

STATE OF NEW JERSEY**\$3,672,360,000**
**NEW JERSEY COVID-19 GENERAL OBLIGATION EMERGENCY BONDS,
 2020 SERIES A**
Dated: Date of Delivery**Maturity Dates: June 1, as set
forth on the inside front cover**

This Official Statement has been prepared by the State of New Jersey (the "State") to provide information on its \$3,672,360,000 aggregate principal amount of New Jersey COVID-19 General Obligation Emergency Bonds, 2020 Series A (the "Bonds").

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

Tax Exemption:

In the opinion of Co-Bond Counsel, under existing statutes, regulations, rulings and court decisions, and assuming continuing compliance by the State with certain requirements described in "TAX MATTERS" herein, interest on the Bonds is not includable in gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference under Section 57 of the Code for purposes of calculating the federal alternative minimum tax.

Based upon existing law, interest on the Bonds and any gain realized on the sale thereof are not includable in gross income under the New Jersey Gross Income Tax Act, as amended. See "TAX MATTERS" herein.

Security:

Direct and general obligations of the State, the payment of which is secured by a pledge of the faith and credit of the State.

Purpose:

To address the State's financial problems that have arisen as a consequence of the COVID-19 Pandemic by addressing a revenue shortfall in Fiscal Year 2021 caused by the COVID-19 Pandemic.

Interest Payment***Dates:***

Interest on the Bonds is payable on June 1 and December 1, commencing June 1, 2021.

Redemption:

The Bonds are not subject to redemption prior to their respective stated maturity dates. See "DESCRIPTION OF THE BONDS - Redemption" herein.

Denominations:

\$5,000 or any integral multiple thereof.

Issuer Contact:

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

The Bonds are offered when, as and if issued by the State, subject to the receipt of approving opinions of the Attorney General of the State and of Chiesa Shahinian & Giantomasi PC, West Orange, New Jersey and M. Jeremy Ostow, Esq., South Orange, New Jersey, Co-Bond Counsel to the State. Certain legal matters will be passed upon for the State by the Attorney General of the State, and for the Underwriters by their counsel, Connell Foley LLP, Roseland, New Jersey. It is expected that the Bonds will be available for delivery through the facilities of The Depository Trust Company ("DTC") on or about November 24, 2020.

BofA Securities**Barclays****Citi****J.P. Morgan****Siebert Williams Shank & Co., LLC****Wells Fargo Securities****Baird****Blaylock Van, LLC****Goldman Sachs & Co. LLC****Jefferies****Loop Capital Markets****Morgan Stanley****Ramirez & Co., Inc.****Raymond James****Rice Financial Products Company****Stifel****Sturdivant & Co., Inc.****UBS**

STATE OF NEW JERSEY

\$3,672,360,000

**NEW JERSEY COVID-19 GENERAL OBLIGATION EMERGENCY BONDS,
2020 SERIES A**

<u>Maturity Date</u> <u>(June 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u>	<u>Yield</u>	<u>CUSIP</u>
2023	\$295,570,000	4.00%	107.393	1.02%	646039YG6
2024	307,395,000	5.00	113.278	1.14	646039YH4
2025	322,765,000	5.00	116.332	1.27	646039YJ0
2026	338,905,000	5.00	118.473	1.50	646039YK7
2027	355,850,000	5.00	120.351	1.69	646039YL5
2028	373,640,000	5.00	122.017	1.85	646039YM3
2029	392,325,000	5.00	123.480	1.99	646039YN1
2030	411,940,000	4.00	116.503	2.08	646039YP6
2031	428,415,000	4.00	117.025	2.18	646039YQ4
2032	150,000,000	3.00	107.573	2.25	646039YR2
2032	295,555,000	4.00	117.671	2.25	646039YS0

*Registered Trademark of American Bankers Association. CUSIP numbers are provided by CUSIP Global Services, which is managed on behalf of the American Bankers Association by Standard & Poor's Capital IQ. The CUSIP numbers listed above are being provided solely for the convenience of Bondholders only at the time of issuance of the Bonds and the State 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 various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

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

The following Official Statement contains a general description of the Bonds (as defined herein) and the State of New Jersey (the "State") and sets forth provisions of the Act (as defined herein). The descriptions and summaries herein do not purport to be complete and are not to be construed as representations of the State. Persons interested in purchasing the Bonds should review carefully the Appendices attached hereto as well as copies of the documents described herein.

No dealer, broker, salesman or any other person has been authorized by the State 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 any of the foregoing. 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 by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Certain information contained herein has been obtained from the State and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness. The information and the expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the State or its agencies, authorities, instrumentalities or political subdivisions as described herein since the date hereof.

Upon issuance, the Bonds will not be registered under the Securities Act of 1933, as amended, or listed on any stock or other securities exchange and the Resolution (as defined herein) will not have been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in such acts. The registration or qualification of the Bonds in accordance with applicable provisions of the securities laws of the states in which the Bonds have been registered or qualified, if any, and the exemption from registration or qualification in other states cannot be regarded as a recommendation of the Bonds. Neither these states nor any of their agencies have passed upon the merits of the Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense. Neither the Securities and Exchange Commission nor any other federal, state, municipal or other governmental entity has passed upon the accuracy or adequacy of this Official Statement or approved the Bonds for sale.

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

The information in this Official Statement concerning The Depository Trust Company ("DTC") and DTC's book-entry system has been obtained from DTC, and the State takes no responsibility for

the accuracy thereof. Such information has not been independently verified by the State, and the State makes no representation as to the accuracy or completeness of such information.

INFORMATION CONCERNING OFFERING RESTRICTIONS IN CERTAIN JURISDICTIONS OUTSIDE THE UNITED STATES

REFERENCES IN THIS SECTION TO THE “ISSUER” MEAN THE STATE OF NEW JERSEY AND REFERENCES TO “BONDS” OR “SECURITIES” MEAN THE NEW JERSEY COVID-19 GENERAL OBLIGATION EMERGENCY BONDS, 2020 SERIES A.

THE INFORMATION UNDER THIS CAPTION HAS BEEN FURNISHED BY THE UNDERWRITERS, AND THE ISSUER MAKES NO REPRESENTATION AS TO THE ACCURACY, COMPLETENESS OR ADEQUACY OF THE INFORMATION UNDER THIS CAPTION.

COMPLIANCE WITH ANY RULES OR RESTRICTIONS OF ANY JURISDICTION RELATING TO THE OFFERING, SOLICITATION AND/OR SALE OF THE BONDS IS THE RESPONSIBILITY OF THE UNDERWRITERS, AND THE ISSUER SHALL NOT HAVE ANY RESPONSIBILITY OR LIABILITY IN CONNECTION THEREWITH. NO ACTION HAS BEEN TAKEN BY THE ISSUER THAT WOULD PERMIT THE OFFERING OR SALE OF THE BONDS, OR POSSESSION OR DISTRIBUTION OF THIS OFFICIAL STATEMENT OR ANY OTHER OFFERING OR PUBLICITY MATERIAL RELATING TO THE BONDS, OR ANY INFORMATION RELATING TO THE PRICING OF THE BONDS, IN ANY NON-U.S. JURISDICTION WHERE ACTION FOR THAT PURPOSE IS REQUIRED.

MINIMUM UNIT SALES

THE BONDS WILL TRADE AND SETTLE ON A UNIT BASIS (ONE UNIT EQUALING ONE BOND OF \$5,000 PRINCIPAL AMOUNT). FOR ANY SALES MADE OUTSIDE THE UNITED STATES, THE MINIMUM PURCHASE AND TRADING AMOUNT IS 30 UNITS (BEING 30 BONDS IN AN AGGREGATE PRINCIPAL AMOUNT OF \$150,000).

NOTICE TO PROSPECTIVE INVESTORS IN CANADA

THE BONDS MAY BE SOLD ONLY TO PURCHASERS PURCHASING, OR DEEMED TO BE PURCHASING, AS PRINCIPAL THAT ARE ACCREDITED INVESTORS, AS DEFINED IN NATIONAL INSTRUMENT 45-106 *PROSPECTUS EXEMPTIONS* OR SUBSECTION 73.3(1) OF THE *SECURITIES ACT* (ONTARIO), AND ARE PERMITTED CLIENTS, AS DEFINED IN NATIONAL INSTRUMENT 31-103 *REGISTRATION REQUIREMENTS, EXEMPTIONS AND ONGOING REGISTRANT OBLIGATIONS*. ANY RESALE OF THE BONDS MUST BE MADE IN ACCORDANCE WITH AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE PROSPECTUS REQUIREMENTS OF APPLICABLE SECURITIES LAWS.

SECURITIES LEGISLATION IN CERTAIN PROVINCES OR TERRITORIES OF CANADA MAY PROVIDE A PURCHASER WITH REMEDIES FOR RESCISSION OR DAMAGES IF THIS OFFICIAL STATEMENT (INCLUDING ANY AMENDMENT THERETO) CONTAINS A MISREPRESENTATION, PROVIDED THAT THE REMEDIES FOR RESCISSION OR DAMAGES ARE EXERCISED BY THE PURCHASER WITHIN THE TIME LIMIT PRESCRIBED BY THE SECURITIES LEGISLATION OF THE PURCHASER’S PROVINCE OR TERRITORY. THE PURCHASER SHOULD REFER TO ANY APPLICABLE PROVISIONS OF THE SECURITIES LEGISLATION OF THE PURCHASER’S

PROVINCE OR TERRITORY FOR PARTICULARS OF THESE RIGHTS OR CONSULT WITH A LEGAL ADVISOR.

PURSUANT TO SECTION 3A.3 (OR, IN THE CASE OF SECURITIES ISSUED OR GUARANTEED BY THE GOVERNMENT OF A NON-CANADIAN JURISDICTION, SECTION 3A.4) OF NATIONAL INSTRUMENT 33-105 *UNDERWRITING CONFLICTS* ("NI 33-105"), THE UNDERWRITERS ARE NOT REQUIRED TO COMPLY WITH THE DISCLOSURE REQUIREMENTS OF NI 33-105 REGARDING UNDERWRITER CONFLICTS OF INTEREST IN CONNECTION WITH THIS OFFERING.

NOTICE TO PROSPECTIVE INVESTORS IN THE EUROPEAN ECONOMIC AREA AND THE UNITED KINGDOM

THIS OFFICIAL STATEMENT HAS BEEN PREPARED ON THE BASIS THAT ALL OFFERS OF THE SECURITIES TO ANY PERSON THAT IS LOCATED WITHIN A MEMBER STATE OF THE EUROPEAN ECONOMIC AREA ("EEA") OR THE UNITED KINGDOM WILL BE MADE PURSUANT TO AN EXEMPTION UNDER ARTICLE 1(4) REGULATION (EU) 2017/1129 (THE "PROSPECTUS REGULATION") FROM THE REQUIREMENT TO PRODUCE A PROSPECTUS FOR OFFERS OF THE SECURITIES. ACCORDINGLY, ANY PERSON MAKING OR INTENDING TO MAKE ANY OFFER TO ANY PERSON LOCATED WITHIN A MEMBER STATE OF THE EEA OR THE UNITED KINGDOM OF THE SECURITIES SHOULD ONLY DO SO IN CIRCUMSTANCES IN WHICH NO OBLIGATION ARISES FOR THE ISSUER OR ANY OF THE INITIAL PURCHASERS TO PRODUCE A PROSPECTUS OR SUPPLEMENT FOR SUCH AN OFFER. NEITHER THE ISSUER NOR THE INITIAL PURCHASERS HAVE AUTHORIZED, NOR DO THEY AUTHORIZE, THE MAKING OF ANY OFFER OF SECURITIES THROUGH ANY FINANCIAL INTERMEDIARY, OTHER THAN OFFERS MADE BY THE INITIAL PURCHASERS, WHICH CONSTITUTE THE FINAL PLACEMENT OF THE SECURITIES CONTEMPLATED IN THIS OFFICIAL STATEMENT.

THE OFFER OF ANY SECURITIES WHICH IS THE SUBJECT OF THE OFFERING CONTEMPLATED BY THIS OFFICIAL STATEMENT IS NOT BEING MADE AND WILL NOT BE MADE TO THE PUBLIC IN ANY MEMBER STATE OF THE EEA OR THE UNITED KINGDOM, OTHER THAN: (A) TO ANY LEGAL ENTITY WHICH IS A "QUALIFIED INVESTOR" AS SUCH TERM IS DEFINED IN THE PROSPECTUS REGULATION; (B) TO FEWER THAN 150 NATURAL OR LEGAL PERSONS (OTHER THAN "QUALIFIED INVESTORS" AS SUCH TERM IS DEFINED IN THE PROSPECTUS REGULATION); OR (C) IN ANY OTHER CIRCUMSTANCES FALLING WITHIN ARTICLE 1(4) OF THE PROSPECTUS REGULATION, SUBJECT TO OBTAINING THE PRIOR CONSENT OF THE RELEVANT UNDERWRITER FOR ANY SUCH OFFER; PROVIDED THAT NO SUCH OFFER OF THE SECURITIES SHALL REQUIRE THE ISSUER OR THE INITIAL PURCHASERS TO PUBLISH A PROSPECTUS PURSUANT TO ARTICLE 3 OF THE PROSPECTUS REGULATION OR A SUPPLEMENT TO A PROSPECTUS PURSUANT TO ARTICLE 23 OF THE PROSPECTUS REGULATION.

FOR THE PURPOSES OF THIS PROVISION, THE EXPRESSION AN "OFFER OF SECURITIES TO THE PUBLIC" IN RELATION TO THE SECURITIES IN ANY MEMBER STATE OF THE EEA OR THE UNITED KINGDOM MEANS THE COMMUNICATION IN ANY FORM AND BY ANY MEANS OF SUFFICIENT INFORMATION ON THE TERMS OF THE OFFER AND THE SECURITIES TO BE OFFERED SO AS TO ENABLE AN INVESTOR TO DECIDE TO PURCHASE THE SECURITIES.

EACH SUBSCRIBER FOR OR PURCHASER OF THE BONDS IN THE OFFERING LOCATED WITHIN A MEMBER STATE OR THE UNITED KINGDOM WILL BE DEEMED TO HAVE

REPRESENTED, ACKNOWLEDGED AND AGREED THAT IT IS A “QUALIFIED INVESTOR” AS DEFINED IN THE PROSPECTUS REGULATION. THE ISSUER AND EACH UNDERWRITER AND OTHERS WILL RELY ON THE TRUTH AND ACCURACY OF THE FOREGOING REPRESENTATION, ACKNOWLEDGEMENT AND AGREEMENT.

PROHIBITION OF SALES TO EEA OR THE UNITED KINGDOM RETAIL INVESTORS – THE BONDS ARE NOT INTENDED TO BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO AND SHOULD NOT BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO ANY RETAIL INVESTOR IN THE EEA OR IN THE UNITED KINGDOM. FOR THESE PURPOSES, A RETAIL INVESTOR MEANS A PERSON WHO IS ONE (OR MORE) OF: (I) A RETAIL CLIENT AS DEFINED IN POINT (11) OF ARTICLE 4(1) OF DIRECTIVE 2014/65/EU (AS AMENDED, “MIFID II”); OR (II) A CUSTOMER WITHIN THE MEANING OF DIRECTIVE (EU) 2016/97 (THE “INSURANCE DISTRIBUTION DIRECTIVE”), WHERE THAT CUSTOMER WOULD NOT QUALIFY AS A PROFESSIONAL CLIENT AS DEFINED IN POINT (10) OF ARTICLE 4(1) OF MIFID II. CONSEQUENTLY NO KEY INFORMATION DOCUMENT REQUIRED BY REGULATION (EU) NO 1286/2014 (THE “PRIIPS REGULATION”) FOR OFFERING OR SELLING THE NOTES OR OTHERWISE MAKING THEM AVAILABLE TO RETAIL INVESTORS IN THE EEA OR IN THE UNITED KINGDOM HAS BEEN PREPARED AND THEREFORE OFFERING OR SELLING THE NOTES OR OTHERWISE MAKING THEM AVAILABLE TO ANY RETAIL INVESTOR IN THE EEA OR IN THE UNITED KINGDOM MAY BE UNLAWFUL UNDER THE PRIIPS REGULATION.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM

THIS OFFICIAL STATEMENT IS FOR DISTRIBUTION ONLY TO, AND IS DIRECTED SOLELY AT, PERSONS WHO (I) ARE OUTSIDE THE UNITED KINGDOM, (II) ARE INVESTMENT PROFESSIONALS, AS SUCH TERM IS DEFINED IN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, AS AMENDED (THE “FINANCIAL PROMOTION ORDER”), (III) ARE PERSONS FALLING WITHIN ARTICLE 49(2)(A) TO (D) OF THE FINANCIAL PROMOTION ORDER, OR (IV) ARE PERSONS TO WHOM AN INVITATION OR INDUCEMENT TO ENGAGE IN INVESTMENT ACTIVITY (WITHIN THE MEANING OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000) IN CONNECTION WITH THE ISSUE OR SALE OF ANY BONDS MAY OTHERWISE BE LAWFULLY COMMUNICATED OR CAUSED TO BE COMMUNICATED (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS “RELEVANT PERSONS”). THIS OFFICIAL STATEMENT IS DIRECTED ONLY AT RELEVANT PERSONS AND MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS OFFICIAL STATEMENT RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS. ANY PERSON WHO IS NOT A RELEVANT PERSON SHOULD NOT ACT OR RELY ON THIS OFFICIAL STATEMENT OR ANY OF ITS CONTENTS.

NOTICE TO PROSPECTIVE INVESTORS IN SWITZERLAND

THE BONDS MAY NOT BE PUBLICLY OFFERED, DIRECTLY OR INDIRECTLY, IN SWITZERLAND WITHIN THE MEANING OF THE SWISS FINANCIAL SERVICES ACT (THE “FINSA”), AND NO APPLICATION HAS BEEN OR WILL BE MADE TO ADMIT THE BONDS TO TRADING ON ANY TRADING VENUE (EXCHANGE OR MULTILATERAL TRADING FACILITY) IN SWITZERLAND. NEITHER THIS OFFICIAL STATEMENT NOR ANY OTHER OFFERING OR MARKETING MATERIAL RELATING TO THE BONDS (1) CONSTITUTES A PROSPECTUS PURSUANT TO THE FINSA OR (2) HAS BEEN OR WILL BE FILED WITH OR APPROVED BY A SWISS REVIEW BODY PURSUANT TO ARTICLE 52 OF THE FINSA, AND NEITHER THIS OFFICIAL STATEMENT NOR ANY OTHER

OFFERING OR MARKETING MATERIAL RELATING TO THE BONDS MAY BE PUBLICLY DISTRIBUTED OR OTHERWISE MADE PUBLICLY AVAILABLE IN SWITZERLAND.

NOTICE TO PROSPECTIVE INVESTORS IN HONG KONG

WARNING. THE CONTENTS OF THIS OFFICIAL STATEMENT HAVE NOT BEEN REVIEWED BY ANY REGULATORY AUTHORITY IN HONG KONG. YOU ARE ADVISED TO EXERCISE CAUTION IN RELATION TO THE OFFER OF THE BONDS. IF YOU ARE IN ANY DOUBT ABOUT ANY OF THE CONTENTS OF THIS DOCUMENT, YOU SHOULD OBTAIN INDEPENDENT PROFESSIONAL ADVICE.

THIS DOCUMENT HAS NOT BEEN, AND WILL NOT BE, REGISTERED AS A PROSPECTUS IN HONG KONG NOR HAS IT BEEN APPROVED BY THE SECURITIES AND FUTURES COMMISSION OF HONG KONG PURSUANT TO THE SECURITIES AND FUTURES ORDINANCE (CHAPTER 571 OF THE LAWS OF HONG KONG) ("SFO"). THE BONDS MAY NOT BE OFFERED OR SOLD IN HONG KONG BY MEANS OF THIS DOCUMENT OR ANY OTHER DOCUMENT, AND THIS DOCUMENT MUST NOT BE ISSUED, CIRCULATED OR DISTRIBUTED IN HONG KONG, OTHER THAN TO 'PROFESSIONAL INVESTORS' AS DEFINED IN THE SFO AND ANY RULES MADE THEREUNDER. IN ADDITION, NO PERSON MAY ISSUE OR HAVE IN ITS POSSESSION FOR THE PURPOSES OF ISSUE, WHETHER IN HONG KONG OR ELSEWHERE, ANY ADVERTISEMENT, INVITATION OR DOCUMENT RELATING TO THE BONDS, WHICH IS DIRECTED AT, OR THE CONTENTS OF WHICH ARE LIKELY TO BE ACCESSED OR READ BY, THE PUBLIC OF HONG KONG (EXCEPT IF PERMITTED TO DO SO UNDER THE SECURITIES LAWS OF HONG KONG) OTHER THAN WITH RESPECT TO BONDS WHICH ARE OR ARE INTENDED TO BE DISPOSED OF ONLY (A) TO PERSONS OUTSIDE HONG KONG, OR (B) TO 'PROFESSIONAL INVESTORS' AS DEFINED IN THE SFO AND ANY RULES MADE THEREUNDER.

NOTICE TO PROSPECTIVE INVESTORS IN JAPAN

THE BONDS HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER ARTICLE 4, PARAGRAPH 1 OF THE FINANCIAL INSTRUMENTS AND EXCHANGE ACT OF JAPAN (ACT NO.25 OF 1948, AS AMENDED THE "FIEA"). IN RELIANCE UPON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS SINCE THE OFFERING CONSTITUTES THE PRIVATE PLACEMENT TO QUALIFIED INSTITUTIONAL INVESTORS ONLY AS PROVIDED FOR IN "I" OF ARTICLE 2, PARAGRAPH 3, ITEM 2 OF THE FIEA. A TRANSFEROR OF THE BONDS SHALL NOT TRANSFER OR RESELL THEM EXCEPT WHERE A TRANSFEREE IS A QUALIFIED INSTITUTIONAL INVESTORS AS DEFINED UNDER ARTICLE 10 OF THE CABINET OFFICE ORDINANCE CONCERNING DEFINITIONS PROVIDED IN ARTICLE 2 OF THE FIEA (THE MINISTRY OF FINANCE ORDINANCE NO.14 OF 1993, AS AMENDED).

NOTICE TO PROSPECTIVE INVESTORS IN SOUTH KOREA

THIS OFFICIAL STATEMENT IS NOT, AND UNDER NO CIRCUMSTANCES IS TO BE CONSIDERED AS, A PUBLIC OFFERING OF SECURITIES IN SOUTH KOREA FOR THE PURPOSES OF THE FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT OF KOREA. THE BONDS HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE FINANCIAL SERVICES COMMISSION OF SOUTH KOREA FOR PUBLIC OFFERING IN SOUTH KOREA UNDER THE FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT AND ITS SUBORDINATE DECREES AND REGULATIONS (COLLECTIVELY, THE "FSCMA"). THE BONDS MAY NOT BE OFFERED, REMARKETED, SOLD OR DELIVERED, DIRECTLY OR INDIRECTLY, OR OFFERED, REMARKETED OR SOLD TO ANY PERSON FOR RE-OFFERING OR RESALE, DIRECTLY OR

INDIRECTLY, IN SOUTH KOREA OR TO ANY RESIDENT OF SOUTH KOREA (AS DEFINED IN THE FOREIGN EXCHANGE TRANSACTIONS LAW OF SOUTH KOREA AND ITS SUBORDINATE DECREES AND REGULATIONS (COLLECTIVELY, THE "FETL")) WITHIN ONE YEAR OF THE ISSUANCE OF THE BONDS, EXCEPT AS OTHERWISE PERMITTED UNDER APPLICABLE SOUTH KOREAN LAWS AND REGULATIONS, INCLUDING THE FSCMA AND THE FETL.

NOTICE TO PROSPECTIVE INVESTORS IN TAIWAN

THE BONDS HAVE NOT BEEN AND WILL NOT BE REGISTERED OR FILED WITH, OR APPROVED BY THE FINANCIAL SUPERVISORY COMMISSION OF TAIWAN, THE REPUBLIC OF CHINA ("TAIWAN") AND/OR OTHER REGULATORY AUTHORITY OR AGENCY OF TAIWAN PURSUANT TO RELEVANT SECURITIES LAWS AND REGULATIONS OF TAIWAN AND MAY NOT BE ISSUED, OFFERED, OR SOLD IN TAIWAN THROUGH A PUBLIC OFFERING OR IN CIRCUMSTANCES WHICH CONSTITUTE AN OFFER WITHIN THE MEANING OF THE SECURITIES AND EXCHANGE ACT OF TAIWAN OR RELEVANT LAWS AND REGULATIONS THAT REQUIRES A REGISTRATION, FILING OR APPROVAL OF THE FINANCIAL SUPERVISORY COMMISSION AND/OR OTHER REGULATORY AUTHORITY OR AGENCY OF TAIWAN. THE BONDS MAY BE MADE AVAILABLE OUTSIDE TAIWAN FOR PURCHASE OUTSIDE TAIWAN BY INVESTORS RESIDING IN TAIWAN DIRECTLY, BUT MAY NOT BE OFFERED OR SOLD IN TAIWAN EXCEPT TO QUALIFIED INVESTORS VIA A TAIWAN LICENSED INTERMEDIARY TO THE EXTENT PERMITTED BY APPLICABLE LAWS OR REGULATIONS.

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**OFFICIAL STATEMENT
of the
STATE OF NEW JERSEY**

**\$3,672,360,000
NEW JERSEY COVID-19 GENERAL OBLIGATION EMERGENCY BONDS,
2020 SERIES A**

INTRODUCTION

This Official Statement, which includes the cover page and the Appendices attached hereto (the "Official Statement") has been prepared by the State of New Jersey (the "State") to provide certain information relating to the State and the proposed delivery of \$3,672,360,000 aggregate principal amount of its New Jersey COVID-19 General Obligation Emergency Bonds, 2020 Series A (the "Bonds").

The Bonds are being issued pursuant to the New Jersey COVID-19 Emergency Bond Act, L. 2020, c. 60 (the "Act") and are direct and general obligations of the State for the payment of which the faith and credit of the State is pledged. The Bonds are being issued to (i) address the State's financial problems that have arisen as a consequence of the COVID-19 Pandemic by addressing a revenue shortfall in Fiscal Year 2021 caused by the COVID-19 Pandemic and (ii) pay costs of issuance of the Bonds. See "AUTHORIZATION OF THE BONDS" herein.

U.S. Bank National Association, Edison, New Jersey has been appointed to act as "Paying Agent," "Registrar," "Transfer Agent," "Authenticating Agent," and "Costs of Issuance Escrow Agent" for the Bonds.

Pursuant to the Act, the Bonds are direct and general obligations of the State and the faith and credit of the State are pledged for the payment of the principal thereof, the interest thereon and the redemption premium thereon, if any, as the same become due. For financial information relating to the State and information relating to the outstanding indebtedness of the State, see "APPENDIX I - FINANCIAL AND OTHER INFORMATION RELATING TO THE STATE OF NEW JERSEY" attached hereto.

All references herein to the Act are qualified in their entirety by reference to the complete text of the Act, copies of which are available from the State, and all references to the Bonds are qualified in their entirety to the definitive forms thereof and the information with respect thereto contained therein.

AUTHORIZATION OF THE BONDS

The Bonds are authorized under the Act in the aggregate principal amount of up to \$2,700,000,000 for the period that began July 1, 2019 and ended September 30, 2020 and in the aggregate principal amount of up to \$7,200,000,000 for the period that began October 1,

2020 and ends June 30, 2021, for a total combined aggregate principal amount of up to \$9,900,000,000 issued over such two State fiscal periods.

In New Jersey Republican State Committee v. Murphy, 243 N.J. 574 (2020), the plaintiffs alleged that the Act violates the New Jersey Constitution (the "State Constitution"). On August 12, 2020, the Supreme Court of New Jersey (the "Supreme Court") ruled (the "Opinion") in a unanimous decision that the Act does not violate the State Constitution. However, the Supreme Court imposed a limitation to the effect that the State cannot issue Bonds or borrow funds pursuant to the Act beyond the actual fiscal exigency caused by the COVID-19 Pandemic. To that effect, either the Governor or the State Treasurer of the State (the "State Treasurer") must certify publicly to the State's projected revenue and consequent shortfall as a result of the COVID-19 Pandemic before each tranche of borrowing pursuant to the Act.

The Governor of the State, the State Treasurer and the Director of the Division of Budget and Accounting in the Department of the Treasury, or in their absence or incapacity, the persons authorized by law to act in their capacities, or any two of such officials, have been designated as the Issuing Officials for the Bonds (the "Issuing Officials"), pursuant to the provisions of the Act. The Issuing Officials are authorized pursuant to the Act to carry out the provisions thereof relating to the issuance of the Bonds and shall determine all matters in connection therewith subject to the provisions of the Act.

The Act provides that upon the decision by the Issuing Officials to issue bonds pursuant to subsection a. of section 4 of the Act, and prior to the sale of those bonds, the Issuing Officials shall transmit a report (the "Report") that a decision has been made and describing the bonds proposed to be issued to the Select Commission on Emergency COVID-19 Borrowing (the "Commission").

On September 22, 2020, the Issuing Officials adopted a resolution of intent to sell and issue New Jersey COVID-19 General Obligation Emergency Bonds, including the Bonds, and approved the Report to be provided to the Commission as required under the Act. Pursuant to Resolution No. 02-2020, the Commission approved the Report on September 28, 2020. As required by the Opinion, the Governor, on November 6, 2020, publicly certified that the State's consequent revenue shortfall as a result of the COVID-19 Pandemic was \$4,288,700,000. On November 18, 2020, the Issuing Officials adopted an award resolution approving the award of, and authorizing the issuance of, the Bonds. The resolutions adopted by the Issuing Officials on September 22, 2020 and November 18, 2020 are hereinafter collectively referred to as the "Resolution."

DESCRIPTION OF THE BONDS

General

The Bonds will be dated the date of delivery thereof, will bear interest at the respective rates per annum, and will mature on the dates and in the principal amounts, set forth on the inside cover hereof. Interest on the Bonds is payable on June 1, 2021 and semi-annually thereafter on December 1 and June 1 in each year until maturity or prior redemption.

The Bonds are issuable as fully registered bonds and are payable as to principal and redemption premium, if any, upon presentation and surrender thereof to the Paying Agent. Interest on the Bonds is payable by check or draft or wire transfer mailed or wired, as applicable, by the State to the registered owners appearing in, and mailed to the addresses appearing on,

the registration books of the State on the respective May 15 and November 15 prior to each interest payment date. As is more fully described in "APPENDIX IV - PROVISIONS FOR BOOK-ENTRY ONLY SYSTEM AND GLOBAL CLEARANCE PROCEDURES" attached hereto, The Depository Trust Company ("DTC") shall be the only initial registered owner of the Bonds.

Book-Entry Only System

The Depository Trust Company 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 nominee name) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity (provided that if the aggregate principal amount of any single maturity exceeds \$500,000,000, separate bond certificates shall be issued for each \$500,000,000 and any amount in excess thereof and subject to any DTC restrictions on the maximum principal amount of a bond certificate), and will be deposited with DTC. Beneficial interests in the Bonds may be held through DTC, Clearstream Banking, S.A. or Euroclear Bank SA/NV as operator of the Euroclear System, directly as a participant or indirectly through organizations that are participants in such system. See "APPENDIX IV - PROVISIONS FOR BOOK-ENTRY ONLY SYSTEM AND GLOBAL CLEARANCE PROCEDURES" for a description of DTC, Clearstream Banking, S.A., Euroclear Bank SA/NV as operator of the Euroclear System, and certain of their responsibilities, and the provisions for registration and registration of transfer of the Bonds if the book-entry-only system of registration is discontinued.

Redemption

The Bonds are not subject to redemption prior to maturity.

SOURCES OF PAYMENT AND SECURITY FOR THE BONDS

The Act makes the following appropriations, to provide for the payment of the principal of, interest on and, if applicable, the redemption premium, if any, of the Bonds, in the following order of priority:

(a) Revenue derived by the State from the tax collected under and by virtue of the provisions of the Sales and Use Tax Act, L. 1966, c.30 (N.J.S.A. 54:32B-1, *et seq.*), as amended and supplemented, or so much thereof as may be required. The revenues from the taxes and fees referred to above are also appropriated to the payment of all existing and future General Obligation bond issues of the State.

