,423.00	234,996.54		92,426.46	-
Other Expenses	40,800.00	40,800.00	23,728.87	6,994.37	10,076.76	-
Audit Services						
Other Expenses	150,000.00	150,000.00	100,000.00		50,000.00	-
Purchasing						
Salaries and Wages	205,415.00	205,415.00	204,698.14		716.86	-
Other Expenses	26,796.00	26,796.00	10,637.28	2,656.54	13,502.18	-
Finance Division						
Salaries and Wages	171,130.00	171,130.00	141,565.00		29,565.00	-
Other Expenses	2,990.00	2,990.00	126.50	199.16	2,664.34	-

The accompanying Notes to Financial Statements are an integral part of this statement

CURRENT FUND
STATEMENT OF EXPENDITURES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Appropriations		Paid or Charged	Expended		(Over expended) Unexpended Balance Cancelled
	Budget	Budget After Modifications		Encumbered	Reserved	
Asphalt Plant/Street Repairs	428,834.00	428,834.00	342,041.63		86,792.37	-
Salaries and Wages	50,050.00	50,050.00	13,577.04	24,172.96	12,300.00	-
Other Expenses						
Paint and Sign Shop	113,211.00	113,211.00	107,997.61		5,213.39	-
Salaries and Wages	23,800.00	23,800.00	15,346.28	5,408.28	3,045.44	-
Other Expenses						
Building Maintenance Division						
Salaries and Wages	1,192,449.00	1,192,449.00	1,008,702.11		183,746.89	-
Other Expenses	46,050.00	46,050.00	11,306.85	1,776.02	32,967.13	-
Community Services Act						
Other Expenses	950,000.00	950,000.00	620,045.02	226,638.24	103,316.74	-
Vehicle Maintenance						
Other Expenses	2,444,433.00	2,444,433.00	1,651,847.10	611,108.26	181,477.64	-
Facilities						
Salaries and Wages	509,896.00	509,896.00	453,771.46		56,124.54	-
Other Expenses	31,150.00	31,150.00	10,376.55	3,857.01	16,916.44	-
DEPARTMENT OF HEALTH AND HUMAN SERVICES						
Director's Office						
Other Expenses	130,600.00	130,600.00	39,878.51	16,589.20	74,132.29	-
Health Administration						
Salaries and Wages	948,609.00	948,609.00	903,885.70		44,723.30	-
Other Expenses	48,575.00	48,575.00	23,440.69	108.25	25,026.06	-
Social Services						
Salaries and Wages	1,059,444.00	1,059,444.00	997,216.41		62,227.59	-
Other Expenses	227,750.00	227,750.00	102,202.91	56,870.02	68,677.07	-
Recreational and Cultural Affairs						
Salaries and Wages	1,228,794.00	1,228,794.00	824,362.24		404,431.76	-
Other Expenses	67,050.00	67,050.00	10,126.87	8,957.41	47,965.72	-
Clinical Services						
Other Expenses	143,104.00	143,104.00	48,488.97	34,138.76	60,476.27	-
Animal Control Expense						
Other Expenses	43,200.00	43,200.00	43,200.00	-	-	-
DEPARTMENT OF LICENSES AND INSPECTIONS						
Director's Office						
Salaries and Wages	202,742.00	202,742.00	202,486.30		255.70	-
Other Expenses	18,802.00	18,802.00	1,180.72	17,601.24	20.04	-
Inspections						
Salaries and Wages	811,070.00	811,070.00	777,305.76		33,764.24	-

The accompanying Notes to Financial Statements are an integral part of this statement

CURRENT FUND
STATEMENT OF EXPENDITURES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Appropriations		Paid or Charged	Expended		(Over expended) Unexpended Balance Cancelled
	Budget	Budget After Modifications		Encumbered	Reserved	
Other Expenses Regulatory Division	7,300.00	7,300.00	1,278.59	2,673.75	3,347.66	-
Salaries and Wages	478,960.00	478,960.00	432,564.59		46,395.41	-
Other Expenses	13,650.00	13,650.00	5,015.97	3,095.64	5,538.39	-
CITY COUNCIL						
Salaries and Wages	306,912.00	306,912.00	306,478.51		433.49	-
Other Expenses	16,000.00	16,000.00	6,351.88	2,738.56	6,909.56	-
CITY CLERK						
Salaries and Wages	347,709.00	347,709.00	319,376.54		28,332.46	-
Other Expenses	126,000.00	126,000.00	46,811.29	14,004.85	65,183.86	-
UNIFORM CONSTRUCTION CODE						
Salaries and Wages	1,528,559.00	1,528,559.00	1,370,136.47		158,422.53	-
Other Expenses	11,580.00	11,580.00	1,399.26	2,486.06	7,694.68	-
UNCLASSIFIED						
Gas	400,000.00	400,000.00	229,867.07	150.69	169,982.24	-
Street Lighting	2,000,000.00	2,000,000.00	1,433,277.27	160,294.26	406,428.47	-
Electricity	1,700,000.00	1,700,000.00	1,533,602.17	53,826.95	112,570.88	-
Telephone	780,000.00	780,000.00	714,009.41	10,591.65	55,398.94	-
Sewer	200,000.00	200,000.00	142,350.29	20.01	57,629.70	-
Gasoline	1,008,000.00	1,008,000.00	451,832.17	98,521.45	457,646.38	-
City Water Usage	310,000.00	310,000.00		261,417.05	48,582.95	-
Codification of Ordinances	15,000.00	15,000.00	7,500.00	2,500.00	5,000.00	-
Terminal Leave Payments	3,101,082.00	3,101,082.00	3,101,082.00	-	-	-
Reserve for Tax Appeals	2,100,000.00	2,100,000.00	2,100,000.00	-	-	-
Refund of Overpayments	1,800,000.00	1,800,000.00	1,800,000.00	-	-	-
Interest to State for Deferred Payments	1,880,000.00	1,679,468.74	501,148.60		1,178,320.14	-
TOTAL OPERATIONS WITHIN "CAPS"	<u>152,672,456.00</u>	<u>152,471,924.74</u>	<u>135,628,411.00</u>	<u>3,365,610.70</u>	<u>13,477,903.04</u>	<u>-</u>
Contingent						-
TOTAL OPERATIONS INCLUDING CONTINGENT WITHIN "CAPS"	<u>152,672,456.00</u>	<u>152,471,924.74</u>	<u>135,628,411.00</u>	<u>3,365,610.70</u>	<u>13,477,903.04</u>	<u>-</u>
Detail:						
Salaries and Wages	80,135,236.00	80,139,236.00	75,656,554.72	-	4,482,681.28	-

The accompanying Notes to Financial Statements are an integral part of this statement

**CURRENT FUND
STATEMENT OF EXPENDITURES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Appropriations		Paid or Charged	Expended		(Over expended) Unexpended Balance Cancelled
	Budget	Budget After Modifications		Encumbered	Reserved	
Other Expenses	72,537,220.00	72,332,688.74	59,971,856.28	3,365,610.70	8,995,221.76	-
DEFERRED CHARGES AND STATUTORY EXPENDITURES:						
Deferred Charges:						
Operating Deficit	1,230,740.00	1,230,740.00	1,230,740.00		-	-
Prior Years	213,009.88	213,009.88		213,009.88	-	-
FEMA Deobligation	12,696,764.00	12,696,764.00	12,696,764.00		-	-
Tax Appeal						-
Statutory Expenditures:						-
Contributions to:						-
Public Employees' Retirement System	4,200,249.00	4,363,864.74	4,363,864.74		-	-
Social Security System (O.A.S.I.)	2,900,000.00	2,885,000.00	2,524,120.13		360,879.87	-
Consolidated Police and Firemen's Pension Fund	435.00	435.00			435.00	-
Police and Firemen's Retirement System	15,568,834.00	15,605,749.52	15,605,749.52		-	-
Defined Contribution Retirement Program	50,000.00	50,000.00	26,053.02		23,946.98	-
Lifeguard Pension	1,150,000.00	1,165,000.00	1,098,595.23		66,404.77	-
Pension Increase Act - CPF	18,582.47	18,582.47	18,582.47		-	-
TOTAL DEFERRED CHARGES AND STATUTORY EXPENDITURES:	38,028,614.35	38,229,145.61	37,564,469.11	213,009.88	451,666.62	-
TOTAL GENERAL APPROPRIATIONS FOR MUNICIPAL PURPOSES WITHIN "CAPS"	190,701,070.35	190,701,070.35	173,192,880.11	3,578,620.58	13,929,569.66	-
OPERATIONS - EXCLUDED FROM "CAPS"						
(A) Operations - Excluded from "CAPS"						
Maintenance of Library	2,800,581.64	2,800,581.64	2,567,199.84	233,381.80	0.00	-
Interlocal Service Agreement - Pleasantville BOE	160,000.00	160,000.00	33,427.90		-	-
Interlocal Service Agreement - CRDA Class 2's	1,000,000.00	1,000,000.00	525,851.03		126,572.10	-
					474,148.97	-
	3,960,581.64	3,960,581.64	3,126,478.77	233,381.80	600,721.07	-
(A) Public and Private Programs Off-Set by Revenues						
Clean Communities	98,461.24	98,461.24	98,461.24		-	-
Drunk Driving Enforcement Fund	2,849.83	2,849.83	2,849.83		-	-

The accompanying Notes to Financial Statements are an integral part of this statement

**CURRENT FUND
STATEMENT OF EXPENDITURES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Appropriations		Expended			(Over expended) Unexpended Balance Cancelled
	Budget	Budget After Modifications	Paid or Charged	Encumbered	Reserved	
COPS in Shops	5,000.00	5,000.00	5,000.00		-	-
Body Worn Cameras	30,000.00	30,000.00	30,000.00		-	-
Winter Wonderland Festival	17,125.00	17,125.00	17,125.00		-	-
NJ Body Armor	23,035.81	23,035.81	23,035.81		-	-
Alliance on Alcoholism and Drugs	30,059.00	30,059.00	30,059.00		-	-
Alliance on Alcoholism and Drugs - Match	7,515.00	7,515.00	7,515.00		-	-
AC Devco	170,000.00	170,000.00	170,000.00		-	-
AC Housing Authority	30,000.00	30,000.00	30,000.00		-	-
FEMA Assistance to Firefighters	185,651.00	185,651.00	185,651.00		-	-
FEMA Assistance to Firefighters - Match	18,565.00	18,565.00	18,565.00		-	-
AC Meals on Wheels	12,090.00	12,090.00	12,090.00		-	-
County Environmental Health Act	48,000.00	48,000.00	48,000.00		-	-
NJ BPU - LEDLighting Upgrad	2,000,000.00	2,000,000.00	2,000,000.00		-	-
NJ DOT - Rsurface Ventnor Ave	196,000.00	196,000.00	196,000.00		-	-
EDA Boardwalk Reconstruction - Match	32,288.00	32,288.00	32,288.00		-	-
Harold Brown Memorial Park	666,296.00	666,296.00	666,296.00		-	-
Hazardous Discharge - Riverside Business Park	47,985.00	47,985.00	47,985.00		-	-
NJ DEP Acquisition - Altman Playground	378,271.25	378,271.25	378,271.25		-	-
Brownfields - Bungalow Park Site Cleanup	163,658.00	163,658.00	163,658.00		-	-
Brownfields - Delta Basin Site Cleanup	200,000.00	200,000.00	200,000.00		-	-
Brownfields - Hazardous Contamination	200,000.00	200,000.00	200,000.00		-	-
Brownfields - Petroleum Contamination	200,000.00	200,000.00	200,000.00		-	-
Matching Funds	60,197.00	60,197.00	-	60,197.00	-	-
Total Public and Private Programs Off-Set by Revenues	3,681,117.88	4,823,047.13	4,762,850.13	-	60,197.00	-
Total Operations - Excluded from "CAPS"	7,641,699.52	8,783,628.77	7,889,328.90	233,381.80	660,918.07	-
Detail:						
Salaries and Wages						
Other Expenses	7,641,699.52	8,783,628.77	7,889,328.90	233,381.80	660,918.07	-
(C) Capital Improvements	200,000.00	200,000.00	200,000.00	-	-	-
Capital Improvement Fund						
Total Capital Improvements	200,000.00	200,000.00	200,000.00	-	-	-
(D) Debt Service	23,760,000.00	23,760,000.00	23,760,000.00	-	-	-
Payment of Bond Principal						

The accompanying Notes to Financial Statements are an integral part of this statement

CURRENT FUND
STATEMENT OF EXPENDITURES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Appropriations		Paid or Charged	Expended		(Over expended) Unexpended Balance Cancelled
	Budget	Budget After Modifications		Encumbered	Reserved	
Payment of Bond Anticipation Notes		-			-	-
Interest on Bonds	13,022,942.00	13,022,942.00	13,022,824.09		0.00	117.91
Interest on Notes		-			-	-
Total Debt Service	<u>36,782,942.00</u>	<u>36,782,942.00</u>	<u>36,782,824.09</u>	<u>-</u>	<u>0.00</u>	<u>117.91</u>
(E) Deferred Charges						
Emergency Authorizations	350,000.00	350,000.00	350,000.00			-
Special Emergency Authorization		-				-
Deferred Charge to Future Taxation - Unfunded		-				-
Total Deferred Charges	<u>350,000.00</u>	<u>350,000.00</u>	<u>350,000.00</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL GENERAL APPROPRIATIONS FOR MUNICIPAL PURPOSES EXCLUDED FROM "CAPS"	<u>44,974,641.52</u>	<u>46,116,570.77</u>	<u>45,222,152.99</u>	<u>233,381.80</u>	<u>660,918.07</u>	<u>117.91</u>
SUBTOTAL GENERAL APPROPRIATIONS	<u>235,675,711.87</u>	<u>236,817,641.12</u>	<u>218,415,033.10</u>	<u>3,812,002.38</u>	<u>14,590,487.73</u>	<u>117.91</u>
(M) Reserve for Uncollected Taxes	<u>6,032,615.12</u>	<u>6,032,615.12</u>	<u>6,032,615.12</u>			-
TOTAL GENERAL APPROPRIATIONS	<u>\$ 241,708,326.99</u>	<u>242,850,256.24</u>	<u>224,447,648.22</u>	<u>3,812,002.38</u>	<u>14,590,487.73</u>	<u>117.91</u>
Budget		241,708,326.99			Cancelled	117.91
Appropriations by 40A:4-87		1,141,929.25			Overexpended	-
Emergency Appropriations		<u>242,850,256.24</u>				<u>117.91</u>
Reserve for Uncollected Taxes			6,032,615.12			
Federal and State Grants			4,762,850.13			
Reserve for Tax Appeals			14,277,504.00			
Deferred Charges			199,374,678.97			
Disbursements			<u>224,447,648.22</u>			