(b) If in any year or at any time the funds appropriated as described in (a) above are insufficient or not available to meet the interest and principal payments and, if provided, redemption premium payments, if any, upon outstanding Bonds issued under the Act, a tax shall be assessed, levied and collected annually in each of the municipalities of the counties of the State on all real and personal property upon which municipal taxes are or shall be assessed, levied and collected sufficient to meet interest payable on outstanding Bonds issued under the Act and proposed to be issued under the Act in the calendar year in which such tax is to be raised and principal of and interest on the Bonds falling due in the year following the year for which the tax is levied. The governing body of each municipality shall pay the amount of the tax assessed and levied to the respective county treasurer on or before December 15 in each year and the

county treasurer shall pay the amount of the tax to the State Treasurer on or before December 20 in each year.

The Act further provides that if on or before December 31 in any year, the Issuing Officials determine by resolution that there are moneys in the State's General Fund, beyond the needs of the State, sufficient to meet the principal of the Bonds falling due and all interest and, if provided, redemption premium, if any, payable in the ensuing calendar year, then the Issuing Officials shall by resolution so find and shall file such resolution in the office of the State Treasurer, whereupon the State Treasurer shall transfer such moneys to a separate fund to be designated by the State Treasurer and shall pay the principal, interest and, if provided, redemption premium, if any, out of such fund as the same shall become due and payable, and the other sources of payment of such principal, interest and, if provided, redemption premium, if any, described in subparagraphs (a) and (b) above shall not then be available for such payments of principal, interest and redemption premiums, if any. The Act also provides that if by December 31 of any year the State Treasurer determines that there will be insufficient moneys available for the payment of principal of and interest on the Bonds coming due in the calendar year following the immediately ensuing calendar year, a tax shall be assessed, levied and collected in each county in the State in the immediately ensuing calendar year that is sufficient to pay such principal and interest.

See "APPENDIX I - FINANCIAL AND OTHER INFORMATION RELATING TO THE STATE OF NEW JERSEY – LONG-TERM OBLIGATIONS" for a description of future debt service requirements of General Obligation Bonds of the State.

The Act pledges the faith and credit of the State to the payment of the principal of, interest on, and redemption premium, if any, on the Bonds authorized by the Act.

APPLICATION OF BOND PROCEEDS

The proceeds from the sale of the Bonds are intended to be applied by the State to address the State's financial problems that have arisen as a consequence of the COVID-19 Pandemic by addressing a revenue shortfall in Fiscal Year 2021 caused by the COVID-19 Pandemic.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds in connection with the issuance of the Bonds are set forth below:

Sources of Funds:

Par Amount of Bonds.....	\$3,672,360,000
Original Issue Premium	629,295,697

Total Sources of Funds:\$4,301,655,697

Uses of Funds:

Deposit to New Jersey COVID-19 State Emergency Fund.....	\$4,288,700,000
Costs of Issuance.....	1,418,699
Underwriters' Discount.....	11,536,998
Total Uses of Funds.....	\$4,301,655,697

LITIGATION

There is no litigation pending or, to the knowledge of the State, threatened, seeking to restrain or enjoin the issuance, sale, execution or delivery of the Bonds or the contemplated uses of the proceeds of the Bonds, or in any way contesting or affecting the validity of the Bonds or the proceedings or authority under which the Bonds are to be issued, or which in any manner questions the right of the Issuing Officials to adopt the Resolution or to secure the Bonds in the manner herein described.

APPROVAL OF LEGALITY

In the opinion of the Attorney General of the State and of Chiesa Shahinian & Giantomasi PC, West Orange, New Jersey and M. Jeremy Ostow, Esq., South Orange, New Jersey, co-Bond Counsel to the State (collectively, "Co-Bond Counsel"), the Bonds are valid and legally binding direct and general obligations of the State, the payment of which is secured by a pledge of the faith and credit of the State. Such opinions will be substantially in the form attached to this Official Statement as APPENDIX II. Certain legal matters will be passed upon for the Underwriters by their counsel, Connell Foley LLP, Roseland, New Jersey.

TAX MATTERS**Federal Tax Exemption**

The Internal Revenue Code of 1986, as amended (the "Code"), imposes certain requirements that must be met on a continuing basis subsequent to the issuance of the Bonds in order to assure that interest on the Bonds will be excluded from gross income for federal income tax purposes under Section 103 of the Code. Failure of the State to comply with such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes, retroactive to the date of issuance of the Bonds. The State will make representations in its Tax Certificate (the "Tax Certificate"), which will be executed on the date of issuance of the Bonds, as to various federal income tax requirements. The State, in executing the Tax Certificate, will represent that the State expects and intends to comply with, and to the extent permitted by law, will comply with the provisions and procedures set forth in the Tax Certificate and will do all things necessary to assure that the interest on the Bonds will be excluded from gross income under Section 103 of the Code. Co-Bond Counsel have relied upon the representations made in the Tax Certificate and have assumed continuing compliance by the State with all applicable federal income tax law requirements in rendering their federal

income tax opinions with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes.

Based upon the foregoing, Co-Bond Counsel are of the opinion that, pursuant to the applicable provisions of the Code and related rulings, regulations and judicial decisions, (i) interest on the Bonds is not includable in gross income for federal income tax purposes and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed under the Code.

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

Certain Federal Tax Consequences Relating to the Bonds

Prospective purchasers of the Bonds should be aware that ownership of, accrual or receipt of interest on or disposition of tax-exempt obligations, such as the Bonds, may have additional federal income tax consequences for certain taxpayers, including, without limitation, taxpayers eligible for the earned income credit, recipients of certain Social Security and certain Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, financial institutions, property and casualty companies, foreign corporations and certain S corporations.

Co-Bond Counsel express no opinion regarding any federal tax consequences other than its opinion with regard to the exclusion of interest on the Bonds from gross income pursuant to Section 103 of the Code and the treatment of interest for purposes of the alternative minimum tax. Prospective purchasers of the Bonds should consult their tax advisors with respect to all other tax consequences (including, but not limited to, those listed above) of holding the Bonds.

New Jersey Gross Income Tax

Bond Counsel is of the opinion that, under existing laws of the State, 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.

Future Events

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

Co-Bond Counsel are rendering their opinions under existing law as of the date of issuance of the Bonds, and assume no obligation to update their opinions after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation thereof, or otherwise.

EACH PURCHASER OF THE BONDS SHOULD CONSULT SUCH PURCHASER'S TAX ADVISOR REGARDING ANY CHANGES IN THE STATUS OF PENDING OR

PROPOSED FEDERAL OR NEW JERSEY STATE TAX LEGISLATION, ADMINISTRATIVE ACTIONS TAKEN BY TAX AUTHORITIES, OR COURT DECISIONS.

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

CONTINUING DISCLOSURE

On the date of delivery of the Bonds, the State will enter into an Agreement with Respect to Continuing Disclosure (the "Continuing Disclosure Agreement") for the benefit of the beneficial holders of the Bonds pursuant to which the State will agree to comply with the secondary market disclosure requirements of the United States Securities and Exchange Commission's Rule 15c2-12. See "APPENDIX III - FORM OF AGREEMENT WITH RESPECT TO CONTINUING DISCLOSURE".

For the Fiscal Year ended June 30, 2018, the Annual Report was due to the MSRB no later than March 15, 2019 in connection with its general obligation bonds and no later than April 1, 2019 in connection with its subject-to-appropriation bonds. On March 15, 2019, the Annual Report was filed without including the State's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2018 ("CAFR"). On March 29, 2019, the State posted a notice on the MSRB's Electronic Municipal Market Access service ("EMMA") that the CAFR would not be filed by April 1, 2019, but would be filed as soon as it was available. The CAFR was subsequently filed on EMMA on May 1, 2019.

In January 2019, the State Treasurer became aware that the Annual Reports and the State's CAFR for Fiscal Year 2014 were filed after the date specified in the continuing disclosure agreement for the New Jersey Economic Development Authority's 1996 Liberty State Park Lease Rental Refunding Bonds. Such Bonds were redeemed in full in December 2015, and are no longer outstanding.

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

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

UNDERWRITING

The Bonds are being purchased by BofA Securities, Inc. ("BofA"), as representative of the underwriters listed on the cover page hereof (the "Underwriters"). The Underwriters have agreed, subject to certain conditions, to purchase all of the Bonds at an aggregate purchase price of \$4,290,118,698.75, which is equal to the aggregate principal amount of the Bonds, plus original issue premium in the amount of \$629,295,696.95, less an Underwriters' discount in the amount of \$11,536,998.20. The initial public offering prices of the Bonds set forth on the inside cover page of this Official Statement may be changed without notice by the Underwriters. The Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing the

Bonds into investment trusts, certain of which may be sponsored or managed by the Underwriters) and others at prices or yields lower than the offering prices or yields set forth on the inside cover page hereof.

The following three sentences have been furnished by BofA Securities, the representative of the Underwriters of the Bonds, for inclusion in this Official Statement. BofA Securities, Inc. ("BofA Securities"), as an underwriter of the Bonds, has entered into a distribution agreement ("MLPF&S Distribution Agreement") with its affiliate Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"). As part of this arrangement, BofA Securities may distribute securities to MLPF&S, which may in turn distribute such securities to investors through the financial advisor network of MLPF&S. As part of this arrangement, BofA Securities may compensate MLPF&S as a dealer for their selling efforts with respect to the Bonds.

The State has not been furnished with any documents relating to the MLPF&S Distribution Agreement and makes no representations of any kind with respect thereto. The State is not a party to the MLPF&S Distribution Agreement and has not entered into any agreement with MLPF&S with respect to the offering and sale of the Bonds.

The following three sentences have been furnished by Citigroup Global Markets Inc., one of the Underwriters of the Bonds, for inclusion in this Official Statement. Citigroup Global Markets Inc., an underwriter of the Bonds, has entered into a retail distribution agreement ("Fidelity Distribution Agreement") with Fidelity Capital Markets, a division of National Financial Services LLC (together with its affiliates, "Fidelity"). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors at the original issue price through Fidelity. As part of this arrangement, Citigroup Global Markets Inc. will compensate Fidelity for its selling efforts.

The State has not been furnished with any documents relating to the Fidelity Distribution Agreement and makes no representations of any kind with respect thereto. The State is not a party to the Fidelity Distribution Agreement and has not entered into any agreement with Fidelity with respect to the offering and sale of the Bonds.

The following two sentences have been furnished by J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the Bonds, for inclusion in this Official Statement. J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the Bonds, has entered into negotiated dealer agreements ("CS&Co. Dealer Agreement" and "LPL Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to CS&Co. Dealer Agreement and LPL Dealer Agreement, each of CS&Co. and LPL, respectively, may purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

The State has not been furnished with any documents relating to the CS&Co. Dealer Agreement and LPL Dealer Agreement and makes no representations of any kind with respect thereto. The State is not a party to the CS&Co. Dealer Agreement or the LPL Dealer Agreement and has not entered into any agreement with CS&Co. or LPL with respect to the offering and sale of the Bonds.

The following three sentences have been furnished by Morgan Stanley & Co. LLC, one of the Underwriters of the Bonds, for inclusion in this Official Statement. Morgan Stanley & Co. LLC, an underwriter of the Bonds, has entered into a retail distribution arrangement ("MSSB

Distribution Agreement”) with its affiliate Morgan Stanley Smith Barney LLC (“MSSB”). As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of MSSB. As part of this arrangement, Morgan Stanley & Co. LLC may compensate MSSB for its selling efforts with respect to the Bonds.

The State has not been furnished with any documents relating to the MSSB Distribution Agreement and makes no representations of any kind with respect thereto. The State is not a party to the MSSB Distribution Agreement and has not entered into any agreement with MSSB with respect to the offering and sale of the Bonds.

The following three sentences have been furnished by UBS Financial Services Inc. (“UBS FSI”), one of the Underwriters of the Bonds, for inclusion in this Official Statement. UBS FSI, one of the underwriters of the Bonds, has entered into a distribution and service agreement (“UBS Distribution Agreement”) with its affiliate UBS Securities LLC (“UBS Securities”) for the distribution of certain municipal securities offerings, including the Bonds. Pursuant to such agreement, UBS FSI will share a portion of its underwriting compensation with respect to the Bonds with UBS Securities. UBS FSI and UBS Securities are each subsidiaries of UBS Group AG.

The State has not been furnished with any documents relating to the UBS Distribution Agreement and makes no representations of any kind with respect thereto. The State is not a party to the UBS Distribution Agreement and has not entered into any agreement with UBS Securities with respect to the offering and sale of the Bonds.

The following two paragraphs have been furnished by Wells Fargo Securities, one of the Underwriters of the Bonds, for inclusion in this Official Statement.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Finance Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

Wells Fargo Bank, National Association, acting through its Municipal Finance Group (“WFBNA”), has entered into an agreement (the “WFA Distribution Agreement”) with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name “Wells Fargo Advisors”) (“WFA”), for the distribution of certain municipal securities offerings, including the Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Bonds with WFA. WFBNA has also entered into an agreement (the “WFSLLC Distribution Agreement”) with its affiliate Wells Fargo Securities, LLC (“WFSLLC”), for the distribution of municipal securities offerings, including the Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC’s expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

The State has not been furnished with any documents relating to the WFA Distribution Agreement or WFSLLC Distribution Agreement and makes no representations of any kind with respect thereto. The State is not a party to the WFA Distribution Agreement or the WFSLLC

Distribution Agreement and has not entered into any agreement with WFA or WFSLLC with respect to the offering and sale of the Bonds.

FINANCIAL ADVISOR

Acacia Financial Group, Inc., Mt. Laurel, New Jersey, is serving as financial advisor to the State in connection with the issuance of the Bonds (the "Financial Advisor"). The Financial Advisor is a financial advisory and consulting organization and is not engaged in the business of underwriting, marketing or trading of municipal securities or any other negotiable instruments.

RATINGS

Fitch Ratings ("Fitch"), Kroll Bond Rating Agency ("KBRA"), Moody's Investors Service, Inc. ("Moody's") and S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("S&P"), have assigned their long-term municipal bond ratings of "A-" "A" "A3" and "BBB+", respectively, to the Bonds.

These ratings are not a recommendation to buy, sell or hold the Bonds and may be subject to revision or withdrawal at any time. These ratings reflect only the view of Fitch, KBRA, Moody's and S&P, respectively, and an explanation thereof may be obtained only from Fitch, KBRA, Moody's and S&P. There is no assurance that such ratings will remain in effect for any given period of time or that they will not be revised downward or withdrawn entirely by Fitch, KBRA, Moody's and S&P if, in their judgment, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the Bonds.

MISCELLANEOUS

The references herein to the Act, the Resolution, and the Continuing Disclosure Agreement are brief outlines of certain provisions thereof. Such outlines do not purport to be complete, and reference is made to the Act, the Resolution, and the Continuing Disclosure Agreement for full and complete statements of their provisions. Copies of such documents will be furnished by the State, upon request.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the State and the purchasers or holders of any Bonds. All inquiries for information or questions regarding this Official Statement should be directed to the New Jersey Office of Public Finance, P. O. Box 005, 50 W. State Street, Trenton, New Jersey 08625 (telephone (609) 984-4888).

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

THE STATE OF NEW JERSEY

By: /s/ Elizabeth Maher Muoio
Elizabeth Maher Muoio
Treasurer of the State of New Jersey

November 18, 2020

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APPENDIX I

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

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APPENDIX I

DATED: NOVEMBER 4, 2020

FINANCIAL AND OTHER INFORMATION RELATING TO THE STATE OF NEW JERSEY

This Appendix I speaks only as of its date and contains information supplied by the State that a prospective investor might consider in reaching a decision to invest in securities of the State or securities issued by governmental authorities that are secured by amounts subject to appropriations by the State Legislature. Nothing contained in this Appendix I shall create any implication that there has been no change in the affairs of the State since the date hereof. This Appendix I replaces Appendix I dated September 13, 2019. The principal changes reflected in this Appendix I are the updates of information to reflect the enactment of the Fiscal Year 2021 Appropriations Act (the "Fiscal Year 2021 Appropriations Act") and certain financial and other activity which occurred during Fiscal Year 2020. The State intends to further update or supplement the information contained in this Appendix I upon becoming aware of the occurrence of any event that materially changes the information contained herein.

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

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

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

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

The Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2019, including Management's Discussion and Analysis (the "2019 CAFR"), has been separately filed with the MSRB and is incorporated by specific reference herein and is considered to be part of this Appendix I. The State has also placed a copy of the 2019 CAFR on the following website at www.nj.gov/treasury/omb. No statement on that website or any other website is incorporated by reference herein.

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

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

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IMPACT OF COVID-19 PANDEMIC ON THE STATE'S FINANCIAL CONDITION

COVID-19 Pandemic

Due to the rapid emergence of SARS-CoV-2 novel coronavirus ("COVID-19") cases in New Jersey (the "State"), the surrounding region and across the globe, the Governor of the State of New Jersey (the "Governor") issued Executive Order No. 103 declaring a public health emergency and a state of emergency in the State on March 9, 2020. On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a pandemic ("COVID-19 Pandemic"), and on March 13, 2020, the President of the United States declared a national state of emergency. Executive Order No. 103 was the first of numerous executive orders issued by the Governor to respond to the COVID-19 Pandemic in the State. Since the issuance of Executive Order No. 103, the Governor has issued many executive orders placing various restrictions on business and personal activities to mitigate the effects of COVID-19 on the citizens on the State. As these restrictions took effect and succeeded in mitigating the spread of COVID-19 within the State, the Governor has issued subsequent executive orders lifting, in whole or in part, certain of these restrictions.

Impact of COVID-19 on Fiscal Year 2020

Prior to the declaration of the public health emergency and the state of emergency, on February 25, 2020, the Governor presented the Governor's Budget Message for Fiscal Year 2021. However, beginning in mid-March 2020, the COVID-19 Pandemic has created an economic crisis on a scale not experienced since the Great Depression nearly a century ago. The extent of the economic impacts caused by the COVID-19 Pandemic are the most significant the State has experienced since the Great Recession of 2008-2009. For a more detailed discussion of the magnitude of the unprecedented impact of COVID-19 on the State's economy, see "FINANCIAL RESULTS AND ESTIMATES – New Jersey's Current Economic Outlook".

Due to the unprecedented economic impact and projected revenue declines for Fiscal Years 2020 and 2021, on March 20, 2020, the Director of the Office of Management and Budget placed over \$900 million of items of appropriations into reserve. Following this action, on April 14, 2020, the "COVID-19 Fiscal Mitigation Act," L. 2020, c. 19 ("Chapter 19"), was enacted. Chapter 19 extended the filing deadline for the Gross Income Tax and the Corporation Business Tax, aligning New Jersey with the Internal Revenue Service's movement of the April 15, 2020 federal income tax filing deadline to July 15, 2020. In addition to extending the tax filing deadlines, Chapter 19 also extended Fiscal Year 2020 until September 30, 2020 (the "Extended Fiscal Year 2020"), resulting in a fifteen (15) month period. Further, Chapter 19 provided that Fiscal Year 2021 would be a nine (9) month period from October 1, 2020 to June 30, 2021 ("Truncated Fiscal Year 2021"). Chapter 19 also required the State Treasurer to report to the Legislature by May 22, 2020, on the financial condition of the State for the Extended Fiscal Year 2020 and Truncated Fiscal Year 2021, and that by August 25, 2020, the Governor submit a revised budget message for Truncated Fiscal Year 2021.

For consistency with past disclosures, this Appendix I will not reflect financial results and estimates for the Extended Fiscal Year 2020 and the Truncated Fiscal Year 2021. **For purposes of this Appendix I, "Fiscal Year 2020" will refer to the time period from July 1, 2019 through June 30, 2020, and "Fiscal Year 2021" will refer to the time period from July 1, 2020 through June 30, 2021.** Therefore, any reference to Fiscal Year 2020 will reflect revenues and expenditures from July 1, 2019 through June 30, 2020, and Fiscal Year 2021 will reflect revenues and expenditures from July 1, 2020 through June 30, 2021, unless otherwise specifically stated.

Additionally, the State's Comprehensive Annual Financial Report will continue to report on a twelve-month basis for Fiscal Year 2020 and Fiscal Year 2021. As such, Chapter 19 has not resulted in any change to the State's financial reporting content or requirements.

Throughout the COVID-19 Pandemic, various forms of federal aid funding have been made available to the State, most notably the Coronavirus Relief Fund (the "CRF") established in the federal Coronavirus Aid, Relief, and Economic Security ("CARES") Act. Through the CRF, the State received approximately \$2.4 billion to support unbudgeted expenses incurred to respond to and recover from the COVID-19 Pandemic. CRF aid is eligible to be used for such expenses incurred between March 1, 2020 and December 30, 2020. The State has developed an action plan for expending CRF aid, which, in part, results in reducing the stress of these costs on the overall State budget. For

more information on these and other related federal funds, see “FINANCIAL RESULTS AND ESTIMATES - Federal Aid” below.

In the State Treasurer’s May 22, 2020 report on the financial condition of the State for Extended Fiscal Year 2020 and Truncated Fiscal Year 2021, the State Treasurer noted that total revenue collections for April 2020 showed a decline of \$3.5 billion below April 2019 collections, or a reduction of 59.7 percent. Overall, the May 22, 2020 report demonstrated a projected reduction in Fiscal Year 2020 revenues of more than \$2.7 billion and a projected loss of \$7.2 billion in revenues for Fiscal Year 2021, for a total projected revenue decline of almost \$10 billion across both fiscal years.

May 22, 2020 Treasurer’s Report

In the May 22, 2020 report, the State Treasurer presented the steps taken to ensure the State remained in a solvent financial position due to the projected revenue decline. These actions included a review of State spending, and the March 20, 2020 placement of approximately \$900 million of items of appropriation into reserve; transferring the \$421 million on deposit in the Surplus Revenue Fund to the General Fund; implementation of a Statewide hiring freeze with the exception for COVID-19 related needs; limitation on utilizing hourly and temporary employees; coordination with vendor partners to obtain better procurement terms and conditions for new contracts and extensions of existing contracts; ongoing review and approval of department spending and contracting; cancelling and reserving of pre-encumbrances of expenditures; the deferral of other planned Fiscal Year 2020 spending into Fiscal Year 2021; and reductions in spending during the July 1, 2020 through September 30, 2020 period. Combined, the deferral and reduction actions totaled more than \$4 billion. These actions resulted in a decline of the ending undesignated fund balance for Fiscal Year 2020 from \$781 million projected as of the February 25, 2020 Governor’s Budget Message, to \$344 million. The three-month budget extension (period ending September 30, 2020) was projected to end with a fund balance of \$494 million.

Following the May 22, 2020 report, *L. 2020, c. 43* (“Chapter 43”), a supplemental appropriations act, was enacted which authorized spending from July 1, 2020 through September 30, 2020. In addition to authorizing appropriations for that three-month period, Chapter 43 also approved deappropriations following submission of a list of proposed deappropriations to the Joint Budget Oversight Committee (“JBOC”) of the Legislature, with the list subject to the disapproval by JBOC within a period of five days from submission. JBOC did not take action to disapprove the list of deappropriations. In total, \$1.191 billion in balances lapsed to the undesignated fund balance for Fiscal Year 2020.

Supplemental Appropriations Act and Emergency Bond Act

In addition, the New Jersey COVID-19 Emergency Bond Act, *L. 2020, c. 60* (the “Emergency Bond Act”), was enacted on July 16, 2020. The Emergency Bond Act authorizes the issuance of general obligation bonds in an aggregate amount not to exceed \$9.9 billion in Fiscal Years 2020 and 2021 to address the financial problems of the State that arose due to the COVID-19 Pandemic. Lawsuits were filed challenging the constitutionality of the Emergency Bond Act. The New Jersey Supreme Court upheld the constitutionality of the Emergency Bond Act on August 12, 2020. For more information on the litigation concerning the New Jersey COVID-19 Emergency Bond Act, see “CERTAIN CONSTITUTIONAL PROVISIONS AND JUDICIAL DECISIONS – Judicial Decisions.” For more information on the plan for borrowing under the Emergency Bond Act, see, “LONG-TERM OBLIGATIONS – General Obligation Bonds”.

August 25, 2020 Governor’s Revised Spending Plan

As required by Chapter 19, the Governor presented his revised spending plan for Truncated Fiscal Year 2021 on August 25, 2020. In his proposal, the Governor included over \$1 billion in new revenue raisers, \$4 billion in emergency general obligation borrowing, and approximately \$1.25 billion in reductions in State-funded expenditures. The Governor also presented a revised Fiscal Year 2020 ending undesignated fund balance of \$1.712 billion, and a Truncated Fiscal Year 2021 undesignated ending fund balance of \$2.239 billion. In the appropriations bill for Truncated Fiscal Year 2021 passed by the Legislature, the Legislature modified the Governor’s proposed Truncated Fiscal Year 2021 budget, by increasing overall revenues by \$583 million, including \$500 million in additional emergency general obligation borrowing, and increasing appropriations by \$297 million. The net impact changed the

undesigned ending fund balance from \$2.239 billion in the Governor's Budget Message for Truncated Fiscal Year 2021 to \$2.514 billion as stated in the Fiscal Year 2021 Appropriations Act, *L. 2020, c. 97*.

Through revenue raisers, reductions in State-funded expenditures and emergency general obligation borrowing, the State was able to enact a balanced budget for Truncated Fiscal Year 2021, with an ending undesigned fund balance representing more than 6% of Fiscal Year 2021 appropriations.

Impact of COVID-19 on Fiscal Year 2021

At the present time, the State projects that it may take a few years for State revenues to return to their pre-COVID-19 Pandemic levels. To address expected revenue losses in Fiscal Year 2021, the Fiscal Year 2021 Appropriations Act currently contemplates that the State will borrow an amount not to exceed \$4.5 billion under the Emergency Bond Act which the State expects to use to offset anticipated revenue losses in Fiscal Year 2021. Either the Governor or the State Treasurer is required to certify the amount of the revenue shortfall for Fiscal Year 2021 before issuing of each tranche of emergency general obligation borrowing. If the certified revenue shortfall is less than the amount of emergency general obligation bonds authorized at that time, that certified revenue shortfall amount serves as the cap on the amount of emergency general obligation bonds. The Emergency Bond Act is in addition to other programs typically funded by the State through borrowing, such as the Transportation Trust Fund or School Facilities Construction. The State expects to post the revenue shortfall certification for each emergency general obligation borrowing on the website of the State Treasurer. No information on the website is incorporated by reference into this Appendix I.

As a result of the emergency general obligation borrowing, the State currently expects that its undesigned ending fund balance will be approximately \$2.514 billion on June 30, 2021, representing a significant increase from the undesigned ending fund balance on June 30, 2020 of \$1.712 billion. The undesigned ending fund balance will be available to address any potential impacts of the COVID-19 Pandemic.

In addition, the State expects that the percentage of nonrecurring revenues that it will use in Fiscal Year 2021 will significantly increase. Over the last four Fiscal Years, the percentage of the Appropriations Act that comprised nonrecurring revenues ranged from 1.6% to 4.0%. The percentage of nonrecurring revenues in the Fiscal Year 2021 Appropriations Act is 14.1%, a significant increase over prior years. This is primarily attributable to the State's use of the emergency general obligation borrowing to offset revenue losses. Due to the large amount of this nonrecurring emergency general obligation borrowing resource, this may result in future State budgets being challenged with significant structural deficits due to the lack of recurring revenues to match recurring expenditures. If revenues do not increase to offset these impacts, the State will need to resolve such deficiencies through a combination of increased recurring revenues and/or reductions to spending.

CERTAIN CONSTITUTIONAL PROVISIONS AND JUDICIAL DECISIONS

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

Budget Limitations

The State Constitution provides, in part, that no money shall be drawn from the State Treasury but for appropriations made by law and that no law appropriating money for any State purpose shall be enacted if the appropriations contained therein, together with all prior appropriations made for the same fiscal period, shall exceed the total amount of the revenue on hand and anticipated to be available to meet such appropriations during such fiscal period, as certified by the Governor (Article VIII, Sec. 2, para. 2) (the "Appropriations Clause"). In addition to line-item appropriations for the payment of debt service on bonds, notes or other obligations which are subject to appropriation, beginning in Fiscal Year 2005, the annual Appropriations Act contains a general language provision which appropriates such additional amounts necessary to pay such debt service obligations subject to the approval of

the Budget Director (defined below). For bonds which must be paid for from constitutionally-dedicated sources, such supplemental appropriations would need to be from constitutionally-dedicated revenues. (For general information regarding the budget process, see “STATE FINANCES — Budget and Appropriation Process” herein; for the application of the budget process for Fiscal Year 2021, see “FINANCIAL RESULTS AND ESTIMATES” herein.)

Debt Limitations

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

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

Judicial Decisions

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

In December 2000, a challenge was brought seeking a declaration that legislative programs authorizing State Appropriation Obligations violated the Debt Limitation Clause. The New Jersey Supreme Court’s first ruling in this matter (“*Lonegan I*”) was limited solely to the issuance of State Appropriation Obligations by the New Jersey Economic Development Authority (“NJEDA”) authorized by the Educational Facilities Construction and Financing Act (“EFCFA”). The Court held that such bonds did not violate the Debt Limitation Clause because such debt was not legally enforceable against the State. See *Lonegan v. State of New Jersey*, 174 N.J. 435 (2002). The Court ordered additional briefing and argument on the other legislatively authorized State Appropriation Obligations. In “*Lonegan II*”, issued in April 2003, the Court rejected a broad challenge to the validity of fourteen New Jersey statutes authorizing the issuance of State Appropriation Obligations. The Court held that the Debt Limitation Clause does not

apply to debt that is subject to future legislative appropriations because such debt is not legally enforceable against the State. Furthermore, the Court held that under New Jersey law, only debt that is legally enforceable against the State is subject to the Debt Limitation Clause and that in reliance upon such rule, the State Legislature responded to changes in the financial markets that reflect modern economic realities to provide for the issuance of debt where the payment is subject to annual legislative appropriation. *Lonegan v. State of New Jersey*, 176 N.J. 2 (2003).

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

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

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

In November 2008, as discussed above, the voters approved the Lance Amendment. A suit was filed in December 2008 in the Superior Court, seeking a declaration that the Lance Amendment was unconstitutional. The Plaintiffs claimed that the ballot question and the interpretative statement were defective. In November 2009, the Court dismissed the Plaintiffs’ complaint for failure to state a claim upon which relief can be granted.

In June 2015, the New Jersey Supreme Court issued a decision on the Debt Limitation and Appropriations Clauses in *Burgos v. State* which was a challenge to the State’s failure to make the annual required pension contribution pursuant to L. 2011, c. 78 (“Chapter 78”). Chapter 78 provided for various reforms in the pension and health benefit systems and contained a provision providing a “contractual right” to the State making the annual required pension contribution. The State failed to do so and the Court ruled that “the State Legislature and the Governor were without authority to enact an enforceable and legally binding long-term financial agreement through” Chapter 78. Therefore, the Court found that the pension funding right in Chapter 78 is subject to appropriation. *Burgos v. State of New Jersey*, et al., 222 N.J. 175 (2015).

In 2018, the Appellate Division issued decisions in cases claiming that State Appropriation Obligations issued to finance projects utilizing a “lease-leaseback” structure through the NJEDA violated the Debt Limitation and

Appropriation Clauses. In *Wisniewski v. Christie*, the Appellate Division affirmed the trial court decision and dismissed a challenge to State Appropriation Obligations issued by NJEDA to finance renovations to the New Jersey State House and the refunding of certain outstanding indebtedness of the New Jersey Building Authority (“NJBA”) relating to prior projects undertaken by the NJBA at the State House. The Appellate Division agreed with the State defendants’ position that the matter was moot and dismissed the case on those grounds. However, due to the likelihood that this type of immediate sale of bonds evading the potential for review could occur in the future, the Appellate Division addressed the merits of plaintiff’s claims. In that regard, the Appellate Division held that: (1) the Debt Limitation Clause was not violated as the debt was issued by the NJEDA, an independent State authority; (2) the bonds stated on their face that they were not a debt or liability of the State; and (3) the lease-leaseback structure which provides a stream of rental payments, subject to appropriation, to NJEDA to pay the principal and interest on the bonds, is not considered as the State’s assumption of such bonded indebtedness.

Two other cases, *Gusciora v. Dept. of the Treasury* and *Wisniewski v. Christie* challenged the issuance of bonds by the NJEDA utilizing a lease-sublease structure to finance the construction of new State buildings for the New Jersey Department of Health, the New Jersey Division of Taxation, and the Juvenile Justice Commission. The Appellate Division denied declaratory and injunctive relief to the plaintiffs who, among several grounds, sought, on an emergency basis, to prohibit the sale the bonds as violating the Debt Limitation Clause. The trial court denied plaintiffs’ motion for a stay, while also transferring the cases to the Appellate Division. The Appellate Division denied the *Gusciora* plaintiffs’ request for emergent relief and summarily dismissed the *Gusciora* complaint on the merits, finding that there was no merit to the *Gusciora* plaintiffs’ argument that the bond financing violated the Debt Limitation Clause as the bond resolution and the sublease between the NJEDA and the State Division of Property Management and Construction explicitly provided that the State’s obligation to make rental payments was subject to appropriation by the State Legislature and that there was no violation of the Lance Amendment as no legislative enactments were involved. With respect to plaintiff Wisniewski, the Appellate Division found that Wisniewski’s claim that the issuance of the bonds violated the Debt Limitation Clause did not have a likelihood of success on the merits, citing *Lonegan I* and the *Lance v. McGreevey* cases.

As part of the response to address the financial problems suffered by the State as a result of the consequences of the COVID-19 Pandemic, the Legislature enacted the Emergency Bond Act. The constitutionality of the Emergency Bond Act was challenged in *New Jersey Republican State Committee v. Murphy*. In August 2020, the New Jersey Supreme Court held that the Emergency Bond Act was valid under the Appropriations Clause and the Debt Limitation Clause of the State Constitution, subject to certain limitations. The Court held that subparagraph 3(e) of the Debt Limitation Clause (the “Emergency Exception”) provides an exception from the voter approval requirement of subparagraph 3(a) of the Debt Limitation Clause for any debts or liabilities created to meet an emergency cause by a disaster. The Court found that the rare, once-in-a-century, infectious disease of the magnitude of the COVID-19 Pandemic was a “disaster” and the subsequent public health emergency, economic emergency impacting individuals and families, and State fiscal crisis all constituted an “emergency” within the confines of the Emergency Exception. The Court also held that the Appropriations Clause does not prohibit borrowing for appropriate purposes under the Emergency Exception, as a contrary reading would lead to a situation where the State could borrow funds to meeting an emergency caused by a disaster but not be able to spend them. Such a finding would be in contradiction to the Framers of the 1947 Constitutional Convention’s intent to impose fiscal discipline over the State’s fiscal practices and, at the same time, provide flexibility to respond to emergencies caused by a disaster. The Court finally noted that it was not overruling its decision in *Lance v. McGreevey*, which did not consider the Debt Limitation Clause, the Emergency Exception or their interplay with the Appropriations Clause.

STATE FINANCES

Accounting System

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

Financial Statements

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

Management's Discussion and Analysis — for State and Local Governments. The State's Comprehensive Annual Financial Report includes government-wide financial statements and fund financial statements. These statements present different views of the State's financial information. The State's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2019, and the notes referred to therein (the "2019 CAFR") has been separately filed with the Municipal Securities Rulemaking Board ("MSRB") and is incorporated by specific reference herein and is considered to be part of this Appendix I. The 2019 CAFR presents the financial position and operating results of the State under generally accepted accounting principles ("GAAP") applicable to state and local governments as established by GASB. GASB is the standard setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in GASB's *Codification of Governmental Accounting and Financial Reporting Standards*.

The significant accounting policies followed by the State are described in the "Notes to the Financial Statements" set forth in the 2019 CAFR.

Government-wide financial statements provide a broad view of the State's operations conforming to private sector accounting standards and provide both short-term and long-term information regarding the State's overall financial position through the fiscal year-end.

In addition to government-wide financial statements, the State prepares fund financial statements comprised of funds and component units with the State's funds divided into three categories — governmental, proprietary, and fiduciary.

Governmental Funds

Governmental Funds finance most Direct State Services, which support the normal operations of State government. The governmental funds financial statements focus on current inflows and outflows of expendable resources and the unexpended balances at the end of a fiscal year that are available for future spending. Governmental fund information helps determine whether or not there was an addition or a reduction in financial resources that can be spent in the near future to finance State programs.

The State's governmental funds are the General Fund, which receives revenues from taxes that are unrestricted by statute, most federal revenue and certain miscellaneous revenue items; the Property Tax Relief Fund, which receives revenues from the New Jersey Gross Income Tax and revenues derived from a tax rate of 0.5% imposed under the Sales and Use Tax both of which are constitutionally dedicated toward property tax relief and reform; the Special Revenue Funds, which are used to account for resources legally restricted to expenditure for specified purposes; and the Capital Projects Funds, which are used to account for financial resources to be used for the acquisition or construction of major State capital facilities. The Capital Projects Funds includes the Special Transportation Fund which is used to account for financial resources for State transportation projects. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash.

Proprietary Funds

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

Fiduciary Funds

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

Component Units

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

Budget and Appropriation Process

The State operates on a fiscal year beginning July 1 and ending June 30, with the exception of Fiscal Years 2020 and 2021. In accordance with Chapter 19, Fiscal Year 2020 was extended by three months to end on September 30, 2020, and the date of the beginning of Fiscal Year 2021 was delayed to October 1, 2020. New Jersey's budget process is comprehensive and inclusive, involving every department and agency in the Executive Branch, the State Legislature, the Judicial Branch, and through a series of public hearings, the citizens of the State.

Pursuant to the Appropriations Clause, no money may be drawn from the State Treasury except for appropriations made by law. In addition, all monies for the support of State government and all other State purposes, as far as can be ascertained or reasonably foreseen, must be provided for in one general appropriations law covering one and the same fiscal year. The State Legislature enacts the Appropriations Act on an annual basis which provides the basic framework for the operation of governmental funds, including the General Fund. No general appropriations law or other law appropriating money for any State purpose shall be enacted if the amount of money appropriated therein, together with all other prior appropriations made for the same fiscal year, exceeds the total amount of revenue on hand and anticipated to be available for such fiscal year. The Appropriations Clause requires that at the time of enactment of the annual Appropriations Act, the Governor certify that there are sufficient resources available to support the line item appropriations in the Appropriations Act.

Budget Requests and Preliminary Projections

The budget process begins in the summer prior to the following fiscal year with preliminary projections of revenues and expenditures, which are the basis for development of budget targets for each branch, department and agency. Individual departments and agencies are required to prepare a funding plan or strategy for operating within the established target in the following fiscal year, which funding plan or strategy includes an analysis of the costs, benefits and priorities of every program.

Budget Director Review

On or before October 1 in each year, each Department, Board, Commission, Office or other Agency of the State must file with the Budget Director a request for appropriation or permission to spend specifying all expenditures proposed to be made by such spending agency during the following fiscal year. The Budget Director then examines each request and determines the necessity or advisability of the appropriation request. On or before December 31 of each year or such other time as the Governor may request, after review and examination, the Budget Director submits the requests, together with his or her findings, comments and recommendations, to the Governor.

Governor's Budget Message

The Governor's budget message (the "Governor's Budget Message") is presented by the Governor during an appearance before a joint session of the State Legislature which, by law, is convened on a date on or before the fourth Tuesday in February in each year, except if such date is changed as provided by law which generally occurs during the first year when a new governor is elected. In accordance with Chapter 19, the Governor's Budget Message for Fiscal Year 2021 was delivered on August 25, 2020 (the "Governor's Fiscal Year 2021 Budget Message"). The Governor's Budget Message must include the proposed complete financial program of the State government for the next ensuing fiscal year and must set forth in detail each source of anticipated revenue and the purposes of recommended expenditures for each spending agency (*N.J.S.A. 52:27B-20*).

Legislative Review

The financial program included in the Governor's Budget Message is then subject to a process of legislative committee review. As part of such review, testimony is given by a number of parties. The Office of Legislative Services, which is an agency of the State Legislature, generally provides its own estimates of anticipated revenues which may be higher or lower than those included in the Governor's Budget Message, and the State Treasurer generally provides an updated statement of anticipated revenues in May of each year which may increase or decrease the amounts included in the Governor's Budget Message. In addition, various parties may release their own estimates of anticipated revenues and recommended expenditures to the media. After completion of the legislative committee review process, the budget, in the form of an appropriations bill, must be approved by the Senate and Assembly and must be submitted to the Governor for review. The Appropriations Act includes the General Fund, and the Casino Control, Casino Revenue, Gubernatorial Elections, and Property Tax Relief Funds. In addition to anticipated revenues, the Appropriations Act also provides for the appropriation of non-budgeted revenue, including primarily federal funds and other dedicated funds. These "non-budgeted" revenues are excluded from all tables except for the table entitled "EXPENDITURES."

Governor's Line-Item Veto Power

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

Fiscal Controls

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

During the course of the fiscal year, the Governor may take steps to reduce State expenditures if it appears that revenues have fallen below those originally anticipated. Pursuant to various statutes, the Governor may order the Budget Director to set aside a reserve out of each appropriation, and if sufficient revenues are not available by the end of the fiscal year to fund such reserve, the amount reserved lapses back into the General Fund. In addition, the Governor is authorized to prohibit and enjoin and place conditions upon the expenditure of monies in the case of extravagance, waste or mismanagement.

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

State Budget Shutdown

If the Appropriations Act is not enacted prior to the first day of the next fiscal year, under the Appropriations Clause, no moneys can be withdrawn from the State treasury. Accordingly, all non-essential operations of State government must be shut down until such time as the Appropriations Act is passed and approved by the Governor. If a shutdown occurs in a future fiscal year, no moneys, other than general obligation bond debt service and available amounts already held under bond financing documents will be available to make payment on obligations paid from State revenue subject to annual appropriation. See generally "STATE FINANCES – Budget and Appropriation Process" and "LONG-TERM OBLIGATIONS – State Appropriation Obligations".

FINANCIAL RESULTS AND ESTIMATES

Audit Reports

The State Auditor is directed by statute (*N.J.S.A. 52:24-4*) to “examine and post-audit all the accounts, reports, and statements and make independent verifications of all assets, liabilities, revenues, and expenditures” of the State and its agencies. The 2019 CAFR, including the opinion of the State Auditor, has been separately filed with the MSRB, is incorporated by specific reference herein and is deemed a part of this Appendix I. The accounting and reporting policies of the State conform in all material respects to GAAP as applicable to governments.

Balance Sheets

The comparative balance sheets for the General Fund, the Casino Control Fund, the Casino Revenue Fund, the Gubernatorial Elections Fund and the Property Tax Relief Fund as of June 30, 2019 and 2018 are set forth below:

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

	As of June 30,	
	2019	2018
ASSETS		
Cash and cash equivalents	\$ 21.6	\$ 87.7
Investments	3,029.9	2,240.6
Receivables, net of allowances for uncollectibles	—	—
Federal government	1,048.9	863.2
Departmental accounts	3,355.0	3,155.0
Loans	75.9	46.3
Other	315.1	441.2
Due from other funds	765.8	1,012.2
Other	4.2	18.3
Total Assets	\$8,616.4	\$7,864.5
LIABILITIES AND FUND BALANCES		
Accounts payable and accruals	\$1,676.5	\$1,723.0
Unearned revenue	154.0	168.2
Due to other funds	244.9	284.9
Refunds payable	141.4	142.2
Other	373.4	322.7
Total Liabilities	2,590.2	2,641.0
Deferred Inflows of Resources	349.2	506.0
Total Liabilities and Deferred Inflows of Resources	\$2,939.4	\$3,147.0
Fund Balances		
Restricted	\$1,084.2	\$ 188.7
Committed	2,884.5	3,538.2
Unassigned	1,708.3	990.6
Total Fund Balances	5,677.0	4,717.5
Total Liabilities and Deferred Inflows of Resources and Fund Balances	\$8,616.4	\$7,864.5

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

See the 2019 CAFR incorporated herein by reference for the notes which are an integral part of these financials statements and for further information concerning the other funds of the State.

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

	Casino Control Fund⁽¹⁾		Casino Revenue Fund⁽²⁾		Gubernatorial Elections Fund⁽³⁾		Property Tax Relief Fund⁽⁴⁾	
	2019	2018	2019	2018	2019	2018	2019	2018
ASSETS								
Cash and cash equivalents.....	\$ —	\$ 0.1	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Receivables, net of allowances for uncollectibles								
Department accounts.....	2.7	4.0	25.6	19.2	0.2	0.3	789.5	775.0
Due from other funds	3.3	4.5	1.0	4.9	0.6	0.1	13.9	12.1
Total Assets	<u>\$ 6.0</u>	<u>\$ 8.6</u>	<u>\$ 26.6</u>	<u>\$ 24.1</u>	<u>\$ 0.8</u>	<u>\$ 0.4</u>	<u>\$ 803.4</u>	<u>\$ 787.1</u>
LIABILITIES AND FUND BALANCES								
Liabilities								
Accounts payable and accruals.....	\$ 6.0	\$ 8.6	\$ 12.3	\$ 10.3	\$ —	\$ —	\$ 103.3	\$ 90.1
Due to other funds.....	—	—	2.5	—	—	0.4	397.3	448.8
Refunds payable	—	—	—	—	—	—	273.4	220.3
Total Liabilities	<u>\$ 6.0</u>	<u>\$ 8.6</u>	<u>\$ 14.8</u>	<u>\$ 10.3</u>	<u>\$ —</u>	<u>\$ 0.4</u>	<u>\$ 774.0</u>	<u>\$ 759.2</u>
Fund Balances								
Restricted	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 29.4	\$ 27.9
Committed.....	—	—	11.8	13.8	0.8	—	—	—
Total Fund Balances	<u>—</u>	<u>—</u>	<u>11.8</u>	<u>13.8</u>	<u>0.8</u>	<u>—</u>	<u>29.4</u>	<u>27.9</u>
Total Liabilities and Fund Balances	<u>\$ 6.0</u>	<u>\$ 8.6</u>	<u>\$ 26.6</u>	<u>\$ 24.1</u>	<u>\$ 0.8</u>	<u>\$ 0.4</u>	<u>\$ 803.4</u>	<u>\$ 787.1</u>

- (1) The Casino Control Fund is used to account for fees from the issuance and annual renewal of casino licenses. Appropriations are made to fund the operations of the Casino Control Commission and the Division of Gaming Enforcement. The Casino Control Fund was established by *N.J.S.A. 5:12-143*, approved June 2, 1977.
- (2) The Casino Revenue Fund is used to account for the tax on gross revenues generated by the casinos. Gross revenue refers to the total of all sums actually received by a licensee from gaming operations, less the total sums paid out as winnings to patrons. Appropriations from this fund must be used for reductions in property taxes, utility charges and other expenses of eligible senior citizens and disabled residents. The Casino Revenue Fund was established by *N.J.S.A. 5:12-145*, approved June 2, 1977.
- (3) The Gubernatorial Elections Fund is used to account for receipts from the dollar designations on New Jersey Gross Income Tax returns. When indicated by the taxpayer, one dollar of the tax is reserved from Gross Income Tax revenues and credited to the Gubernatorial Elections Fund. These funds are available for appropriation pursuant to The New Jersey Campaign Contributions and Expenditures Reporting Act (*L. 1973, c. 83*), as amended. The Gubernatorial Elections Fund was established by the New Jersey Gross Income Tax Act, *N.J.S.A. 54A:9-25.1*, approved July 8, 1976.
- (4) The Property Tax Relief Fund is used to account for revenues from the New Jersey Gross Income Tax and for revenues derived from a tax rate of 0.5% imposed under the Sales and Use Tax that is constitutionally dedicated toward property tax reform. Revenues realized from the Gross Income Tax and derived from a tax rate of 0.5% imposed under the Sales and Use Tax are dedicated by the State Constitution. All receipts from taxes levied pursuant to the New Jersey Gross Income Tax on personal income of individuals, estates, and trusts must be appropriated exclusively for the purpose of reducing or offsetting property taxes. Annual appropriations are made from the Fund, pursuant to formulas established by the State Legislature, to counties, municipalities and school districts. The Property Tax Relief Fund was established by the New Jersey Gross Income Tax Act, *N.J.S.A. 54A:9-25*, approved July 8, 1976.

Changes in Fund Balances

The following table sets forth a Summary of Revenues, Appropriations and Undesignated Fund Balances for Fiscal Years 2017, through 2021, covering budgeted funds. The Undesignated Fund Balances are available for appropriation in succeeding fiscal years. There have been positive Undesignated Fund Balances in the General Fund at the end of each year since the State Constitution was adopted in 1947.

Amounts shown for Fiscal Years 2017 through 2019 are actual and final. Amounts shown for Fiscal Year 2020 in the following tables and charts are based upon revised estimates for revenues (which are subject to adjustment pending completion of the annual audit) and includes supplemental appropriations. Amounts shown for Fiscal Year 2021 are estimates as contained in *L. 2020, c. 43*, including supplemental appropriations thereto, and in the Fiscal Year 2021 Appropriations Act.

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

Lottery Enterprise Contribution Act—Budgetary Impact

Pursuant to the Lottery Enterprise Contribution Act, *L. 2017, c. 98* (“LECA”), the Lottery Enterprise was contributed to certain eligible Pension Plans for a thirty (30) year term. LECA has a neutral budget impact in Fiscal Year 2021. In Fiscal Year 2021, appropriations of State Aid for Education or State Institution Programs which were previously supported by net proceeds of the State Lottery are now funded through appropriations from the General Fund or the Property Tax Relief Fund, as applicable. This is possible because LECA provides for a Special Asset Adjustment to the amount of the annual actuarially recommended contribution to the eligible Pension Plans of \$1,084,354,841 for Fiscal Year 2021, alleviating the need for aggregate appropriations from the General Fund and the Property Tax Relief Fund to the eligible Pension Plans in that same amount. LECA also impacted the distribution of appropriations between the General Fund and the Property Tax Relief Fund. General Provision No. 93 in the Fiscal Year 2021 Appropriations Act allows for the transfer of appropriations between funds to specifically address the impacts of LECA.

For further information regarding LECA, see “STATE FUNDING OF PENSION PLANS – Lottery Enterprise Contribution Act” herein.

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

	2021 Estimated	2020 Estimated ⁽²⁾	2019 Actual	2018 Actual ⁽³⁾	2017 Actual
July 1st Beginning Balances					
General Fund.....	\$ 1,710.5	\$ 1,287.8	\$ 990.6	\$ 715.2	\$ 469.8
Surplus Revenue Fund	—	420.6	—	—	—
Property Tax Relief Fund.....	—	3.0	—	2.7	3.3
Gubernatorial Elections Fund.....	1.5	0.8	—	—	1.1
Casino Control Fund	—	—	—	—	0.7
Casino Revenue Fund	—	—	—	—	7.5
Total Beginning Balances	<u>1,712.0</u>	<u>1,712.2</u>	<u>990.6</u>	<u>717.9</u>	<u>482.4</u>
Anticipated Revenue					
General Fund.....	24,836.5	20,724.4	21,252.3	19,713.1	19,154.7
Property Tax Relief Fund	15,817.2	16,988.0	16,747.8	15,806.8	14,700.9
Gubernatorial Elections Fund.....	0.7	0.7	0.8	0.4	0.2
Casino Control Fund	60.9	52.2	49.1	47.8	45.2
Casino Revenue Fund	259.6	261.3	266.2	217.7	218.6
Total Revenues	<u>40,974.9</u>	<u>38,026.6</u>	<u>38,316.2</u>	<u>35,785.8</u>	<u>34,119.6</u>
Total Resources	<u>\$42,686.9</u>	<u>\$39,738.8</u>	<u>\$39,306.8</u>	<u>\$36,503.7</u>	<u>\$34,602.0</u>
Other Adjustments					
General Fund					
Balances lapsed ⁽⁴⁾	353.3	1,109.4	418.3	464.9	788.1
From (To) Reserved Fund Balance	(159.6)	3.5	(66.7)	4.5	(42.7)
From (To) Surplus Revenue Fund.....	—	420.6	(420.6)	—	—
From (To) Property Tax Relief Fund	(85.4)	(244.2)	(23.4)	(34.3)	3.7
Budget vs GAAP Adjustment.....	—	—	—	—	—
From (To) Casino Revenue Fund.....	(16.4)	(0.1)	—	—	—
From (To) Gubernatorial Elections Fund.....	(4.4)	—	—	(13.2)	(6.4)
From (To) Casino Control Fund	—	—	—	—	—
Surplus Revenue Fund	—	(420.6)	420.6	—	—
From (To) General Fund.....	—	—	—	—	—
Property Tax Relief Fund.....	—	—	—	—	—
Balances lapsed ⁽⁴⁾	—	274.2	59.7	29.1	134.9
From (To) General Fund.....	85.4	244.1	23.4	34.3	(3.7)
Gubernatorial Elections Fund.....	—	—	—	—	—
From (To) General Fund.....	4.4	—	—	13.2	6.4
Balances lapsed ⁽⁴⁾	—	—	—	6.1	4.6
Casino Control Fund	—	—	—	—	—
From (To) General Fund.....	—	—	—	—	—
Balances lapsed ⁽⁴⁾	—	3.6	1.9	2.1	2.8
From/(To) General Fund.....	—	—	—	—	1.6
Budget vs GAAP Adjustment.....	—	—	0.3	0.1	—
Casino Revenue Fund	—	—	—	—	—
From (To) General Fund.....	16.4	0.1	—	—	—
From (To) Casino Control Fund	—	—	—	—	—
Balances lapsed ⁽⁴⁾	—	0.1	6.2	1.5	0.2
Budget vs GAAP Adjustment.....	—	—	—	—	(1.1)
Total Other Adjustments	<u>193.7</u>	<u>1,390.7</u>	<u>419.7</u>	<u>508.3</u>	<u>888.4</u>
Total Available	<u>\$42,880.6</u>	<u>\$41,129.5</u>	<u>\$39,726.5</u>	<u>\$37,012.0</u>	<u>\$35,490.4</u>
Appropriations					
General Fund.....	24,120.6	21,590.9	20,862.7	19,859.6	19,583.4
Property Tax Relief Fund.....	15,902.6	17,509.3	16,827.9	15,872.9	14,832.7
Gubernatorial Elections Fund.....	6.6	—	—	19.7	12.3
Casino Control Fund	60.9	55.8	51.3	50.0	50.3
Casino Revenue Fund	276.0	261.5	272.4	219.2	225.2
Total Appropriations	<u>\$40,366.7</u>	<u>\$39,417.5</u>	<u>\$38,014.3</u>	<u>\$36,021.4</u>	<u>\$34,703.9</u>
June 30th Ending Balances					
General Fund ⁽⁵⁾	2,513.9	1,710.5	1,287.8	990.6	783.8
Surplus Revenue Fund	—	—	420.6	—	—
Property Tax Relief Fund ⁽⁵⁾	—	—	3.0	—	2.7
Gubernatorial Elections Fund.....	—	1.5	0.8	—	—
Casino Control Fund	—	—	—	—	—
Casino Revenue Fund	—	—	—	—	—
Total Ending Balances⁽⁶⁾⁽⁷⁾	<u>\$2,513.9</u>	<u>\$1,712.0</u>	<u>\$ 1,712.2</u>	<u>\$ 990.6</u>	<u>\$ 786.5</u>

(footnotes appear on next page)

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- (1) Budgeted State Funds include the General Fund, the Property Tax Relief Fund, the Casino Revenue Fund, the Casino Control Fund and the Gubernatorial Elections Fund. These amounts do not reflect amounts included under the caption “Other Adjustments” in the table entitled “SUMMARY OF REVENUES, APPROPRIATIONS AND UNDESIGNATED FUND BALANCES---BUDGETED STATE FUNDS” above.
 - (2) Total Appropriations included in the “2020 Estimated” column do not reflect deappropriations authorized pursuant to Chapter 43. Language included in Chapter 43 authorized the submission of a list of items of appropriation to JBOC, with JBOC having the authorization to disapprove the list within 5 days of submittal, to be deappropriated for fund balance purposes. A list of approximately \$1.191 billion was submitted to JBOC. Of that balance, approximately \$1.009 billion of items of appropriations were deappropriated, while \$182 million of prior-year appropriation balances and dedicated fund balances were lapsed to the General Fund for fund balance purposes. These amounts all are included within the “balances lapsed” rows, along with other lapsed funds.
 - (3) The General Fund opening undesignated fund balance for Fiscal Year 2018 was restated downward by \$68.6 million.
 - (4) Upon the end of the fiscal year, any unexpended or unencumbered balance in an appropriation reverts (laps) to the June 30th ending undesignated fund balance, unless otherwise provided for in the Appropriations Act.
 - (5) For more information about the budgetary impact of the Lottery Enterprise contribution, see “FINANCIAL RESULTS AND ESTIMATES – Changes in Fund Balances – *Lottery Enterprise Contribution Act – Budgetary Impact*” above.
 - (6) The ending undesignated fund balance for Fiscal Year 2020 and the opening undesignated fund balance for Fiscal Year 2021 are subject to adjustment pending completion of the Fiscal Year 2020 annual audit. The ending undesignated fund balance for Fiscal Year 2021 may be further revised as a result of changes in spending or anticipated revenues.
 - (7) Revenues for Fiscal Year 2021 reflect \$4.5 billion in emergency general obligation borrowing. See “IMPACT OF THE COVID-19 PANDEMIC ON THE STATE’S FINANCIAL CONDITION” above. Due to this, part of the growth in the ending undesignated fund balance for Fiscal Year 2021 can be attributed to this additional, non-recurring resource.

New Jersey Demographic Information

New Jersey is the most densely populated state in the nation, with an average density of 1,208 persons per square mile. The State is a part of a megalopolis that extends from Washington D.C. in the south to Boston, Massachusetts in the north and includes over one-fifth of the nation’s population. Thus, New Jersey is an attractive location for businesses due to its central location and ability to access both regional and world markets.

The following core industry clusters are the center of the State’s diverse economy: technology, transportation and logistics, health care, financial services, biopharmaceuticals, and advanced manufacturing. There is also a strong commercial agriculture sector in the rural areas. The “Jersey Shore,” along the Atlantic Seaboard, is the focus of the State’s tourism sector and includes casino gambling in Atlantic City. The State attracted over 110.8 million visitors in 2018 and 116.2 million visitors in 2019.

There were just under 8.9 million persons residing in New Jersey according to the latest population estimates from the U.S. Census Bureau as of July 1, 2019. New Jersey’s population has grown an average of 0.1% per year from 2010 to 2019. This is above the average annual growth rate of 0.03% and 0.08% for New York and Pennsylvania, respectively. It is below the national growth rate of 0.7%. New Jersey has 30.3% of its population under the age of 25, below the national average of 31.4%. In addition, 16.6% of its population is 65 years or older, which is similar to the national average of 16.4%.

41.2% of New Jersey residents 25 years of age or older have a bachelor’s degree or higher. This is the third highest rate in the nation and above the national average of 33.1%. New Jersey is also a diverse state. At 23.4%, New Jersey has the second highest share of foreign-born residents, behind only California, and above the national average of 13.7%. New Jersey also has the fourth highest percentage of residents that speak a language other than English at home at 32.2%. New Jersey ranks behind only California, Texas, and New Mexico and is above the national percentage of 22%.

New Jersey’s total population grew by 0.9% from 2010 to 2019. However, New Jersey also experienced net domestic out-migration for certain demographic cohorts during this period. Net domestic out-migration was greatest for residents aged 18-24, followed by residents aged 60 and over, according to data from the U.S. Census’s American Community Survey. New Jersey’s overall population still grew despite net domestic out-migration because natural population growth and foreign in-migration offset the losses from net domestic out-migration during this period.

New Jersey state income tax return data also indicates that the higher-income population grew faster than the overall population from 2009 to 2018 (the most recent year for which data is available). The total number of resident returns grew 8.3% during this time. Growth in the higher-income population was greatest with returns reporting income between \$500,000 and \$1.0 million growing by 91.6% and returns with income greater than \$1.0 million growing by 84.9%.

For more information, see the 2019 CAFR-Statistical Section, which has been separately filed with the MSRB, and is incorporated by specific reference herein and is deemed a part of this Appendix I.

New Jersey Current Economic Outlook

The economic outlook was positive for the nation and the State at the start of 2020. Both the national and State economies ended 2019 with solid job growth and strong consumer spending, which allowed real gross domestic product (the “GDP”) to continue to grow at a moderate pace. The forecast for 2020 was positive as well. The December 2019 economic projections of the Federal Open Market Committee (the “FOMC”) indicated that participants expected real GDP to grow 2.0% in 2020, while the federal funds rate would remain steady before rising by between one-quarter and one-half percentage points in 2021.

The optimistic outlook was disrupted by the emergence of the COVID-19 Pandemic at the start of the year which rapidly spread across the globe and led to governments scrambling to respond. The resulting disruption to travel and movement, both within countries and between countries, has disrupted global supply chains and led to significant economic damage across the world. China alerted the World Health Organization on December 31, 2019 that they had identified multiple cases of a new pneumonia of unknown cause in the city of Wuhan. Several weeks later, China imposed strict lockdown measures on much of the country. In late February 2020, Italy quarantined parts of the province of Lombardy, which was expanded to a nationwide lockdown on March 9, 2020.

The FOMC reduced the federal funds rate by one-half percentage points in an unplanned announcement on March 3, 2020. Less than two weeks later, in a second unplanned announcement on March 15, 2020, the FOMC lowered the federal funds rate to near zero and announced plans to purchase at least \$700 billion in U.S. Treasury securities and agency mortgage-backed securities in an effort to provide liquidity to the financial system and support to the economy as a whole in response to the significant economic challenges created by the COVID-19 Pandemic.

By the end of March 2020, eight in ten U.S. counties were under some type of lockdown according to an analysis by Moody’s Analytics. Millions of Americans suddenly lost their jobs and the depth of the economic contraction was so severe that the Business Cycle Dating Committee of the National Bureau of Economic Research (“NBER”) announced on June 8, 2020, that the U.S. economy had entered a recession in March 2020, a decision that normally would not be made without several months of economic contraction first.

The Governor issued Executive Order No. 104 effective March 16, 2020, which limited gatherings to 50 or fewer people, closed public and private schools, and ordered the cessation of in-person instruction at colleges and universities. In addition, casinos, gyms, and other entertainment centers were ordered closed, while restaurants and bars were limited to delivery or take-out services only and non-essential retail stores were put under an 8:00 p.m. curfew. This turned into a state-wide “stay-at-home” order in less than a week’s time when Executive Order No. 107 was issued March 21, 2020.

The State economy had been performing well prior to the COVID-19 Pandemic. The labor market added 52,400 jobs in 2019, the second highest annual gain during the most recent recovery period, which began in 2011, and a significant improvement over 2018’s increase of 31,900 jobs. The State unemployment rate fell to a record low of 3.3 percent in May 2019 and although the rate began to trend upward in the second half of the year, it remained below 4.0 percent for the duration of 2019, signaling a healthy labor market.

The strong performance of the labor market led to steady growth in the overall economy with State real GDP rising 1.4% in 2019, which was above the most recent recovery average of 0.8%. New Jersey nominal personal income grew 3.8% in 2019, just slightly above the average since 2011 of 3.7%.

The onset of the COVID-19 Pandemic changed the economic picture. The State labor market shed 831,300 jobs in the span of two months, losing 19.6% of February 2020 pre-COVID-19 employment. The leisure and hospitality services sector was hardest hit, losing 258,900 jobs in March and April, or nearly two-thirds of the workforce because of restrictions placed on hotels, restaurants, and bars. The other services sector declined by 58,200 jobs, or one-third, while the trade, transportation, and utilities sector lost 157,200 jobs, or nearly one-fifth of payrolls, due to the closure of non-essential retail stores. Even the education and health services sector was affected, losing 130,600 jobs, or nearly one-fifth of employment, due to the closure of schools and the postponement of elective medical procedures and preventive care.

The official State unemployment rate reached 16.8 percent in June 2020, exceeding the Great Recession peak of 9.8 percent, while nearly 1.3 million New Jersey residents had applied for unemployment insurance by the end of June. State real GDP declined at a 35.6 percent annual rate in the second quarter of 2020 as a result of the COVID-19 Pandemic. The significant job losses caused wage and salary income to fall at a 28.7 percent annual rate during the same time. However, overall nominal personal income, which includes wage and salary income, grew by an unprecedented 63.0 percent in the second quarter of 2020 because of the significant amount of federal stimulus that New Jersey businesses and residents received, which totaled approximately \$36.0 billion through the end of July 2020.

The COVID-19 Pandemic had a similar effect on the national economy. The U.S. labor market lost 22.160 million jobs in March and April, a decline of 14.5 percent from pre-COVID-19 Pandemic employment levels. The official unemployment rate peaked at 14.7 percent in April 2020. U.S. real GDP declined at a 31.4 percent annual rate in the second quarter of 2020 in large part due to the 33.2 percent reduction in personal consumption expenditures. The reduction in consumer spending was led by the services sector, down 41.8 percent, while spending on nondurable goods declined by 15.0 percent.

The State's restrictions on economic activity began to ease in mid-May 2020 when auto dealerships were allowed to re-open for in-person sales and non-essential retail could offer curbside pick-up. The "stay-at-home" order was lifted on June 9, 2020 while outdoor dining and indoor shopping at non-essential retail stores was allowed to resume on June 15, 2020. Casinos, museums, and other indoor recreational facilities re-opened on July 2, 2020, but at reduced capacity.