**TRUST FUND
COMPARATIVE BALANCE SHEET - REGULATORY BASIS
AS OF DECEMBER 31,**

<u>ASSETS</u>	<u>Ref.</u>	<u>2016</u>	<u>2015</u>
Dog License Fund:			
Cash	\$	1,417.80	2,310.00
		<u>1,417.80</u>	<u>2,310.00</u>
Community Development Block Grant:			
Cash		78,498.71	1,430,173.16
CDBG Receivable		1,665,125.41	1,407,022.42
HOME Receivable		872,771.43	724,839.65
Loans Receivable		600,896.51	600,896.51
Due from Current			
Deferred Loan		<u>5,256,737.58</u>	<u>5,256,737.58</u>
		<u>8,474,029.64</u>	<u>9,419,669.32</u>
Other Funds:			
Cash - Treasurer		7,784,124.89	2,608,615.43
Cash - Collector		1,720,362.88	4,184,409.26
Police Detail Receivable		82,929.15	35,510.83
Due from Current Fund		11,537,704.48	15,124,910.69
Loan Receivable - NPP Program		<u>1,254.45</u>	<u>1,254.45</u>
		<u>21,126,375.85</u>	<u>21,954,700.66</u>
		<u>29,601,823.29</u>	<u>31,376,679.98</u>
<u>LIABILITIES, RESERVES AND FUND BALANCE</u>			
Dog License Fund:			
Due to Current Fund		388.80	1,134.00
Due to State of New Jersey		-	-
Reserve for Dog Fund Expenditures		<u>1,029.00</u>	<u>1,176.00</u>
		<u>1,417.80</u>	<u>2,310.00</u>
Community Development Block Grant:			
Reserve for Community Development			
Block Grant - Appropriated		2,510,736.50	2,020,654.83
Reserve for Loans Receivable		5,857,634.09	5,857,634.09
Due to Agencies			10,301.13
Due to Current Fund		<u>105,659.05</u>	<u>1,531,079.27</u>
		<u>8,474,029.64</u>	<u>9,419,669.32</u>
Other Funds:			
Deposits for Redemption of Tax Sale Certificates		562,962.88	1,566,969.67
Premiums on Tax Sale Deposits		1,157,400.00	2,614,800.00
Due to Taxpayers - Tax Title Lien		-	2,639.59
Encumbrances Payable		2,344,862.84	1,346,219.39
Reserve for NNP Loan			-
Overpaid Special Detail Services		100,892.57	148,344.09
Due to Current Fund		3.29	3.29
Due to Federal and State Grant Fund		756.09	756.09
Miscellaneous Reserves		<u>16,959,498.18</u>	<u>16,274,968.54</u>
		<u>21,126,375.85</u>	<u>21,954,700.66</u>
Total	\$	<u>29,601,823.29</u>	<u>31,376,679.98</u>

The accompanying Notes to Financial Statements are an integral part of this statement

**GENERAL CAPITAL FUND
COMPARATIVE BALANCE SHEET - REGULATORY BASIS
AS OF DECEMBER 31,**

	<u>Ref.</u>	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>			
Cash	\$	15,059,739.48	18,473,829.50
Deferred Charges to Future Taxation -			
Funded		223,646,000.00	247,406,000.00
Unfunded		480,000.00	480,000.00
Interfunds and Receivables			
Due from State of New Jersey		270,000.00	270,000.00
		<u>239,455,739.48</u>	<u>266,629,829.50</u>
<u>LIABILITIES, RESERVES AND FUND BALANCE</u>			
Encumbrances Payable		1,306,549.22	3,432,324.18
Bond Anticipation Notes Payable		-	-
Serial Bonds Payable		49,530,000.00	61,025,000.00
Tax Appeal Refunding Bonds		174,116,000.00	186,381,000.00
Improvement Authorizations:			
Funded		9,650,755.43	11,139,070.49
Unfunded		480,000.00	480,000.00
Reserve for Payment of Bonds		-	-
Capital Improvement Fund		911,292.97	711,292.97
Fund Balance		3,461,141.86	3,461,141.86
	\$	<u>239,455,739.48</u>	<u>266,629,829.50</u>
There were bonds and notes authorized but not issued at December 31			
	2015	480,000.00	
	2016	480,000.00	

**GENERAL CAPITAL FUND
COMPARATIVE STATEMENT OF FUND BALANCE -
REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31,**

	<u>2016</u>	<u>2015</u>
Beginning Balance January 1	\$ 3,461,141.86	1,268,930.05
Increased by:		
Premiums on sale of Bonds & Notes		342,054.25
Canceled Improvement Authorizations	-	3,225,157.56
Decreased by:		
Transfer to Current Fund		
Transfer to Improvement Authorizations		1,375,000.00
Ending Balance December 31	\$ <u>3,461,141.86</u>	<u>3,461,141.86</u>

**STATEMENT OF GENERAL FIXED ASSETS
REGULATORY BASIS
AS OF DECEMBER 31,**

	<u>2016</u>	<u>2015</u>
General Fixed Assets:		
Land	\$ 622,642,682.64	622,642,682.64
Land Improvements	9,746,440.00	8,965,912.25
Buildings	65,094,809.33	63,702,056.00
Machinery and Equipment	27,970,412.62	25,317,845.54
Vehicles	<u>25,728,126.49</u>	<u>24,907,797.27</u>
	<u><u>751,182,471.08</u></u>	<u><u>745,536,293.70</u></u>
Investment in General Fixed Assets	<u><u>\$ 751,182,471.08</u></u>	<u><u>745,536,293.70</u></u>

The accompanying Notes to Financial Statements are an integral part of this statement

CITY OF ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Atlantic City is a resort community in the County of Atlantic, State of New Jersey. The City covers an area of approximately 12 square miles with a population according to the 2010 census of 39,558. The City operates under a Mayor and Council form of government with the Mayor being the chief executive officer of the City and directly elected by the voters. The City Council is the law making body and passes all resolutions and ordinances. The City also employs a City Administrator who is responsible for the day to day operations of the City. Except as noted below, the financial statements of the City of Atlantic City include every board, body, office or commission supported and maintained wholly or in part by funds appropriated by the City of Atlantic City, as required by N.J.S. 40A:5-5.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provide financial support to the organization; or the City is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt or the levying of taxes. If the City reported under GAAP, the Atlantic City Municipal Utility Authority, 401 N. Virginia Avenue, Atlantic City and the Atlantic City Public Library, 1600 Atlantic Ave, Atlantic City would be considered component units. Complete financial statements for the component units may be obtained at the entity's administrative offices.

B. Description of Funds

The accounting policies of the City of Atlantic City conform to the accounting principles applicable to municipalities that have been prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Such principles and practices are designed primarily for determining compliance with legal provisions and budgetary restrictions and as a means of reporting on the stewardship of public officials with the respect to public funds. Under this method of accounting, the City of Atlantic City accounts for its financial transactions through the following separate funds:

Current Fund -- resources and expenditures for governmental operations of a general nature, including Federal and State grant funds.

Trust Funds -- receipts, custodianship and disbursement of funds in accordance with the purpose for which each reserve was created.

CITY OF ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

General Capital Fund -- receipt and disbursement of funds for the acquisition of general facilities, other than those acquired in the Current Fund.

General Fixed Assets Account Group -- All fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the general fixed assets account group, rather than in governmental funds.

C. Basis of Accounting

The accounting principles and practices prescribed for municipalities by the State of New Jersey differ in certain respects from accounting principles generally accepted in the United States of America applicable to local governmental units. The more significant policies in New Jersey follow. A modified accrual basis of accounting is followed with minor exceptions.

Revenues -- are recorded as received in cash except for certain amounts that are due from other governmental units. Receipts from Federal and State grants are realized as revenue when anticipated in the City budget. Receivables for property taxes are recorded with offsetting reserves on the balance sheet of the City's Current Fund; accordingly, such amounts are not recorded as revenue until collected. Other amounts that are due to the City which are susceptible to accrual are also recorded as receivables with offsetting reserves and recorded as revenue when received.

Expenditures -- are recorded on the "budgetary" basis of accounting. Generally expenditures are recorded when an amount is encumbered for goods or services through the issuance of a purchase order in conjunction with the Encumbrance Accounting System. Outstanding encumbrances at December 31, are reported as a cash liability in the financial statements. Appropriation reserves covering unexpended appropriation balances are automatically created at December 31st of each year and recorded as liabilities, except for amounts that may be canceled by the Governing Body. Appropriation reserves are available, until lapsed at the close of the succeeding year, to meet specific claims, commitments or contracts incurred during the preceding fiscal year. Lapsed appropriation reserves are recorded as income. Appropriations for principal payments on outstanding general capital and notes are provided on the cash basis; interest on general capital indebtedness is on the cash basis.

Foreclosed Property -- Foreclosed property is recorded in the Current Fund at the assessed valuation when such property was acquired and is fully reserved.

Interfunds -- Interfund receivables in the Current Fund are recorded with offsetting reserves which are created by charges to operations. Income is recognized in the year the receivables are liquidated. Interfund receivables in the other funds are not offset by reserves.

Inventories of Supplies - The cost of inventories of supplies for all funds are recorded as expenditures at the time individual items are purchased. The cost of inventories are not included on the various balance sheets.

CITY OF ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

General Fixed Assets -- The City has developed a fixed assets accounting and reporting system, as promulgated by the Division of Local Government Services, which differs in certain respects from accounting principles generally accepted in the United States of America.

As required by New Jersey Statutes, foreclosed property is reported in the current operating fund of the municipality.

Fixed assets used in governmental operations (general fixed assets) are accounted for in the General Fixed Assets Account Group. Public domain ("infrastructure") general fixed assets consisting of certain improvements other than buildings, such as roads, bridges, curbs and gutters, streets and sidewalks and drainage systems are not capitalized.

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available except for land which is valued at estimated market value at the time the land is foreclosed or donated. Land purchased by the City is valued at cost.

No depreciation has been provided for in the financial statements.

Expenditures for construction in progress are recorded in the Capital Funds until such time that construction is completed and put into operation.

Fixed assets acquired through grants in aid or contributed capital have been accounted for separately.

The following schedule is a summarization of the changes in general fixed assets for the most recent calendar year ended December 31, 2016 and 2015:

	Balance as of 12/31/14	Additions	Disposals	Adjustments	Balance as of 12/31/15
Land	\$ 622,642,683				622,642,683
Land Improvements	8,296,440	669,472			8,965,912
Buildings	63,702,056				63,702,056
Machinery and Equipment	25,311,017	6,829			25,317,846
Vehicles	24,438,157	469,640			24,907,797
	<u>\$ 744,390,353</u>	<u>1,145,941</u>	<u>-</u>	<u>-</u>	<u>745,536,294</u>

CITY OF ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	Balance as of 12/31/15	Additions	Disposals	Adjustment	Balance as of 12/31/16
Land	\$ 622,642,683				622,642,683
Land Improvements	8,965,912	780,528			9,746,440
Buildings	63,702,056	1,392,753			65,094,809
Machinery and Equipment	25,317,846	2,652,567			27,970,413
Vehicles	24,907,797	820,329			25,728,126
	<u>\$ 745,536,294</u>	<u>5,646,177</u>	<u>-</u>	<u>-</u>	<u>751,182,471</u>

Levy of Taxes -- The County Board of Taxation certifies the tax levy of the municipality each year. The tax levy is based on the assessed valuation of taxable property within the municipality. Taxes are payable on the first day of February, May, August, and November. Any taxes that have not been paid by the 11th day of the 11th month in the fiscal year levied are subject to being included in the tax sale and the lien enforced by selling the property in accordance with NJSA 54:5 et seq.

The municipality is responsible for remitting 100% of the school and county taxes to the respective agency. The loss for delinquent or uncollectible accounts is borne by the municipality and not the school district, or county.

Capitalization of Interest -- It is the policy of the City of Atlantic City to treat interest on projects as a current expense and the interest is included in the current operating budget.

Use of Estimates -- The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America or the regulatory basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

D. Comparative Data

Comparative total data for the prior year has been presented in the accompanying Balance Sheets and Statement of Operations in order to provide an understanding of changes in the City's financial position. However, comparative (i.e., presentation of prior year totals by fund type) data have not been presented in the Statement of Revenue-Regulatory Basis and Statement of Expenditures-Regulatory Basis since their inclusion would make the statements unduly complex and difficult to read.

CITY OF ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

E. Recent Accounting Pronouncements Not Yet Effective

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans". This statement is effective for fiscal periods beginning after June 30, 2016 establishes new accounting and financial reporting requirements for OPEB plans. It is anticipated that this statement will not have any effect on the City's financial reporting.

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". This statement is effective for fiscal periods beginning after June 30, 2017. Although not determinable, the impact of this statement on the net position of the City is no expected to be significant.

In August 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 77, "Tax Abatement Disclosure". This statement is effective for fiscal periods beginning after December 15, 2015, will not have any effect on the City's financial reporting.

In December 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 78, "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans". This statement is effective for fiscal periods beginning after December 15, 2015, will not have any effect on the City's financial reporting.

In January 2016, the Governmental Accounting Standards Board (GASB) issued Statement No. 80, "Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14". This statement is effective for fiscal periods beginning after December 15, 2016, will not have any effect on the City's financial reporting.

In March 2016, the Governmental Accounting Standards Board (GASB) issued Statement No. 81, "Irrevocable Split-Interest Agreements". This statement is effective for fiscal periods beginning after December 15, 2016, will not have any effect on the City's financial reporting.

In March 2016, the Governmental Accounting Standards Board (GASB) issued Statement No. 82, "Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No.73". This statement is effective for fiscal periods beginning after June 15, 2016, will not have any effect on the City's financial reporting, however will affect the disclosure of pension related items.

Note 2: BUDGETARY INFORMATION

Under New Jersey State Statutes, the annual budget is required to be a balanced cash basis document. To accomplish this, the municipality is required to establish a reserve for uncollected taxes. The 2016 and 2015 statutory budgets included a reserve for uncollected taxes in the amount of \$6,032,615 and \$5,037,209. To balance the budget, the municipality is required to show a budgeted fund balance. The amount of fund balance budgeted to balance the 2016 and 2015 statutory budgets was \$0 and \$0.

CITY OF ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

The Chief Financial Officer has the discretion of approving intra department budgetary transfers throughout the year. Inter department transfers are not permitted prior to November 1. After November 1, these transfers can be made in the form of a resolution and approved by City Council. The following significant budget transfers were approved in the 2016 and 2015 calendar years:

Budget Category	2016	2015
Audit Services		
Other Expenses		110,426
Police		
Other Expenses	(75,000)	
Police Civilian Division		
Other Expenses	75,000	
Director's Office Public Works		
Other Expenses		350,000
Gasoline		(179,264)
Interest to State for Deferred Payments	(200,531)	
Public Employees Retirement System	163,617	
Social Security System (O.A.S.I.)	(15,000)	
Police and Firemen's Retirement System	36,916	
Lifeguard Pension	15,000	

NJSA 40A:4-87 permits special items of revenue and appropriations to be inserted into the annual budget when the item has been made available by any public or private funding source and the item was not determined at the time of budget adoption. During 2016, the following budget insertions were approved:

NJ DEP Acquisition - Altman Playground	\$ 378,271.00
Brownfields - Bungalow Park Site Cleanup	163,658.00
Brownfields - Delta Basin Site Cleanup	200,000.00
Brownfields - Hazardous Contamination	200,000.00
Brownfields - Petroleum Contamination	200,000.00

The municipality may make emergency appropriations, after the adoption of the budget, for a purpose which was not foreseen at the time the budget was adopted or for which adequate provision was not made therein. This type of appropriation shall be made to meet a pressing need for public expenditure to protect or promote the public health, safety, morals or welfare or to provide temporary housing or public assistance prior to the next succeeding fiscal year. Emergency appropriations, except those classified as a special emergency, must be raised in the budgets of the

CITY OF ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

succeeding year. Special emergency appropriations are permitted to be raised in the budgets of the succeeding three or five years. In 2015 the City authorized an emergency for \$350,000, there was \$0 left as of December 31, 2016.