The State labor market began to recover with the gradual re-opening of the economy. The State added 88,900 jobs in May, which accelerated to an average of 127,300 jobs per month in June and July. Through September 2020, the State has regained a total of 467,600 jobs, or 56.2% of the total jobs lost in March and April. The improvement in the State economy is reflected in the unemployment rate, which fell to 6.7 percent in September, less than half of June's peak rate.

The threat of the SARS-CoV-2 virus remains and will continue to be present until an effective vaccine is developed and widely distributed to the global population or until advances in therapeutics allow patients infected with COVID-19 to be treated without overwhelming the healthcare system. As a result, there is still a need for some level of business restrictions and social distancing requirements in the State to remain in place. The State allowed indoor dining to resume on September 4, 2020, but at 25 percent capacity. Similar capacity restrictions remain in place on gyms, movie theaters, and other indoor entertainment venues in the State.

There is a tradeoff to the necessary public safety measures and that is the continued business restrictions have affected the pace and scope of the economic recovery, both for the State and the nation as a whole. Growth in State payroll employment slowed to an average of 62,100 jobs recovered per month in August and September, roughly half of June and July's pace. The State unemployment rate may have declined by a remarkable 4.4 percentage points in September to 6.7 percent, but the reduction in the number of unemployed residents resulted from workers leaving the labor force, rather than an increase in hiring. None of the broader sectors of the labor market that were affected by the COVID-19 Pandemic have fully recovered their job losses. This is true for both the nation as a whole, as well as the State.

The outlook for both the State and national economies continues to be determined by the COVID-19 Pandemic. Economic activity remains below pre-COVID-19 Pandemic levels despite a sharp rebound in activity over the summer for both New Jersey and the nation. Respondents to the Blue Chip Economic Indicators survey do not expect U.S. real GDP to return to its pre-COVID-19 Pandemic peak until late 2021. Reinforcing this outlook is a

recent speech on October 6, 2020 by Federal Reserve Chair Jerome H. Powell where he stated that “the expansion is still far from complete.” Chair Powell also argued that without policy action at the federal level, the risk of avoidable hardship to businesses and households would rise.

Risk of Climate Events

The State of New Jersey’s location on the eastern seaboard of the United States exposes it to a variety of climate risks, such as severe storms and hurricanes, which can damage the State’s infrastructure. In addition, much of the State’s coastal areas may be vulnerable to sea level rise and other impacts of climate change. These climate events may damage significant portions of the State’s infrastructure and may require the State to construct additional infrastructure. In addition, these climate events may negatively impact the economy of the State. However, the State cannot predict the impact that these climate events may have on its financial condition.

Risk of Delay in Gateway Program

The Gateway Program is a comprehensive passenger rail project designed to improve current passenger rail services, add resiliency and create new capacity along a critical 10-mile section of the Northeast Corridor between Newark, New Jersey and Pennsylvania Station in New York City (“PSNY”). The Gateway Program includes the Portal North Bridge Project and the Hudson Tunnel Project as part of Phase 1, which is intended to preserve the functionality of the Northeast Corridor (the “NEC”).

The existing Portal Bridge is a two-track, century-old railroad swing-type bridge that spans the Hackensack River in New Jersey. It is critical infrastructure for Amtrak and NJ Transit, enabling movement along the NEC between destinations east and west of the Hudson River. The existing Portal Bridge, due to its age, design, and current condition, represents a single point of failure on the NEC. The Portal North Bridge Project will replace the existing bridge with a new two-track fixed structure that will eliminate the need for a moveable span that interrupts rail operations and results in delays due to mechanical failures. This new bridge will greatly improve service reliability on the NEC, which is critical to commuter rail transit between New Jersey and New York City. In February 2020, NJ Transit received a rating of “Medium-High” on the Portal North Bridge project’s financial plan. The Federal Transit Administration (“FTA”) has committed to accelerating federal funding in the amount of \$766.5 million for the project. In June 2020, the FTA authorized NJ Transit to enter into the “engineering phase” of its Core Investment Grant funding program. NJ Transit is working toward entering into a full funding grant agreement and is developing design plans and specifications to support a public advertisement of construction.

The Hudson Tunnel Project includes two components: the construction of a new two-track Hudson River rail tunnel from New Jersey to New York City that will directly serve PSNY; and the rehabilitation of the existing century-old North River Tunnel, which has deteriorated due to age, intensive use, and damage sustained from saltwater exposure during Superstorm Sandy. A closure of just one of the tunnel’s two tubes, prior to the construction of the Hudson Tunnel Project, could reduce NJ Transit commuter rail train capacity by as much as 75%, which could severely impact the State’s economy by making it more difficult for State residents to commute to and from PSNY. A potential disruption in NJ Transit commuter rail capacity to PSNY may make the State a less attractive place to live, which potentially could reduce the State’s population, local property values and State tax revenues. However, the State cannot predict the impact of a potential disruption in NJ Transit commuter rail capacity to New York City may have on its financial condition.

Revenues

The COVID-19 Pandemic has Significantly Reduced the Revenue Outlook

The Fiscal Year 2021 Appropriations Act, viewed from a traditional 12-month fiscal period, is supported by estimated revenues of \$41.0 billion, an increase of \$2.9 billion above estimated Fiscal Year 2020 levels as of June 30, 2020. Revenue growth between Fiscal Year 2020 and Fiscal Year 2021 is projected at 7.8% overall. However, baseline revenues are forecast to decline by about \$1.6 billion, or 4.1%, offset by the proposed emergency general obligation bond borrowing of \$4.5 billion.

The fallout from the COVID-19 Pandemic changed the course of State revenue collections late in Fiscal Year 2020. Through the end of March, State revenues were up \$1.3 billion, or 6.2% above the same nine month period in the prior fiscal year. Due to the COVID-19 Pandemic-induced public health restrictions on social and economic activity, total revenues dropped by nearly \$1.6 billion during the remaining months. Revenues fell from \$38.3 billion in Fiscal Year 2019 to \$38.0 billion in Fiscal Year 2020, a year-over-year decline of \$289.6 million, or 0.8%.

Fiscal Year 2021 is expected to see continued baseline revenue declines due to the lingering economic effects of the COVID-19 Pandemic. The Gross Income Tax (“GIT”), the State’s largest tax revenue source, is estimated to decline by 7.3%, from \$16.2 billion in Fiscal Year 2020 to \$15.0 billion in Fiscal Year 2021. The GIT forecast includes the extension of the 10.75% marginal tax rate on taxable income greater than \$5.0 million to also include taxable income greater than \$1.0 million. Commonly called the “millionaires’ tax,” this tax policy change adds an estimated \$390.0 million to the GIT forecast in Fiscal Year 2021. The Earned Income Tax Credit (“EITC”) rises to 40% of the federal credit amount, the third and final step of a three-year increase, reducing income tax revenues by approximately \$16.0 million.

Sales and Use Tax revenues are estimated to grow by 1.0%, from \$9.8 billion in Fiscal Year 2020 to \$9.9 billion in Fiscal Year 2021. Collections fell by 1.7% overall in Fiscal Year 2020, and further declines in the fall and winter months of Fiscal Year 2021 are expected due to the COVID-19 Pandemic, followed by strong growth in the spring and summer months, off the prior year’s COVID-19 Pandemic-weakened base. Regular retail sales plunged during the COVID-19 Pandemic’s peak in the spring of 2020. However, the taxation of certain online retailers – particularly from electronic marketplaces – that resulted from the United States Supreme Court’s decision in *South Dakota v. Wayfair, Inc.*, was a source of strength, and is expected to yield approximately \$485.3 million in Fiscal Year 2021.

The Corporation Business Tax (“CBT”) declined by 4.1% to \$3.86 billion in Fiscal Year 2020, as compared to its historic peak in Fiscal Year 2019. The CBT is estimated to further decline by 16.0% to \$3.25 billion in Fiscal Year 2021. The forecast includes the extension of the temporary CBT surtax rate of 2.5%, which is estimated to yield \$210.0 million in Fiscal Year 2021. The CBT is impacted by various tax credits, and the sale and transfer of those credits also impacts the CBT on Banks and Financial Institutions and the Insurance Premiums Tax. These tax credits are managed by the New Jersey Economic Development Authority (“NJEDA”). For more information, see “FINANCIAL RESULTS AND ESTIMATES – Use of Nonrecurring Revenues and Appropriation Reductions – *New Jersey Economic Development Authority Tax Credit Programs.*”

The following table sets forth actual and estimated revenues for fiscal years ended June 30, 2017 through 2021 for the General Fund, the Property Tax Relief Fund, the Gubernatorial Elections Fund, the Casino Control Fund and the Casino Revenue Fund. The amounts for Fiscal Years 2017 through 2019 are actual and final. The Fiscal Year 2020 estimates are subject to adjustment pending completion of the annual audit. The Fiscal Year 2021 estimates are as contained in *L. 2020, c. 43* and the Fiscal Year 2021 Appropriations Act. See “FINANCIAL RESULTS AND ESTIMATES – New Jersey’s Current Economic Outlook” above and “APPENDIX I-A – SUMMARY OF CERTAIN STATE TAXES” below.

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REVENUES
(In Millions)

	2021	2020	2019	2018	2017
	Estimated	Estimated	Actual	Actual	Actual
General Fund:					
Sales and Use Tax	\$ 9,869.1	\$ 9,772.1	\$ 9,938.6	\$ 9,619.2	\$ 9,448.4
Sales and Use Tax (ETR moved on budget) ⁽¹⁾	788.5	788.5	788.5	788.5	—
Less: Property Tax Dedication	(781.1)	(773.8)	(816.5)	(750.0)	(722.6)
Net Sales and Use Tax	9,876.5	9,786.8	9,910.6	9,657.7	8,725.8
Corporation Business Tax	3,246.6	3,864.9	4,028.7	2,315.5	2,141.5
Lottery Fund ⁽²⁾	—	—	—	—	995.6
Proceeds from NJ COVID-19 State Emergency Fund	4,500.0	—	—	—	—
Transfer Inheritance Tax ⁽³⁾	358.7	355.8	417.4	373.9	354.6
Insurance Premium Tax	555.0	634.2	522.2	591.2	574.8
Fringe Benefit Recoveries	848.7	707.1	736.9	731.1	764.1
Motor Fuels Tax	440.2	435.5	500.2	512.5	532.9
Motor Vehicle Fees	515.6	404.7	436.9	497.7	521.7
Medicaid Uncompensated Care	460.6	500.9	373.9	318.9	354.5
Realty Transfer Tax	361.4	364.7	374.2	376.3	345.5
Petroleum Products Gross Receipts	1,635.1	1,345.3	1,466.0	1,374.1	862.4
Petroleum Products Gross Receipts-Capital Reserves	(791.7)	(580.5)	(872.6)	(823.9)	(330.8)
Corporation Business Tax-Banks and Financials	160.0	300.6	292.4	152.3	200.3
Cigarette Tax	50.0	74.9	98.9	142.9	171.0
Alcoholic Beverage Excise Tax	120.2	122.0	112.2	109.5	104.8
Other	2,499.6	2,407.5	2,854.4	3,383.4	2,836.0
Total General Fund ⁽⁴⁾	24,836.5	20,724.4	21,252.3	19,713.1	19,154.7
Property Tax Relief Fund:					
Gross Income Tax	15,015.6	16,193.7	15,903.3	15,037.9	13,958.1
Plus: Property Tax Dedication	801.6	794.3	844.5	768.9	742.8
Gross Property Tax Relief Fund	15,817.2	16,988.0	16,747.8	15,806.8	14,700.9
Gubernatorial Elections Fund-Taxpayer Designations	0.7	0.7	0.8	0.4	0.2
Casino Control Fund-License Fees, Interest	60.9	52.2	49.1	47.8	45.2
Casino Revenue Fund-8% Gross Revenue Tax, Other Taxes and Fees, Interest	259.6	261.3	266.2	217.7	218.6
Total	\$40,974.9	\$38,026.6	\$38,316.2	\$35,785.8	\$34,119.6

(1) Energy Tax Receipts revenue of \$788.5 million was reclassified on budget beginning in Fiscal Year 2018.

(2) For more information about the budgetary impact of the Lottery Enterprise contribution, see “FINANCIAL RESULTS AND ESTIMATES – Changes in Fund Balances –Lottery Enterprise Contribution Act – Budgetary Impact” above.

(3) Transfer Inheritance Tax consisted of estate and transfer inheritance taxes for Fiscal Years 2017 through 2019. The Estate Tax rate was reduced to zero on January 1, 2018. For comparative purposes, \$394.1 million, \$232.0 million, and \$73.7 million of Estate Taxes were reclassified from the “Transfer Inheritance Tax” line to the “Other” line.

(4) Excludes Non-Budgeted Revenues which include primarily Federal Funds. Non-Budgeted Revenues are offset by matching appropriations; therefore, these Non-Budgeted Revenues do not affect the General Fund’s undesignated fund balance.

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Revenues — Dollar Growth

The following table sets forth actual and estimated incremental dollar growth in revenues for fiscal years ended June 30, 2017 through 2021 for the General Fund, the Property Tax Relief Fund, the Gubernatorial Elections Fund, the Casino Control Fund and the Casino Revenue Fund. The incremental dollar growth in revenues for Fiscal Years 2017 through 2019 are actual and final. The Fiscal Year 2020 estimates are subject to adjustment pending completion of the annual audit. The Fiscal Year 2021 estimates are as contained in L. 2020, c. 43 and the Fiscal Year 2021 Appropriations Act.

REVENUES — DOLLAR GROWTH (In Millions)

	2021 Estimated	2020 Estimated	2019 Actual	2018 Actual	2017 Actual
General Fund:					
Sales and Use Tax	\$ 97.0	\$(166.5)	\$ 319.4	\$ 170.8	\$ 245.1
Sales and Use Tax (ETR moved on budget) ⁽¹⁾	—	—	—	788.5	—
Less: Property Tax Dedication	(7.3)	42.7	(66.5)	(27.4)	(31.9)
Net Sales and Use Tax	89.7	(123.8)	252.9	931.9	213.2
Corporation Business Taxes	(618.3)	(163.8)	1,713.2	174.0	(153.9)
Lottery Fund ⁽²⁾	—	—	—	(995.6)	8.6
Proceeds from NJ COVID-19 State Emergency Fund	4,500.0	—	—	—	—
Transfer Inheritance Tax ⁽³⁾	2.9	(61.6)	43.5	19.3	18.7
Insurance Premium Tax	(79.2)	112.0	(69.0)	16.4	(22.8)
Fringe Benefit Recoveries	141.6	(29.8)	5.8	(33.0)	96.4
Motor Fuels Tax	4.7	(64.7)	(12.3)	(20.4)	(21.6)
Motor Vehicle Fees	110.9	(32.2)	(60.8)	(24.0)	48.1
Medicaid Uncompensated Care	(40.3)	127.0	55.0	(35.6)	(141.2)
Realty Transfer Tax	(3.3)	(9.5)	(2.1)	30.8	31.9
Petroleum Products Gross Receipts	289.8	(120.7)	91.9	511.7	647.6
Petroleum Products Gross Receipts-Capital Reserves	(211.2)	292.1	(48.7)	(493.1)	(330.8)
Corporation Business Tax-Banks and Financials	(140.6)	8.2	140.1	(48.0)	22.1
Cigarette Tax	(24.9)	(24.0)	(44.0)	(28.1)	3.6
Alcoholic Beverage Excise Tax	(1.8)	9.8	2.7	4.7	(1.0)
Other	92.1	(446.9)	(529.0)	547.4	182.1
Total General Fund ⁽⁴⁾	4,112.1	(527.9)	1,539.2	558.4	601.0
Property Tax Relief Fund:					
Gross Income Tax	(1,178.1)	290.4	865.4	1,079.8	602.1
Plus: Property Tax Dedication	7.3	(50.2)	75.6	26.1	29.7
Gross Property Tax Relief Fund	(1,170.8)	240.2	941.0	1,105.9	631.8
Gubernatorial Elections Fund-Taxpayer Designations	—	(0.1)	0.4	0.2	(0.2)
Casino Control Fund-Licenses, Interest	8.7	3.1	1.3	2.6	5.3
Casino Revenue Fund-8% Gross Revenue Tax, Other Taxes and Fees, Interest	(1.7)	(4.9)	48.5	(0.9)	9.2
Total	<u>\$2,948.3</u>	<u>\$(289.6)</u>	<u>\$2,530.4</u>	<u>\$1,666.2</u>	<u>\$1,247.1</u>

(1) Energy Tax Receipts revenue of \$788.5 million was reclassified on budget beginning in Fiscal Year 2018.

(2) For more information about the budgetary impact of the Lottery Enterprise contribution, see “FINANCIAL RESULTS AND ESTIMATES – Changes in Fund Balances –Lottery Enterprise Contribution Act – Budgetary Impact” above.

(3) Transfer Inheritance Tax consisted of estate and transfer inheritance taxes for Fiscal Years 2017 through 2019. The Estate Tax rate was reduced to zero on January 1, 2018. For comparative purposes, \$394.1 million, \$232.0 million, and \$73.7 million of Estate Taxes were reclassified from the “Transfer Inheritance Tax” line to the “Other” line.

(4) Excludes Non-Budgeted Revenues which include primarily Federal Funds. Non-Budgeted Revenues are offset by matching appropriations; therefore, these Non-Budgeted Revenues do not affect the General Fund’s undesignated fund balance.

Revenues — Percentage Growth

The following table sets forth actual and estimated year over year percentage growth in revenues for the fiscal years ended June 30, 2017 through 2021 for the General Fund, the Property Tax Relief Fund, the Gubernatorial Elections Fund, the Casino Control Fund and the Casino Revenue Fund. Year over year percentage growth in revenues for Fiscal Years 2017 through 2019 are actual and final. The Fiscal Year 2020 estimates are subject to adjustment pending completion of the annual audit. The Fiscal Year 2021 estimates are as contained in *L. 2020, c. 43* and the Fiscal Year 2021 Appropriations Act.

REVENUES — PERCENTAGE GROWTH

	2021 Estimated	2020 Estimated	2019 Actual	2018 Actual	2017 Actual
General Fund:					
Sales and Use Tax	1.0%	(1.7)%	3.3%	1.8%	2.7%
Sales and Use Tax (ETR moved on budget) ⁽¹⁾	—	—	—	—	—
Less: Property Tax Dedication	0.9	(5.2)	8.9	3.8	4.6
Net Sales and Use Tax	0.9	(1.2)	2.6	10.7	2.5
Corporation Business Taxes	(16.0)	(4.1)	74.0	8.1	(6.7)
Lottery Fund ⁽²⁾	—	—	—	(100.0)	0.9
Proceeds from NJ COVID-19 State Emergency Fund	—	—	—	—	—
Transfer Inheritance Tax ⁽³⁾	0.8	(14.8)	11.6	5.4	5.6
Insurance Premium Tax	(12.5)	21.4	(11.7)	2.9	(3.8)
Fringe Benefit Recoveries	20.0	(4.0)	0.8	(4.3)	14.4
Motor Fuels Tax	1.1	(12.9)	(2.4)	(3.8)	(3.9)
Motor Vehicle Fees	27.4	(7.4)	(12.2)	(4.6)	10.2
Medicaid Uncompensated Care	(8.0)	34.0	17.2	(10.0)	(28.5)
Realty Transfer Tax	(0.9)	(2.5)	(0.6)	8.9	10.2
Petroleum Products Gross Receipts	21.5	(8.2)	6.7	59.3	301.5
Petroleum Products Gross Receipts-Capital					
Reserves	36.4	(33.5)	5.9	149.1	—
Corporation Business Tax-Banks and Financials	(46.8)	2.8	92.0	(24.0)	12.4
Cigarette Tax	(33.2)	(24.3)	(30.8)	(16.4)	2.2
Alcoholic Beverage Excise Tax	(1.5)	8.7	2.5	4.5	(0.9)
Other	3.8	(15.7)	(15.6)	19.3	6.9
Total General Fund ⁽⁴⁾	19.8	(2.5)	7.8	2.9	3.2
Property Tax Relief Fund:					
Gross Income Tax	(7.3)	1.8	5.8	7.7	4.5
Plus: Property Tax Dedication	0.9	(5.9)	9.8	3.5	4.2
Gross Property Tax Relief Fund	(6.9)%	1.4%	6.0%	7.5%	4.5%
Gubernatorial Elections Fund-Taxpayer					
Designations	—	(12.5)	100.0	100.0	(50.0)
Casino Control Fund-Licenses, Interest	16.7	6.3	2.7	5.8	13.3
Casino Revenue Fund-8% Gross Revenue Tax,					
Other Taxes and Fees, Interest	(0.7)	(1.8)	22.3	(0.4)	4.4
Total	7.8%	(0.8)%	7.1%	4.9%	3.8%

⁽¹⁾ Energy Tax Receipts revenue of \$788.5 million was reclassified on budget beginning in Fiscal Year 2018.

⁽²⁾ For more information about the budgetary impact of the Lottery Enterprise contribution, see “FINANCIAL RESULTS AND ESTIMATES – Changes in Fund Balances –Lottery Enterprise Contribution Act – Budgetary Impact” above.

⁽³⁾ Transfer Inheritance Tax consisted of estate and transfer inheritance taxes for Fiscal Years 2017 through 2019. The Estate Tax rate was reduced to zero on January 1, 2018. For comparative purposes, \$394.1 million, \$232.0 million, and \$73.7 million of Estate Taxes were reclassified from the “Transfer Inheritance Tax” line to the “Other” line.

⁽⁴⁾ Excludes Non-Budgeted Revenues which include primarily Federal Funds. Non-Budgeted Revenues are offset by matching appropriations; therefore, these Non-Budgeted Revenues do not affect the General Fund’s undesignated fund balance.

Revenues — Percent of Total

The following table sets forth actual and estimated revenues as a percent of total revenue for fiscal years ended June 30, 2017 through 2021 for the General Fund, the Property Tax Relief Fund, the Gubernatorial Elections Fund, the Casino Control Fund and the Casino Revenue Fund. Revenues as percent of total for Fiscal Years 2017 through 2019 are actual and final. The Fiscal Year 2020 estimates are subject to adjustment pending completion of the annual audit. The Fiscal Year 2021 estimates are as contained in *L. 2020, c. 43* and the Fiscal Year 2021 Appropriations Act.

REVENUES — PERCENT OF TOTAL

	2021 Estimated	2020 Estimated	2019 Actual	2018 Actual	2017 Actual
General Fund:					
Sales and Use Tax	24.1%	25.7%	25.9%	26.9%	27.7%
Sales and Use Tax (ETR moved on budget) ⁽¹⁾	1.9	2.1	2.1	2.2	—
Less: Property Tax Dedication	(1.9)	(2.0)	(2.1)	(2.1)	(2.1)
Net Sales and Use Tax	24.1	25.8	25.9	27.0	25.6
Corporation Business Taxes	7.9	10.2	10.5	6.5	6.3
Lottery Fund ⁽²⁾	—	—	—	—	2.9
Proceeds from NJ COVID-19 State Emergency Fund	11.0	—	—	—	—
Transfer Inheritance Tax ⁽³⁾	0.9	0.9	1.1	1.0	1.0
Insurance Premium Tax	1.4	1.7	1.4	1.7	1.7
Fringe Benefit Recoveries	2.1	1.9	1.9	2.0	2.2
Motor Fuels Tax	1.1	1.1	1.3	1.4	1.6
Motor Vehicle Fees	1.3	1.1	1.1	1.4	1.5
Medicaid Uncompensated Care	1.1	1.3	1.0	0.9	1.0
Realty Transfer Tax	0.9	1.0	1.0	1.1	1.0
Petroleum Products Gross Receipts	4.0	3.5	3.8	3.8	2.5
Petroleum Products Gross Receipts-Capital Reserves	(1.9)	(1.5)	(2.3)	(2.3)	(0.9)
Corporation Banks and Financials	0.4	0.8	0.8	0.4	0.6
Cigarette Tax	0.1	0.2	0.3	0.4	0.5
Alcoholic Beverage Excise Tax	0.3	0.3	0.3	0.3	0.3
Other	6.1	6.3	7.4	9.5	8.4
Total General Fund ⁽⁴⁾	60.8	54.6	55.5	55.1	56.2
Property Tax Relief Fund:					
Gross Income Tax	36.6	42.6	41.5	42.0	40.9
Plus: Property Tax Dedication	1.9	2.1	2.2	2.2	2.2
Gross Property Tax Relief Fund	38.5%	44.7%	43.7%	44.2%	43.1%
Gubernatorial Elections Fund-Taxpayer Designations	—	—	—	—	—
Casino Control Fund-Licenses, Interest	0.1	0.1	0.1	0.1	0.1
Casino Revenue Fund-8% Gross Revenue Tax, Other Taxes and Fees, Interest	0.6	0.6	0.7	0.6	0.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Energy Tax Receipts revenue of \$788.5 million was reclassified on budget beginning in Fiscal Year 2018.

(2) For more information about the budgetary impact of the Lottery Enterprise contribution, see “FINANCIAL RESULTS AND ESTIMATES – Changes in Fund Balances – Lottery Enterprise Contribution Act – Budgetary Impact” above.

(3) Transfer Inheritance Tax consisted of estate and transfer inheritance taxes for Fiscal Years 2017 through 2019. The Estate Tax rate was reduced to zero on January 1, 2018. For comparative purposes, \$394.1 million, \$232.0 million, and \$73.7 million of Estate Taxes were reclassified from the “Transfer Inheritance Tax” line to the “Other” line.

(4) Excludes Non-Budgeted Revenues which include primarily Federal Funds. Non-Budgeted Revenues are offset by matching appropriations; therefore, these Non-Budgeted Revenues do not affect the General Fund’s undesignated fund balance.

Use of Nonrecurring Revenues and Appropriation Reductions

The State's budget is largely comprised of recurring revenue sources and expenditure obligations, and they may increase or decrease based on economic trends. However, each fiscal year, the Appropriations Act typically includes items of revenue and appropriation reductions that the State does not expect to recur. The State estimates that such measures reflected in Fiscal Year 2021 represent 14.1% of total State appropriations, compared to 2.6% as of the Fiscal Year 2020 Appropriations Act, 3.1% in Fiscal Year 2019, 4.0% in Fiscal Year 2018 and 1.6% in Fiscal Year 2017. The increase in nonrecurring revenues is largely attributable to the \$4.5 billion of emergency general obligation bond borrowing. Other significant examples of these measures in Fiscal Year 2021 include savings from an enhanced federal medical assistance percentage, establishing a risk corridor with Medicaid Managed Care Organizations (MCOs), resulting in reduced payments to the MCOs, and charging eligible direct care worker and public safety costs to the CRF, which was provided to the State as part of the CARES Act.

Potential Impacts on Fiscal Year 2021 Revenues

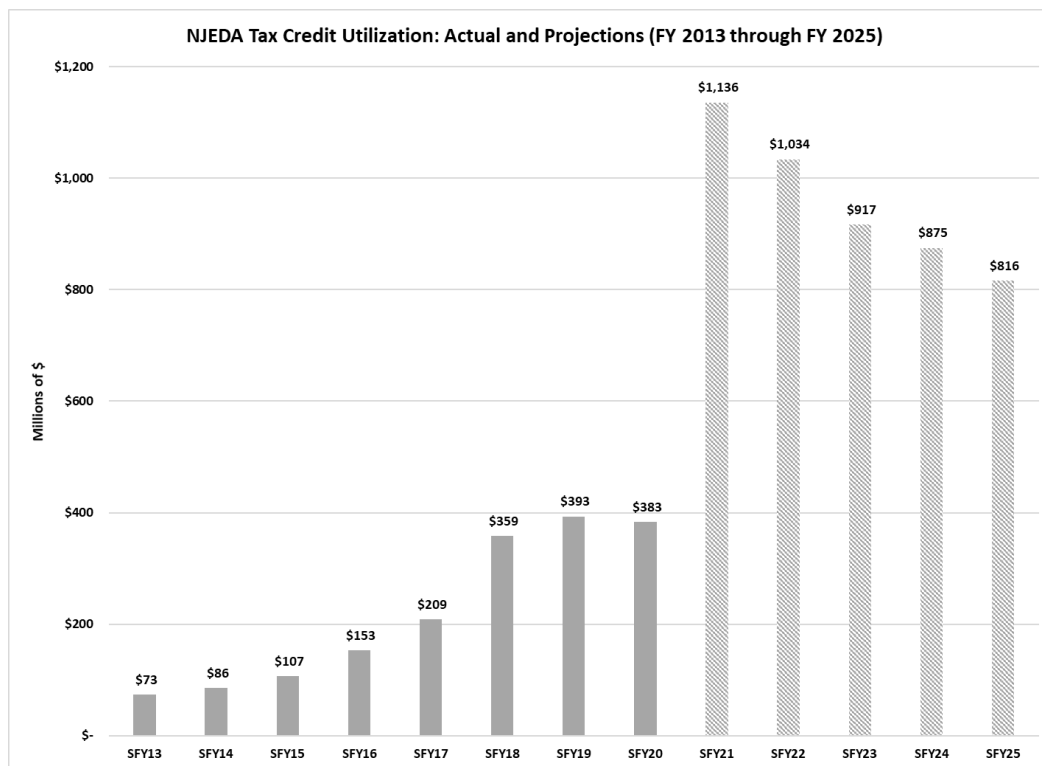
There are various factors that could result in revenues being significantly higher or lower than as set forth in the Fiscal Year 2021 Appropriations Act.

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New Jersey Economic Development Authority Tax Credit Programs

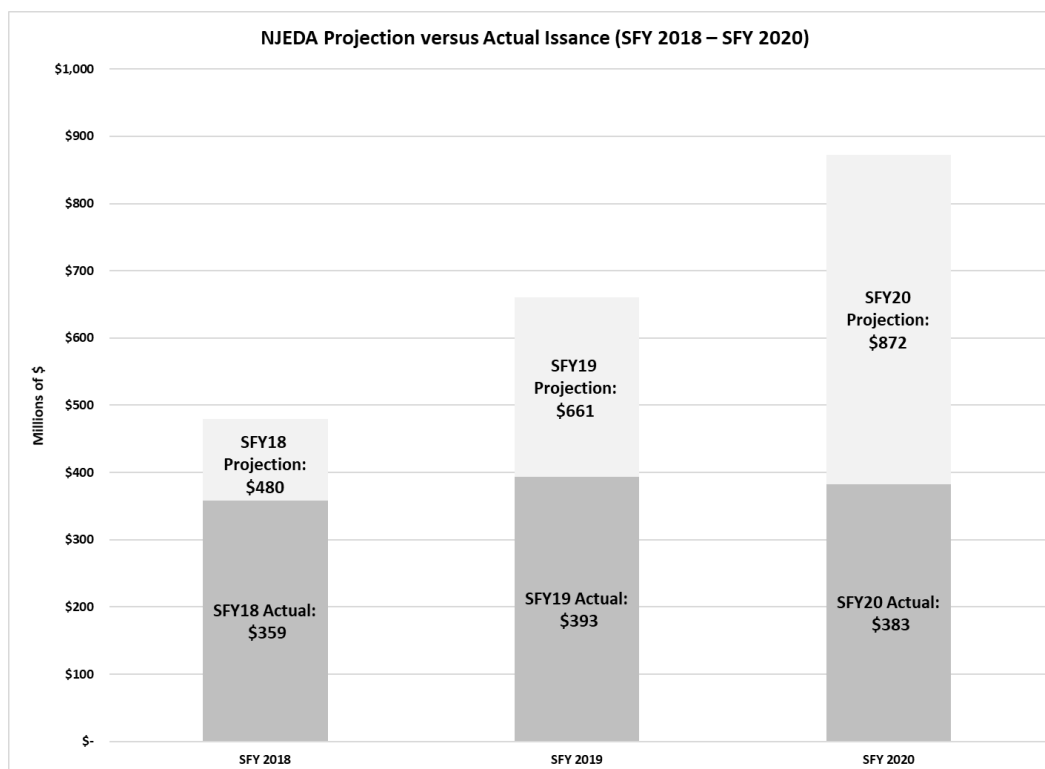
The NJEDA administers a number of statutorily-authorized business tax credit programs, the potential obligations for which have grown substantially over time. The business tax credits are issued for specific tax years. However, the recipient of the tax credits may then carry forward the value of the tax credits for up to twenty (20) successive tax periods, depending upon the statutory provisions governing each individual tax credit program. In addition, the recipient may transfer the tax credit for use by a transferee in the tax period for which it was issued (except for the NJEDA's Angel Investor Tax Credit). The original recipient has up to three (3) years after the date of the original issuance to transfer the tax credits to a potential transferee.

The chart below is based on data provided by the NJEDA as of June 30, 2020 and displays the total amount of business tax credits that have been issued from Fiscal Years 2013 through 2020 as well as projected utilization for Fiscal Years 2021 through 2025. According to the NJEDA, projected utilization is expected to decline over the next five years.



The NJEDA's projections for future fiscal years are based on the amount of tax credits that have been awarded for those years. However, awarding business tax credits for use does not mean that those business tax credits will be automatically issued to companies in the appropriate years. Businesses may withdraw their application, a project may be canceled, or the approved amount may be reduced based on performance. Therefore, the above table represents the maximum amount of tax credits that could potentially be issued. Actual utilization of tax credits has historically been less than the amounts initially approved by the NJEDA.

The chart below compares the historical projections for Fiscal Years 2018 through 2020 with actual utilization of tax credits. Although credit utilization was projected to rise during this time, actual utilization remained below \$400 million in each of the past three years. Only three-quarters of authorized tax credits were utilized in Fiscal Year 2018. This share has fallen to just over two-fifths in Fiscal Year 2020.



As a result of a performance audit of the various NJEDA tax credit programs conducted by the State Comptroller pursuant to Executive Order No. 3, which was released in early January 2019, the Governor announced the creation of a special task force to further investigate deficiencies in the operation of the NJEDA tax credit programs and to make recommendations to strengthen accountability, efficiency and integrity in the State’s existing and future tax credit programs.

The most significant NJEDA administered tax credit programs, the Grow New Jersey Assistance Program (“GrowNJ”) and the Economic Redevelopment and Growth (“ERG”) Grant program expired on July 1, 2019. As of the date hereof, no new legislation has been enacted to replace the expired programs.

Statutory “Poison Pills”

Some statutes contain provisions, commonly referred to as “poison pills,” that may automatically bar the State from collecting certain taxes in the event the Legislature acts, or fails to act, in a specified manner. A poison pill may be triggered, for instance, when the Legislature fails to appropriate a designated amount of money to a particular program. No court has opined on the constitutionality of poison pill provisions. To date, poison pill provisions have had no impact on the annual Appropriations Act.

Appropriations

Appropriations — Fiscal Year 2017 through Fiscal Year 2021

The following table sets forth the composition of annual appropriations in Fiscal Years 2017 through 2021, including supplemental appropriations and deappropriations, if any (except as noted for Fiscal Year 2020), from the General Fund, the Property Tax Relief Fund, the Gubernatorial Elections Fund, the Casino Control Fund and the Casino Revenue Fund. Should revenues be less than the amount anticipated in the Appropriations Act, the Governor may, pursuant to statutory authority, prevent expenditure under any appropriation. The amounts for Fiscal Years 2017 through 2019 are actual and final. The Fiscal Year 2020 estimates are subject to adjustment pending completion of the annual audit. The Fiscal Year 2021 estimates are as contained in *L. 2020, c. 43*, including supplemental appropriations thereto, and the Fiscal Year 2021 Appropriations Act.

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

	For the 12-Month Period Ended June 30,				
	2021 Estimated	2020 Estimated	2019 Actual	2018 Actual ⁽²⁾	2017 Actual ⁽²⁾
General Fund					
Legislature	\$ 96.5	\$ 90.3	\$ 89.6	\$ 85.4	\$ 81.2
Chief Executive	7.2	7.2	6.7	6.7	6.7
Department of:					
Agriculture	31.9	80.6	43.3	64.5	20.0
Banking and Insurance	64.0	141.0	64.0	64.0	64.0
Children and Families	1,208.4	1,198.2	1,160.4	1,180.0	1,124.2
Community Affairs	135.6	149.8	122.2	106.9	96.3
Corrections	1,041.3	1,066.0	1,039.7	1,037.6	1,021.4
Education	2,728.8	507.4	232.1	322.1	462.3
Environmental Protection	419.0	511.9	422.8	351.5	357.3
Health	1,056.3	1,022.8	948.3	919.6	1,280.5
Human Services	6,227.0	6,214.6	6,186.2	5,989.4	5,342.5
Labor and Workforce Development	176.3	179.4	167.6	165.9	165.2
Law and Public Safety	594.0	625.3	629.0	535.3	536.6
Military and Veterans' Affairs	94.7	100.2	95.9	96.7	97.2
State	1,451.7	1,432.2	1,370.0	1,324.4	1,282.9
Transportation	1,725.1	1,795.3	1,583.7	1,375.6	1,528.7
Treasury	1,337.8	1,113.1	1,322.6	1,066.6	1,028.5
Miscellaneous Commissions	0.8	0.8	0.8	0.8	0.8
Interdepartmental Accounts - Employee					
Benefits and Miscellaneous	4,913.7	4,543.7	4,615.3	4,408.8	4,362.7
Judicial Branch	810.5	811.1	762.3	757.8	724.4
Total, General Fund	<u>\$24,120.6</u>	<u>\$21,590.9</u>	<u>\$20,862.5</u>	<u>\$19,859.6</u>	<u>\$19,583.4</u>
Property Tax Relief Fund					
Department of:					
Agriculture	13.2	5.6	5.6	5.6	—
Community Affairs	824.8	789.7	757.7	742.4	744.9
Corrections	23.5	23.5	22.5	22.5	22.5
Education	12,756.1	14,452.6	14,072.0	13,028.8	12,944.8
Environmental Protection	6.5	8.0	4.0	4.0	2.7
Health	—	—	—	—	105.2
Human Services	221.2	197.7	197.7	186.1	54.4
Law and Public Safety	3.0	3.0	3.0	2.0	2.1
State	3.7	3.7	3.7	3.7	—
Transportation	223.4	218.5	218.6	217.8	—
Treasury	1,781.8	1,761.6	1,497.7	1,614.6	956.1
Interdepartmental Accounts - Employee					
Benefits and Miscellaneous	45.4	45.4	45.4	45.4	—
Total, Property Tax Relief Fund	<u>15,902.6</u>	<u>17,509.3</u>	<u>16,827.9</u>	<u>15,872.9</u>	<u>\$14,832.7</u>
Gubernatorial Elections Fund					
Department of:					
Law and Public Safety	6.6	—	—	19.7	12.3
Total, Gubernatorial Elections Fund	<u>6.6</u>	<u>—</u>	<u>—</u>	<u>19.7</u>	<u>12.3</u>
Casino Control Fund					
Department of:					
Law and Public Safety	53.3	48.5	43.9	42.5	42.6
Treasury	7.6	7.3	7.3	7.5	7.7
Total, Casino Control Fund	<u>60.9</u>	<u>55.8</u>	<u>51.2</u>	<u>50.0</u>	<u>50.3</u>

(table continues on next page)

For the 12-Month Period Ended June 30,					
	2021 Estimated	2020 Estimated	2019 Actual	2018 Actual ⁽²⁾	2017 Actual ⁽²⁾
Casino Revenue Fund					
Department of:					
Health	0.5	0.5	0.5	0.5	0.5
Human Services	273.2	258.7	269.6	216.4	204.9
Labor and Workforce Development	2.2	2.2	2.2	2.2	2.2
Law and Public Safety	0.1	0.1	0.1	0.1	0.1
Transportation	—	—	—	—	17.5
Total, Casino Revenue Fund	276.0	261.5	272.4	219.2	225.2
Total Appropriations	\$40,366.7	\$39,417.5	\$38,014.0	\$36,021.4	\$34,703.9

- (1) These amounts do not reflect amounts included under the caption “Other Adjustments” in the table entitled “SUMMARY OF REVENUES, APPROPRIATIONS AND UNDESIGNATED FUND BALANCES — BUDGETED STATE FUNDS” above. For Fiscal Year 2020, over \$1 billion of deappropriated balances were included as “Other Adjustments” and are not reflected in the “2020 Estimated” column.
- (2) The table above reflects the transfer of the Division of Mental Health and Addiction Services, the Office of Program Integrity and Accountability, Trenton, Ancora and Greystone Park Psychiatric Hospitals, Ann Klein Forensic Center and the Special Treatment Unit from the Department of Human Services to the Department of Health in Fiscal Year 2017 pursuant to Reorganization Plan 001-2017. In Fiscal Year 2018, the Division of Mental Health and Addiction Services and the Office of Program Integrity and Accountability were transferred back to the Department of Human Services in accordance with Reorganization Plan 001-2018.

The following table sets forth, by major category, the original and enacted supplemental appropriations for Fiscal Years 2017 through 2019, the adjusted appropriations for Fiscal Year 2020, which is subject to further adjustment pending completion of the annual audit. The Fiscal Year 2021 estimates are as contained in *L. 2020, c. 43*, including supplemental appropriations thereto, and the Fiscal Year 2021 Appropriations Act.

SUMMARY OF APPROPRIATIONS BY MAJOR CATEGORY
(In Millions)

	Fiscal Year 2021 Estimated	Fiscal Year 2020 Estimated	Fiscal Year 2019 Actual	Fiscal Year 2018 Actual	Fiscal Year 2017 Actual
State Aid	\$18,042.1	\$17,444.2	\$16,715.7	\$16,618.3	\$14,986.7
Grants-in-Aid	11,602.0	11,484.5	11,214.4	10,004.2	10,383.9
Direct State Services	8,315.6	8,240.8	8,031.6	7,640.4	7,410.2
Capital Construction	1,765.8	1,889.3	1,727.8	1,432.1	1,582.2
Debt Service on General Obligation Bonds	641.2	358.7	324.5	326.4	340.8
Total	\$40,366.7	\$39,417.5	\$38,014.0	\$36,021.4	\$34,703.9

Total Fiscal Year 2021 appropriations increased by \$949.2 million as compared to total Fiscal Year 2020 appropriations. Fiscal Year 2021 appropriations for State Aid increased by \$597.9 million mainly as a result of increased funding for PreK-12 school aid and increased contributions to the Teachers’ Pension and Annuity Fund. Also, there is a \$282.5 million increase in Debt Service in Fiscal Year 2021 which is related to the emergency general obligation bonds expected to be issued during Fiscal Year 2021.

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The following tables set forth appropriations by department and by major category for Fiscal Year 2021 and adjusted appropriations by department and major category for Fiscal Year 2020.

**APPROPRIATIONS FOR BUDGETED STATE FUNDS
FOR FISCAL YEAR 2021
(\$ Millions)**

<u>Government Branch</u>	<u>Direct State Services</u>	<u>Grants-in-Aid</u>	<u>State Aid</u>	<u>Capital Construction</u>	<u>Debt Service</u>	<u>Total</u>
Chief Executive.....	\$ 7.2	\$ —	\$ —	\$ —	\$ —	\$ 7.2
Agriculture	6.7	25.2	13.2	—	—	45.1
Banking and Insurance	64.0	—	—	—	—	64.0
Children and Families	315.9	892.5	—	—	—	1,208.4
Community Affairs	47.4	85.8	827.2	—	—	960.4
Corrections	931.3	110.0	23.5	—	—	1,064.8
Education	89.0	5.6	15,390.3	—	—	15,484.9
Environmental Protection.....	245.3	1.2	12.0	132.2	34.8	425.5
Health	403.7	653.1	—	—	—	1,056.8
Human Services	278.6	6,056.6	386.2	—	—	6,721.4
Labor and Workforce Development....	106.0	72.5	—	—	—	178.5
Law and Public Safety	629.6	24.4	3.0	—	—	657.0
Military and Veterans' Affairs	92.1	2.6	—	—	—	94.7
State	44.2	1,371.3	39.9	—	—	1,455.4
Transportation	42.9	386.1	23.4	1,496.1	—	1,948.5
Treasury	485.8	711.6	1,323.4	—	606.4	3,127.2
Miscellaneous Commissions	0.8	—	—	—	—	0.8
Interdepartmental	3,618.1	1,203.5	—	137.5	—	4,959.1
Subtotal	7,408.6	11,602.0	18,042.1	1,765.8	641.2	39,459.7
Legislature	96.5	—	—	—	—	96.5
Judiciary	810.5	—	—	—	—	810.5
Grand Total	\$8,315.6	\$11,602.0	\$18,042.1	\$1,765.8	\$641.2	\$40,366.7

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**ADJUSTED APPROPRIATIONS FOR BUDGETED STATE FUNDS
FOR FISCAL YEAR 2020
(\$ Millions)**

Government Branch	Direct State Services	Grants-in-Aid	State Aid	Capital Construction	Debt Service	Total
Chief Executive.....	\$ 7.2	\$ —	\$ —	\$ —	\$ —	\$ 7.2
Agriculture	7.2	14.9	5.6	58.5	—	86.2
Banking and Insurance	141.0	—	—	—	—	141.0
Children and Families	335.2	863.0	—	—	—	1,198.2
Community Affairs	47.8	99.1	792.1	0.5	—	939.5
Corrections	958.7	107.3	23.5	—	—	1,089.5
Education	94.6	11.4	14,854.0	—	—	14,960.0
Environmental Protection.....	252.8	2.0	13.5	209.0	42.6	519.9
Health	396.4	626.9	—	—	—	1,023.3
Human Services	301.7	5,980.2	389.1	—	—	6,671.0
Labor and Workforce Development ..	108.1	73.5	—	—	—	181.6
Law and Public Safety.....	652.5	19.4	5.0	—	—	676.9
Military and Veterans' Affairs	97.5	2.7	—	—	—	100.2
State.....	50.6	1,365.3	20.0	—	—	1,435.9
Transportation	63.5	457.5	18.5	1,474.3	—	2,013.8
Treasury	499.0	744.0	1,322.9	—	316.1	2,882.0
Miscellaneous Commissions	0.8	—	—	—	—	0.8
Interdepartmental	3,324.8	1,117.3	—	147.0	—	4,589.1
Subtotal	7,339.4	11,484.5	17,444.2	1,889.3	358.7	38,516.1
Legislature	90.3	—	—	—	—	90.3
Judiciary	811.1	—	—	—	—	811.1
Grand Total	\$8,240.8	\$11,484.5	\$17,444.2	\$1,889.3	\$358.7	\$39,417.5

Programs Funded Under Appropriations in Fiscal Year 2021

Of the \$40,366.7 million appropriated for Fiscal Year 2021 from the General Fund, the Property Tax Relief Fund, the Casino Control Fund, the Casino Revenue Fund and the Gubernatorial Elections Fund, \$18,042.1 million (44.7%) is appropriated for State Aid, \$11,602 million (28.74%) is appropriated for Grants-in-Aid, \$8,315.6 million (20.6%) is appropriated for Direct State Services, \$1,765.8 million (4.37%) is appropriated for Capital Construction and \$641.2 million (1.59%) is appropriated for Debt Service on State General Obligation Bonds.

In Fiscal Year 2021, \$3,681 million is appropriated to the Pension Plans from State funds. This appropriation does not include the impact of the Lottery Enterprise contribution. For more information on the fiscal impact of the Lottery Enterprise contribution on the Teachers' Pension and Annuity Fund ("TPAF"), the Public Employees' Retirement System ("PERS") and Police and Firemen's Retirement System ("PFRS"), see "STATE PENSION PLANS - Lottery Enterprise Contribution Act." For more information on anticipated supplemental appropriations to the Pension Plans, see "STATE FUNDING OF PENSION PLANS – GASB Statements No. 67 and 68" below.

State Aid

State Aid is the largest portion of Fiscal Year 2021 appropriations. These consist of payments to, or on behalf of, local government entities including counties, municipalities and school districts, to assist them in carrying out their local responsibilities.

The largest State Aid appropriation, in the amount of \$15,390.3 million, supports local preschool, elementary and secondary education programs. Of this amount, \$9,554.7 million in formula aid for PreK-12 education, including School Choice Aid, will be distributed. Aid is determined using the school funding formula, as modified by *L. 2018, c. 67*, in Fiscal Year 2021. Under the amended formula, districts identified as underfunded based on the difference between uncapped aid and their Fiscal Year 2020 aid are receiving a prorated increase in funding. Also under this amended funding formula, districts identified as overfunded realized a reduction in aid, as set forth in the law's

reduction schedule. Across the impacted districts, aid is reduced by \$153.0 million, and reallocated to the underfunded districts. The PreK-12 funding total of \$874.2 million includes \$10.0 million to provide additional funding to districts to develop or expand preschool programs. The methodologies used to calculate aid are in line with the statutory funding formula, and the appropriated amounts continue the practice of supporting one month of prior year payments, while shifting the last month of current year payments to the following fiscal year. Additionally, the Fiscal Year 2021 appropriation supports \$275.0 million in Extraordinary Special Education Aid for the support of high-cost special education students. The Fiscal Year 2021 Appropriations Act also appropriates \$1,014.8 million for debt service on School Facilities Construction Bonds issued by the NJEDA, and \$110.1 million for School Construction Debt Service Aid to school districts. Also, \$4,195.6 million is appropriated on behalf of school districts as the employers' share of the Social Security and teachers' pensions and benefits programs, including debt service on pension obligation bonds.

Appropriations for the Department of the Treasury total \$1,323.4 million in State Aid for Fiscal Year 2021. Energy Tax Receipts Property Tax Relief Aid is appropriated in the amount of \$788.5 million which was previously funded off-budget. Combined with Consolidated Municipal Property Tax Relief Aid, the two programs provide the majority of State Aid to municipalities. Other principal programs funded by these appropriations are aid to county colleges (\$177.9 million) and the cost of property tax deductions paid to municipalities for seniors, citizens with disabilities, and veterans (\$47.7 million). Also, \$256 million is appropriated on behalf of local governments to fund a portion of the employers' share of certain police and firemen's pensions and benefits programs, including debt service on pension obligation bonds.

Appropriations to the Department of Community Affairs total \$827.2 million in State Aid for Fiscal Year 2021. Consolidated Municipal Property Tax Relief Aid is appropriated in the amount of \$646.7 million. These appropriations also include \$124.6 million for the Transitional Aid to Localities program. Under this program, aid is awarded through a competitive process and requires recipient local units to submit to additional State oversight, with the goal of reducing reliance on this aid in the future.

Appropriations for the Department of Human Services total \$386.2 million in State Aid for Fiscal Year 2021. The principal programs funded by these appropriations are \$273.9 million for various income maintenance programs for the economically disadvantaged, and \$105.2 million that funds the cost of patients in county psychiatric hospitals.

Grants-in-Aid

The second largest portion of the appropriations in Fiscal Year 2021 is for Grants-in-Aid. These represent payments to individuals or public or private agencies for benefits to which a recipient is entitled by law or for the provision of services on behalf of the State. The amount appropriated in Fiscal Year 2021 for Grants-in-Aid is \$11,602 million.

\$6,056.6 million is appropriated for programs administered by the Department of Human Services. Of that amount, \$4,390.1 million is for medical services provided under the NJ FamilyCare program, \$991.4 million is for community programs for individuals with developmental disabilities, \$349.3 million is for community programs for individuals with mental illness, and \$174.3 million is for assistance programs for the economically disadvantaged and homeless.

\$892.5 million is appropriated for programs administered by the Department of Children and Families. Of that amount, \$400.7 million is for child protective and permanency services, \$421.3 million is for children's system of care services, and \$70.5 million is for community programs intended to prevent child abuse and neglect.

\$767.0 million is appropriated for State colleges and universities. Other higher education appropriations are \$685.8 million for various grant programs including \$525.8 million for student financial assistance. In addition, \$1,042 million is appropriated for fringe benefit costs of employees of State higher education institutions and University Hospital.

\$711.6 million is appropriated for the Department of the Treasury. Included in the appropriation is \$219.7 million for the Senior and Disabled Citizens' Property Tax Freeze, which reimburses eligible senior and disabled homeowners earning up to \$91,505, pursuant to statutory eligibility requirements, for increases in property taxes paid

compared to their first year of program eligibility. Also included in this amount is \$275 million for the Homestead Benefit Program which will provide credits directly on local property tax bills for eligible homeowners. The Fiscal Year 2021 appropriation reflects a full benefit amount for Tax Year 2017, restoring the program to provide a full tax year benefit after the half benefit for Tax Year 2017, anticipated to be paid in Fiscal Year 2020, was deferred. There is no appropriation in Fiscal Year 2021 for BEIP grants due to legislation that allowed businesses to convert their incentives into tax credits. This legislation reduced the BEIP liability as businesses partake in the tax credit conversion option. See Note 11 in the 2019 CAFR for a discussion of long-term obligations concerning BEIP grants.

\$653.1 million is appropriated for programs administered by the Department of Health. Of that amount, \$169.8 million is appropriated for various family health services programs, including \$106.2 million for the Early Childhood Intervention Program. In addition, \$242 million is appropriated to fund Graduate Medical Education to support the costs of training residents and interns at New Jersey hospitals, and \$62.6 million is appropriated as a bridge payment to hospitals as the Department transitions from the Hospital Delivery System Reform Incentive Payments program to the Quality Improvement Program.

\$386.1 million is appropriated to New Jersey Transit, a decrease of \$71.3 million over the prior fiscal year.

Direct State Services

The third largest portion of the appropriations in Fiscal Year 2021 is to Direct State Services, which supports the operation of the State government's departments, the Governor's Office, several commissions, the State Legislature and the Judiciary. In Fiscal Year 2021, appropriations for Direct State Services aggregate to \$8,315.6 million. Some of the major appropriations for Direct State Services during Fiscal Year 2021 are described below.

\$3,112 million is appropriated in the Interdepartmental Accounts for fringe benefits for active and retired State employees, including health benefits (\$1,081 million), pensions and non-contributory insurance (\$1,453 million), and employer taxes (\$391.7 million). In addition, \$86.3 million is appropriated in Fiscal Year 2021 for Salary Increases and Other Benefits for eligible Executive and Judicial Branch employees.

\$931.3 million is appropriated for the Department of Corrections (including the State Parole Board) and \$629.6 million is appropriated for the Department of Law and Public Safety (including the Juvenile Justice Commission). Among programs funded by these appropriations are the administration of the State's correctional facilities and parole activities, and the investigative and enforcement activities of the State Police.

\$403.7 million is appropriated for programs administered by the Department of Health. Of that amount, \$339 million is appropriated for the operation of four psychiatric institutions.

\$278.6 million is appropriated for programs administered by the Department of Human Services. Of that amount, \$98 million is appropriated for programs for individuals with developmental disabilities, including \$85 million for the operation of five developmental centers.

Capital Construction

The Fiscal Year 2021 Appropriations Act includes appropriations of \$1,766 million for capital construction pay-as-you-go and debt service on bonds issued to fund capital construction. This amount includes \$1,496 million for debt service on New Jersey Transportation Trust Fund Authority bonds.

All appropriations for such capital projects were subject to the review of the New Jersey Commission on Capital Budgeting and Planning (the "Commission") which voted to recommend such funding at its meeting on February 12, 2020. The Commission is charged with the preparation of the State's seven-year Capital Improvement Plan. The Capital Improvement Plan is a detailed account of capital construction projects requested by State departments, agencies and institutions of higher education for the next three fiscal years and forecasts as to the requirements for capital projects for the four fiscal years following. The Capital Improvement Plan includes the Commission's recommendations as to the priority of such capital projects and the means of funding them. The Capital Improvement Plan is also required to include a report on the State's overall debt. This debt report includes information

on the outstanding general obligation debt and debt service costs for the prior fiscal year, the current fiscal year, and the estimated amount for the subsequent five fiscal years. The report also provides similar information on capital leases and installment obligations. *L. 2009, c. 304*, enacted in January 2010, requires that the debt report also include data on other State liabilities as reported in the CAFR, as well as the unfunded actuarial accrued liability for pension plans and the actuarial accrued liability for other post-employment medical benefits. The debt report is not an audited report.

For Fiscal Year 2021, requests for Capital Construction funding were substantially higher than the amount recommended by the Commission. The appropriations for Capital Construction contained in Fiscal Year 2021 are largely based on the recommendations of the Commission. There can be no assurance that the amounts ultimately appropriated are sufficient to maintain or improve the State's capital facilities and infrastructure assets, or that such capital funding requests will not be substantially greater in future years.

Transportation Capital Program

L. 2016, c. 56, provides for an eight (8) year, \$16 billion Transportation Capital Program between Fiscal Year 2017 and Fiscal Year 2024. The Fiscal Year 2021 Appropriations Act includes a \$2.6 billion Transportation Capital Program for the New Jersey Department of Transportation, NJ Transit and local governments.

Debt Service on General Obligation Bonds and State Appropriation Obligations

The total Fiscal Year 2021 appropriation for debt service on General Obligation Bonds and State Appropriation Obligations is \$4,362.2 million. Of this amount, \$641.2 million represents principal and interest payments for General Obligation Bonds.

In Fiscal Year 2021, appropriations for debt service on State Appropriation Obligations are in the aggregate amount of \$3,721 million. Such appropriations are contained within the multiple functional categories, including State Aid, Grants-in-Aid, Direct State Services and Capital Construction. Appropriated debt service differs from the amounts shown in the tables entitled "SUMMARY OF LONG-TERM OBLIGATIONS AS OF JUNE 30, 2020" and "ESTIMATED FUTURE DEBT SERVICE ON LONG-TERM OBLIGATIONS AS OF JUNE 30, 2020" due to various budgetary adjustments.

Factors That May Affect Fiscal Year 2021 Appropriations

Fiscal Year 2021 appropriations are based on an estimate of various costs. There are various factors that could result in expenditures being significantly higher or lower than current forecasts such as increased COVID-19 Pandemic-related expenditures associated with CARES Act federal aid, as well as future COVID-19 Pandemic mitigation and response expenditures, including testing, treatment and vaccination delivery.

Cybersecurity

The New Jersey Office of Information Technology ("NJOIT"), as the State's centralized infrastructure technology provider, has put in place multiple measures to minimize cyber threats, which include working in conjunction with the New Jersey Office of Homeland Security and Preparedness' cybersecurity division. These measures are recognized as industry-leading modern cyber protection mechanisms and serve to reduce the risk of successful cyber-attacks upon the State's information technology assets. However, despite these measures, it is recognized in the cybersecurity industry that no amount of preventative countermeasures and security features can successfully prevent 100% of all cyber-attacks. In addition, the State has purchased cyber breach insurance that covers professional services necessary to respond to a cybersecurity breach.

As the majority of the State's workforce has shifted to remote work, the State has experienced COVID-19 Pandemic-themed email threats. In addition to its multi-stage mail filtering solution, the State worked to mitigate email risks by increasing security awareness training, communications, and phishing simulation exercises. The State recognizes that having employees work from home utilizing their home networks rather than at their State offices location and through the State network that has defense-in-depth protections, introduces additional risks. To date, the

State has not identified any increase in malware infections or compromises of endpoints that are being operated from home networks. Employees are continuously being provided with threat identification and risk mitigation communications, and the State security operations center has increased monitoring for all threats.

Health Benefits

Fiscal Year 2021 appropriations for employee health benefits and post-retirement medical benefits assume \$124.7 million in savings from new planned reforms, including changes in an out-of-network payment index, prescription drug savings, new Medicare Advantage rates, and new health plans for the School Employees' Health Benefits Program. Previously adopted health benefit reforms contributed to a 10% reduction in State health benefit expenses from Fiscal Year 2019 to Fiscal Year 2020. To date, there has been \$99 million of CRF monies allocated to State Health Benefits for COVID-19 related medical claims. The Fiscal Year 2021 appropriations for health benefits includes a \$115 million reduction which represents salaries that will be reimbursed for COVID-19 related work under the CARES Act. This reduction will be offset by transfers of operating dollars from various departmental budgets.

The Governor has also established a State Health Benefits Quality and Value Task Force (the "Task Force") comprised of health policy experts and key stakeholders. The Task Force identified near-term opportunities for reform, such as best practices, cost savings and plan design opportunities. The Task Force will also explore long-term and innovative reforms for the broader health benefits system.

Pensions

In Fiscal Year 2021, the State is planning to contribute \$3.681 billion to the Pension Plans which when added to anticipated net lottery proceeds of \$1.084 billion will result in total funding of the Pension Plans of \$4.765 billion or 78% of the actuarially required contribution.

Other Factors

In recent years, the need for the Tort Claims Liability Fund and the Medical Malpractice Self-Insurance Fund for Rutgers, The State University of New Jersey, Rowan University and University Hospital has exceeded originally appropriated levels. In Fiscal Year 2021, medical costs for NJ FamilyCare and for State employee health care costs could fluctuate based on actual utilization rates and varying prescription drug prices and rebates. The State contracts with managed care organizations ("MCOs") to provide services to most NJ FamilyCare clients, which includes the cost of the home and community-based services portion of managed long term services and supports. In addition, NJ FamilyCare resources assume recoveries from fraud, national settlements, pharmaceutical rebates, and other sources that have been historically difficult to predict. Projected costs in these areas are closely monitored and constantly updated.

Residential placement costs for clients with developmental disabilities and mental health issues could fluctuate based on the number of clients needing emergency placements, which could require supplemental funding in Fiscal Year 2021. Projected costs in this area are closely monitored and constantly updated.

Contracts for various Executive Branch employees and Judicial Branch employees are in various stages of negotiations. For more information, see "STATE EMPLOYEES – Contract Status."

A base allocation of \$10.339 million for winter operations is included in Fiscal Year 2021. The Budget Director is authorized to provide supplemental appropriations for costs in excess of the base. Between Fiscal Years 2017 and 2020, these annual supplemental appropriations have averaged approximately \$56.4 million.

In order to partially accommodate the increase in formula aid provided to school districts that were identified as underfunded per the modified school funding formula, \$153.0 million was reduced from the appropriation to school districts considered overfunded. The reduction in funding may lead to fiscal distress in these school districts which could require additional Emergency Aid funding in order to fully support Fiscal Year 2021 needs. However, in Fiscal Year 2021, the reduction to a district's aid is limited to 23 percent of the difference between the School Funding Reform Act's uncapped aid calculation and the district's Fiscal Year 2020 aid amount.

The Fiscal Year 2021 Appropriations Act reduced the appropriations for the Department of Corrections in the aggregate amount by \$26.2 million. This reduction assumes savings will be achieved via institutional restructuring and other operational savings. It is likely that the full savings will not be realized by the end of the fiscal year and a supplemental appropriation will be required.

Following enactment of the annual appropriations act, the State closely monitors revenues and expenditures, comparing actual results to projections. Such monitoring has identified where actual expenditures and commitments in various items of appropriation have been less than originally anticipated. Though the factors above could require certain supplemental appropriations in Fiscal Year 2021, identified budget savings have offset fully or substantially the need for supplemental appropriations in prior fiscal years. In the past, factors resulting in such budget savings have included, but have not been limited to: attrition of the State workforce; trend changes in the marketplace; and shifts in demographics and service beneficiaries' utilization rates. Consistent with past experience, it is likely that certain appropriations will exceed actual expenditures and commitments by the close of Fiscal Year 2021, allowing for flexibility to either fully or substantially address the need for other appropriations that arise through the course of the fiscal year, or to add to the undesignated fund balance.

State Unemployment Insurance Trust Fund

In Fiscal Year 2018, the Unemployment Insurance Trust Fund (the "Trust Fund"), which provides funding for unemployment benefits in the State, received approximately \$2.1 billion in contributions from employers and workers while paying out approximately \$2.0 billion in regular, annual State unemployment benefits (excluding benefits paid entirely by the federal government) on a cash basis. In Fiscal Year 2019, contributions from employers and workers were approximately \$2.0 billion, while regular State unemployment benefits were \$1.9 billion. In Fiscal Year 2020, contributions from employers and workers were approximately \$2.0 billion, while regular State unemployment benefits were \$4.3 billion. As of June 30, 2020, the State's trust fund balance, on a cash basis, was approximately \$0.9 billion.

Under State law, the State unemployment tax rate charged to employers during a fiscal year is determined by State statutory formula based on the status of the Trust Fund in relation to total taxable wages as of March 31st of the preceding fiscal year. For Fiscal Year 2021, the statutorily calculated employer tax rate remains the same as Fiscal Year 2020. The minimal base Federal Unemployment Tax Act ("FUTA") rate did not change and remains at 0.6%. The employee State unemployment rate did not change and remains at 0.38%.

Pursuant to Article VIII, section 2, paragraph 8 of the State Constitution, all contributions collected by the State from any employer or employee for the Trust Fund are dedicated solely to the purpose of providing and administering unemployment benefits.

As a result of the COVID-19 Pandemic, from March 15 to October 1, 2020 there have been approximately 1.6 million initial unemployment insurance claims filed. Unemployed State residents are benefiting from multiple Unemployment Insurance benefit enhancements as provided for in the CARES Act, which are 100% federally funded. Due to the large increase in claims activity, the State applied for the ability to borrow up to \$2 billion for the months of August, September and October 2020 and up to \$1.7 billion for the months of November 2020, December 2020, and January 2021. However, the State projects the loan balance to be \$600 million on October 31, 2020 and \$1.2 billion on January 31, 2020. As of October 1, 2020, the amount the Trust Fund owes the federal government was \$327 million. These advances will be interest free through December 31, 2020.