Note 3: INVESTMENTS

Interest Rate Risk. The municipality does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, New Jersey Statutes 40A:5-15.1(a) limits the length of time for most investments to 397 days.

Credit Risk. New Jersey Statutes 40A:5-15.1(a) limits municipal investments to those specified in the Statutes. The type of allowable investments are Bonds of the United States of America or of the local unit or school districts of which the local unit is a part of: obligations of federal agencies not exceeding 397 days; government money market mutual funds; the State of New Jersey Cash Management Plan; local government investment pools; or repurchase of fully collateralized securities.

Concentration of Credit Risk. The municipality places no limit on the amount the City may invest in any one issuer.

Note 4: CASH

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The municipality's policy is based on New Jersey Statutes requiring cash be deposited only in New Jersey based banking institutions that participate in the New Jersey Governmental Depository Protection Act (GUDPA) or in qualified investments established in New Jersey Statutes 40A:5-15.1(a) that are treated as cash equivalents. As of December 31, 2016 and 2015, \$0 and \$0 of the municipality's bank balance of \$70,642,559.31 and \$71,209,316.19, respectively were exposed to custodial credit risk.

Note 5: LONG TERM DEBT

Long-term debt as of December 31, 2016 and 2015 consisted of the following:

	Balance Beginning 12/31/2014	Additions	Reductions	Balance Ending 12/31/2015	Due in One Year
General	\$ 217,856,000.00	53,760,000.00	24,210,000.00	247,406,000.00	23,760,000.00
Comp Absences	28,160,371.79	15,664,662.82	19,632,583.84	24,192,450.77	
Total	<u>\$ 246,016,371.79</u>	<u>69,424,662.82</u>	<u>43,842,583.84</u>	<u>271,598,450.77</u>	<u>23,760,000.00</u>

CITY OF ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	Balance Beginning 12/31/2015	Additions	Reductions	Balance Ending 12/31/2016	Due in One Year
General	\$ 247,406,000.00		23,760,000.00	223,646,000.00	17,162,000.00
Comp Absences	24,192,450.77	12,660,600.79	12,900,830.37	23,952,221.19	
Total	<u>\$ 271,598,450.77</u>	<u>12,660,600.79</u>	<u>36,660,830.37</u>	<u>247,598,221.19</u>	<u>17,162,000.00</u>

Paid by Current Fund:

\$26,500,000 General obligation bonds dated 2/15/08 with principal payments starting 2/15/09 and ending 2/15/18. \$3,000,000 of principal was paid on 2/15/16. Semiannual interest payments began 2/15/09 with annual rates of 2.25% to 5.5%. The balance remaining as of December 31, 2016 was \$6,000,000.

\$16,354,000 General Improvement bonds dated 2/1/11 with principal payments starting 2/1/12 and ending 2/1/22. \$1,600,000 of principal was paid on 2/1/16. Semiannual interest payments began 8/1/11 with annual rates of 3.0% to 5.00%. The balance remaining as of December 31, 2016 was \$9,599,000.

\$35,285,000 Tax appeal refunding bonds dated 12/15/11 with principal payments starting 12/15/12 and ending 12/15/16. \$4,700,000 of principal was paid on 12/15/16. Semiannual interest payments began 6/15/12 with annual rates of 1.40% to 3.299%. The balance remaining as of December 31, 2016 was \$0. This entire issue was taxable for federal and state income taxes based on the purpose of the bond ordinance and in the opinion of Bond Council.

\$15,710,000 General obligation refunding bonds dated 4/1/12 with principal payments starting 10/1/12 and ending 4/1/17. \$3,075,000.00 of principal was paid on 4/1/16. Semiannual interest payments began 4/1/13 with annual rates of 3.0% to 5.00%. The balance remaining as of December 31, 2016 was \$3,220,000. \$15,710,000 of the refunding bonds replaced \$16,150,000 of the series 2003 General obligation refunding bonds. The net present value savings exceeded \$606,000.

\$5,450,000 Pension refunding bonds dated 4/1/12 with principal payments starting 4/1/13 and ending 4/1/21. \$585,000.00 of principal was paid on 4/1/16. Semiannual interest payments began 4/1/13 with annual rates of 2.314% to 4.756%. The balance remaining as of December 31, 2016 was \$3,295,000. \$5,450,000 of the pension refunding bonds replaced \$5,325,035 of State of New Jersey PERS ERI Program debt. The net present value savings exceeded \$421,000.

CITY OF ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

\$93,000,000 Tax appeal refunding bonds dated 12/5/12 with principal payments starting 11/1/13 and ending 11/1/32. \$7,565,000.00 of principal was paid on 11/1/16. Semiannual interest payments began 5/1/13 with annual rates of 1.388% to 5.00%. The balance remaining as of December 31, 2016 was \$83,380,000. \$2,620,000 of this issue was taxable for federal and state income taxes based on the purpose of the bond ordinance and in the opinion of Bond Council.

\$48,976,000 Tax appeal refunding bonds dated 12/5/13 with principal payments starting 12/1/17 and ending 12/1/33. Semiannual interest payments began 6/1/14 with annual rates of 3.00% to 5.00%. The balance remaining as of December 31, 2016 was \$48,976,000.

\$13,901,000 General Obligation bonds dated 12/5/13 with principal payments starting 12/1/14 and ending 12/1/28. \$790,000.00 of principal was paid on 12/1/16. Semiannual interest payments began 6/1/14 with annual rates of 3.00% to 5.00%. The balance remaining as of December 31, 2016 was \$11,881,000.

\$7,710,000 General obligation refunding bonds dated 1/15/14 with principal payments starting 7/15/14 and ending 1/15/18. \$2,020,000.00 of principal was paid on 1/15/16. Semiannual interest payments began 7/15/14 with annual rates of 2.09%. The balance remaining as of December 31, 2016 was \$5,980,000. \$3,960,000 of the refunding bonds replaced \$7,480,000 of the series 2005 General obligation refunding bonds.

\$41,760,000 Tax appeal refunding bonds dated 5/21/15 with principal payments starting 3/1/20 and ending 3/1/40. Semiannual interest payments will begin in 2016 with annual rates of 7.00% to 7.50%. The balance remaining as of December 31, 2016 was \$41,760,000.

\$12,000,000 General obligation bonds dated 5/28/15 with principal payments starting 3/1/16 and ending 3/1/30. \$425,000.00 of principal was paid on 3/1/16. Semiannual interest payments will begin in 2016 with annual rates of 6.00%. The balance remaining as of December 31, 2016 was \$11,575,000.

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CITY OF ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

Schedule of Annual Debt Service for Principal and Interest for Bonded Debt Issued and Outstanding

<u>Calendar Year</u>	<u>General Capital Principal</u>	<u>Total Interest</u>	<u>Total</u>
2017	\$ 17,162,000.00	11,159,787.41	28,321,787.41
2018	14,045,000.00	10,411,417.91	24,456,417.91
2019	17,090,000.00	9,911,455.38	27,001,455.38
2020	16,015,000.00	9,032,297.50	25,047,297.50
2021	15,360,000.00	8,216,646.60	23,576,646.60
2022-2026	62,329,000.00	30,709,150.00	93,038,150.00
2027-2031	43,880,000.00	18,145,331.26	62,025,331.26
2032-2036	21,175,000.00	9,445,687.50	30,620,687.50
2037-2040	16,590,000.00	2,604,750.00	19,194,750.00
	\$ <u>223,646,000.00</u>	<u>109,636,523.56</u>	<u>333,282,523.56</u>

As of December 31, 2016, the carrying value of the above bonds approximates the fair value of the bonds.

Bonds & Notes Issued	\$ 223,646,000.00	247,406,000.00	217,856,000.00
Notes/Loans		-	52,800,000.00
Less: Funds Temporarily Held to Pay			
Bonds and Notes		-	7,956.44
Net Debt Issued	<u>223,646,000.00</u>	<u>247,406,000.00</u>	<u>270,648,043.56</u>

Authorized but not issued:

General:

Bonds and notes	<u>480,000.00</u>	<u>480,000.00</u>	<u>100,480,000.00</u>
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Bonds & Notes Authorized But Not Issued

Net Bonds & Notes Issued and Authorized But Not Issued	<u>\$ 224,126,000.00</u>	<u>247,886,000.00</u>	<u>371,128,043.56</u>
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CITY OF ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

Summary of Statutory Debt Condition - Annual Debt Statement

The summarized statement of debt condition which follows is prepared in accordance with the required method of setting up the Annual Debt Statement and indicates a statutory net debt of 2.141%.

	Gross Debt	Deductions	Net Debt
Local School District Debt	\$ 70,696,000.00	70,696,000.00	-
General Debt	238,845,148.00	14,719,148.00	224,126,000.00
	<u>\$ 309,541,148.00</u>	<u>85,415,148.00</u>	<u>224,126,000.00</u>

Net Debt \$224,126,000/ Equalized Valuation Basis per NJSA 40A:2-2 as amended, \$8,695,098,227.33 = 2.578%.

The foregoing information is in agreement with the Annual Debt Statement filed with the Division of Local Government Services.

Borrowing Power Under N.J.S.A. 40A:2-6 as Amended

3 1/2 % of Equalized Valuation Basis (Municipal)	\$ 304,328,437.96
Net Debt	224,126,000.00
Remaining Borrowing Power	<u>\$ 80,202,437.96</u>

The City of Atlantic City School District, as a K-12 school district, is permitted to borrow up to 4% of the average equalized valuation for the past three years. State statutes allow a school district to exceed the districts limitation with voter approval. Any amounts approved by the voters in excess of the limit is treated as an impairment of the municipal limit.

Note 6: SHORT-TERM OBLIGATIONS

There were no short term obligations during the 2016 year. The 2015 short term obligations were as follows:

	Balance 12/31/14	Issued	Retired	Balance 12/31/15
Bond Anticipation				
Notes payable:				
General	\$ 52,800,000.00		52,800,000.00	-
	<u>\$ 52,800,000.00</u>	<u>-</u>	<u>52,800,000.00</u>	<u>-</u>

The City had no outstanding short term obligations as of December 31, 2016 and 2015.

CITY OF ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

Note 7: FUND BALANCES APPROPRIATED

Fund balances at December 31, 2016 and 2015, which were appropriated and included as anticipated revenue in their own respective funds for the years ending December 31, 2017 and 2016 were as follows:

	<u>2016</u>
Current Fund	\$0

The 2017 budget has not been adopted as of the date of the audit.

Note 8: DEFERRED CHARGES TO BE RAISED IN SUCCEEDING BUDGETS

Certain expenditures are required to be deferred to budgets of succeeding years. At December 31, 2016, the following deferred charges are shown on the balance sheets of the various funds:

	Balance December 31, 2016	2017 Budget Appropriation	Balance to Succeeding
Current fund:			
Deficit in Operations	\$ 8,615,182.24	1,230,740.00	7,384,442.24
Deficit due to Tax Appeals	108,028,257.32	-	108,028,257.32
Prior Outstanding Payables	37,588,785.85	-	37,588,785.85
	<u>\$ 154,232,225.41</u>	<u>1,230,740.00</u>	<u>153,001,485.41</u>

The 2017 budget has not yet been adopted. The City is currently under the supervision of a State Monitor, and the amounts required to be appropriated for the Deficit due to Tax Appeals and the Prior Outstanding Payables will be determined by the State prior to the budget being adopted.

The appropriations in the 2017 Budget are not less than that required by statute and State agreement.

CITY OF ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

Note 9: SCHOOL TAXES

Local District School Tax in the amount of \$100,077,234.75 has been raised for the 2016 calendar year and \$90,835,128.06 remitted to the school district leaving a \$9,242,106.69 balance payable. Since the school district operates on a July 1 to June 30 fiscal year the school tax levy is determined by taking 50% of the prior year and 50% of the current year requirements, plus the actual amount needed for debt service.

Note 10: TAXES COLLECTED IN ADVANCE

Taxes collected in advance are recorded as cash liabilities in the financial statements. Following is a comparison of the liability for the previous two years:

	<u>Balance 12/31/16</u>	<u>Balance 12/31/15</u>
Prepaid Taxes	\$ 840,825.85	1,237,391.88
Cash Liability for Taxes Collected in Advance	<u>\$ 840,825.85</u>	<u>1,237,391.88</u>

Note 11: PENSION FUNDS

Description of Plans

Substantially all of the City's employees are covered by the Public Employees' Retirement System (PERS) and Police and Fireman's Retirement System (PFRS), a cost-sharing multiple-employer defined benefit pension plan which has been established by state statute and is administered by the New Jersey Division of Pension and Benefits (Division). According to the State of New Jersey Administrative Code, all obligations of the System will be assumed by the State of New Jersey should the System terminate. The Division issues a publicly available financial report that includes the financial statements and required supplementary information for the Public Employees Retirement System and Police and Fireman's Retirement System. This report may be obtained by writing to the Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey, 08625 or the report can be accessed on the internet at <http://www.state.nj.us/treasury/pensions/annrpts.shtml>.

Public Employees' Retirement System

The Public Employees' Retirement System was established in January, 1955 under the provisions of N.J.S.A. 43:15A to provide retirement, death, disability and medical benefits to certain qualified members. The Public Employees' Retirement System is a cost-sharing multiple-employer plan. Membership is mandatory for substantially all full time employees of the State or any county, municipality, school district or public agency provided the employee is not required to be a member of another State-administered retirement system or other state or local jurisdiction.

CITY OF ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

Police and Fireman's Retirement System

The contribution policy for the PFRS is set by N.J.S.A. 43:16 and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. PFRS provides for employee contributions of 10% of employees' annual compensation, as defined. Employers are required to contribute at an actuarially determined rate.

Defined Contribution Retirement Program (DCRP)

The Defined Contribution Retirement Program (DCRP) was established as of July 1, 2008 under the provisions of Chapter 92, P.L. 2008 and Chapter 103, P.L. 2008 (NJSA43:15C-1 et seq). The DCRP is a cost sharing multiple-employer defined contribution pension fund. The DCRP provides eligible members, and their beneficiaries with a tax-sheltered, defined contribution retirement benefit, along with life insurance and disability coverage. Vesting and benefit provisions are established by NJSA 43:15C-1 et seq.

Funding Policy

The contribution policy is set by N.J.S.A. 43:15A, Chapter 62, P.L. of 1994, Chapter 115, P.L. of 1997 and N.J.S.A. 18:66, and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. PERS provide for employee contributions of 7.06% through June 30, 2016 and 7.13% thereafter of employees' annual compensation, as defined. Employers are required to contribute at an actuarially determined rate in PERS and PFRS. The current PERS rate is 6.98% of covered payroll and for PFRS a rate of 10.0% of covered payroll. The City's contributions to PERS for the years ending December 31, 2016, 2015 and 2014 were \$4,363,864.74, \$0.00 and \$3,534,671.00 respectively, equal to the required contributions for each year. The City's contributions to PFRS for the years ending December 31, 2016, 2015 and 2014 were \$15,605,749.52, \$0.00 and \$14,323,084.39 respectively, equal to the required contributions for each year. The City received permission from the State Division of Local Government Services to defer the 2015 payments due for the pensions. The amounts have been accrued as payables on the balance sheet as of December 31, 2016 in the amounts of \$3,985,571.50 for PERS and \$14,660,768.52 for PFRS. For the year 2009 the City elected to defer 50% of the PERS and PFRS payments. The City started to budget the deferred amount in 2012 for 5 years, in addition to 8.5% interest.

Significant Legislation

Chapter 78, P.L. 2011, effective June 28, 2011 made various changes to the manner in which the Public Employees' Retirement System (PERS) and the Police and Firemen's Retirement System (PFRS) operate and to the benefit provisions of those systems.

CITY OF ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

Chapter 78's provisions impacting employee pension and health benefits include:

- New members of the PERS hired on or after June 28, 2011 (Tier 5 members) will need 30 years of creditable service and age 65 for receipt of the early retirement benefit without a reduction of $\frac{1}{4}$ of 1% for each month that the member is under age 65.
- The eligibility age to qualify for a service retirement in the PERS is increased from age 63 to 65 for Tier 5 members.
- The annual benefit under special retirement for new PFRS members enrolled after June 28, 2011 (Tier 3 members), will be 60% instead of 65% of the member's final compensation plus 1% for each year of creditable service over 25 years but not to exceed 30 years.
- Increases in active member contribution rates. PERS active member rates increase from 5.5% of annual compensation to 6.5% plus an additional 1% phased-in over 7 years; PFRS active member rate increase from 8.5% to 10%. For fiscal year 2012, the member contribution rates increased in October 2011. The phase-in of the additional incremental member contribution rates for PES members will take place in July of each subsequent fiscal year.
- The payment of automatic cost-of-living adjustment (COLA) additional increases to current and future retirees and beneficiaries is suspended until reactivated as permitted by this law.
- New employee contribution requirements towards the cost of employer-provided health benefit coverage. Employees are required to contribute a certain percentage of the cost of coverage. The rate of contribution is determined based on the employee's annual salary and the selected level of coverage. The increased employee contributions will be phased in over a 4-year period for those employed prior to Chapter 78's effective date with a minimum contribution required to be at least 1.5% of salary.
- In addition, this new legislation changes the method for amortizing the pension systems' unfunded accrued liability (from a level percent of pay method to a level dollar of pay).

Chapter 1, P.L. 2010, effective May 21, 2010, made a number of changes to the State-administered retirement systems concerning eligibility, the retirement allowance formula, the definition of compensation, the positions eligible for service credit, the non-forfeitable right to a pension, the prosecutor's part of the PERS, special retirement under the PFRS, and employer contributions to the retirement systems.

Also, Chapter 1, P.L. 2010 changed the membership eligibility criteria for new members of PERS from the amount of annual compensation to the number of hours worked weekly. Also, it returned the benefit multiplier for new members of PERS to $\frac{1}{60}^{\text{th}}$ from $\frac{1}{55}^{\text{th}}$, and it provided that new members of PERS have the retirement allowance calculated using the average annual compensation for the last five years of service instead of the last three years of service. New members of PERS will no longer receive pension service credit from more than one employer. Pension service credit will be earned for the highest paid position only. For new members of the PFRS, the law capped the maximum compensation that can be used to calculate a pension from these plans at the annual wage contribution base for social security, and requires the pension to be calculated using a three year average annual compensation instead of the last year's salary. This law also closed the Prosecutors

CITY OF ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

Part of the PERS to new members and repealed the law for new members that provided a non-forfeitable right to receive a pension based on the laws of the retirement system in place at the time 5 years of pension service credit is attained. The law also requires the State to make its full pension contribution, defined a 1/7th of the required amount, beginning in fiscal years 2012.

Chapter 3, P.L. 2010, effective May 21, 2010, replaced the accidental and ordinary disability retirement for new members of the PERS with disability insurance coverage similar to that provided by the State to individuals enrolled in the State's Defined Contribution Retirement Program.

Chapter 92, P.L. 2007 implemented certain recommendations contained in the December 1, 2006 report of the Joint Legislative Committee on Public Employee Benefits Reform; established a DCRP for elected and certain appointed officials, effective July 1, 2007; the new pension loan interest rate became 4.69% per year, and an \$8.00 processing fee per loan was charged, effective January 1, 2008. The legislation also removed language from existing law that permits the State Treasurer to reduce employer pension contributions needed to fund the Funds and Systems when excess assets are available.

Note 12: PENSION LIABILITIES

In 2012, the Governmental Accounting Standards Board issued GASB statement 68. This statement is effective for fiscal years beginning after June 15, 2014. This statement changes the method of reporting the municipality's pension liabilities. However, due to the fact that the municipality reports on the regulatory basis of accounting, no financial statement impact will be recognized.

The following represents the municipality's pension liabilities as June 30, 2016:

Public Employees' Retirement System

The Municipality has a liability of \$115,125,249.00 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Municipality's proportion of the net pension liability was based on a projection of the Municipality's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2016, the Municipality's proportion would be .38871167490%, which would be a decrease of 17.26% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the Municipality would have recognized pension expense of \$8,760,124.00. At December 31, 2016, the Municipality would report deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

CITY OF ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected & actual experience	\$ 2,140,981	
Changes of assumptions	23,847,802	
Changes in proportion	2,331,963	(13,218,448)
Net difference between projected and actual earnings on pension plan investments	4,389,830	
Total	<u>\$ 32,710,576</u>	<u>(13,218,448)</u>

Amounts that would be reported as deferred outflows of resources and deferred inflows of resources related to pensions would be recognized in pension expense as follows:

Year ended June 30,	
2017	\$ 4,411,190
2018	4,411,190
2019	5,042,896
2020	4,220,064
2021	1,406,787
Total	<u>\$ 19,492,128</u>

Actuarial Assumptions

The total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of July 1, 2015, which was rolled forward to June 30, 2016. This actuarial valuation used the following assumptions, applied to all periods in the measurement:

Inflation rate	3.08%
Salary increases:	
Through 2026	1.65% - 4.15% (based on age)
Thereafter	2.65% - 5.15% (based on age)
Investment rate of return:	7.65%

Pre-retirement mortality rates were based on the RP-2000 Employee Preretirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2014 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Post-retirement mortality rates were based on the RP-2000 Combined Healthy

CITY OF ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

Male and Female Mortality Tables (set back 1 year for males and females) for service retirements and beneficiaries of former members and a one-year static projection based on mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more experience deviates, the larger the impact on future financial statements.

In accordance with State statute, the long-term expected rate of return on plan investments (7.65% at June 30, 2016) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflations. Best estimates of arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2016 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	5.00%	0.87%
U.S. Treasuries	1.50%	1.74%
Investment Grade Credit	8.00%	1.79%
Mortgages	2.00%	1.67%
High Yield Bonds	2.00%	4.56%
Inflation-Indexed Bonds	1.50%	3.44%
Broad US Equities	26.00%	8.53%
Developed Foreign Equities	13.25%	6.83%
Emerging Market Equities	6.50%	9.95%
Private Equity	9.00%	12.40%
Hedge Funds/Absolute Return	12.50%	4.68%
Real Estate (Property)	2.00%	6.91%
Commodities	0.50%	5.45%
Global Debt (Except US)	5.00%	-0.25%
REIT	5.25%	5.63%

CITY OF ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

Discount Rate

The discount rate used to measure the total pension liability was 3.98% as of June 30, 2016. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.65%, and a municipal bond rate of 2.85% as of June 30, 2016, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 30% of the actuarially determined contributions and the local employers contributed 100% of the actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2034. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2034 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the Municipality's proportionate share of the net pension liability to changes in the discount rate.

The following presents the Municipality's proportionate share of the net pension liability calculated using the discount rate of 3.98%, as well as what the Municipality's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.98%) or 1-percentage point higher (4.98%) than the current rate:

	1% Decrease (2.98%)	Current Discount Rate (3.98%)	1% Increase (4.98%)
Municipality's proportionate share of the net pension liability	\$ 137,966,529	115,125,249	96,288,039

Pension plan fiduciary net position.

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

CITY OF ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

Police and Firemen's Retirement System

The Municipality has a liability of \$314,099,932.00 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Municipality's proportion of the net pension liability was based on a projection of the Municipality's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2016, the Municipality's proportion would be 1.64428204790%, which would be a decrease of 9.48% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the Municipality would have recognized pension expense of \$28,545,743.00. At December 31, 2016, the Municipality would have reported deferred outflows of resources and deferred inflows of resources related to PFRS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected & actual experience		(2,058,972)
Changes of assumptions	43,505,422	
Changes in proportion	2,262,316	(24,257,636)
Net difference between projected and actual earnings on pension plan investments	22,008,350	
Total	<u>\$ 67,776,088</u>	<u>(26,316,608)</u>

Amounts that would be reported as deferred outflows of resources and deferred inflows of resources related to pensions would be recognized in pension expense as follows:

Year ended June 30,	
2016	\$ 10,025,430
2017	10,025,430
2018	13,306,706
2019	7,795,366
2020	306,548
Total	<u>\$ 41,459,480</u>

CITY OF ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

Actuarial Assumptions

The total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation of July 1, 2015, which was rolled forward to June 30, 2016. This actuarial valuation used the following assumptions, applied to all periods in the measurement:

Inflation rate	3.08%
Salary increases:	
Through 2026	2.10% - 8.98% (based on age)
Thereafter	3.10% - 9.98% (based on age)
Investment rate of return:	7.65%

Pre-retirement mortality rates were based on the RP-2000 Pre-Retirement mortality tables projected thirteen years using Projection Scale BB and then projected on a generational basis using the plan actuary's modified 2014 projection scales. Post-retirement mortality rates for male service retirements and beneficiaries are based on the RP-2000 Combined Healthy Mortality Tables projected one year using Projection Scale AA and two years using the plan actuary's modified 2014 projection scales, which was further projected on a generational basis using the plan actuary's modified 2014 projection scales. Post-retirement mortality rates for female service retirements and beneficiaries were based on the RP-2000 Combined Healthy Mortality Tables projected thirteen years using Projection Scale BB and then two years using the plan actuary's modified 2014 projection scales, which was further projected on a generational basis using the plan actuary's modified 2014 projection scales. Disability mortality rates were based on special mortality tables used for the period after disability retirement.

The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2013.

In accordance with State statute, the long-term expected rate of return on plan investments (7.65% at June 30, 2016) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in PFRS's target asset allocation as of June 30, 2016 are summarized in the following table:

CITY OF ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	5.00%	0.87%
U.S. Treasuries	1.50%	1.74%
Investment Grade Credit	8.00%	1.79%
Mortgages	2.00%	1.67%
High Yield Bonds	2.00%	4.56%
Inflation-Indexed Bonds	1.50%	3.44%
Broad US Equities	26.00%	8.53%
Developed Foreign Equities	13.25%	6.83%
Emerging Market Equities	6.50%	9.95%
Private Equity	9.00%	12.40%
Hedge Funds/Absolute Return	12.50%	4.68%
Real Estate (Property)	2.00%	6.91%
Commodities	0.50%	5.45%
Global Debt (Except US)	5.00%	-0.25%
REIT	5.25%	5.63%

Discount Rate

The discount rate used to measure the total pension liability was 5.55% as of June 30, 2016. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.65%, and a municipal bond rate of 2.85% as of June 30, 2016, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers and the non-employer contributing entity will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 30% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2050. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2050, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the Municipality's proportionate share of the net pension liability to changes in the discount rate.

The following presents the collective net pension liability of the participating employers as of June 30, 2016, calculated using the discount rate as disclosed above as well as what the collective net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

CITY OF ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	1% Decrease (4.55%)	Current Discount Rate (5.55%)	1% Increase (6.55%)
District's proportionate share of the net pension liability	\$ 399,301,646	314,099,932	244,650,964

In addition to the PFRS liabilities listed above, a special funding situation exists for the Local employers of the Police and Fire Retirement System of New Jersey. The State of New Jersey, as a non-employer, is required to pay the additional costs incurred by Local employers under Chapter 8, P.L. 2000, Chapter 318, P.L. 2001, Chapter 86, P.L. 2001, Chapter 511, P.L. 1991, Chapter 109, P.L. 1979, Chapter 247, P.L. 1993 and Chapter 201, P.L. 2001. The June 30, 2016 State special funding situation net pension liability amount of \$1,604,141,087.00, is the accumulated differences between the annual actuarially determined State obligation under the special funding situation and the actual State contribution through the valuation date. The fiscal year ending June 30, 2016 State special funding situation pension expense of \$204,886,666.00 is the actuarially determined contribution amount that the State owes for the fiscal year ending June 30, 2016. The pension expense is deemed to be a State administrative expense due to the special funding situation.

The contribution policy for PFRS is set by N.J.S.A. 43:16A and required contributions by active members and contributing employers. State legislation has modified the amount that is contributed by the State. The State's contribution amount is based on an actuarially determined rate which includes the normal cost and unfunded accrued liability. For fiscal year 2016, the State contributed an amount less than the actuarially determined amount.

Although the liabilities related to the special funding situation are the liabilities of the State of New Jersey, the proportionate share of the statewide liability allocated to the Municipality was 1.64428204790 % for 2016. The net pension liability amount allocated to the Municipality was \$26,376,604.00. For the fiscal year ending June 30, 2016 State special funding situation pension expense of \$3,368,914.00 is allocated to the Municipality.

Pension plan fiduciary net position.

Detailed information about the pension plan's fiduciary net position is available in the separately issued PFRS financial report.

CITY OF ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

Note 13: PENSION PLAN FOR LIFEGUARDS

The City of Atlantic City has established a pension plan to provide retirement, disability and survivor pension benefits for the individuals who serve on the City's lifeguard force. An eligible employee becomes a plan member upon employment. Employee contributions shall be withheld from the member's salary at the rate of 4.0% and contributed to the plan for his benefit. Retiree benefits are paid out of the current fund and charged to the current operating budget of the City. A plan member may retire with a pension only after his 45th birthday and after he has completed 20 years of service, the last 10 must have been completed immediately preceding his application.

Employee contributions to the pension fund were \$64,434.40 and \$74,183.06 and benefits paid to retirees was \$1,163,029.63 and \$1,081,777.88 for the years ended December 31, 2016 and 2015, respectively. The City has not established a separate trust fund for the accumulation of contributions and the payment of retiree benefits.