Effective August 8, 2020, FEMA was authorized to use the Stafford Act disaster relief funds to provide up to \$300 in individual weekly supplemental payments for lost wages. The supplemental benefit payments will be retroactive to August 1, 2020 and requires a 25% State match. The State was awarded funding for 6 weeks of supplemental payments.

Due to the tremendous influx of Unemployment Insurance ("UI") data and the related output of UI benefits, there has been an increase in the number of suspected fraudulent claims for UI benefits in the State. The State understands that suspected fraudulent UI claims have become a national problem. The New Jersey Department of Labor and Workforce Development is working to develop preventative safeguards to limit fraudulent payments and the State Treasurer is monitoring these developments.

Federal Aid

Federal Aid Receipts

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

Actual federal aid receipts in the General Fund and Special Transportation Fund for Fiscal Years 2017 through 2019, which are non-budgeted revenues, amounted to \$14,650.3 million, \$14,408.3 million and \$14,951.7 million, respectively. Federal receipts in the General Fund and the Special Transportation Fund for Fiscal Year 2020 and for Fiscal Year 2021 are estimated to be \$16,164.7 million and \$17,818.7 million respectively. Such federal aid receipts for Fiscal Year 2021 are composed of \$11,396.5 million for health related family programs under Titles XIX and XXI, \$1,236.5 million for other human services, \$943.7 million for Title I and other education, \$514.3 million for labor, \$1,110.3 million for transportation, and the remainder for all other federal aid programs.

Any changes by the federal government in how census data is collected and utilized may impact certain census data based future federal awards made to New Jersey.

Federal Coronavirus Relief Aid

The CARES Act established a \$150 billion Coronavirus Relief Fund (the “CRF”). The State received approximately \$2.4 billion in CRF funds. These funds are subject to the CARES Act and guidance from the U.S. Department of the Treasury on eligible uses of these funds. The CARES Act requires that the payments from the CRF only be used to support unbudgeted, COVID-19 expenses that were incurred between March 1 and December 30, 2020. Any funding that is not expended or encumbered to support costs incurred by December 30, 2020 must be returned to the U.S. Department of the Treasury. Following these guidelines, the State currently has plans to expend the funds in the following categories: Payroll, Health Benefits and Operations; K-12 Education Relief and Re-opening; Higher Education Relief; Social Services and Health Care Supports; match to FEMA funds, or to support costs not supported by FEMA; Local Government Relief; Economic Development and Re-employment Programs; and Housing Assistance Programs.

In addition to the CRF, other federal funds are available to help mitigate the financial pressures of COVID-19. Under the Robert T. Stafford Relief and Emergency Assistance Act, the President declared a nationwide emergency for COVID-19, which allows New Jersey to apply for public assistance reimbursements from FEMA. New Jersey has \$750 million in funding available to support 75% of qualifying expenditures. The Families First Coronavirus Response Act (FFCRA) provides a temporary 6.2 percentage point increase to qualifying Federal Medical Assistance Percentage (FMAP) effective beginning January 1, 2020 and extending through the last day of the calendar quarter in which the public health emergency terminates. New Jersey has received \$664 million through the quarter ending June 30, 2020, but is currently expecting to continue to receive the enhanced FMAP through the first quarter of calendar year 2021. In order to qualify for the enhanced FMAP, states must maintain eligibility standards that are no more restrictive than those in place as of January 1, 2020; not charge premiums that exceed those in places as of January 1, 2020; cover, without cost sharing, testing, services and treatment related to COVID-19; and not terminate individuals from Medicaid if they were enrolled at the beginning of the emergency period. The federal government by means of the Paycheck Protection Program and Health Care Enhancement Act of 2020 is awarding a total of \$10.25 billion nationally to support a broad range of COVID-19 testing and epidemiologic surveillance related activities. New Jersey has received approximately \$614 million of these funds. The CARES Act also authorized an Elementary and Secondary School Emergency Relief Fund (“ESSER”), with funds allocated to State educational agencies to provide funding to local educational agencies to address the impact of COVID-19. New Jersey was awarded \$310 million in

ESSER funds. There are numerous other federal aid grants that have been allocated to various State departments and agencies. Taking into account all available federal relief aid, as of the beginning of October 2020, New Jersey has received more than \$5.3 billion in federal aid grant awards and about \$12.7 billion of additional awards went directly to the New Jersey Department of Labor and Workforce Development.

As with all federal aid grants, the expenditure and use of these funds will be subject to federal audit. The State is utilizing a host of internal controls and documentation to ensure, to the greatest extent possible, that the expenditure of funds are within the federal regulations and guidance.

Disaster Relief Aid following Superstorm Sandy

The federal Disaster Relief Appropriations Act of 2013 (the “Disaster Relief Act”) appropriated approximately \$50.38 billion (later reduced by sequestration to \$47.9 billion) to various federal agencies to assist states and local communities with the impacts of Superstorm Sandy, including funding provided directly to private homeowners and businesses.

The Disaster Relief Act allocated funding to the various federal Offices of Inspector General (“OIG”) to conduct audits and investigations related to the expenditure of disaster relief aid. Audits are ongoing or have already been undertaken by the OIG from the U.S. Department of Homeland Security, the U.S. Department of Housing and Urban Development, the U.S. Department of Transportation, and the U.S. Department of Health and Human Services. The State anticipates that there will be continued audit activity throughout the duration of the federally-funded Sandy programs. As with any federal OIG audit or investigation, there is the potential for an OIG recommendation that the federal agency de-obligate funding in the event of non-compliance with federal statutes or regulations.

Office of Inspector General Audit of Medicaid

Medicaid disallowances may be issued during federal Fiscal Year 2021 (which ends September 30, 2021) based on a series of federal Office of the Inspector General program audits of claim documentation and cost allocation methodologies. The Department of Human Services disputes these findings and is taking steps to minimize the final impact of these audits. Twenty-two audits which in the aggregate total nearly \$1 billion, are currently in draft or final form but, due to possible revisions or appeals, the final amounts and timing of any repayments are uncertain. Approximately one-third of the amount above relates to an audit of the State’s School-based Medicaid claiming. The findings of this audit are currently being reviewed and evaluated. See also “LITIGATION — *Medicaid, Tort, Contract, Workers’ Compensation and Other Claims*” herein.

Expenditures

As used herein, the term “expenditures” refers to a fiscal year’s net disbursements plus amounts obligated for payment in a subsequent fiscal year for budgeted, non-budgeted and federal funds. See “STATE FINANCES — Budget and Appropriation Process.” The table entitled “EXPENDITURES” on the next page displays the expenditures for Fiscal Years 2017 through 2019.

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

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EXPENDITURES
(In Millions)

	For the Fiscal Year Ended June 30		
	2019	2018	2017
<u>General Fund:</u>			
Legislative Branch	\$ 86.8	\$ 81.8	\$ 78.6
Chief Executive's Office	7.8	6.6	6.0
Department of:			
Agriculture	565.2	532.9	519.0
Banking and Insurance	56.5	58.6	56.8
Children and Families	1,875.3	1,843.4	1,764.0
Community Affairs	635.3	1,070.1	800.5
Corrections	1,163.5	1,080.0	1,074.6
Education	1,188.5	1,247.6	1,392.5
Environmental Protection	672.0	639.4	622.0
Health	2,384.2	2,036.7	1,482.1
Human Services	17,431.2	17,193.5	17,307.4
Labor and Workforce Development	795.7	785.0	800.6
Law and Public Safety	1,298.8	1,218.0	1,155.4
Military and Veterans' Affairs	155.8	145.2	139.6
State	1,355.4	1,324.1	1,268.3
Transportation	3,159.5	2,415.5	2,541.2
Treasury	1,696.8	1,534.9	2,245.0
Miscellaneous Executive Commissions	0.8	0.8	0.8
Interdepartmental Accounts	4,508.2	4,202.4	4,213.8
Judicial Branch	946.9	883.1	859.6
Total General Fund	\$39,984.2	\$38,299.6	\$38,327.8
<u>Property Tax Relief Fund:</u>			
Department of:			
Agriculture	\$ 5.6	\$ 5.6	\$ —
Community Affairs	379.9	392.6	409.3
Corrections	22.5	22.1	22.4
Education	14,032.2	12,985.7	12,834.1
Environmental Protection	4.8	4.8	3.4
Health	12.1	95.1	—
Human Services	182.2	93.9	139.3
Law and Public Safety	3.0	2.0	2.0
State	3.7	3.7	—
Transportation	218.6	217.8	—
Treasury	1,838.8	1,954.5	1,281.0
Interdepartmental	45.3	45.0	—
Total Property Tax Relief Fund	\$16,748.7	\$15,822.8	\$14,691.5
<u>Gubernatorial Elections Fund</u>	\$ —	\$ 13.0	\$ 6.7
<u>Casino Control Fund:</u>			
Department of:			
Law and Public Safety	\$ 43.9	\$ 42.1	\$ 40.9
Treasury	5.4	5.7	6.2
Total Casino Control Fund	\$ 49.3	\$ 47.8	\$ 47.1
<u>Casino Revenue Fund:</u>			
Department of:			
Health	\$ 0.5	\$ 0.5	\$ 0.5
Human Services	264.2	216.1	204.7
Labor and Workforce Development	2.2	2.2	2.2
Law and Public Safety	0.1	0.1	0.1
Transportation	—	—	17.5
Total Casino Revenue Fund	\$ 267.0	\$ 218.9	\$ 225.0
Total Expenditures	\$57,049.2	\$54,402.1	\$53,298.1

CASH MANAGEMENT

Timing imbalances of the revenue collections and expenditures of the General Fund and the Property Tax Relief Fund exist because approximately 60% of the State's net major tax revenues are received in the second half of the fiscal year and over 35% of net major tax revenues are received during the last quarter of the fiscal year. For the past several fiscal years, this timing imbalance has led to State revenues only consistently exceeding State expenditures late in the third quarter or early in the fourth quarter of the fiscal year. In addition, the State's negative cash flow position through the first three quarters of a fiscal year is exacerbated by the fact that GIT receipts are not known until around early May of each fiscal year.

Furthermore, *L. 2016, c. 83* (the "Pension Contribution Act") requires the State to make its payments to the Pension Plans in quarterly installments on September 30, December 31, March 31 and June 30 commencing in Fiscal Year 2018. Prior to Fiscal Year 2018 the State had made its payments to the Pension Plans at the end of each fiscal year. The Pension Contribution Act reduced the State's flexibility to decrease expenditures in a fiscal year if revenues are less than anticipated.

To address these challenges, the State employs a cash flow modeling system and may utilize a variety of tools to manage its cash. These tools include, but are not limited to: issuance of Tax and Revenue Anticipation Notes ("TRANs"); management of the impact of debt issuances during a fiscal year; interfund borrowing during a fiscal year; and utilizing balances in the Transportation Trust Fund to pay Transportation Trust Fund expenditures, rather than utilizing General Fund balances to pay Transportation Trust Fund expenditures and then reimbursing the General Fund from balances in the Transportation Trust Fund. In Fiscal Year 2021, the State will likely utilize all of these measures to various degrees.

TAX AND REVENUE ANTICIPATION NOTES

The State issues TRANs to aid in providing effective cash flow management by funding timing imbalances which occur in the collection and disbursement of the General Fund and Property Tax Relief Fund revenues.

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

On October 1, 2020, the State Treasurer adopted a resolution authorizing the issuance of TRANs for Fiscal Year 2021. Pursuant thereto, on October 1, 2020, the State Treasurer entered into Note Purchase Contracts with Bank of America, N.A. and BofA Securities, Inc. under which each firm agreed to purchase TRANs in one or more series in the maximum amount of \$750 million and \$1.25 billion, respectively (\$2 billion in aggregate). Pursuant to such Note Purchase Contracts, the State has not issued any TRANs to date. The State intends to issue TRANs during the first half of Fiscal Year 2021.

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

<u>Fiscal Year</u>	<u>Amount of TRANs Issued</u>
2016	\$1,900,000,000
2017	1,750,000,000
2018	1,500,000,000
2019	1,500,000,000
2020	1,500,000,000

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LONG-TERM OBLIGATIONS

General Obligation Bonds

General Obligation Bonds of the State are authorized from time to time by Acts of the State Legislature. Each such “Bond Act” sets forth the authorized amounts and purposes of the bonds as well as certain parameters for issuing bonds, such as maximum term. Purposes under the Bond Acts have included open space and farmland preservation, water supply protection, transportation, higher education, port development, economic development, hazardous waste remediation, and many other public purposes. The Bond Acts provide that the bonds issued represent a debt of the State, and the faith and credit of the State are pledged to their repayment. Generally, each Bond Act requires voter approval. However, the Emergency Exception provides that no voter approval is required for bonds issued to meet an emergency caused by a disaster. See “CERTAIN CONSTITUTIONAL PROVISIONS AND JUDICIAL DECISIONS--Debt Limitations” herein. To address the financial consequences of the COVID-19 Pandemic, the Emergency Bond Act was passed pursuant to which the State intends to issue general obligation bonds in Fiscal Year 2021 to provide additional resources to the State. The State currently expects to issue these general obligation bonds as fixed rate bonds and amortize these general obligations bonds over 12 years.

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

General Obligation Bonds are described in the “Notes to the Financial Statements” and the Statistical Section set forth in the 2019 CAFR which is incorporated by specific reference herein. See also the table captioned “STATE OF NEW JERSEY — LEGISLATIVELY AUTHORIZED BUT UNISSUED DEBT, 2019 AND 2018” in the 2019 CAFR.

State Appropriation Obligations

The State has entered into a number of leases and contracts described below (collectively, the “Agreements”) with several governmental authorities to secure the financing of various projects and programs in the State. Under the terms of the Agreements, the State has agreed to make payments equal to the debt service on, and other costs related to, the obligations sold to finance the projects, including payments, if any, on swap agreements defined below. The State Legislature has no legal obligation to enact appropriations to fund such payments, but has done so to date for all such obligations. The amounts appropriated to make such payments are included in the appropriation for the department, authority or other entity administering the program or in other line item appropriations. See “STATE FINANCES — Budget and Appropriation Process” and “FINANCIAL RESULTS AND ESTIMATES — Appropriations” herein. The principal amount of bonds which may be issued and the notional amount of swaps which may be entered into by such governmental authorities is, in certain cases, subject to specific statutory dollar ceilings or programmatic restrictions which effectively limit such amounts. In other cases, there are currently no such ceilings or limitations. In addition, the State Legislature may at any time impose, remove, increase or decrease applicable existing ceilings and impose, modify or remove programmatic restrictions. The State Legislature may also authorize new agreements with the governmental authorities listed below or other governmental authorities to secure the financing of projects and programs in the future. Certain of these changes may require voter approval.

The State expects that additional State Appropriation Obligations will be issued during Fiscal Year 2021 and future fiscal years. The Lance Amendment, described under “CERTAIN CONSTITUTIONAL PROVISIONS AND JUDICIAL DECISIONS — Debt Limitations” herein, prohibits the State Legislature from enacting legislation authorizing State Appropriation Obligations payable from sources other than constitutionally dedicated sources unless such legislation is submitted and approved by a majority of legally qualified voters of the State voting thereon at a general election. The State Legislature is not legally obligated to appropriate amounts for the payment of such debt service in any year, and there can be no assurance that the State Legislature will make any such appropriations. See also the table captioned “STATE OF NEW JERSEY — LEGISLATIVELY AUTHORIZED BUT UNISSUED DEBT, 2019 AND 2018” in the 2019 CAFR.

The following tables set forth the State's long-term obligations. The first table summarizes by issuer and by program the principal amounts outstanding on June 30, 2020 and the estimated Fiscal Year 2021 debt service on such obligations. The second table depicts the aggregate estimated future debt service as of June 30, 2020 on all such General Obligation Bonds and State Appropriation Obligations. The data contained in the tables has not been adjusted to reflect subsequent activity. The tables include certain data that are (1) for governmental entities or programs that are not considered part of the State's long-term obligations for financial reporting purposes under generally accepted accounting principles or (2) for a component unit of the State. These items are therefore not reflected in Note 11 — Long-Term Obligations and the Schedule of Long-Term Debt in the 2019 CAFR. In addition, there are certain obligations which are included in such Note 11, which are not included in the following tables or elsewhere in this Appendix I. The amounts included in Note 11 which are not included in the following tables include BEIP payments to private businesses. The State Legislature has never failed to appropriate amounts for the payment of debt service on the State Appropriation Obligations included in the following tables.

**SUMMARY OF LONG-TERM OBLIGATIONS
AS OF JUNE 30, 2020**

Issuer	Type of Agreement	Principal Amount Outstanding⁽¹⁾	Fiscal Year 2021 Debt Service⁽²⁾
General Obligation Bonds	General Obligation	\$ 1,598,665,000	\$ 281,198,498
<i>State Appropriation Bonds by Issuer or Program:</i>			
Garden State Preservation Trust	Contract	559,414,410	97,640,656
New Jersey Building Authority	Lease	109,305,000	19,401,075
New Jersey Economic Development Authority			
Biomedical Research Facilities	Contract	42,900,000	3,463,098
Cigarette Tax Revenue	Contract	498,545,000	86,042,250
Department of Human Services Programs	Service Contract	3,722,000	914,350
Economic Recovery Fund	Contract	29,530,832	40,098,700
Liberty State Park Project	Lease	50,995,000	9,881,225
Motor Vehicle Surcharges Revenue	Contract	669,734,860	62,412,975
Motor Vehicle Surcharges Revenue- Special Needs Housing	Contract	158,886,736	39,579,547
Municipal Rehabilitation	Contract	90,585,000	14,106,327
New Jersey Transit Corporation Projects	Lease	1,056,850,000	108,652,125
School Facilities Construction	Contract	9,601,297,000	1,036,025,368
State House Project	Lease	327,185,000	23,798,481
State Government Buildings Projects		362,700,000	24,571,415
State Pension Funding	Contract	1,942,570,030	472,677,677
State Police Barracks Project	Lease	2,595,000	954,750
New Jersey Educational Facilities Authority			
Capital Improvement Fund	Contract	408,950,000	68,478,662
Equipment Leasing Fund Program	Contract	19,785,000	7,629,250
Facilities Trust Fund	Contract	143,355,000	19,694,081
Public Library Project Grant Program	Contract	10,375,000	3,726,500
Technology Infrastructure Fund	Contract	25,140,000	3,734,725
New Jersey Health Care Facilities Financing Authority			
Greystone Park Psychiatric Hospital Project	Contract	161,000,000	17,562,463
Hospital Asset Transformation Program	Contract	170,475,000	14,749,125
Marlboro Psychiatric Hospital Project	Contract	64,315,000	3,871,575
New Jersey Sports and Exposition Authority	Contract	153,880,000	50,786,192
New Jersey Transportation Trust Fund Authority			
Transportation Program Bonds	Contract	4,826,480,000	307,072,827
Transportation System Bonds	Contract	10,010,025,716	1,039,719,514
State-Supported County College Bonds	Statutory	181,112,889	36,188,167
State Equipment Line of Credit	Lease	55,816,602	28,935,186
Master Energy Lease Purchase Agreement	Lease	68,154,690	5,134,528
TOTALS		\$33,404,345,766	\$3,928,701,311

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

⁽²⁾ For variable rate obligations, estimated interest amounts were calculated using the rates in effect on June 30, 2020. (See "LONG-TERM OBLIGATIONS - Description of Certain Long-Term Obligations - Variable Rate Obligations" herein).

**ESTIMATED FUTURE DEBT SERVICE ON LONG-TERM OBLIGATIONS
AS OF JUNE 30, 2020**

Fiscal Year	General Obligation Bonds		State Appropriation Obligations		Total
	Principal	Interest	Principal ⁽¹⁾	Interest ⁽¹⁾⁽²⁾	
2021	\$ 216,585,000	\$ 64,613,498	\$ 1,873,974,207	\$ 1,773,528,607	\$ 3,928,701,311
2022	144,510,000	56,127,679	1,981,109,179	1,714,249,053	3,895,995,911
2023	105,145,000	49,999,885	2,117,067,450	1,626,878,815	3,899,091,150
2024	68,170,000	45,288,173	2,001,317,058	1,542,647,005	3,657,422,236
2025	71,040,000	42,271,148	1,970,846,044	1,592,927,952	3,677,085,143
2026	73,885,000	39,505,108	2,199,208,307	1,344,557,679	3,657,156,093
2027	76,770,000	36,688,145	2,132,418,438	1,189,440,703	3,435,317,286
2028	80,070,000	33,462,845	2,257,187,781	1,083,517,879	3,454,238,505
2029	83,535,000	30,076,325	1,845,882,641	1,023,151,809	2,982,645,775
2030	87,175,000	26,512,283	1,210,280,187	876,125,943	2,200,093,412
2031	90,175,000	23,572,430	1,050,301,074	830,584,637	1,994,633,141
2032	94,125,000	19,683,855	867,908,810	792,947,307	1,774,664,972
2033	98,270,000	15,601,353	904,361,399	740,178,662	1,758,411,414
2034	71,050,000	11,872,238	935,332,450	706,022,666	1,724,277,353
2035	73,900,000	9,276,463	923,755,171	671,710,576	1,678,642,209
2036	36,280,000	6,576,575	791,744,435	753,826,213	1,588,427,223
2037	37,735,000	5,372,700	797,639,324	700,167,545	1,540,914,570
2038	16,460,000	4,100,750	746,201,526	694,241,299	1,461,003,575
2039	17,120,000	3,689,250	749,298,420	750,097,367	1,520,205,037
2040	17,975,000	2,833,250	927,760,782	618,814,120	1,567,383,153
2041	18,875,000	1,934,500	1,090,316,082	289,051,153	1,400,176,735
2042	19,815,000	990,750	612,260,000	112,695,377	745,761,127
2043	—	—	457,745,000	83,278,925	541,023,925
2044	—	—	359,945,000	60,982,750	420,927,750
2045	—	—	231,245,000	43,959,700	275,204,700
2046	—	—	196,725,000	34,451,900	231,176,900
2047	—	—	181,920,000	25,519,469	207,439,469
2048	—	—	165,570,000	17,307,206	182,877,206
2049	—	—	145,795,000	9,906,025	155,701,025
2050	—	—	80,565,000	3,495,150	84,060,150
	<u>\$1,598,665,000</u>	<u>\$530,049,199</u>	<u>\$31,805,680,766</u>	<u>\$21,706,263,491</u>	<u>\$55,640,658,456</u>

⁽¹⁾ For capital appreciation bonds, the original issue amount is reflected as principal and the accretion in value from the date of issuance is reflected as interest in the year of bond maturity.

⁽²⁾ For variable rate bonds, interest amounts were calculated using the rates in effect on June 30, 2020. (See “OBLIGATIONS SUPPORTED BY STATE REVENUE SUBJECT TO ANNUAL APPROPRIATION - Variable Rate Bonds” herein).

Issuers of State Appropriation Obligations

Garden State Preservation Trust

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

New Jersey Building Authority

The New Jersey Building Authority (“NJBA”) issues bonds for the acquisition, construction, renovation and rehabilitation of various State office buildings, historic buildings and correctional facilities. Pursuant to a lease

agreement, the State makes rental payments to the NJBA in amounts sufficient to pay debt service on the bonds, subject to appropriation by the State Legislature.

New Jersey Economic Development Authority

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

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

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

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

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

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

The Educational Facilities Construction and Financing Act, *L. 2000, c. 72 ("EFCFA")* authorizes the NJEDA to issue bonds to finance the State share of costs for school facilities construction projects. EFCFA originally provided that the aggregate principal amount of bonds, notes or other obligations issued by NJEDA shall not exceed: \$100,000,000 for the State share of costs for county vocational school district school facilities projects, \$6,000,000,000 for the State share of costs for "Abbott District" school facilities projects, and \$2,500,000,000 for the State share of costs for school facilities projects in all other districts. Debt service on the bonds issued pursuant to EFCFA is paid pursuant to a contract between the State Treasurer and the NJEDA, subject to appropriation by the State Legislature. EFCFA was amended in July 2008 to increase the amount of bonds, notes or other obligations authorized to be issued by the NJEDA in additional aggregate principal amounts not to exceed: \$2,900,000,000 for the State share of costs for school facilities projects in the "SDA Districts" (formerly "Abbott Districts"), \$1,000,000,000 for the State share of costs for school facilities projects in all other districts, and \$50,000,000 for the State share of costs for county vocational school district facilities projects. In regard to this increase in the amount of bonds authorized to be issued by NJEDA pursuant to this amendment, debt service on these bonds or refunding bonds issued by NJEDA and any additional costs authorized pursuant to Section 14 of EFCFA shall first be payable from revenues received from the GIT except that debt service on bonds issued to pay for administrative, insurance, operating and other expenses of the NJEDA and the Schools Development Authority in connection with school facilities projects shall be payable from the General Fund. The additional bonds issued pursuant to this amendment are also payable

pursuant to the contract between the State Treasurer and the NJEDA, mentioned above, subject to appropriation by the State Legislature.

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

L. 2006, c. 102 authorized the issuance of \$270 million of bonds by the NJEDA to fund various State capital construction projects, including stem cell research facilities in New Brunswick and Newark, biomedical research facilities, blood collection facilities and cancer research facilities. On September 14, 2016, the NJEDA issued \$46.850 million of Biomedical Research Bonds, Series A. Debt service on the bonds is payable pursuant to a contract between the NJEDA and the State Treasurer, subject to appropriation by the State Legislature.

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

New Jersey Educational Facilities Authority

The New Jersey Educational Facilities Authority ("NJEFA") issues bonds pursuant to seven separate programs to finance: (i) the purchase of equipment to be leased to institutions of higher learning (the "Equipment Leasing Fund"); (ii) grants to the State's public and private institutions of higher education for the development, construction and improvement of instructional, laboratory, communication and research facilities (the "Facilities Trust Fund"); (iii) grants to public and private institutions of higher education to develop a technology infrastructure within and among the State's institutions of higher education (the "Technology Infrastructure Fund"); (iv) capital projects at county colleges; (v) grants to public and private institutions of higher education to finance the renewal, renovation, improvement, expansion, construction, and reconstruction of educational facilities and technology infrastructure (the "Capital Improvement Fund"); (vi) grants to public libraries to finance the acquisition, expansion and rehabilitation of buildings to be used as public library facilities and the acquisition and installation of equipment to be located therein (the "Public Library Project Grant Program"); and (vii) loans to public and private institutions of higher education and public or private secondary schools, military schools or boarding schools located in the State which are required under the Dormitory Safety Trust Fund Act to install automatic fire suppression systems for the cost or a portion of the cost of the construction, reconstruction, development, extension or improvement of dormitory safety facilities, including fire prevention and sprinkler systems (the "Dormitory Safety Trust Fund"). The debt service on the bonds issued under these programs is payable by the State pursuant to statutory provisions or contracts between the NJEFA and the State Treasurer, subject to appropriation by the State Legislature. Under the financing programs for the Equipment Leasing Fund, the Facilities Trust Fund, the Technology Infrastructure Fund and the Capital Improvement Fund, as bonds mature or are redeemed, the bonding capacity revolves. As of June 30, 2020, under these programs, the NJEFA has, in aggregate, approximately \$504,335,000 of bonding capacity.

New Jersey Health Care Facilities Financing Authority

The New Jersey Health Care Facilities Financing Authority ("HCFFA") is authorized to acquire, construct and lease projects to the New Jersey Department of Human Services ("DHS") and to issue bonds to finance such projects, the debt service on which shall be paid by DHS, subject to appropriation by the State Legislature. The State has financed the construction of a new Greystone Park Psychiatric Hospital, the demolition of the old Greystone Park Psychiatric Hospital and the demolition of the old Marlboro Psychiatric Hospital through the issuance of bonds by HCFFA that are secured by payments made by DHS, subject to appropriation by the State Legislature.

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

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

New Jersey Sports and Exposition Authority

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

New Jersey Transportation Trust Fund Authority

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

The New Jersey Transportation Trust Fund Authority Act of 1984, as amended by *L. 2016, c. 56* authorizes the issuance of \$12 billion in Transportation Program Bonds between Fiscal Year 2017 and Fiscal Year 2024, the payment of debt service on which must be paid solely from revenues dedicated for transportation purposes pursuant to Article VIII, Section II, paragraph 4 of the State Constitution.

An amendment to Article VIII, section II, paragraph 4 of the State Constitution was approved by the voters on November 8, 2016, dedicating all revenue from the motor fuels and petroleum products gross receipts taxes for transportation purposes. These constitutionally dedicated monies are available to be appropriated by the Legislature to the TTFA to pay debt service on Transportation Program Bonds issued by the TTFA and as pay-as-you-go-funding. Any constitutionally dedicated revenues in excess of the amount needed to pay debt service on TTFA bonds and Transportation Capital Program project costs are appropriated to the Transportation Trust Fund Account - Subaccount for Capital Reserves to meet future Transportation Capital Program needs.

State Supported County College Bonds

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

State Equipment Lease Financing

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

Master Energy Lease Purchase Agreement

The State finances the acquisition of certain energy efficiency projects at State facilities through equipment lease financings established from time to time with one or more financial services providers. Repayments of amounts under the equipment lease financings are subject to appropriation by the State Legislature.

Description of Certain Long-Term Obligations

Variable Rate Obligations

As of June 30, 2020, the NJEDA and the TTFA have outstanding \$528,015,000 of floating rate notes ("FRN"), which bear interest at rates that reset weekly and are based on the Securities Industry and Financial Markets Association ("SIFMA") rate plus a fixed spread. There are no letters of credit in support of these notes. Such notes are included within the Long-Term Obligations tables herein.

The following table provides a summary of the State-supported variable rate obligations outstanding as of June 30, 2020.

SUMMARY OF VARIABLE RATE OBLIGATIONS AS OF JUNE 30, 2020

Issuer	Series	Type-Reset Period	Amount Outstanding (\$ as of 6/30/20)	Index Rate (if applicable)	Interest Rate as of 6/30/20	Maturity Date
Economic Development Authority - School Facilities Construction	2013 Series I	FRN-Weekly	\$ 60,850,000	SIFMA+1.25%	1.38%	9/01/25
	2013 Series I	FRN-Weekly	89,580,000	SIFMA+1.55	1.68	9/01/27
	2013 Series I	FRN-Weekly	230,085,000	SIFMA+1.60	1.73	3/01/28
	Total		<u>\$380,515,000</u>			
Transportation Trust Fund Authority ⁽¹⁾	2014 Series BB-2	FRN-Weekly	\$147,500,000	SIFMA+1.20	1.33	6/15/34
	Grand Total		<u>\$528,015,000</u>			

⁽¹⁾ The 2014 Series BB-2 Notes are subject to mandatory tender on December 15, 2021.

Bank Loan Bonds

The NJEDA and the NJEFA have issued certain series of bonds to finance school facilities construction projects and higher education capital improvement projects pursuant to term loan agreements with several banks. A bank's rights under such term loan agreements are essentially the same as bondholders' rights except for a few differences. The bank may require the mandatory term out of the bonds for a shortened amortization period if certain events occur under the loan agreement, including, without limitation, the failure to pay, or cause to be paid, when due, principal of or interest on the bonds, a debt moratorium, a ratings downgrade, a material failure to perform under the State Contract, an action that material adversely affects the rights, remedies or security of the trustee under the bond resolution or the bank under the term loan agreement or a material amendment or modification to the State Contract without the prior written consent of the bank. For tax-exempt bonds, the term loan agreements provide that if an event of taxability occurs, the interest rate on the bonds will increase. The aggregate amount of such bank loan bonds outstanding as of June 30, 2020 is \$1,681,522,000. Such bonds are included within the Long-Term Obligations tables herein.

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The following table provides a summary of the State-supported term loan agreements outstanding as of June 30, 2020.