Note 14: POST-RETIREMENT BENEFITS

The City contributes to the State Health Benefits Program (SHBP), a cost-sharing, multiple-employer defined benefit post-employment healthcare plan administered by the State of New Jersey Division of Pensions and Benefits. SHBP was established in 1961 under N.J.S.A. 52:14-17.25 et seq., to provide health benefits to State employees, retirees, and their dependents. Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. SHBP provides medical, prescription drugs, mental health/substance abuse, and Medicare Part B reimbursement to retirees and their covered dependents.

The SHBP was extended to employees, retirees and dependents of participating local public employers in 1964. Local employers must adopt a resolution to participate in the SHBP. In 2009, the City authorized participation in the State Health Benefit Program through resolution 307-2009.

Members of the Public Employees' Retirement System would generally qualify for coverage under the following criteria:

Service Retirement	Eligible at age 60
Early Retirement	Eligible after 25 years of service
Service or Early Retirement Eligibility for State-paid SHBP Benefits	Attainment of 25 years of service
Ordinary Disability Retirement	Eligible after 10 years of service
Accidental Disability	Eligible upon total and permanent disability prior to age 65 as a result of a duty injury

CITY OF ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

The New Jersey State Health Benefits Plan issues a stand-alone financial report under GASB 43. To view the report, go to <http://www.state.nj.us/treasury/pensions/shbp.htm>.

The City is a member of the SHBP. During 2016, \$31,656,479.77 was paid by the City for health care, of which \$11,170,495.74 was paid for retirees and additional \$4,588,394.91 was withheld and paid by employees. The amount paid during 2015 was \$10,786,246.99, of which \$2,465,532.10 was paid for retirees. The City has deferred health benefit payments from 2015 with permission from the State Division of Local Government Services. The City has accrued \$18,942,445.83 in Health Benefits Payable as of December 31, 2016.

Note 15: DEFERRED COMPENSATION

Employees of the City of Atlantic City may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457 (Deferred Compensation Plans With Respect to Service For State and Local Governments).

The deferred compensation plan is available to all employees of the City. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death, or unforeseeable emergency.

The deferred compensation plan is administered by an unrelated financial institution. Under the terms of an IRC Section 457 deferred compensation plan, all deferred compensation and income attributable to the investment of the deferred compensation amounts held by the financial institution, until paid or made available to the employees or beneficiaries, are the property of the employees.

As part of its fiduciary role, the City has an obligation of due care in selecting the third party administrator. In the opinion of the City's legal counsel, the City has acted in a prudent manner and is not liable for losses that may arise from the administration of the plan.

CITY OF ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

Note 16: LABOR CONTRACTS

As of December 31, 2016, the City's employees are organized in the following collective bargaining units. Contracts are continually being negotiated the following table shows their current status.

Contract	Category	Expiration	Covers
ACWCPA	White Collar	12/31/14	All employees except police, fire, craft and blue collar workers. Supervisors are also excluded.
PBA	Police	12/31/15	All uniformed police, detectives, and other special police units, excluding the chief, deputy chief, inspectors, captains, and all other employees of the City.
IAFF	Firefighters	12/31/14	All uniformed firefighters
IBEW #351	Construction Code Inspectors	12/31/14	All Construction Office inspectors.
GWU # 910	Supervisors	12/31/14	All supervisors
AFL-CIO #2303	Blue Collar	12/31/14	Blue collar workers
AFL-CIO # 2303C	Beach Patrol	12/31/12	All lifeguards, lieutenants and captains, but excludes chief, assistant chief, area chief, beach surgeon, medical assistant.
SOA	Superior Officers'	12/31/15	Police captains, excluding chief, deputy chief, inspectors, and all other employees of the City.

Note 17: ACCRUED SICK AND VACATION BENEFITS

The City has permitted full time employees to accrue unused sick and vacation time, which may be taken as time off or paid at a later date at an agreed upon rate. The monetary value of these earned and unused employee benefits has not been accrued by either charges to operations or to budgets of prior years, although in some cases they might be material, since the realization of this liability may be affected by conditions which preclude an employee from receiving full payment of the accrual. At December 31, 2016 and 2015, the City estimates this liability to approximate \$23,952,221.19 and \$24,192,450.77, respectively. The policy of not reflecting the accrued benefit is not in agreement with GASB Statement No. 12. Effective January 1, 2002 the State of New Jersey is allowing municipalities to accrue a compensated absences liability. The City has established a reserve that as of December 31, 2016 and 2015 was \$4,468,651.50 and \$4,095,598.18, respectively.

CITY OF ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

Note 18: ECONOMIC DEPENDENCY

The City of Atlantic City is economically dependent on one industry as a major source of tax revenue for the City. The City receives approximately 65% of the Tax Levy from the Casino industry.

Note 19: COMMITMENTS AND CONTINGENCIES

During the normal course of operations, lawsuits are frequently brought against the governmental unit. There are presently numerous suits pending against the City.

The City has not prepared an Incurred But Not Reported (“IBNR”) report for the General Liability or Workers Compensation self funded insurance. The General Liability loss reserve calculated by the insurance consultant is approximately \$13,800,000. This Reserve is underfunded without including an IBNR calculation, by over \$12,400,000. Based on verification by the City’s Insurance Broker and Solicitor the loss reserves include an adequate basis for estimating potential liabilities to the City at December 31, 2016. Also, estimates of payments to be made in 2016 were included in the City’s 2016 budget. Additionally, the City has purchased an excess loss policy for any losses over \$500,000.

The Worker Compensation report, prepared by the City’s other consultant, indicated current claims of over \$9,500,000. This Reserve is underfunded without including an IBNR calculation, by over \$4,600,000. Based on verification by the City’s Insurance Broker and Solicitor the loss reserves include an adequate basis for estimating potential liabilities to the City at December 31, 2016. Also, estimates of payments to be made in 2017 will be included in the City’s 2017 budget.

In prior years the City has settled real estate tax appeal with a number of casinos and non-casino properties. The settlement and appeals were comprised of cash payment and future tax credits. The tax credits are applied against the quarterly tax bills to a maximum of the total bill. The application of the credit results in a negative adjustment to fund balance. As of December 31, 2016 there were credits to be applied. Any appeals or settlements with the casinos may be funded with tax appeal bonds or are listed as overpaid taxes on the financial statements. As of December 31, 2016 there are two unfunded settlements. The first is with the Borgata Casino Hotel. The City has agreed to a settlement of \$72,000,000. The City adopted an ordinance in 2017 to refund the settlement but has not issued debt as of the date of this report and tax credits had been taken by the Borgata through December 31, 2016. The second is with MGM, a non-casino land. As of December 31, 2016 the City owed \$32,264,732 in tax credits. The City currently includes \$5,000,000 in operations each year which reflects the annual credits.

CITY OF ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

Note 20: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Property and Liability Insurance – The City is self insured for property, liability some employee health plans and workers compensation. The City has commercial coverage for surety bonds and employee health insurance.

The self insurance has an excess policy for covered claims over \$500,000

The following is the activity for the years ended December 31,

	2016		2015	
	General Liability	Worker Compensation	General Liability	Worker Compensation
Beginning of Year:				
Unencumbered Reserve	\$ 4,055,130.08	3,757,028.84	1,954,640.65	3,171,837.00
Other	81,831.77	326,852.43	33,994.36	282,545.65
Funded by Budget Appropriation	4,295,000.00	5,336,000.00	8,177,500.00	5,091,500.00
	<u>8,431,961.85</u>	<u>9,419,881.27</u>	<u>10,166,135.01</u>	<u>8,545,882.65</u>
Paid	<u>5,468,568.48</u>	<u>4,508,190.85</u>	<u>6,111,004.93</u>	<u>4,788,853.81</u>
End of Year	<u>2,963,393.37</u>	<u>4,911,690.42</u>	<u>4,055,130.08</u>	<u>3,757,028.84</u>
Analysis of Balance				
Unencumbered Reserve	2,963,393.37	4,911,690.42	3,208,341.52	3,757,028.84
Encumbrances/Payables			846,788.56	
	<u>\$ 2,963,393.37</u>	<u>4,911,690.42</u>	<u>4,055,130.08</u>	<u>3,757,028.84</u>

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CITY OF ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

Note 21: INTERFUND BALANCES

As of December 31, 2016, the following interfunds were included on the balance sheets of the various funds of the City of Atlantic City:

	<u>Due From</u>	<u>Due to</u>
Current Fund:		
CDBG Trust	\$ 105,659.05	
Grant Fund	3,098,512.95	
Trust Fund - Dog Fund	388.80	
Trust Funds - Other	158,316.53	11,696,017.72
Grant Fund:		
Current Fund		3,098,512.95
Trust Funds – Other	756.09	
Trust Fund:		
Current -		
Dog Fund		388.80
Other Trusts	11,537,704.48	3.29
CDBG		105,659.05
Grant Fund		756.09
	<u>\$ 14,901,337.90</u>	<u>14,901,337.90</u>

The Grant Fund only maintains a bank account for specific grants. All other grant activity is transacted through Current Fund bank accounts. A number of the Trust Funds do not maintain bank accounts. Their activity is transacted through the Current Fund bank accounts. The CDBG interfund is due to a timing issue based on the drawdown of Federal funds.

Note 22: SUBSEQUENT EVENTS

The management of the City has been placed under the Local Finance Board (the “Board”) by the State of New Jersey under the authority of the Municipal Stabilization and Recovery Act (the “Act”.) Under the Act, the Board has the authority to, among other powers, renegotiate and/or break union contracts. As of the date of the audit report, the police and fire unions have filed lawsuits to block the contract changes proposed.

In order to stabilize the ratable tax base, S1715/A-3209, known as the PILOT bill, went into effect in 2017. The bill provides for the casinos within the City to make guaranteed mandatory minimum payments in lieu of paying property taxes for a ten year period. During this period, the casinos will be unable to file tax appeals and will be required to make quarterly payments.

The City has evaluated events through April 14, 2017, the date which the financial statements were available to be issued and no additional items, except as noted above, were noted for disclosure.

APPENDIX C

FORM OF BOND COUNSEL OPINION

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*Simultaneously with the issuance of the Bonds, Pearlman & Miranda, LLC,
Bloomfield, New Jersey, Bond Counsel,
anticipates rendering an opinion in substantially the following form:*

[Date of Closing]

Mayor and City Council of the
City of Atlantic City
Atlantic City, New Jersey

Ladies and Gentlemen:

We have served as Bond Counsel in connection with the authorization, issuance, sale and delivery of \$68,325,000 aggregate principal amount of Tax Appeal Refunding Bonds, Series 2017B (Qualified Pursuant to the Provisions of the Municipal Qualified Bond Act, P.L. 1976, c. 38, as amended) (the “*Bonds*”), of the City of Atlantic City, in the County of Atlantic (the “*City*”), a body politic and corporate of the State of New Jersey (the “*State*”).

The Bonds are authorized by and are issued under and pursuant to the provisions of: (i) the Local Bond Law, N.J.S.A. 40A:2-1 *et seq.*, as amended and supplemented (the “*Local Bond Law*”), specifically N.J.S.A. 40A:2-51; (ii) the Municipal Qualified Bond Act, N.J.S.A. 40A:3-1 *et seq.*, as amended and supplemented (the “*Municipal Qualified Bond Act*”); (iii) the Municipal Stabilization and Recovery Act, N.J.S.A. 52:27BBBB-1 *et seq.* (the “*Municipal Stabilization and Recovery Act*”); (iv) a refunding bond ordinance adopted by the City Council of the City on August 9, 2017 (the “*Refunding Bond Ordinance*”); (v) a resolution duly adopted by the City Council of the City on August 9, 2017 (the “*Resolution*”); (vi) certifications of the Director of the Division of Local Government Services (the “*Director*”) pursuant to and in accordance with the Municipal Stabilization and Recovery Act (the “*Director Certifications*”); and (vii) resolutions adopted on August 9, 2017 (collectively, the “*LFB Resolutions*” and together with the Refunding Bond Ordinance, the Resolution and the Director Certifications, the “*Authorization Proceedings*”) by the Local Finance Board of the Division of Local Government Services of the New Jersey Department of Community Affairs (the “*Local Finance Board*”).

Pursuant to the provisions of the Municipal Qualified Bond Act, the Local Finance Board has determined that the City is entitled to issue the Bonds as “qualified bonds” and has caused its consent to be endorsed upon the Refunding Bond Ordinance within the meaning of the Municipal Qualified Bond Act.

The proceeds of the Bonds are being used by the City solely to: (i) fund the payment of certain amounts due resulting from the resolution of tax appeals for tax years 2013 through and including 2016 (collectively, the “*Tax Appeal Settlements*”); and (ii) pay for the costs of issuance of the Bonds.

The Bonds are issued in fully registered form, without coupons, initially registered in the name of and held by Cede & Co., as nominee for The Depository Trust Company, Jersey City, New Jersey (“DTC”), an automated depository for securities and clearing house for securities transactions. One certificate shall be issued for the aggregate principal amount of Bonds maturing in each year. Purchases of the Bonds will be made in book-entry only form, without certificates, in principal denominations of \$5,000 or any integral multiple thereof. So long as DTC or its nominee is the registered owner of the Bonds, payments of the principal of and interest on the Bonds will be made by The Bank of New York Mellon, as Paying Agent, directly to Cede & Co., as nominee for DTC. Disbursal of such payments to DTC participants is the responsibility of DTC and disbursal of such payments to the beneficial owners of the Bonds is the responsibility of DTC participants.

The Bonds are dated and shall bear interest from their date of delivery, which interest shall be payable semiannually on the first day of March and September in each year until maturity or prior redemption, as applicable, commencing September 1, 2018. The Bonds shall mature on September 1, 2018 and, thereafter on March 1, in each of the years and in the principal amounts as follows:

Maturity Date	Principal Amount	Interest Rate	Yield	CUSIP
September 1, 2018	\$3,500,000	2.00%	1.19%	048339VL6
March 1, 2019	1,800,000	4.00	1.33	048339VM4
March 1, 2020	1,800,000	5.00	1.53	048339VN2
March 1, 2021	1,800,000	5.00	1.69	048339VP7
March 1, 2022	1,800,000	5.00	1.87	048339VQ5
March 1, 2023	1,820,000	5.00	2.05	048339VR3
March 1, 2024	1,915,000	5.00	2.25	048339VS1
March 1, 2025	2,015,000	5.00	2.41	048339VT9
March 1, 2026	2,115,000	5.00	2.55	048339VU6
March 1, 2027	2,225,000	5.00	2.66	048339VV4

\$12,960,000 5.00% Term Bond Due March 1, 2032; to Yield 3.05%* CUSIP – 048339VW2

\$16,575,000 5.00% Term Bond Due March 1, 2037; to Yield 3.29%* CUSIP – 048339VX0

\$18,000,000 4.00% Term Bond Due March 1, 2042; to Yield 3.80%* CUSIP – 048339VY8

* Yield to first par call date of March 1, 2027.

The Bonds are subject to optional redemption and mandatory sinking fund redemption prior to their stated maturities as set forth in the Bonds.