BANK LOAN PORTFOLIO

Economic Development Authority School Facilities Construction Bonds

<u>Lender</u>	<u>Series</u>	<u>Tax Status</u>	<u>Amount Outstanding (\$ as of 6/30/20)</u>	<u>Fixed Interest Rate*</u>	<u>Maturity Date</u>
Bank of America, N.A.	2014 Series SS	Tax Exempt	\$ 44,855,000	2.910%	6/15/2021
Bank of America, N.A.	2014 Series SS	Tax Exempt	69,795,000	2.910	6/15/2022
Bank of America, N.A.	2014 Series SS	Tax Exempt	40,690,000	2.910	6/15/2023
Bank of America, N.A.	2014 Series SS	Tax Exempt	41,800,000	2.910	6/15/2024
Barclays Capital Inc.	2019 Series GGG	Taxable	31,100,000	5.664	9/1/2022
Barclays Capital Inc.	2019 Series GGG	Taxable	79,440,000	5.742	9/1/2023
Barclays Capital Inc.	2019 Series GGG	Taxable	102,850,000	5.842	9/1/2024
Barclays Capital Inc.	2019 Series GGG	Taxable	86,620,000	5.847	9/1/2025
Barclays Capital Inc.	2019 Series GGG	Taxable	104,200,000	5.969	9/1/2026
Barclays Capital Inc.	2019 Series GGG	Taxable	30,555,000	5.929	9/1/2027
Barclays Capital Inc.	2019 Series HHH-1	Tax Exempt	21,060,000	5.000	9/1/2022
Barclays Capital Inc.	2019 Series HHH-2	Taxable	31,225,000	3.500	9/1/2022
Capital One Public Funding, LLC	2019 Series III	Tax Exempt	10,429,000	3.070	12/15/2020
Capital One Public Funding, LLC	2019 Series III	Tax Exempt	1,472,000	3.070	12/15/2021
Capital One Public Funding, LLC	2019 Series III	Tax Exempt	1,519,000	3.070	12/15/2022
Capital One Public Funding, LLC	2019 Series III	Tax Exempt	1,567,000	3.070	12/15/2023
Capital One Public Funding, LLC	2019 Series III	Tax Exempt	7,579,000	3.070	12/15/2024
Capital One Public Funding, LLC	2019 Series III	Tax Exempt	2,355,000	3.070	12/15/2025
Capital One Public Funding, LLC	2019 Series III	Tax Exempt	13,065,000	3.070	12/15/2026
Capital One Public Funding, LLC	2019 Series III	Tax Exempt	18,856,000	3.070	12/15/2027
Capital One Public Funding, LLC	2019 Series III	Tax Exempt	10,946,000	3.070	12/15/2028
Capital One Public Funding, LLC	2019 Series III	Tax Exempt	10,304,000	3.070	12/15/2029
Capital One Public Funding, LLC	2019 Series III	Tax Exempt	25,544,000	3.070	12/15/2030
Capital One Public Funding, LLC	2019 Series III	Tax Exempt	8,344,000	3.070	12/15/2031
PNC Bank, N.A.	2019 Series JJJ	Tax Exempt	5,520,000	2.765	9/1/2020
PNC Bank, N.A.	2019 Series JJJ	Tax Exempt	5,793,000	2.765	9/1/2021
PNC Bank, N.A.	2019 Series JJJ	Tax Exempt	3,742,000	2.765	9/1/2022
PNC Bank, N.A.	2019 Series JJJ	Tax Exempt	8,360,000	2.765	9/1/2023
PNC Bank, N.A.	2019 Series JJJ	Tax Exempt	351,000	2.765	9/1/2024
PNC Bank, N.A.	2019 Series JJJ	Tax Exempt	361,000	2.765	9/1/2025
PNC Bank, N.A.	2019 Series JJJ	Tax Exempt	9,528,000	2.765	9/1/2026
PNC Bank, N.A.	2019 Series JJJ	Tax Exempt	9,795,000	2.765	9/1/2027
PNC Bank, N.A.	2019 Series KKK	Tax Exempt	14,370,000	3.470	12/15/2020
PNC Bank, N.A.	2019 Series KKK	Tax Exempt	435,000	3.470	12/15/2021
PNC Bank, N.A.	2019 Series KKK	Tax Exempt	451,000	3.470	12/15/2022
PNC Bank, N.A.	2019 Series KKK	Tax Exempt	467,000	3.470	12/15/2023
PNC Bank, N.A.	2019 Series KKK	Tax Exempt	483,000	3.470	12/15/2024
PNC Bank, N.A.	2019 Series KKK	Tax Exempt	500,000	3.470	12/15/2025
PNC Bank, N.A.	2019 Series KKK	Tax Exempt	518,000	3.470	12/15/2026
PNC Bank, N.A.	2019 Series KKK	Tax Exempt	536,000	3.470	12/15/2027
PNC Bank, N.A.	2019 Series KKK	Tax Exempt	555,000	3.470	12/15/2028
PNC Bank, N.A.	2019 Series KKK	Tax Exempt	575,000	3.470	12/15/2029
PNC Bank, N.A.	2019 Series KKK	Tax Exempt	595,000	3.470	12/15/2030
PNC Bank, N.A.	2019 Series KKK	Tax Exempt	27,695,000	3.470	12/15/2031
PNC Bank, N.A.	2019 Series KKK	Tax Exempt	21,782,000	3.470	12/15/2032
Bank of America, N.A.	2020 Series OOO	Tax Exempt	26,010,000	3.870	6/15/2022
Bank of America, N.A.	2020 Series OOO	Tax Exempt	94,060,000	4.090	6/15/2023
Bank of America, N.A.	2020 Series OOO	Tax Exempt	99,245,000	4.240	6/15/2024
Bank of America, N.A.	2020 Series OOO	Tax Exempt	79,935,000	4.390	6/15/2025
Bank of America, N.A.	2020 Series PPP	Taxable	25,915,000	4.380	6/15/2022
Bank of America, N.A.	2020 Series PPP	Taxable	93,735,000	4.600	6/15/2023
Bank of America, N.A.	2020 Series PPP	Taxable	98,900,000	4.750	6/15/2024
Bank of America, N.A.	2020 Series PPP	Taxable	79,655,000	4.900	6/15/2025
Total			\$1,506,037,000		

Economic Development Authority Municipal Rehabilitation Bonds

Barclays Capital Inc.	2019 Series A	Tax Exempt	10,545,000	5.000	4/1/2025
Barclays Capital Inc.	2019 Series A	Tax Exempt	10,430,000	5.000	4/1/2026
Barclays Capital Inc.	2019 Series A	Tax Exempt	9,320,000	5.000	4/1/2027
Barclays Capital Inc.	2019 Series A	Tax Exempt	13,435,000	5.000	4/1/2028
Barclays Capital Inc.	2019 Series B	Taxable	1,790,000	4.330	4/1/2026
Barclays Capital Inc.	2019 Series B	Taxable	3,500,000	4.330	4/1/2027
Total			\$ 49,020,000		

<u>Lender</u>	<u>Series</u>	<u>Tax Status</u>	<u>Amount Outstanding (\$ as of 6/30/20)</u>	<u>Fixed Interest Rate*</u>	<u>Maturity Date</u>
<u>Educational Facilities Authority Higher Education Capital Improvement Fund Bonds</u>					
DNT Asset Trust	Series 2016 A	Tax Exempt	34,935,000	2.660	9/1/2020
DNT Asset Trust	Series 2016 A	Tax Exempt	41,520,000	2.930	9/1/2021
DNT Asset Trust	Series 2016 A	Tax Exempt	41,240,000	3.130	9/1/2022
DNT Asset Trust	Series 2016 A	Tax Exempt	4,650,000	3.300	9/1/2023
DNT Asset Trust	Series 2016 A	Tax Exempt	4,120,000	3.440	9/1/2024
		Total	\$ 126,465,000		
		Grand Total	\$1,681,522,000		

* Interest rate subject to adjustment upon a downgrade in the State's credit rating.

Swap Agreements

The various independent State authorities authorized to issue State Appropriation Obligations in certain cases are also authorized to enter into interest rate exchange agreements ("Swap Agreements"). As of June 30, 2020, the notional amount of Swap Agreements supported by State appropriations is zero.

MORAL OBLIGATIONS

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

The following table sets forth the moral obligations outstanding as of June 30, 2020 and debt service for Fiscal Year 2021.

	<u>Principal Amount Outstanding</u>	<u>Fiscal Year 2021 Debt Service</u>
South Jersey Port Corporation	\$ 202,110,000	\$ 22,087,324
South Jersey Port Corporation Subordinated.....	255,000,000	12,750,000
Higher Education Student Assistance Authority.....	1,647,500,000	183,351,419
	<u>\$2,104,610,000</u>	<u>\$218,188,743</u>

South Jersey Port Corporation

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

The following table sets forth the amounts paid to the Port Corporation to replenish its debt service reserve fund and subordinated debt service reserve fund for the past five fiscal years. The State expects the Port Corporation to request that the State replenish the debt service reserve funds of the Port Corporation in Fiscal Year 2021.

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<u>Fiscal Year</u>	<u>Amounts Paid for Debt Service</u>	<u>Amounts Paid for Debt Service (Subordinated)</u>
2016.....	\$18,898,929	—
2017.....	18,750,000	—
2018.....	17,650,000	—
2019.....	17,650,000	—
2020.....	17,000,000	\$11,375,275

Higher Education Student Assistance Authority

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

OTHER OBLIGATIONS

The following Other Obligations are not considered State Appropriation Obligations and are therefore not included in the amounts shown in the tables entitled “SUMMARY OF LONG-TERM OBLIGATIONS AS OF JUNE 30, 2020” and “ESTIMATED FUTURE DEBT SERVICE ON LONG-TERM OBLIGATIONS AS OF JUNE 30, 2020”.

New Jersey Transportation Trust Fund Authority – “GARVEES”

On November 2, 2016, the TTFA issued \$3.241 billion of Federal Highway Reimbursement Revenue Notes (“GARVEE Notes”) which consisted of \$2.741 billion of publicly offered 2016 Series A GARVEE Notes and \$500 million of 2016 Series B GARVEE Notes, which are bank loan notes, purchased by Bank of America, N.A. Both Series of Notes are secured solely by reimbursements received by or on behalf of the New Jersey Department of Transportation pursuant to Title 23 of the United States Code from the Federal Highway Administration. On July 25, 2018, \$1.2 billion of 2018 Series A GARVEE Refunding Notes were issued to refund a portion of the 2016 Series A GARVEE Notes. As of June 30, 2020, the aggregate amounts of GARVEE Notes and Refunding Notes outstanding are \$1,559,070,000 and \$1,176,060,000, respectively.

Qualified Bonds

L. 1976, c. 38, as amended by *L. 2015, c. 95*, and *L. 1976, c. 39* (the “Acts”) provide for the issuance of “Qualified Bonds” by municipalities and school districts. Whenever a local board of education or the governing body of a municipality determines to issue bonds, it may file an application with the Local Finance Board, and, in the case of a local board of education, also with the Commissioner of Education, to qualify bonds pursuant to the Acts. Upon approval of such application, the State Treasurer shall withhold from certain State appropriations of revenues or other State aid payable to the municipalities or appropriations of State school aid payable to the school district, as appropriate, an amount sufficient to pay debt service on such bonds. Additionally, with respect to Qualified Bonds issued by municipalities, a statutory lien and trust, superior to all other liens, automatically attaches to such appropriations, in favor of the holders of Qualified Bonds, for the sole purpose of paying debt service on the Qualified Bonds. These Qualified Bonds are not direct, guaranteed or moral obligations of the State, and debt service on such bonds will be paid by the State only to the extent that the State aid or State school aid has been appropriated by the State Legislature. As of June 30, 2020, the aggregate amounts of municipal and school district Qualified Bonds outstanding are \$1,214,196,611 and \$39,697,000, respectively.

Tobacco Settlement Asset-Backed Bonds

The State has transferred to the Tobacco Settlement Financing Corporation (the “Corporation”), a special purpose entity established pursuant to *L. 2002, c. 32* (the “Act”), the State’s right to receive all tobacco settlement receipts (the “TSRs”) to be received by the State after December 1, 2003 from the multi-state Master Settlement Agreement (“MSA”) which settled litigation with the participating tobacco companies. In April 2018, the Corporation

refunded all of its outstanding Tobacco Settlement Asset-Backed Bonds, Series 2007-1 with the proceeds of its Tobacco Settlement Bonds, Series 2018A (Senior) & 2018B (Subordinate). As of June 30, 2020, the Corporation has \$2,933,370,000 in outstanding bonds secured by TSRs.

STATE EMPLOYEES

Public Employer-Employee Relations Act

The State, as a public employer, is covered by the New Jersey Public Employer-Employee Relations Act, as amended (*N.J.S.A.* 34:13A-1 et seq.), which guarantees public employees the right to negotiate collectively through employee organizations certified or recognized as the exclusive collective negotiations representatives for units of public employees found to be appropriate for collective negotiations purposes. Approximately 55,689 full-time Executive Branch employees are paid through the State payroll system. Of the 55,689 employees, approximately 51,705 are represented by certified or recognized exclusive majority representatives and are organized into various negotiation units. There are twelve plus civilian units, ten of which presently represent approximately 51,705 employees in the Executive Branch. The Health Care and Rehabilitation Services Unit is represented by the American Federation of State, County and Municipal Employees (“AFSCME”) and includes about 6,016 employees. The Administrative and Clerical Services Unit, the Primary Supervisory Unit, the Professional Unit and the Higher Level Supervisory Unit are all represented by the Communications Workers of America (“CWA”) and include about 5,467 employees, 6,982 employees, 15,369 employees and 2,366 employees, respectively, for a total of 30,184 employees. The Crafts Unit, the Inspection and Security Unit, and the Operations, Maintenance and Services Unit are represented by the International Federation of Professional and Technical Engineers (“IFPTE”) and the New Jersey State Motor Vehicle Employees Union, Service Employees International Union (“SEIU”), and combined include about 4,292 employees. The Deputy Attorneys General (“DAsG”) unit and the State Government Managers (“Managers”) Unit are both represented by the International Brotherhood of Electrical Workers (“IBEW”) and include approximately 404 employees (represented by IBEW Local 33) and 742 employees (represented by IBEW Local 30), respectively. There are approximately 10,066 employees represented by twelve law enforcement units.

Negotiation Process

The New Jersey Public Employer-Employee Relations Act specifies a negotiation process for non-police and non-fire units which includes mediation and advisory fact-finding in the event of a negotiations impasse. This process is geared to the public employer’s budget submission process. The economic provisions included in these negotiated agreements generally take effect at the beginning of each fiscal year or at other times provided in the agreements. Police and fire negotiations units may also submit to mediation and fact-finding in the event that negotiations with the State produces an impasse and the parties agree to do so, but where no agreement is achieved by exhaustion of these processes, police and fire units are additionally entitled to submit their final demands to binding interest arbitration. Approximately 10,066 State employees come under the binding interest arbitration process. Of the 10,066, approximately 2,887 are in the State Police.

Contract Status

The State has entered into a four-year contract for Fiscal Years 2020-2023 with the IFPTE Local 195 and the Motor Vehicle Inspector Division of Local 32BJ SEIU, CTW, CLC. The contract provides for across the board salary increases of approximately 8.0% as follows: 2% in Fiscal Year 2020 (effective the first full pay period after October 1, 2019), 2% in Fiscal Year 2021 (effective the first full pay period after July 1, 2020), 2% in Fiscal Year 2022 (effective the first full pay period after July 1, 2021) and 2.0% in Fiscal Year 2022 (effective the first full pay period after April 1, 2022). Any full-time employee on the active payroll with an annual base salary under \$41,400 shall receive a cash bonus, not included in base salary, equal to the difference between the across the board increase on an annual salary of \$41,400 and the across the board increase of that employee’s base salary. The cash bonus is paid in each year of the contract as long as the employee meets the eligibility requirements. Employees at step 10 who meet the eligibility requirements under the contract will receive a bonus of at least \$750 in Fiscal Year 2022 and a \$750 bonus payment in Fiscal Year 2023, which is not to be included in such employees’ base salary. Eligible employees will receive their normal increments within the policies of the State compensation plan. Any employee making less than \$75,000 is eligible to receive a clothing allowance (subject to certain criteria). The annual clothing allowance payment is \$550. In June 2020, the parties entered into a memorandum of agreement to defer the 2% increase and the

under \$41,400 cash bonus payment due in Fiscal Year 2021 to the first full pay period after December 1, 2021 and the 2% increase and under \$41,400 cash bonus due in Fiscal Year 2022 (April 2022 and June 2022 (for 10 month employees)) to the first full pay period after July 1, 2022. Additionally, the parties agreed that employees will take a certain amount of furlough days and to a no-layoff agreement through December 31, 2021.

The State has entered into a four-year contract for Fiscal Years 2020-2023 with the CWA representing four (4) units. The contract provides for across the board salary increases of approximately 8.0% as follows: 2% in Fiscal Year 2020 (effective the first full pay period after October 1, 2019), 2% in Fiscal Year 2021 (effective the first full pay period after July 1, 2020), 2% in Fiscal Year 2022 (effective the first full pay period after July 1, 2021) and 2.0% in Fiscal Year 2022 (effective the first full pay period after April 1, 2022). Employees at step 10 who meet the eligibility requirements under the contract will receive at least a \$750 bonus payment in Fiscal Year 2022 and a \$750 bonus payment in Fiscal Year 2023 which is not to be included in such employees' base salary. Eligible employees will receive their normal increments within the policies of the State compensation plan. Any employee making less than \$100,000 is eligible to receive a clothing allowance (subject to certain criteria). The annual clothing allowance payment is \$550. In June 2020, the parties entered into a memorandum of agreement to defer the 2% increase effective in Fiscal Year 2021 to the first full pay period after December 1, 2021 and the 2% increase due in Fiscal Year 2022 (April 2022 and June 2022 (for 10 month employees)) to the first full pay period after July 1, 2022. Additionally, the parties agreed that employees will take a certain amount of furlough days and to a no-layoff agreement through December 31, 2021.

The State has entered into a four-year contract for Fiscal Years 2020-2023 with AFSCME New Jersey Council 63. The contract provides for across the board salary increases of approximately 8.0% as follows: 2% in Fiscal Year 2020 (effective the first full pay period after October 1, 2019), 2% in Fiscal Year 2021 (effective the first full pay period after July 1, 2020), 2% in Fiscal Year 2022 (effective the first full pay period after July 1, 2021) and 2.0% in Fiscal Year 2022 (effective the first full pay period after April 1, 2022). Any full-time employee on the active payroll with an annual base salary under \$39,900 shall receive a cash bonus, not included in base salary, equal to the difference between the across the board increase on an annual salary of \$39,900 and the across the board increase of that employee's base salary. The cash bonus is paid in each year of the contract as long as the employee meets the eligibility requirements. Employees at step 10 who meet the eligibility requirements under the contract will receive a bonus of at least \$750 in Fiscal Year 2022 and a \$750 bonus payment in Fiscal Year 2023, which is not to be included in such employees' base salary. Eligible employees will receive their normal increments within the policies of the State compensation plan. Any employee making less than \$75,000 is eligible to receive a clothing allowance (subject to certain criteria). The annual clothing allowance payment is \$550.

The State has entered into a four-year contract for Fiscal Years 2020-2023 with the IBEW, Local 33, Deputy Attorneys General (DAsG) unit. The contract provides for an upward adjustment of the salary schedules and DAsG were placed on the appropriate steps prior to the across the board increases. The contract provides for across the board salary increases of 8% as follows: 2% in Fiscal Year 2020 (effective February 1, 2020), 2% in Fiscal Year 2021 (effective the first full pay period after July 1, 2020), 4% in Fiscal Year 2022 (2% effective the first full pay period after July 1, 2022 and 2% effective the first full pay period after January 1, 2022). The contract provides for a salary cap of \$145,000.

The State has entered into a four-year contract for Fiscal Years 2020-2023 with the IBEW, Local 30, State Government Managers' Unit (SGM Unit). The contract provides for an upward adjustment of the salary schedules and unit members were placed on the appropriate steps prior to the FY 2021 across the board increases. The contract provides for across the board salary increases of 8% as follows: 2% in Fiscal Year 2020 (effective the first full pay period after October 1, 2019), 2% in Fiscal Year 2021 (effective the first full pay period after July 1, 2020), 4% in Fiscal Year 2022 (2% effective the first full pay period after July 1, 2021 and 2% effective the first full pay period after April 1, 2022). The contract provides for a salary cap of \$150,000.

The State had entered into a four-year contract for Fiscal Years 2016-2019 with the Policemen's Benevolent Association Local 105 ("PBA 105"). The contract expired and negotiations have commenced for a successor agreement.

The State had entered into a four-year contract for Fiscal Years 2016-2019 with the New Jersey Investigators Association, State Fraternal Order of Police Lodge 174 (“NJIA” or “FOP Lodge 174”). The contract expired and negotiations have commenced for a successor agreement.

The State had entered into a four-year contract for Fiscal Years 2016-2019 with the New Jersey Policemen’s Benevolent Association State Law Enforcement Unit (“SLEU”). The contract has expired and negotiations are pending for a successor agreement.

The State had entered into a four-year contract for Fiscal Years 2016-2019 with the New Jersey Law Enforcement Supervisors Association (“NJLESA”). The contract has expired and negotiations have commenced for a successor agreement.

The State had entered into a four-year contract for Fiscal Years 2016-2019 with the New Jersey Superior Officers Law Enforcement Association (“NJSOLEA”). The contract has expired and negotiations have commenced for a successor agreement.

The State had entered into a four-year contract for Fiscal Years 2016-2019 with the New Jersey Law Enforcement Commanding Officers Association (“NJLECOA”). The contract has expired and negotiations have commenced for a successor agreement.

In October 2014, the State proceeded to Interest Arbitration with FOP Lodge 91, the State Investigators Unit, rank and file State Investigators and Detectives, and eventually entered into a five-year contract for Fiscal Years 2015-2019. The contract has expired and negotiations have commenced for a successor agreement.

The State had entered into a five-year contract for Fiscal Years 2015-2019 with the Division of Criminal Justice Non-Commissioned Officers Association, Sergeant, State Investigator Unit, Department of Law and Public Safety. The contract has expired and negotiations have commenced for a successor agreement.

The State had entered into a five-year contract for Fiscal Years 2015-2019 with the Division of Criminal Justice Superior Officers Association, Lieutenant, State Investigator Unit, Department of Law and Public Safety. The contract has expired and negotiations have commenced for a successor agreement.

The State has entered into a four-year contract for Fiscal Year 2020-2023 with the State Troopers Fraternal Associations (“STFA-Troopers”) The contract provides for across the board salary increases of 8% as follows: 2% in Fiscal Year 2020 (effective the first full pay period after October 1, 2019), 2% in Fiscal Year 2021 (effective the first full pay period after July 1, 2020), 4% in Fiscal Year 2022 (2% effective the first full pay period after July 1, 2021 and 2% effective the first full pay period after April 1, 2022). Maintenance allowance increased in each year of the contract: \$14,942.01 in Fiscal Year 2020, \$16,240.85 in Fiscal Year 2021, \$17,661.98 in Fiscal Year 2022 and \$18,411.98 in Fiscal Year 2023.

The State and State Troopers Non-Commissioned Officers Association (“STNCOA-Sergeants”) were parties in an interest arbitration proceeding for the successor agreement to the contract that expired on June 30, 2012. The interest arbitration award was issued on January 31, 2016. The successor agreement had a term of July 1, 2012 through June 30, 2017. The successor agreement expired and negotiations have commenced for a new agreement.

The State and the State Troopers Superior Officer Association (“STSOA-Lieutenants and Captains”) entered into a five-year successor agreement to the contract that expired on June 30, 2012. The successor agreement had a term from July 1, 2012 through June 30, 2017. The successor agreement expired and negotiations have commenced for a new successor agreement.

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STATE FUNDING OF PENSION PLANS

Background

General

The State sponsors and operates seven defined benefit pension plans (the “Pension Plans”), which fund retirement benefits for almost all of the public employees of the State. The Pension Plans will fund those retirement benefits from their assets, earnings on their assets, contributions by the State and contributions from Pension Plan members. Local governments within the State participate as employers sponsoring two of the Pension Plans. In both of these Pension Plans, the assets that the State and the local governments contribute are invested together and generate one investment rate of return. However, both of these Pension Plans segregate the active and retired members and the related actuarial liabilities between the State and the local governments. The following description of the State’s funding of the Pension Plans solely relates to the State’s portion of the Pension Plans.

State’s Contributions

The State makes contributions to the Pension Plans under the State statutes and such contributions are subject to the appropriation of the State Legislature and actions by the Governor. Under the Pension Contribution Act, the State, beginning in Fiscal Year 2018, is required to make its contributions to the Pension Plans in quarterly installments on September 30, December 31, March 31 and June 30. The State has contributed the Lottery Enterprise to three of the Pension Plans under the LECA, pursuant to which the net proceeds of the Lottery Enterprise are available to pay retirement benefits of the applicable Pension Plans without further action by the State Legislature or the Governor.

Financial Condition of the Pension Plans

General

As a result of lower-than-recommended contributions by the State to the Pension Plans for an extended period, lower than assumed investment returns on an actuarial basis, benefit enhancements enacted during the late 1990s and early 2000s, and reductions in member contributions, the Pension Plans experienced a deterioration in their financial condition. As a result, the State believes that, in addition to the existing assets of the Pension Plans, the expected earnings on those assets, and contributions from members of the Pension Plans, the State will need to make significantly larger contributions to the Pension Plans in the future to ensure that the Pension Plans will have a sufficient amount of assets to fund expected retirement benefits.

Current Funding Policy

The State has followed a funding policy for the Pension Plans for several Fiscal Years, which is to increase its contribution to the Pension Plans by 10% of the actuarially recommended contribution each Fiscal Year until the State contributes 100% of the actuarially recommended contribution, which is expected to occur in the Fiscal Year ending June 30, 2023, and then to contribute the full actuarially recommended contribution for each Fiscal Year thereafter. The Governor’s Budget Message for Truncated Fiscal Year 2021 recommended appropriations equaling 80% of the full actuarially recommended contribution. The Legislature reduced the proposed funding amount to the Pension Plans by \$122 million, which lowered the total anticipated funding percentage for Fiscal Year 2021 from 80% to 78% of the full actuarially recommended contribution. The State intends to resume making contributions based on the 10% ramp-up funding plan in Fiscal Year 2022 by contributing 90% of the full actuarially recommended contribution. The State contributed its Lottery Enterprise (which is defined and explained below) to the Pension Plans as of June 30, 2017 and the State’s contributions to the Pension Plans are offset each Fiscal Year by a statutorily fixed amount until the Fiscal Year ending June 30, 2023, when the amount of the State’s contributions will be offset by a lower amount designed to increase the funded ratio of the Pension Plans.

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Decrease of UAAL primarily as a result of Experience Investigations

The overall funded status of the Pension Plans, which is the ratio of the actuarial value of assets over liabilities, decreased from 54.4% to 50.7% between the June 30, 2018 and June 30, 2019 actuarial valuations. The reduction in the funded status is mainly attributable to the adoption of revised actuarial assumption based on experience investigations conducted by the Pension Plans' actuary in 2019 and a reduction in the assumed investment rate of return used in the actuarial valuations from 7.5% to 7.3%. The revised assumptions, which were adopted by the various Pension Boards in early 2020, caused actuarial accrued liabilities to increase by \$2.656 billion or 2.6% between the June 30, 2018 and June 30, 2019 actuarial valuations. The change in the assumed rate of return increased liabilities by \$2.098 billion or 2.1%. The reduction in the funded status of the Pension Plans is also attributable to the State contributing less than the full actuarially recommended contribution to the Pension Plans. Funded levels are expected to continue to drop until such time as the State begins making full actuarially recommended contributions to the Pension Plans. See "Prospective Statutory Funded Status" below.

Impact of COVID-19 Pandemic on Investment Return of Pension Plans

The preliminary unaudited Pension Plan returns for Fiscal Year 2020 were significantly below the rate of return assumed by the Pension Plans for purposes of developing the annual actuarially recommended contributions. Investments were impacted by a wide range of factors generally related to the COVID-19 Pandemic and the concurrent shutdown of large segments of the economy. For actuarial valuation purposes, Fiscal Year 2020 contributions assumed that plan assets would grow by 7.5%. Due to market declines in certain investments directly impacted by the weakened economic environment and financial market dislocations caused, in part, by the COVID-19 Pandemic, preliminary unaudited returns for Fiscal Year 2020 were only 1.2%. The lower returns will create additional unfunded liabilities which will raise the State's contribution requirements beginning in Fiscal Year 2022.

Impact of the COVID-19 Pandemic on Lottery Net Proceeds

Lottery Net Proceeds received by the Pension Plans have been lower than anticipated. In Fiscal Year 2020, total Lottery Net Proceeds are estimated to be lower than forecasted by approximately \$70 million. For Fiscal Year 2021, Lottery Net Proceeds received to date are also below target based on current State Lottery projections. The State is anticipating that the Pension Plans will receive \$1.084 billion in Lottery Net Proceeds in Fiscal Year 2021. If current State Lottery sales do not improve in Fiscal Year 2021 and remain below target, the Pension Plans will incur additional asset losses which will raise future State contribution requirements. Lower Lottery Net Proceeds may also cause required State contributions to increase beginning in Fiscal Year 2023. LECA contains a provision requiring the Lottery Enterprise to be revalued every 5 years. The first revaluation must be completed by Fiscal Year 2023. If the estimated value of the Lottery Enterprise is reduced, the amount the State is required to fund from General Fund appropriations may increase. Projections of future cash flows, plan funding status and future liabilities reflect the impact of the actual Fiscal Year 2020 rate of return and of lower Lottery Net Proceeds for Fiscal Year 2020. See "Fiscal Year 2021 Contribution and Prospective Funding Policy" and "Prospective Financial Information of Pension Plans" below.

Prospective Financial Information of Pension Plans

The following sets forth a projection of the financial condition of the Pension Plans, contributions from the State, contributions from members of the Pension Plans, and other related information. The following information constitutes forward-looking information and does not represent a prediction of actual results. It is based on numerous assumptions and methodologies and actual results will likely differ. Investors should read carefully all of the footnotes to the following table and the related cross-references to understand the assumptions and methodologies upon which the following information is based.

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**AGGREGATE PROJECTED ANNUAL CASH FLOWS AND
NET VALUE OF ASSETS OF STATE'S PORTION OF PENSION PLANS
Fiscal Year Ending June 30, 2021 through June 30, 2050
(In Millions)**

Fiscal Year Ending (June 30)	Beginning Value of Net Assets⁽¹⁾	Member Contributions⁽²⁾	State Contributions⁽³⁾⁽⁴⁾	Lottery Net Proceeds⁽⁵⁾	Investment Earnings⁽⁶⁾	Benefit Payments⁽⁷⁾	Ending Value of Net Assets
2021	\$ 30,786	\$1,280	\$3,490	\$1,086	\$ 2,077	\$ 7,267	\$ 31,453
2022	31,453	1,301	4,382	1,099	2,141	7,458	32,919
2023	32,919	1,321	5,626	1,112	2,270	7,642	35,606
2024	35,606	1,341	5,705	1,125	2,455	7,825	38,408
2025	38,409	1,362	5,781	1,139	2,649	8,004	41,335
2026	41,335	1,382	5,851	1,153	2,850	8,185	44,387
2027	44,387	1,410	5,913	1,167	3,060	8,377	47,560
2028	47,561	1,445	5,955	1,180	3,279	8,571	50,848
2029	50,848	1,481	5,990	1,190	3,505	8,762	54,251
2030	54,251	1,517	6,020	1,202	3,738	8,961	57,768
2031	57,767	1,554	6,043	1,214	3,980	9,164	61,394
2032	61,394	1,592	6,039	1,226	4,228	9,368	65,112
2033	65,112	1,632	6,035	1,238	4,483	9,568	68,933
2034	68,933	1,672	6,029	1,251	4,746	9,769	72,862
2035	72,862	1,714	6,019	1,264	5,015	9,967	76,909
2036	76,908	1,758	6,012	1,276	5,294	10,153	81,096
2037	81,096	1,805	6,006	1,289	5,583	10,327	85,451
2038	85,451	1,853	6,001	1,302	5,884	10,492	89,999
2039	90,000	1,904	6,000	1,315	6,200	10,642	94,776
2040	94,776	1,958	6,003	1,329	6,532	10,774	99,824
2041	99,823	2,014	6,011	1,342	6,884	10,891	105,183
2042	105,183	2,073	6,025	1,356	7,258	10,997	110,897
2043	110,897	2,132	6,042	1,369	7,657	11,108	116,989
2044	116,990	2,193	6,062	1,383	8,083	11,225	123,485
2045	123,485	2,256	6,082	1,397	8,537	11,333	130,425
2046	130,425	2,321	6,109	1,411	9,022	11,451	137,837
2047	137,837	2,387	6,135	1,425	9,540	11,585	145,738
2048	145,739	2,455	7,033	—	10,065	11,725	153,566
2049	153,566	2,525	7,063	—	10,611	11,873	161,891
2050	161,891	2,598	7,044	—	11,191	12,010	170,715

- (1) Beginning value of net assets represents the projected value of the State's portion of Pension Plan net assets at the beginning of each Fiscal Year. Net assets equal the full market value of assets at the beginning of the Fiscal Year less member and employer contribution receivables included in the full market value of assets. The beginning value of net assets for Fiscal Year ending June 30, 2021 recognizes the actual rate of return of 1.21% for Fiscal Year 2020 and the estimated \$70 million reduction in Lottery Net Proceeds in Fiscal Year 2020. It includes Lottery Net Proceeds of \$1 billion for the Fiscal Year ending June 30, 2020, and the net value of assets for future Fiscal Years are adjusted for the Lottery Contribution from net proceeds of the Lottery Enterprise (the projection of which are reflected under the column Lottery Net Proceeds). Projected Lottery Net Proceeds of the Lottery Enterprise are based on projections prepared prior to the enactment of LECA. See "—Lottery Enterprise Contribution Act" below.
- (2) Represents contributions from members of the State's portion of the Pension Plans at current statutory contribution rates. Under the State statute, State employees make contributions to the Pension Plans ranging from 7.5% to 12% of their salary. The level of these contributions in the future could be changed through subsequent legislation.