In our capacity as Bond Counsel and as a basis for the opinions set forth below, we have examined the proceedings relating to the authorization and issuance of the Bonds, including: (a) the Authorization Proceedings; and (b) such matters of law, including inter alia, the Local Bond Law, the Municipal Qualified Bond Act, the Municipal Stabilization and Recovery Act, and the Internal Revenue Code of 1986, as amended (the “Code”); and (c) such other agreements, proceedings, certificates, records, approvals, resolutions, and documents as to various matters with respect to the issuance of the Bonds as we have deemed necessary. We have further assumed and relied upon the genuineness, accuracy and completeness of all of the documents and other instruments which we have examined. As to questions of fact material to our opinion, we have relied on the proceedings and other certifications of public officials executed and furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, and assuming that the Bonds and other documents and certificates are executed and delivered as instructed by us, we are of the opinion that:

1. The Authorization Proceedings show lawful authority for the authorization, issuance, sale and delivery of the Bonds pursuant to New Jersey Statutes.
2. The Bonds have been duly authorized, executed and delivered, and constitute valid and legally binding obligations of the City enforceable in accordance with their terms.
3. The Bonds constitute “qualified bonds” for all purposes of the Municipal Qualified Bond Act, and are entitled to all of the benefits of the provisions of the Municipal Qualified Bond Act.
4. The City has pledged its full faith and credit for the payment of the principal of and interest on the Bonds and, unless paid from other sources, all the taxable property within the City is subject to the levy of *ad valorem* taxes, without limitation as to rate or amount, for the payment of principal of and interest on the Bonds.
5. The City has covenanted to comply with any continuing requirements that may be necessary to preserve the exclusion from gross income of interest on the Bonds for purposes of federal income taxation under the Code. Failure to comply with certain requirements of the Code could cause interest on the Bonds to be includable in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. In our opinion, assuming continuing compliance by the City with its covenants, under existing statutes and court decisions, interest on the Bonds is excluded from gross income of the owners thereof for federal income tax purposes under the Code and is not treated as a preference item for purposes of the alternative minimum tax imposed by the Code on individuals and corporations; such interest, however, is included in adjusted current earnings in computing alternative minimum taxable income for purposes of the alternative minimum tax imposed by the Code on certain corporations.

6. Under current law, interest on the Bonds and any gain on the sale thereof are not includable as gross income under the New Jersey Gross Income Tax Act.

For purposes of this opinion, the enforceability (but not the validity) of the documents mentioned herein may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws now or hereafter enacted by any state or by the federal government affecting the enforcement of creditors' rights generally, and by equitable principles, and the phrase "enforceable in accordance with their respective terms" shall not mean that specific performance would necessarily be available as a remedy in every situation.

Other than as set forth in Paragraphs 5 and 6 hereof, we express no opinion regarding other federal and state tax consequences arising with respect to the Bonds. Furthermore, we express no opinion regarding other federal and state tax consequences arising with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof upon the advice or approval of other bond counsel.

The opinions expressed herein are limited to and based upon the laws and judicial decisions of the State and the federal laws and judicial decisions of the United States of America as of the date hereof, and are subject to any amendment, repeal or other modification of the applicable laws or judicial decisions that served as the basis for our opinions or to any laws or judicial decisions hereafter enacted or rendered.

This opinion is being delivered to you at your request. Our engagement by you 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 you or the reliance parties hereof of 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.

We have examined one of the Bonds, as executed by the City, and, in our opinion, the form of such Bond and its execution are regular and proper.

Very truly yours,

PEARLMAN & MIRANDA, LLC

APPENDIX D

FORM OF CONTINUING DISCLOSURE UNDERTAKING

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CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking dated October 4, 2017 (the "Disclosure Undertaking") is executed and delivered by the City of Atlantic City, in the County of Atlantic, State of New Jersey (the "City" or the "Issuer") in connection with the issuance of its \$68,325,000 aggregate principal amount of Tax Appeal Refunding Bonds, Series 2017B (Qualified Pursuant to the Provisions of the Municipal Qualified Bond Act, P.L. 1976, c. 38, as amended) (the "Bonds"), all such Bonds being dated their date of delivery. The Bonds are being issued pursuant to (i) the Local Bond Law, N.J.S.A. 40A:2-1 et seq., as amended and supplemented (the "Local Bond Law"), specifically N.J.S.A. 40A:2-51; (ii) the Municipal Qualified Bond Act, N.J.S.A. 40A:3-1 et seq., as amended and supplemented (the "Municipal Qualified Bond Act"); (iii) the Municipal Stabilization and Recovery Act, N.J.S.A. 52:27BBBB-1 et seq. (the "Municipal Stabilization and Recovery Act"); (iv) a refunding bond ordinance adopted by the City Council of the City on August 9, 2017 (the "Refunding Bond Ordinance"); (v) a resolution duly adopted by the City Council of the City on August 9, 2017 (the "Resolution"); (vi) certifications of the Director of the Division of the hereinafter defined Local Finance Board (the "Director") pursuant to and in accordance with the Municipal Stabilization and Recovery Act"; and (vii) resolutions adopted on August 9, 2017 (collectively, the "LFB Resolutions" and together with the Refunding Bond Ordinance, the Resolution and the Director Certifications, the "Authorization Proceedings") by the Local Finance Board of the Division of Local Government Services of the New Jersey Department of Community Affairs (the "Local Finance Board"). The City covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Undertaking. This Disclosure Undertaking is being executed and delivered by the City for the benefit of the holders of the Bonds and Beneficial Owners of the Bonds to assist the Underwriter in complying with the Rule (as defined below). The City acknowledges it is an "Obligated Person" under the Rule (as defined below).

SECTION 2. Definitions. In addition to the definitions set forth in the Authorization Proceedings which apply to any capitalized term used in this Disclosure Undertaking, unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Undertaking.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for Federal income tax purposes.

"Continuing Disclosure Information" shall mean, collectively, (i) each Annual Report, (ii) any notice required to be electronically filed by the City, in an electronic format as prescribed by the MSRB, with the MSRB pursuant to Section 3 of this Disclosure Undertaking, and (iii) any notice of Listed Events required to be filed, in an electronic format as prescribed by the MSRB, by the City with the MSRB pursuant to Section 5 of this Disclosure Undertaking.

"Disclosure Representative" shall mean the Director of Revenue and Finance/Chief Financial Officer of the City, or such other person as the City shall designate in writing from time to time for the purposes of this Disclosure Undertaking.

"Dissemination Agent" shall mean, initially, NW Financial Group LLC or any Dissemination Agent subsequently designated in writing by the City which has filed with the City a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Undertaking.

"MSRB" means the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to Rule 15c2-12. Effective July 1, 2009 and until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

"Rule" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"SEC" shall mean the United State Securities and Exchange Commission.

"State" shall mean the State of New Jersey.

"Underwriter" shall mean Morgan Stanley & Co. LLC, the original underwriter of the Bonds required to comply with the Rule in connection with the purchase of the Bonds.

SECTION 3. Provision of Annual Reports.

(a) The City shall provide or cause to be provided to the Dissemination Agent not later than September 15 of each year, commencing September 15, 2018 (for the fiscal year ending December 31, 2017), an Annual Report to the MSRB in an electronic format as prescribed by the MSRB (accompanied by such identifying information as is prescribed by the MSRB) which is consistent with the requirements of Section 4 of this Disclosure Undertaking. The Annual Report may be submitted as a single document or as separate documents comprising a package and may cross reference other information which has been made available to the public on the MSRB's website or filed with the Securities and Exchange Commission; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report and later than the date required herein for the filing of the Annual Report if the Financial Statements of the Local Unit are not available by that date, but only if the unaudited financial statements of the Local Unit are included in the Annual Report; provided further, that if the audited financial statements of the City are not available by September 15 of each year, (i) the City shall include unaudited financial statements with its Annual Report (together with a statement that the audited financial statements are not available and when the City expects the audited financial statements to be completed and available for delivery to the Dissemination Agent) and, (ii) when such audited financial statements are approved by the City Council of the City, the same shall be submitted to the Dissemination Agent and filed with the MSRB no later than fifteen (15) business days after such approval by the City Council.

(b) Not later than September 30 of each year (commencing September 30, 2018), the Dissemination Agent shall file with the MSRB a copy of the Annual Report received by the Dissemination Agent pursuant to subsection (a) hereof.

(c) If the City does not provide or is unable to provide an Annual Report by the applicable date required in subsection (a) above, such that the Dissemination Agent cannot forward the Annual Report to the MSRB in accordance with subsection (b) above, the Dissemination Agent shall file a notice of such event with the MSRB no later than October 10 in substantially the form attached hereto as Exhibit A, with copies to the City (if the Dissemination Agent is not the City).

(d) If the City does not provide the audited financial statements by the applicable date required in subsection (a)(ii) above, or if the Dissemination Agent does not forward the audited financial statements to the MSRB in accordance with subsection (a)(ii) above, the Dissemination Agent shall file a notice of such event with the MSRB in substantially the form attached hereto as Exhibit A, with copies to the City (if the Dissemination Agent is not the City).

(e) Each year the Dissemination Agent shall file a report with the City (if the Dissemination Agent is not the City), certifying that the Annual Report has been filed with the MSRB pursuant to this Disclosure Undertaking, stating the date it was provided.

(f) If the fiscal year of the City changes, the City shall give written notice of such change to the Dissemination Agent and the Dissemination Agent shall, within five (5) business days after the receipt thereof from the City, file a notice of such change with the MSRB.

SECTION 4. Content of Annual Report. (a) The City's Annual Report shall contain or incorporate by reference the following:

1. The audited financial statements of the City (as of the preceding December 31) as provided in Section 3(a) above.

The audited financial statements of the City for the prior fiscal year, prepared in accordance with generally accepted accounting standards (GAAS) as from time to time in effect, and as prescribed by the Division of Local Government Services in the Department of Community Affairs of the State pursuant to Chapter 5 of Title 40A of the New Jersey Statutes. If the City's audited financial statements are not available by the time the Annual Report is required to be provided pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements and the audited financial statements shall be provided in the same manner as the Annual Report when they become available; The most current annual debt statement of the City (as of the preceding December 31).

2. The general financial information and operating data of the City consistent with the information set forth in Appendix A to the Official Statement dated September 20, 2017, prepared in connection with the sale of the Bonds (the "Official Statement") contained under the headings entitled, "Comparison of Tax Levy and Collections", "Delinquent Taxes and Tax Title Liens", "Property Acquired By Tax Lien Liquidation", "Largest Non-Casino Taxpayers", "Largest Casino Taxpayers (PILOT Participants)", "Assessed Valuation History" and specifically excluding the information under the heading "Debt Information as of September 1, 2017".

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues with respect to which the City is an "Obligated Person" (as defined by the Rule), which have been filed with the MSRB. If the document incorporated by reference is a final official statement, it must have been filed with the MSRB. The City shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Significant Events.

(a) This Section 5 shall govern the giving of notices of the occurrence of any of the following events with respect to the Bonds, as applicable:

1. Principal and interest payment delinquencies;
2. Nonpayment 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 of their failure to perform;
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
7. Modifications to rights of persons holding the Bonds, 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 event of the City;

13. The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, 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.

The City shall, in a timely manner not in excess of ten (10) business days after the occurrence of any of the Listed Events, file a notice of the occurrence of such Listed Events with the MSRB, in accordance with the provisions of Section 5 of this Disclosure Undertaking. In determining the materiality of any of the Listed Events specified in subsection (a) of this Section 5 that require a materiality determination, the City may, but shall not be required to, rely conclusively on an opinion of counsel. Notwithstanding the foregoing, notice of Bond Disclosure Events described in subsections (a) (8) and (9) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Bondholders of affected Bonds.

(b) Whenever the City has or obtains knowledge of the occurrence of any of the Listed Events that require a materiality determination, the City shall, as soon as possible, determine if such event would constitute information material, if applicable, to the Beneficial Owners of the Bonds.

(c) If the City (i) has or obtains knowledge of the occurrence of any of the Listed Events not requiring materiality determination, or (ii) determines that the occurrence of any of the Listed Events requiring a materiality determination would be material to the Beneficial Owners of the Bonds, the City shall promptly file, in an electronic format as prescribed by the MSRB, a notice of such occurrence with the MSRB.

(d) If the City determines that the occurrence of any of the Listed Events requiring a materiality determination would not be material to the Beneficial Owners of the Bonds, the City shall promptly notify the Dissemination Agent in writing (if the Dissemination Agent is not the City) and the Dissemination Agent (if the Dissemination Agent is not the City) shall be instructed by the City not to report the occurrence.

(e) If the Dissemination Agent has been instructed in writing by the City to report the occurrence of any of the Listed Events, the Dissemination Agent shall file in an electronic format as prescribed by the MSRB, a notice of such occurrence with the MSRB, in a timely manner not in excess of ten (10) business days after the occurrence thereof, with a copy to the City (if the Dissemination Agent is not the City). Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) hereof need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the persons holding the affected Bonds pursuant to the Authorization Proceedings.

SECTION 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Undertaking shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds or when the City is no longer an "Obligated Person" (as defined in the Rule). The City shall file a notice of the termination of its reporting obligations pursuant to the provisions hereof with the Dissemination Agent, which notice shall be filed with the MSRB in accordance with the provisions of Section 5(e) hereof.

SECTION 7. Reserved.

SECTION 8. Dissemination Agent; Compensation. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Undertaking, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be NW Financial Group, LLC. The City shall compensate the Dissemination Agent (which shall be appointed) for the performance of its obligations hereunder in accordance with an agreed upon fee structure.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Undertaking, the City may amend this Disclosure Undertaking and any provision of this Disclosure Undertaking may be waived, if such amendment or waiver (supported by an opinion of bond counsel who is an expert in Federal securities laws acceptable to the City to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof) is (a) made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the obligated person, or type of business conducted; (b) the undertaking, as amended or waived, would have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and (c) the amendment or waiver does not materially impair the interests of holders of the Bonds, as determined either by parties unaffiliated with the City, such determination being supported by an opinion of counsel expert in Federal securities laws, or by the approving vote of a majority of Beneficial Owners of the Bonds at the time of the amendment. The City shall give notice of such amendment or waiver to this Disclosure Undertaking to the Dissemination Agent, which notice shall be filed in accordance with the provisions of Section 5 hereof. Notwithstanding the above, the addition of or change in the Dissemination Agent shall not be construed to be an amendment under the provisions hereof.

In the event of any amendment or waiver of a provision of this Disclosure Undertaking, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements (i) notice of such change shall be given in the same manner as any of the Listed Events under Section 5 hereof, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 10. Additional Information. Nothing in this Disclosure Undertaking shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set

forth in this Disclosure Undertaking or any other means of communication, or including any other information in any Annual Report or notice of occurrence of any of the Listed Events, in addition to that which is required by this Disclosure Undertaking. If the City chooses to include any information in any Annual Report or notice of occurrence of any of the Listed Events, in addition to that which is specifically required by this Disclosure Undertaking, the City shall have no obligation under this Disclosure Undertaking to update such information or include it in any future Annual Report or notice of occurrence of any of the Listed Events.

SECTION 11. Default. In the event of a failure of the City to comply with any provision of this Disclosure Undertaking, the Holders of at least 25% aggregate principal amount of Outstanding Bonds or any Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Undertaking. A default under this Disclosure Undertaking shall not be deemed an Event of Default on the Bonds and the sole remedy under this Disclosure Undertaking in the event of any failure of the City to comply with this Disclosure Undertaking shall be an action to compel performance.

SECTION 12. Duties, Immunities and Liabilities of the Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Undertaking, and, to the extent permitted by law, the City agrees to indemnify and hold the Dissemination Agent (if the Dissemination Agent is not the City) and its respective officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross negligence or willful misconduct. To the extent permitted by law, the City further releases the Dissemination Agent from any liability for the disclosure of any information required by the Rule and this Disclosure Undertaking. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 13. Beneficiaries. This Disclosure Undertaking shall inure solely to the benefit of the City, the Dissemination Agent, the Underwriter, and the Beneficial Owners of the Bonds, including persons holding the Bonds, and shall create no rights in any other person or entity.

SECTION 14: Notices. All notices and submissions required hereunder shall be given to the following, or their successors, by facsimile transmission (with written confirmation of receipt), followed by hard copy sent by certified or registered mail, personal delivery or recognized overnight delivery:

- | | | |
|-----|-----------------|---|
| (a) | If to the City: | Michael P. Stinson, CPA
Director of Revenue and Finance/
Chief Financial Officer
City of Atlantic City
City Hall
1301 Bacharach Boulevard
Atlantic City, New Jersey 08401 |
|-----|-----------------|---|

(b) Copies of all notices to the Dissemination Agent from time to time with respect to the Bonds:

initially: Heather I. Litzebauer
Managing Director
NW Financial Group LLC
2 Hudson Place
Hoboken, NJ 07030

Each party shall give notice from time to time to the other parties, in the manner specified herein, of any change of the identity or address of anyone listed herein.

SECTION 15. Counterparts. This Disclosure Undertaking may be executed in any number of counterparts which shall be executed by authorized signatories of the City and the Dissemination Agent, as applicable, and all of which together shall be regarded for all purposes as one original and shall constitute and be but one and the same.

SECTION 16. Severability. If any one or more of the covenants or agreements in this Disclosure Undertaking to be performed on the part of the City and the Dissemination Agent should be contrary to law, then such covenant or covenants, agreement or agreements, shall be deemed severable from the remaining covenants and agreements and shall in no way affect the validity of the other provisions of this Disclosure Undertaking.

SECTION 17. Governing Law. This Disclosure Undertaking shall be construed in accordance with and governed by the Laws of the United States of America and the State, as applicable.

CITY OF ATLANTIC CITY,
IN THE COUNTY OF ATLANTIC,
STATE OF NEW JERSEY

By: _____
MICHAEL P. STINSON, CPA
Director of Revenue and Finance/
Chief Financial Officer

Acknowledged and Accepted by:
DISSEMINATION AGENT

BY: _____
Heather I. Litzebauer
NW Financial Group LLC

[CONTINUING DISCLOSURE UNDERTAKING]

EXHIBIT A

**NOTICE TO MSRB OF FAILURE TO FILE [ANNUAL REPORT] [AUDITED
FINANCIAL STATEMENTS]**

Name of Issuer: City of Atlantic City, in the County of Atlantic, State of
New Jersey

Name of Bond Issue: \$_____ Tax Appeal Refunding Bonds, Series
2017B (Qualified Pursuant to the Provisions of the
Municipal Qualified Bond Act, P.L. 1976, c. 38, as
amended) Dated: October __, 2017
(CUSIP Number: _____)

Date of Issuance: October __, 2017

NOTICE IS HEREBY GIVEN that the above designated City has not provided [an Annual
Report with respect to the above-named Bonds] [audited financial statements] as required by the
Continuing Disclosure Undertaking dated October __, 2017 executed by the City.

DATED: _____, _____

DISSEMINATION AGENT
(on behalf of the City)

cc: City of Atlantic City

APPENDIX E

DTC AND BOOK-ENTRY ONLY SYSTEM

The description of the procedures and recordkeeping with respect to beneficial ownership interests in the Bonds, payment of principal and interest and other payments on the Bonds to Direct and Indirect Participants (defined below) or Beneficial Owners (defined below), confirmation and transfer of beneficial ownership interests in the Bonds and other related transactions by and between DTC, Direct Participants and Beneficial Owners, is based on certain information furnished by DTC to the City. Accordingly, the City does not make any representations as to the completeness or accuracy of such information.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of bonds. 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 Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose

accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

Redemption proceeds and principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or Paying Agent, on 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 nor its nominee, the Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

THE PAYING AGENT WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR PROVIDING OF NOTICE FOR THE DTC PARTICIPANTS, OR THE INDIRECT PARTICIPANTS, OR BENEFICIAL OWNERS.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE BONDHOLDERS OR REGISTERED OWNERS OF THE BONDS (OTHER THAN UNDER THE CAPTION "TAX MATTERS") SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

NEITHER THE CITY NOR THE PAYING AGENT OR WILL HAVE ANY RESPONSIBILITY OR OBLIGATION, EITHER SINGULARLY OR JOINTLY, TO DTC PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DTC PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (II) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE HOLDERS OF THE

BONDS; (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 BONDS; (IV) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE HOLDER OF THE BONDS; OR (V) ANY OTHER MATTER.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES IN THIS OFFICIAL STATEMENT TO THE OWNERS OR REGISTERED OWNERS OF THE BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS. PAYMENT MADE BY THE PAYING AGENT TO DTC OR ITS NOMINEE SHALL BE THE CITY'S OBLIGATIONS WITH RESPECT TO THE BONDS TO THE EXTENT OF SUCH PAYMENTS.

IT IS THE DUTY OF EACH BENEFICIAL OWNER TO ARRANGE WITH ITS DTC PARTICIPANT OR INDIRECT PARTICIPANT TO RECEIVE FROM SUCH DTC PARTICIPANT OR INDIRECT PARTICIPANT PAYMENTS OF PRINCIPAL AND INTEREST, CREDIT BALANCES AND ALL OTHER COMMUNICATIONS WHICH THE DTC PARTICIPANT OR INDIRECT PARTICIPANT RECEIVES FROM DTC.

Discontinuation of Book-Entry Only System

If the City, in its sole discretion, determines that DTC is not capable of discharging its duties, or if DTC discontinues providing its services with respect to the Bonds at any time, the City will attempt to locate another qualified Securities Depository. If the City fails to find such Securities Depository, or if the City determines, in its sole discretion, that it is in the best interest of the City or that the interest of the Beneficial Owners might be adversely affected if the book-entry only system of transfer is continued (the City undertakes no obligation to make an investigation to determine the occurrence of any events that would permit it to make such determination) the City shall notify DTC of the termination of the book-entry only system.

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APPENDIX F

FORM OF BOND COUNSEL'S BANKRUPTCY OPINION

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*Simultaneously with the issuance of the Bonds, Pearlman & Miranda, LLC,
Bloomfield, New Jersey, Bond Counsel,
anticipates rendering an opinion in substantially the following form:*

[Date of Closing]

Mayor and City Council of the
City of Atlantic City
Atlantic City, New Jersey

Ladies and Gentlemen:

We have served as Bond Counsel in connection with the authorization, issuance, sale and delivery of \$68,325,000 aggregate principal amount of Tax Appeal Refunding Bonds, Series 2017B (Qualified Pursuant to the Provisions of the Municipal Qualified Bond Act, P.L. 1976, c. 38, as amended) (the "Bonds"), of the City of Atlantic City, in the County of Atlantic (the "City"), a body politic and corporate of the State of New Jersey (the "State").

The Bonds are authorized by and are issued under and pursuant to the provisions of: (i) the Local Bond Law, *N.J.S.A. 40A:2-1 et seq.*, as amended and supplemented (the "Local Bond Law"), specifically *N.J.S.A. 40A:2-51*; (ii) the Municipal Qualified Bond Act, *N.J.S.A. 40A:3-1 et seq.*, as amended and supplemented (the "Municipal Qualified Bond Act"); (iii) the Municipal Stabilization and Recovery Act, *N.J.S.A. 52:27BBBB-1 et seq.* (the "Municipal Stabilization and Recovery Act"); (iv) a refunding bond ordinance adopted by the City Council of the City on August 9, 2017 (the "Refunding Bond Ordinance"); (v) a resolution duly adopted by the City Council of the City on August 9, 2017 (the "Resolution"); (vi) certifications of the Director of the Division of Local Government Services (the "Director") pursuant to and in accordance with the Municipal Stabilization and Recovery Act; and (vii) resolutions adopted on August 9, 2017 (collectively, the "LFB Resolutions") by the Local Finance Board of the Division of Local Government Services of the New Jersey Department of Community Affairs (the "Local Finance Board"). The proceeds of the Bonds are being used by the City to: (i) fund the payment of certain amounts due resulting from the resolution of certain tax appeals for tax years 2013 through and including 2016; and (ii) pay for costs of issuance of the Bonds.

Pursuant to the provisions of the Municipal Qualified Bond Act, the Local Finance Board has determined that the City is entitled to issue the Bonds as "qualified bonds" and has caused its consent to be endorsed upon the Refunding Bond Ordinance within the meaning of the Municipal Qualified Bond Act. Accordingly, the Bonds constitute "qualified bonds" for all purposes of the Municipal Qualified Bond Act and are entitled to all of the benefits of the provisions of the Municipal Qualified Bond Act.

Pursuant to the Municipal Qualified Bond Act, a portion of certain State aid (as described below), in amounts sufficient to pay the principal of and interest on the Bonds, is to be withheld by the State Treasurer and forwarded directly by the State to The Bank of New York Mellon, which is serving as the paying agent for the Bonds (the "Paying Agent"), on or before the principal and interest payment dates for the Bonds (the "Withheld State Amounts"). The Withheld State Amounts are to be deposited

in an account established by the Paying Agent for the sole purpose of paying the principal of and interest on the Bonds.

Pursuant to the Municipal Qualified Bond Act, within ten (10) days after issuance of the Bonds, the City is required to certify to the State Treasurer the name and address of the Paying Agent and the schedule of the maturing principal amounts of, interest rates on and dates of payment of the Bonds. After receipt of such certification from the City, the provisions of the Municipal Qualified Bond Act require the State Treasurer to withhold from: (i) the amount of business personal property tax replacement revenues, gross receipts tax revenues, municipal purpose tax assistance fund distributions, State urban aid and State revenue sharing and any other funds appropriated as State aid including Consolidated Municipal Property Tax Relief Aid ("CMPTRA"); and (ii) amounts appropriated by the State pursuant to the Energy Tax Receipts Property Tax Relief Act, P.L.1997, c.167 (*N.J.S.A. 52:27D-438 et seq.*) (such amounts referred to herein as "Energy Tax Receipts") and not otherwise dedicated by the State to specific municipal programs payable to the City, such amounts which will be sufficient to pay the debt service on such "qualified bonds" as the same shall mature and become due. Amounts derived from CMPTRA and Energy Tax Receipts withheld for the City and all other eligible municipalities under the Municipal Qualified Bond Act are hereinafter referred to as "Municipal Qualified Revenues."

The Municipal Qualified Bond Act further provides that the State Treasurer shall, on or before each principal and interest payment date of the Bonds, forward the Municipal Qualified Revenues appropriated by the State as Withheld State Amounts to the Paying Agent for the Bonds for deposit to the account established with such Paying Agent solely for the purpose of paying principal of and interest on the Bonds.

The Municipal Qualified Bond Act provides that, from the time Municipal Qualified Revenues are withheld or required to be withheld by the State Treasurer as Withheld State Amounts, all such amounts paid or to be paid to and held by the Paying Agent shall be (i) exempt from being levied upon, taken, sequestered or applied towards paying the debts of the City other than for payment of debt service on the Bonds; and (ii) deemed to be held in trust for the sole purpose of paying the debt service on "qualified bonds" of the City, including the Bonds.

The Municipal Qualified Bond Act further provides, in pertinent part, that "[n]otwithstanding any other provision of law to the contrary, a statutory lien and trust is automatically and without further act or filing created and impressed upon... [the Withheld State Amounts], which statutory lien and trust shall be paramount and superior to all other liens and interests of any kind in favor of the holders of qualified bonds, [including the Bonds] for the sole purpose of paying" the principal of and interest on "qualified bonds" issued by the City pursuant to the Municipal Qualified Bond Act. The Municipal Qualified Bond Act further provides that the lien created thereunder for the benefit of bondholders, including holders of the Bonds, "is perfected without delivery, recording, or notice."

The Municipal Qualified Bond Act does not relieve the City of the obligation imposed on it by law to include in its annual budget amounts necessary to pay, in each year, the principal of and interest maturing and coming due on "qualified bonds," including the Bonds; provided, however, that to the

extent such amounts are not needed to pay debt service on “qualified bonds,” including the Bonds, be applied to the payment of operating expenses of the City for the then current year, and conversely, if Municipal Qualified Revenues are not appropriated as Withheld State Amounts, such budgeted amounts shall be used solely to pay the principal and interest becoming due in such year on such “qualified bonds” of the City, including the Bonds.

As part of the Municipal Qualified Bond Act, the State has covenanted with the purchasers, holders and owners, from time to time, of “qualified bonds,” (including the Bonds) that it will not repeal, revoke, rescind, modify or amend the provisions of such Act providing for the withholding of State aid and other revenues and payment by the State of Municipal Qualified Revenues (including Withheld State Amounts for the Bonds) directly to the paying agents for “qualified bonds” (including the Bonds) in any way so as to create any lien or charge on or pledge, assignment, diversion, withholding payment or other use of or deduction from such Municipal Qualified Revenues which is prior in time or superior in right to the payment required by the Municipal Qualified Bond Act.

Historically, the State has appropriated Municipal Qualified Revenues such that the amount thereof has been sufficient to timely pay principal of and interest on any and all "qualified bonds" issued pursuant to the Municipal Qualified Bond Act. Notwithstanding any previous course of conduct by the State regarding application of Municipal Qualified Revenues to payment of the principal of and interest on bonds qualified pursuant to the Municipal Qualified Bond Act, there can be no assurance such course of action will continue.

In accordance with the provisions of *N.J.S.A. 52:27-40 et seq.*, any county, municipality, school district or other political subdivision of the State, including the City, has the power to file a petition in bankruptcy with any United States federal court or court in bankruptcy under the provisions of the United States Bankruptcy Code, 11 U.S.C. §101 *et seq.* (the “Bankruptcy Code”), for the purpose of effecting a plan of adjustment of its debts or for the composition of its debts; provided, however, that the prior approval of the Local Finance Board for the filing of such petition must be first obtained.

The City has been designated as a “municipality in need of stabilization and recovery” under the Municipal Stabilization and Recovery Act. Pursuant to section 5(a)(3)(t) thereof, while the City is so designated, the Director has conditional statutory authority to authorize and file, on behalf of the City, subject only to the written approval of the majority of the members of the Joint Budget Oversight Committee of the State Legislature, a petition and other pleadings and papers with any United States court or federal bankruptcy court for the purpose of effecting a plan of readjustment or composition of debts as set forth in *N.J.S.A. 52:27-40 et seq.*, and taking any other and further actions necessary or appropriate in connection with any case or proceeding. However, by resolution of the Local Finance Board adopted November 9, 2016, the Local Finance Board determined to withhold this authority. As a result, the implementation of the Modernization and Recovery Act has not altered the otherwise applicable statutory procedures to be followed by the City in connection with any bankruptcy petition under Chapter 9 of the Bankruptcy Code (“Chapter 9”).

Chapter 9 permits any political subdivision (including the City), public agency or instrumentality of the State that is insolvent or unable to pay its debts and has obtained the prior

approval of the Local Finance Board in accordance with the provisions of *N.J.S.A. 52:27-40 et seq.* to commence a voluntary bankruptcy case by filing a petition with a bankruptcy court for the purpose of effecting a plan to adjust its debts; directs such a petitioner to file with the court a list of petitioner's creditors; provides that a petition filed under Chapter 9 shall operate as a stay as to the commencement or continuation of any judicial or other proceeding against the petitioner; grants priority to certain debts owed; and provides that the plan of adjustment must be accepted in writing by or on behalf of creditors holding at least two-thirds in amount and more than one half in number of the allowed claims of at least one (1) impaired class. The Bankruptcy Code specifically does not limit or impair the power of the State to control, by legislation or otherwise, the procedures that a county, municipality, school district or other political subdivision of the State, including the City, must follow in order to take advantage of the provisions of the Bankruptcy Code.

Section 101(53) of the Bankruptcy Code defines a statutory lien, in relevant part, as a "lien arising solely by force of a statute on specified circumstances or conditions...." The Bankruptcy Code further provides for an exception to the automatic stay for application of pledged special revenues.

The Bankruptcy Code provides that "special revenues" acquired by a debtor after the commencement of a case under Chapter 9 shall (i) remain subject to any lien resulting from any security agreement entered into by such debtor before the commencement of such bankruptcy case, and (ii) continue to be available to pay any debt service secured by those revenues. The term "special revenues" is defined in the Bankruptcy Code to mean (i) receipts derived from the ownership, operation or disposition of projects or systems of the debtor that are primarily used or intended to be used primarily to provide transportation, utility, or other services, including the proceeds of borrowings to finance the projects or systems, (ii) special excise taxes imposed on particular activities or transactions, (iii) incremental tax receipts from the benefitted area in the case of tax-increment financing, (iv) other revenues or receipts derived from particular functions of the debtor, whether or not the debtor has other functions, or (v) taxes specifically levied to finance one or more projects or systems, excluding receipts from general property, sales, or income taxes (other than tax-increment financing) levied to finance the general purposes of the debtor.

Chapter 9 also provides that a transfer of property of a debtor to or for the benefit of any holder of a bond or note, on account of such bond or note, may not be avoided pursuant to certain preferential transfer provisions set forth in such Bankruptcy Code.

In rendering the opinions set forth below, we have examined such matters of law and documents, certificates, records and other instruments as we have deemed necessary or appropriate to express the opinions set forth below, including, without limitation, the Local Bond Law, the Municipal Qualified Bond Act, the Municipal Stabilization and Recovery Act, the Bankruptcy Code, original counterparts or certified copies of the Refunding Bond Ordinance, the Resolution, the LFB Resolutions, and the other documents, certifications, instruments, opinions and records delivered in connection with the issuance of the Bonds. In our examination, we have assumed (i) the authenticity of all records, agreements, instruments, certificates and other documents submitted to us as originals, the conformity to the original documents of all such documents submitted to us as conformed, certified or photocopied copies thereof and the authenticity of the originals of such conformed, certified or

photocopied copies; and (ii) the valid existence and good standing in the jurisdiction of its organization of the Paying Agent. As to questions of fact material to the opinions set forth below, we have, when such facts were not independently established, relied solely and exclusively on the accuracy and validity of the representations, warranties and certifications of the City and the Paying Agent made in or pursuant to the documents, certificates, records and other instruments we examined and we have not made, or undertaken to make, any independent investigation, inquiry or verification of same.

Based upon the foregoing, we understand and assume that the facts and circumstances relating to the issuance and sale of the Bonds and any related transactions are, or will be at the relevant time, as follows:

(i) The City will certify to the State Treasurer the name and address of the Paying Agent and the schedule of the maturing principal amounts, interest rates and dates of payment of all debt service on the Bonds within ten (10) days after the date hereof;

(ii) The aggregate amount of the Withheld State Amounts paid by the State Treasurer to the Paying Agent in accordance with the Municipal Qualified Bond Act will not exceed the total amount of principal, redemption premium, if any, and interest due and payable on the Bonds; and

(iii) Other than the Municipal Qualified Bond Act, there are no executive orders, agreements, arrangements or understandings, written or otherwise, relating to the withholding and/or transfer of the Withheld State Amounts by the State Treasurer to the Paying Agent for the payment of debt service on the Bonds.

For purposes of determining whether the Withheld State Amounts would constitute “property” of the City in a proceeding commenced by the City under the provisions of Chapter 9, there is no statutory provision in the Bankruptcy Code which defines the term “property of the debtor” for purposes of Chapter 9 nor is there any prevailing precedent which addresses the issue. For purposes of analogy, however, there are statutory provisions in the Bankruptcy Code and several case law precedents which address the issue of what generally constitutes “property of the estate” for purposes of proceedings under the Bankruptcy Code other than Chapter 9 proceedings. Specifically, Section 541 of the Bankruptcy Code provides that, except as otherwise provided in such Section, “property of the estate” is comprised of “all legal or equitable interests of the debtor in property as of the commencement of the case.” In determining what the legal or equitable interest of a debtor might be in amounts which are statutorily required to be withheld, several bankruptcy courts have held that a debtor does not have an interest in amounts which are statutorily withheld and such withheld amounts are not property of the estate. For example, courts have held that (i) amounts statutorily withheld from the debtor to satisfy the debtor’s obligation to pay wages to its employees were not property of the estate for bankruptcy purposes because the debtor had no rights to such withheld amounts (See *In re Pelham Fence Co., Inc.*, 65 B.R. 924 (Bankr. S.D.N.Y. 1986) and *In re Frank Mossa Trucking, Inc.*, 65 B.R. 715 (Bankr. D. Mass. 1985)), and (ii) a debtor’s right to a tax overpayment is restricted by the amount which the taxing authority is required by law to withhold and the debtor’s interest only extends to the amount of any net tax refund. (See *Gordon v. United States (In re Sissine)*, 432 B.R. 870

(Bankr. N.D. Ga. 2010), *Jones v. IRS (In re Jones)* 359 B.R. 837 (Bankr. M.D. Ga. 2006), *In re Pigott*, 330 B.R. 797 (Bankr. S.D. Ala. 2006), and *In re Lyle*, 324 B.R. 128 (Bankr. N.D. Cal. 2005)). Furthermore, the case law precedent holding that statutorily withheld amounts are not property of the estate effectively recognizes that such amounts should be treated no differently than amounts held in a trust or escrow account for purposes of determining the property of the estate. See *Frank Mossa Trucking*, at 65 B.R. at 718. Judicial precedent has established that funds held in trust are not estate property, especially if the debtor is not a settlor, trustee or beneficiary of the trust. See *Beiger v. IRS*, 496 U.S. 53 (1990). Courts have subsequently held that funds subject to the imposition of a constructive trust are not property of the estate, even without any statutory trust in place. See *In re Columbia Gas Systems Inc.*, 997 F.2d 1039, 1059 (3rd Cir. 1993) (customer refunds held in trust are excluded from a debtor's bankruptcy estate). In *In re Columbia Gas Systems Inc.*, the Third Circuit Court of Appeals reasoned that while a bankruptcy estate includes all property of a debtor, such inclusion is only to the extent of a debtor's equitable interest in such property (also discussing the legislative intent of the exempted specific interests from a debtor's estate in Section 541(d) of the Bankruptcy Code). Specifically, Congress intended that when a debtor is a mere conduit for funds to travel from one party to another (whether it be via an express trust or constructive trust), it lacks an equitable interest in the funds and thereby, the funds do not constitute property of the debtor. See *In re Columbia*, citing, H.R. Rep. No. 95-595, 95th Cong., 1st Sess. 368 (1977), reprinted in 1978 U.S.C.C.A.N. 5693, 6324. With respect to escrowed funds, courts have held that assets in escrow are not property of the estate. See *In re California Trade Technical Schools, Inc.*, 923 F.2d 641 (9th Cir. 1991) and *Old Republic Nat'l Title Ins. v. Tyler (In re Dameron)*, 206 B.R. 394 (Bankr. E.D. Va. 1997).

As noted above, the Municipal Qualified Bond Act provides that the Withheld State Amounts (i) can only be paid by the State Treasurer directly to the Paying Agent and does not permit them to be paid to, or come under the control of, the City under any circumstance, nor is the City or any other person or entity (other than the Paying Agent) entitled to receive them under any circumstance, and (ii) are exempt from being levied upon, taken, sequestered or applied towards paying the debts of the City other than for payment of debt service on the Bonds, and deemed to be held in trust for the sole purpose of paying the debt service on the Bonds. Accordingly, applying the statutory provision of the Bankruptcy Code and the case law precedent discussed in the preceding paragraph, in a proceeding commenced by the City under the provisions of Chapter 9 and if the issue is properly briefed and presented to a court of competent jurisdiction, we believe that a court could reasonably determine that the City has no legal right or interest in or to the Withheld State Amounts under any circumstance and, therefore, the Withheld State Amounts do not constitute "property" of the City for purposes of the Bankruptcy Code.

To date, the applicable provisions of the Municipal Qualified Bond Act have not been subject to a legal challenge. Thus, in the event of a Chapter 9 proceeding, the precise effect of the lien established by the Municipal Qualified Bond Act for the Withheld State Amounts for the payment of the principal of and interest on the Bonds is uncertain. However, if the Withheld State Amounts are treated as property of the City in a Chapter 9 proceeding and while the precise effect of the lien established by the Municipal Bond Act is uncertain, if the issue is properly briefed and presented to a court of competent jurisdiction, we believe that a court would reasonably determine that a statutory

lien in the Withheld State Amounts was created by the Municipal Qualified Bond Act in favor of the holders of the Bonds for purposes of a Chapter 9 proceeding commenced by the City. Section 101(53) of the Bankruptcy Code defines a statutory lien as a lien that arises solely by force of a statute. The Municipal Qualified Bond Act by its own terms creates an automatic lien in the Withheld State Amounts in favor of the holders of the Bonds. The Municipal Qualified Bond Act provides that the statutory lien is perfected without delivery, recording or notice. As secured, the holders of the Bonds are afforded certain protections otherwise unavailable to creditors holding general unsecured claims. Most importantly, in order for the City to confirm a plan of readjustment and emerge from a Chapter 9 proceeding, the holders of the Bonds must be provided with value that is at least equivalent to the value of their collateral. In contrast, unsecured creditors are paid *pro rata* only after payment to secured creditors and unsecured creditors entitled to priority under the Bankruptcy Code.

In addition, while there is no case law directly on point, we believe that a court could reasonably determine that the Withheld State Amounts effectively constitute “special revenues” of the City for purposes of the Chapter 9 proceeding. Although the Withheld State Amounts do not constitute revenues derived by the City from the ownership, operation or disposition of any project or system, special excise taxes, incremental tax receipts, other revenues or receipts derived from particular functions of the City, or taxes levied to finance a project or system and, therefore, do not expressly satisfy the definition of “special revenues” set forth in Chapter 9, given that the Municipal Qualified Bond Act unequivocally provides that the Withheld State Amounts can only be used to pay debt service on the Bonds and cannot be used for any other purpose, and further creates a statutory lien on the Withheld State Amounts in favor of the holders of the Bonds from the time such amounts are withheld or required to be withheld by the State Treasurer, the Withheld State Amounts, in substance, have virtually all of the same status, characteristics and protections as are typically afforded to “special revenues” which are derived from the projects, systems, activities or functions financed by the proceeds of the debt which is payable from and secured by such “special revenues.” Accordingly, an argument can be made that, for purposes of a Chapter 9 proceeding commenced by the City, the Withheld State Amounts are the “functional equivalent” of special revenues and should be afforded the same treatment as special revenues for all purposes of such proceeding.

Based on all of the foregoing and subject to the limitations and qualifications set forth below, we are of the opinion that:

1. The commencement of a proceeding by the City under the provisions of Chapter 9 would not result in (i) a disruption or recapture of the payments of Withheld State Amounts made by the State Treasurer to the Paying Agent for the benefit of the holders of the Bonds pursuant to the Municipal Qualified Bond Act, or the payments of such Withheld State Amounts by the Paying Agent to the holders of the Bonds in satisfaction of debt service due and payable on the Bonds, as a result of the application of the automatic stay provisions of Section 362(a) of the Bankruptcy Code, or (ii) the characterization of the payments of Withheld State Amounts made by the State Treasurer to the Paying Agent for the benefit of the holders of the Bonds pursuant to the Municipal Qualified Bond Act, or the payments of such Withheld State Amounts by the Paying Agent to the holders of the Bonds in satisfaction of debt service due and payable on the Bonds, as preferences under Section 547(b) of the Bankruptcy Code.

2. The provisions of Section 552(a) of the Bankruptcy Code would not adversely affect the rights of (i) the Paying Agent to receive the payments of Withheld State Amounts made by the State Treasurer to the Paying Agent for the benefit of the holders of the Bonds in accordance with the Municipal Qualified Bond Act, or (ii) the holders of the Bonds to receive the payments of Withheld State Amounts from the Paying Agent in satisfaction of debt service due and payable on the Bonds.

The foregoing expresses our legal opinion as to the matters set forth above based upon our professional knowledge and judgment. The opinions expressed herein are limited to the matters specifically stated herein and, without limiting the foregoing, no opinions or confirmations of law or fact are to be implied or may be inferred from or beyond those expressly stated herein. The opinions expressed herein are not a guarantee or warranty of what any particular court would actually hold, but, rather, are opinions as to the decisions a court might reach if the issues were properly presented to it. In that regard, we note the lack of any controlling statutory provision or controlling judicial precedent published by any federal court having jurisdiction over the City and that to date, the applicable provisions of the Municipal Qualified Bond Act have not been legally challenged. We note further that legal opinions on bankruptcy law matters unavoidably have inherent limitations that generally do not exist in respect of other issues on which opinions to third parties are typically given. These inherent limitations exist primarily because of the pervasive equity powers of bankruptcy courts, the overriding goal of reorganization and restructuring of debts to which other legal rights and policies may be subordinated, the potential relevance to the exercise of judicial discretion of future arising facts and circumstances, and the nature of the bankruptcy process. These factors should be taken into account in analyzing the bankruptcy risks associated with the transactions described herein.

We are authorized to practice law in the State and do not purport to be experts on, or to express any opinion hereunder concerning, any law other than the laws of the State and the laws of the United States of America. This opinion is rendered on the basis of the laws of the State and the laws of the United States of America as enacted and construed on the date hereof, which laws are subject to change and we undertake no responsibility to update or supplement this letter after the date hereof to advise you of any such changes in law.

Very truly yours,

PEARLMAN & MIRANDA, LLC

APPENDIX G

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.
1633 Broadway, New York, N.Y. 10019
(212) 974-0100