(footnotes continue on next page)

- (3) Represents projected contributions by the State. The projected contributions by the State are assumed to follow the current funding policy of the State, which is to increase its contribution to the Pension Plans by 10% of the actuarially recommended contribution each Fiscal Year until the State contributes 100% of the actuarially recommended contribution, which is expected to occur in Fiscal Year ending June 30, 2023, and then to contribute the full actuarially recommended contribution for each Fiscal Year thereafter. The projected State contribution amounts reflect the annual credit against the actuarially recommended contribution pursuant to LECA. The annual credit, referred to as the Special Asset Adjustment, is a fixed dollar amount through Fiscal Year 2022. After Fiscal Year 2022, the Special Asset Adjustment will be determined each year based on an amortization of the then-current value of the Lottery Enterprise over the remaining term of the Lottery Enterprise Contribution. For purposes of this projection only, beginning in Fiscal Year 2023, the Special Asset Adjustment is calculated based on a 30-year amortization of the initial estimated value of the Lottery Enterprise of \$13.535 billion determined prior to the enactment of the LECA. The Lottery Enterprise must be revalued at least every five years, with the first reevaluation occurring in 2022. The amount of the Special Asset Adjustment applied against the actuarial determined contribution will either increase or decrease based on the revaluation of the Lottery Enterprise. For further information, see “Lottery Enterprise Contribution Act – Special Asset for Actuarial Calculation Purposes” below. Actual contributions are subject to appropriation by the State Legislature and have varied substantially over the last several years. See “—State’s Financial Responsibility and Contributions to the Pension Plans” below.
- (4) Does not include contributions that the State makes in respect to local governmental participation in the Pension Plans. In connection with increases in retirement benefits in the local governmental portion of the Pension Plans, the State has undertaken to make contributions to pay for a portion of the impact of those retirement benefits. In Fiscal Year 2021, the State expects that this amount is equal to \$190.2 million.
- (5) Lottery Net Proceeds represent projected net proceeds from the Lottery Enterprise. See “—Lottery Enterprise Contribution Act” below. These projections were prepared in 2017 prior to the enactment of LECA by the Lottery Division. Through 2029, these projections are consistent with the Division’s management services agreement for sales and marketing with Northstar NJ and have not been updated since then. Prior to the enactment of the LECA, the projections were vetted by Bank of America Merrill Lynch, the State’s Advisor for the lottery transaction, and Acacia Financial Group, an independent third party valuation service provider. Although these projections have not been updated, the State believes the projected Lottery Net Proceeds estimates are still reasonable.
- (6) The projection of investment earnings is based on the ultimate assumed rate of return of assets of the State’s portion of the Pension Plans, which is 7.0%. For valuation of the liabilities, the State lowered the assumed rate of return from 7.5% to 7.3% beginning with the July 1, 2019 actuarial valuation. Effective with the July 1, 2021 actuarial valuation, the State plans to lower the assumed rate of return from 7.3% to 7.0%. See “—Actuarial Valuations and Actuarial Funded Status of Pension Plans—Assumptions used in Actuarial Valuations” below.
- (7) Benefit payments represent projected retirement benefit payments by the State’s portion of the Pension Plans to current and future retired members over the forecasted period. The amounts of projected retirement benefits are based on the various applicable benefit formulas as well as numerous assumptions and methodologies made by the actuaries of the Pension Plans. Key assumptions include, among others, demographic assumptions relating to periods of employment, ages of retirement and life expectancy of members and economic assumptions such as salary growth and inflation. In addition, these projections use methodologies to calculate projected retirement benefits. As opposed to how the actuaries prepare the actuarial valuations, the projected benefit payments also include an estimate of the amount of retirement benefits that members are likely to earn in the future. In addition, the projected benefit payments assume that the State does not increase or enhance retirement benefits during the forecasted period. Under pension reforms, the State has created committees that are authorized to make some specified increases in retirement benefits for Pension Plans that achieve specified levels of funding status. The projected benefit payments assume that none of those retirement benefits are increased although the State, based on the assumptions of the projections above, expects that several of the Pension Plans will achieve the specified levels of funding status. With respect to PFRS, the projection also assumes that the PFRSNJ Board that was established pursuant to *L. 2018, c. 55*, will not increase or enhance benefits during the forecasted period. See “—Actuarial Valuations and Actuarial Funded Status of Pension Plans—Assumptions used in Actuarial Valuations” and “—Methodologies used in Actuarial Valuations” below.

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State's Pension Plan Funding Policy

Historical Funding Policy

The level of the State's annual contributions has significantly varied since the 1990's. In some years, the State's contributions to the Pension Plans have been minimal or none. In other years, the State has contributed a percentage of the actuarially recommended contribution. For a description of the calculation of actuarially recommended contributions, see "—Actuarial Valuations and Actuarial Funded Status of Pension Plans" below. The following sets forth the State's aggregate annual contributions to the Pension Plans for Fiscal Years ended June 30, 1997 through June 30, 2020, together with a comparison of those contributions to the actuarially recommended contributions:

AGGREGATE STATE CONTRIBUTIONS TO PENSION PLANS For the Fiscal Years Ending June 30, 1997 through June 30, 2020⁽¹⁾ (In Millions)

Fiscal Year Ending June 30,	Actuarial Recommended Contributions	Actual Contributions	Percentage ⁽²⁾
State			
1997 ⁽³⁾	\$ 297.6	\$ 104.6	35%
1998.....	443.9	90.2	20
1999.....	511.4	284.2	56
2000.....	583.4	63.7	11
2001.....	629.6	0.0	0
2002.....	654.8	0.6	0
2003.....	663.0	10.4	2
2004.....	783.2	26.4	3
2005.....	1,066.2	61.1	6
2006.....	1,450.8	164.4	11
2007.....	1,778.6	1,023.2	58
2008.....	2,089.8	1,046.1	50
2009.....	2,230.7	106.3	5
2010.....	2,518.8	0.0	0
2011.....	3,060.5	0.0	0
2012.....	3,391.4	484.5	14
2013.....	3,600.2	1,029.3	29
2014.....	3,691.2	699.4	19
2015.....	3,935.4	892.6	23
2016.....	4,353.5	1,307.1	30
2017.....	4,663.1	1,861.6	40
2018 ⁽⁴⁾	5,017.9	2,484.1	50 ⁽⁵⁾
2019.....	5,352.2	3,276.0	60 ⁽⁶⁾
2020.....	5,438.7	3,736.6	70 ⁽⁷⁾

Source: New Jersey Department of the Treasury, Division of Pensions and Benefits. Information regarding the actuarially recommended contributions of the State was derived from the actuarial valuation reports as of July 1, 1995 through July 1, 2018. Information regarding the actual contributions of the State for Fiscal Years 1997 through 2020 was provided by the Division of Pensions and Benefits. Actual contributions include Lottery Net Proceeds from the Lottery Enterprise beginning in Fiscal Year 2018. See "—Lottery Enterprise Contribution Act" below.

- (1) For all pension plans, the State contributions relating to an actuarial valuation as of the end of a fiscal year are made in the second succeeding fiscal year. For example, the State's actuarial recommended contribution for Fiscal Year 2020 was determined in the actuarial valuation as of July 1, 2018.
- (2) Percentage of actual contributions by the State to the Pension Plans to the actuarially recommended contribution for the applicable Fiscal Year. Percentages may not be exact due to rounding.
- (3) As a result of the enactment of *L. 1997, c. 114*, the Pension Plans received a contribution of \$2.75 billion from the sale of pension obligation bonds by NJEDA, which, pursuant to statute, was applied toward the State's share of the unfunded pension liabilities.
- (4) The actual contribution consists of the State's contribution of \$1.508 billion and Lottery Net Proceeds of \$976 million.

(footnotes continue on next page)

- (5) The State planned to make a \$2.509 billion pension contribution for Fiscal Year 2018 representing 50% of the full actuarial recommended contribution of \$5.018 billion. The State made a \$1.508 billion general fund appropriation and \$1.001 billion of Lottery Net Proceeds were expected to be transferred to the eligible Pension Plans. While actual lottery proceeds matched targeted levels, a small percentage of the actual Lottery Net Proceeds in Fiscal Year 2018 pertained to prior year unclaimed prizes. Since these proceeds were earned prior to the enactment of LECA, the State determined that the eligible Pension Plans were not entitled to such proceeds, which lowered the actual Lottery Net Proceeds realized to \$976 million. As a result of this technical adjustment, the State's total contribution to the Pension Plans for Fiscal Year 2018 was slightly less than the 50% planned contribution.
- (6) For purposes of calculating the percentage of the State's contribution relative to the actuarially recommended contribution, the State adds the sum of the State's contribution of \$2.176 billion and the Lottery Net Proceeds of \$1.105 billion. As a result of higher than expected Lottery Net Proceeds in Fiscal Year 2019, the overall funded percentage was slightly greater than 60%.
- (7) For Fiscal Year 2020, it is expected that Lottery Net Proceeds will be \$70 million lower than the Special Asset Adjustment amount set in LECA for Fiscal Year 2020 due to the COVID-19 Pandemic. As a result, the overall funded percentage will be slightly lower than 70%.

Fiscal Year 2021 Contribution and Prospective Funding Policy

Since the Fiscal Year ended June 30, 2016, the State has followed a Pension Plan funding policy of increasing its contribution to the Pension Plans by approximately 10% of the actuarially recommended contribution each Fiscal Year until it reaches the full actuarially recommended contribution, which is expected to occur in the Fiscal Year ending June 30, 2023, and then to fund the full actuarially recommended contribution in all subsequent Fiscal Years. Since the adoption of LECA, the State calculates its contribution under this funding policy by applying the Fiscal Year's percentage of the actuarially recommended contribution (which, for Fiscal Year 2021, is 78%), and then reducing the amount of the State's contribution by the Special Asset Adjustment (which is defined and explained below under "—Lottery Enterprise Contribution Act"). For Fiscal Year 2021, the State is expected to make a contribution to the Pension Plans equal to \$3,681.4 million. This contribution was calculated by multiplying the actuarially recommended contribution applicable to contributions in Fiscal Year 2021 (which is \$6,109.7 million) by 78% (which is the percentage of the actuarially recommended contribution applicable to Fiscal Year 2021 under the State's Pension Plan funding policy), which equals a total contribution of \$4,765.6 million, and then reducing that amount by the Special Asset Adjustment, as defined herein. While the State's contribution is reduced by the Special Asset Adjustment, from a pension funding perspective, that reduction is expected to be offset by the net proceeds of the Lottery Enterprise that began flowing to the Pension Plans at the start of Fiscal Year 2018. For a more detailed discussion, see "—Lottery Enterprise Contribution Act" below. Under the State's current Pension Plan funding policy, a similar calculation will be made in each future Fiscal Year. Since the actual level of contributions by the State to the Pension Plans is subject to appropriation by the State Legislature, the actual level of contribution is subject to change each Fiscal Year depending on appropriations by the State Legislature, changes to State statutes by the State Legislature, and actions by the Governor.

Membership, Benefits and Governance of the Pension Plans

Membership of Pension Plans

Almost all of the public employees of the State and its counties, municipalities and political subdivisions are members of pension plans administered by the State. Listed in order of active membership based on the most recent actuarial valuation reports dated July 1, 2019, the Pension Plans and their active and retired membership are as follows:

Plan	Membership at June 30, 2019	
	Active	Retired
Public Employees' Retirement System ("PERS")	249,045	183,434
Teachers' Pension and Annuity Fund ("TPAF")	156,066	106,820
Police and Firemen's Retirement System ("PFRS")	42,520	45,602
State Police Retirement System ("SPRS")	2,820	3,400
Judicial Retirement System ("JRS")	426	639
Consolidated Police and Firemen's Pension Fund ("CP&FPF")	0	52
Prison Officers' Pension Fund ("POPF")	0	62
Total	450,877	340,009

From June 30, 2014 to June 30, 2019, the total number of active members of all of the State-administered plans decreased by 11,486 or 2.5%, and the total number of retired members increased by 37,166 or 12.2%.

Local Government Pension Plans

The State is not the only employer sponsoring PERS and PFRS. Local governments within the State participate as employers. In both of these Pension Plans, the assets that the State and the local governments contribute are invested together and generate one investment rate of return. However, both of these Pension Plans segregate the active and retired members and the related actuarial liabilities between the State and the local governments. As of June 30, 2019, those members of the PERS and PFRS for which the State is responsible for making contributions were, with respect to PERS, 77,161 active members and 60,078 retired members and, with respect to PFRS, 7,239 active members and 6,816 retired members. In connection with increases in retirement benefits in the local governmental portion of the Pension Plans, the State has undertaken to make contributions to pay for a portion of the impact of those retirement benefits.

Benefits

Almost all State employees participate in one of the Pension Plans, with eight to ten years of employment required before retirement benefits become vested. The level of retirement benefits varies among the different Pension Plans and is calculated based on a member's years of service, compensation and age of retirement. State law provides that the retirement benefits of the Pension Plans are not subject to negotiations between the State and other public employers and the employee members of the Pension Plans. The State Legislature has in the past adopted laws that increased the retirement benefits payable by the Pension Plans and may do so in the future.

Governance

The Pension Plans were established by various State laws between January 1, 1941 and June 1, 1973. These Pension Plans are overseen and administered by the State of New Jersey, Division of Pensions and Benefits within the Department of the Treasury. Each Pension Plan has a board of trustees and related committees in which is vested the general responsibility for the proper operation of the Pension Plan. The Division of Pensions and Benefits is responsible for all administrative and financial functions of the Pension Plans except for the investment of the pension assets, which is the responsibility of the Division of Investment. The rules and regulations governing the operation and administration of the Pension Plans are set forth in State law and regulations.

With respect to PFRS, the State Legislature adopted *L. 2018, c. 55* in July 2018, which transferred management of PFRS from the New Jersey Department of the Treasury, Division of Pensions and Benefits to a twelve-member PFRS Board of Trustees (the "PFRSNJ"). The PFRSNJ, which was established in February 2019 per the legislation, has more powers and authority as compared to the former PFRS Board of Trustees. In addition to overseeing the management of PFRS, the PFRSNJ Board also has the authority to direct investment decisions, to adjust current benefit levels and to change member and employer contribution rates. With regard to changes to current benefit provisions, such changes can only be made with the approval of a supermajority of eight (8) of the twelve (12) members of the PFRSNJ Board. Also, benefit enhancements can only be made if an independent actuary certifies that the benefit enhancement will not jeopardize the long-term viability of PFRS. Under prior law, benefit enhancements, including the reinstatement of cost-of-living adjustments for retirees, could only be considered when the funded level of the pension fund reached 80%. An actuarial certification was also required that the funded levels would remain at or above 80% over a 30-year period following the benefit enhancement.

The PFRSNJ consists of twelve (12) members with seven (7) employee representatives (including three (3) active policemen, three (3) active firemen, and one (1) retiree), and five (5) employer representatives (four (4) municipal or county government officials and one current or former member of the Executive Branch).

Pension Plan Assets

As of June 30, 2019, the State's portion of the market value of assets in the Pension Plans is \$36.1 billion, which amount does not include the value of the Lottery Contribution. See "—Lottery Enterprise Contribution Act"

below. The Division of Investment of the New Jersey Department of the Treasury invests the cash and investments of the Pension Plans. State law and State Investment Council regulations regulate the types of investments which are permitted. The State Investment Council is responsible for formulating the policies that govern the methods, practices and procedures for investments, reinvestments, sale or exchange transactions to be followed by the Director of the Division of Investment. However, pursuant to *L. 2018, c. 55*, responsibility for formulating investment policies and directing the investment activities of the assets of the PFRS will be transferred from the State Investment Council to the PFRSNJ Board.

Lottery Enterprise Contribution Act

In accordance with the Lottery Enterprise Contribution Act, *L. 2017, c. 98* (“LECA”), and a Memorandum of Lottery Contribution dated July 5, 2017 and effective as of June 30, 2017 (the “MOLC”), executed by the State Treasurer and acknowledged by the Director of the Division of Investment, New Jersey Department of the Treasury, the State’s lottery and related assets, including intellectual property, (the “Lottery Enterprise”) was contributed to TPAF, PERS, and PFRS for a 30-year term (the “Lottery Contribution”). Under LECA, the Department of the Treasury, Division of the State Lottery (“State Lottery Division”) will continue to operate the Lottery Enterprise with a goal of maximizing net proceeds for the benefit of the applicable Pension Plans. Starting on October 1, 2013, Northstar New Jersey Lottery Group, LLC (“Northstar NJ”) officially began a 15-year contract to provide growth management services to the State Lottery Division. The Northstar NJ contract, which will remain in effect through the end of Fiscal Year 2029, contains incentives for the vendor to maximize net proceeds while reducing downside risk through minimum payment requirements imposed on the vendor.

Neither LECA nor the MOLC contain a provision permitting the termination of the contribution prior to the end of the 30-year term of the contribution. However, a future Legislature could pass legislation to reverse the contribution prior to the expiration of its term. Any termination of the Lottery Contribution could implicate the exclusive benefit rule of the Internal Revenue Code, which requires the assets of the Pension Plans to exist for the exclusive benefit of their members in order for the Pension Plans to qualify for the favorable tax treatment under the Internal Revenue Code. Based on a 1996 settlement with the Internal Revenue Service, the State’s Pension Plan statutes include the exclusive benefit provisions required by the Internal Revenue Code. The term of the contribution of the Lottery Enterprise will expire at the start of Fiscal Year 2048, and the Lottery Enterprise will revert back to the State at that time.

Lottery Enterprise – Valuation

For the purpose of determining a fair value of the contribution of the Lottery Enterprise, Acacia Financial Group was hired as an Independent Valuation Service Provider by the New Jersey Department of the Treasury. The Independent Valuation Service Provider applied The Actuarial Standard of Practice No. 44 of the Actuarial Standards Board (the “ASOP-44”). For Assets that are Difficult to Value, such as the Lottery Enterprise, ASOP-44 provides that, if audited financial statements do not provide an appropriate market value, and there are no recent sales of similar assets to provide a market value, the present value of reasonably expected future cash flows may be treated as market value under this standard. The Independent Valuation Service Provider determined the fair value by using the financial projections provided by Northstar NJ, for Fiscal Years 2018 through 2029. Estimates for Fiscal Years 2030 through 2048 assumed a 1.0 percent annual growth rate.

Using this valuation methodology, the contribution of the Lottery Enterprise is expected to generate an estimated \$37 billion for the Pension Plans over 30-year term of the Lottery Contribution. The Independent Valuation Service Provider applied a 7.65% discount factor, which was the same as the assumed actuarial rate of return on the Pension Fund, and arrived at a fair market value for the Lottery Enterprise of \$13.535 billion as of June 30, 2017. Pursuant to LECA, the Lottery Enterprise is to be re-valued at least every five years and, in the absence of a revaluation, the Lottery Enterprise will be depreciated on a straight-line basis over the remaining term of the contribution based on the most recent valuation. At the end of the 30-year term of the contribution, the value of the Lottery Enterprise will have been depreciated to zero with respect to the Pension Plans. The valuation report of the Independent Valuation Service Provider and other documents relating to the Lottery Enterprise are available at the following website: <http://www.state.nj.us/treasury/njletransparency.shtml>. No information on the website is incorporated by reference into this Appendix I.

Allocation of Contribution amongst the Pension Plans

LECA defines which Pension Plans are eligible to receive a percentage of the contribution by virtue of their members' past or present employment in State schools and State institutions, in keeping with the Constitutional dedication of net lottery proceeds for those purposes. Pursuant to LECA, the applicable Pension Plans were allocated a percentage of the contributed Lottery Enterprise as follows: 77.78% to TPAF, 21.02% to eligible members of PERS, and 1.20% to eligible members of PFRS. Under LECA and the terms of the MOLC, these "Allocable Percentages" are not subject to adjustment during the term of the contribution of the Lottery Enterprise to the applicable Pension Plans.

Deposit of the Lottery Enterprise Contribution into Common Pension Fund L

For the purpose of depositing the Lottery Contribution made to the Eligible Pension Plans, LECA established Common Pension Fund L within the Division of Investment. During the term of the contribution, all new assets acquired by or for the Lottery Enterprise will be owned by Common Pension Fund L for the benefit of the applicable Pension Plans. Within Common Pension Fund L are two subaccounts, the "Operations Account" and the "Investment Account". Gross proceeds generated by the Lottery Enterprise are deposited into the Operations Account. The State Lottery Division is solely responsible for managing the Operations Account, including payment of costs incurred in the operation and administration of the Lottery Enterprise such as payment of prizes, reimbursement of funds used to pay expenses and payment for Lottery sales agent commissions, payment of certain prizes paid by Lottery sales agents and reserves for payment of prizes. Proceeds in amounts determined by the State Lottery Division are transferred to the Investment Account from the Operations Account on a periodic basis (no less than monthly). Such proceeds constitute the net proceeds of the Lottery Enterprise, and together with all investments thereof and investment earnings thereon are solely available to and for the benefit of the applicable Pension Plans. The Investment Account is managed and invested by the Director of the Division of Investment, subject to the oversight of the State Investment Council. The Director of the Division of Investment has full discretion to distribute proceeds and all investments thereof and investment earnings thereon from the Investment Account to satisfy retirement benefits of the applicable Pension Plans.

Pursuant to LECA, during the term of the Lottery Contribution, no less than 30 percent of the gross proceeds of the Lottery Enterprise shall be deposited to the Investment Account to be used by each applicable Pension Plan for payments of retirement benefits to eligible members or to be invested on behalf of the applicable Pension Plan by the Director of the Division of Investment.

Special Asset for Actuarial Calculation Purposes

During the term of the Lottery Contribution, the current methodology for amortizing the UAAL of the applicable Pension Plans and calculating the actuarially recommended contribution remains in place for all assets and liabilities of the applicable Pension Plans except for the Lottery Enterprise. In accordance with LECA, for actuarial purposes, the Lottery Enterprise is considered a "Special Asset", the value of which is reflected in an annual adjustment (the "Special Asset Adjustment") to the State's contribution to the applicable Pension Plan, calculated pursuant to LECA. Under LECA, the Special Asset Adjustment is fixed for the first five Fiscal Years as set forth in the chart below. Unlike the amount of the Special Asset Adjustment after the first five Fiscal Years, the Special Asset Adjustment in the first five Fiscal Years was not reduced so that it would minimize the impact of the Lottery Contribution on the State's General Fund budget during that period.

ANNUAL SPECIAL ASSET ADJUSTMENT For the Fiscal Years Ending June 30, 2018 through June 30, 2022

Fiscal Year Ending (June 30)	Special Asset Adjustment
2018	\$1,000,976,874
2019	1,037,148,584
2020	1,070,451,102
2021	1,084,354,841
2022	1,095,871,137

Starting in Fiscal Year 2023, the Special Asset Adjustment is determined by a level-dollar amortization of the then-current Lottery Enterprise value over the remaining term of the contribution at the regular interest rate applicable to the applicable Pension Plan, multiplied by a stated Adjustment Percentage. The Special Asset Adjustment will not exceed in any year the Maximum Special Asset Adjustment stipulated in the LECA. The purpose of the Adjustment Percentage is to create a lower Special Asset Adjustment, which will increase projected amounts to be contributed to the applicable Pension Plans, and to achieve higher projected funded ratios; provided the State follows its current Pension Plan funding policy. Additionally, LECA includes a mechanism to further reduce the Adjustment Percentage if an applicable Pension Plan's funded ratio drops below 50 percent. The Adjustment Percentage is unaffected by the performance of the Lottery Enterprise during the term of the Lottery Contribution. A future Legislature may change any or all of the provisions of the LECA for all, or some, of the term of the Lottery Contribution.

Impact of the Value of the Lottery Enterprise Contributed upon the Pension Plans' Funded Ratio

The contribution of the Lottery Enterprise is valued as of June 30, 2020 at \$12.616 billion, based on a 30-year straight line amortization. However, the first reevaluation of the value of the Lottery Enterprise required by LECA has not yet been performed. If the contribution of the Lottery Enterprise were not taken into consideration in calculating the funded ratio of the Pension Plans, the funded ratio of the Pension Plans as of June 30, 2019 would have been 38.2% instead of 50.7%. See –Actuarial Valuations and Actuarial Funded Status of Pension Plans—Historical Statutory Funding Status” below.

Actuarial Valuations and Actuarial Funded Status of Pension Plans

General

State law requires that all Pension Plans must conduct an actuarial valuation as of the end of each fiscal year. The actuarial valuations of the Pension Plans have historically served a critical role in determining the appropriate contribution level of the State to the Pension Plans through their calculations of an actuarially recommended contribution (which is discussed in more detail below). In many years in which the State did not contribute the actuarially recommended contribution, it still sought to contribute a percentage of the actuarially recommended contribution. In addition, the State's current Pension funding policy provides for its contribution, when added to the Special Asset Adjustment from the Lottery Net Proceeds under LECA, to represent a percentage of the actuarially recommended contribution (78% for Fiscal Year ending June 30, 2021). Informational copies of these reports as well as other financial information are available on the Division of Pensions and Benefits' website at: <https://www.nj.gov/treasury/pensions/financial-reports.shtml>. No information contained on the website of the Division of Pensions and Benefits is incorporated herein by reference.

Ordinarily, the actuarial valuations of the Pension Plans are completed approximately six to eight months after the end of a Fiscal Year. As a result, the actuarially recommended contribution rates of the actuarial valuations of the Pension Plans apply not to the Fiscal Year immediately following the Fiscal Year covered by the actuarial valuations but the second immediately following fiscal year. For example, the actuarially recommended contributions in the actuarial valuations of the Pension Plans as of July 1, 2019 are applicable to the Fiscal Year ended June 30, 2021.

Actuaries and Auditor

Cheiron, Inc. serves as consulting actuary for all seven defined benefit pension plans. The consulting actuary prepares the actuarial valuations and experience investigations (which are described below) for the Pension Plans. KPMG LLP serves as the auditor of the financial statements of the Pension Plans.

Content and Timing of Actuarial Valuations

The purpose of an actuarial valuation is to calculate an actuarially recommended contribution by an independent actuary on the basis of an assessment by such actuary, using multiple assumptions and methodologies, whether the assets of a Pension Plan, together with expected earnings and other amounts, will be sufficient to pay

expected retirement benefits. Two of the key calculations that the actuaries make in each actuarial valuation is a calculation of the actuarial accrued liability and the actuarial value of assets. The actuarial accrued liability of a Pension Plan represents an estimate, on the basis of demographic and economic assumptions, of the present value of benefits the Pension Plan will pay to retirees over time. The actuarial valuation of assets represents the market value of the assets of the Pension Plan as adjusted for several methods discussed below. The actuarial valuation compares the actuarial accrued liability with the actuarial value of assets, and any excess of that liability over the assets forms an unfunded actuarial accrued liability (“UAAL”) of the applicable Pension Plan. An actuarial valuation will express the percentage that a Pension Plan is funded through a “Funded Ratio” which represents the quotient obtained by dividing the actuarial value of assets of the Pension Plan by the actuarial accrued liability of the Pension Plan. A Funded Ratio of 100% represents an assessment by the actuary, based on the assumptions and methodologies of the actuarial valuation, that a Pension Plan has a sufficient amount of assets that, with future earnings on those assets and other amounts, will be sufficient to pay expected retirement benefits that have been earned to date.

Actuarially Recommended Contribution

Actuaries of the Pension Plans will also calculate an actuarially recommended contribution in each actuarial valuation. The actuarially recommended contribution consists of two components: (1) normal cost which represents the portion of the present value of retirement benefits that are allocable to active members’ current year service, and (2) in cases where the Funded Ratio is less than 100%, a portion of the UAAL. The actuarially recommended contribution is determined in accordance with State statutes and uses different assumptions and methodologies than used for purposes of meeting financial disclosure requirements. See “—GASB Statements No. 67 and 68” below.

Assumptions used in Actuarial Valuations

While actuarial valuations express the funding status of Pension Plans in terms of a value on a particular date, in reality they consist of projections of future retirement benefits and estimates of the amount of assets that will be available to pay those retirement benefits. To make these projections and estimates, actuaries use many assumptions, which include: expected rate of return on assets, inflation rates, future pay increases, age of retirement of members, assumed rates of disability and post-employment life expectancies of retirees and beneficiaries. The Pension Plan boards establish most of these assumptions except that the State Treasurer establishes the expected rate of return. If the experience of the Pension Plans is different from these assumptions, the UAAL of the Pension Plans may increase or decrease to the extent of any variances.

State law requires the Pension Plans to conduct experience investigations every three years, which examine the demographic and economic assumptions used in the Pension Plans’ actuarial valuations to ensure that those assumptions are consistent with historical experience. If an experience investigation results in a change in one or more assumptions, it can have a significant impact on the UAAL of a Pension Plan in the actuarial valuations following the experience investigation. For example, based on the experience investigation for TPAF covering the period from July 1, 2015 through June 30, 2018, the salary growth assumption and several of the demographic assumptions were changed, including the mortality rates. These assumption changes were reflected in the July 1, 2019 actuarial valuation and caused the overall UAAL to increase by \$1.968 billion or 3.0% and the actuarially recommended contribution of TPAF to increase by \$253.5 million or 7.8%. In PERS-State the actuarial assumption changes reflected in the 2019 actuarial valuation based on the July 1, 2014 through June 30, 2018 experience investigation increased the UAAL by \$584 million or 2.3% and the actuarially recommended contribution by \$70.6 million or 7.0%.

In the case of the expected rate of return of assets, the actual rate of return of the Pension Plans depends on the performance of the investment portfolio. The value of the securities in the investment portfolio can dramatically change from one Fiscal Year to the next, which could, in turn, contribute to substantial increases or decreases in the applicable UAAL. For example, for Fiscal Year 2020, the preliminary, unaudited investment rate of return is 1.21% and, for Fiscal Years 2019 and 2018, the investment rate of return was 6.27% and 9.06%, respectively. The preliminary, unaudited annualized return for the three-year period ended June 30, 2020 was 5.46%. The rate of return on assets assumed by the actuary in the most recent June 30, 2019 valuations was 7.3%. The assumed rate of return for valuation purposes was lowered from 7.5% to 7.3% beginning with the July 1, 2019 actuarial valuation. Milliman, Inc., the former actuary for TPAF, indicated in their June 30, 2017 actuarial valuation report that they considered the 7.5% assumed rate of return achievable only approximately 1/3rd of the time based on their projected annualized 30-year returns and recommends a further reduction in the assumed rate of return. The State plans a gradual reduction in

the assumed rate of return to 7% in two steps from 7.5% to 7.3% effective with the June 30, 2019 actuarial valuation and from 7.3% to 7% effective with the June 30, 2021 actuarial valuation.

Methodologies used in Actuarial Valuations

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

One of the methodologies used by the Pension Plans is an asset valuation method of smoothing over a five-year period the differences between market value of assets and expected value of assets. The Pension Plans use this method to prevent extreme fluctuations that may result from temporary or cyclical economic and market conditions. As of June 30, 2019, excluding the estimated value of the Lottery Contribution, the State's portion of the aggregate market value of all of the assets of the Pension Plans, as determined by the Pension Plans' actuaries, was approximately \$36.1 billion. As of June 30, 2019, the State's portion of the aggregate actuarial value of all assets of the Pension Plans was \$38.5 billion. Based on these figures, the Pension Plans have a net unsmoothed loss of approximately \$2.4 billion, which is the difference, as of June 30, 2019, between the market value of their assets and the actuarial value of their assets which is calculated using the smoothing method. As a result of the smoothing of gains and losses over a five (5)-year period under the current asset valuation method, the UAAL is lower than it would be if assets were stated at their current market value as of June 30, 2019.

When the Funded Ratio is less than 100%, part of the purpose of the actuarial valuation is to develop a schedule for restoring the Pension Plan to a Funded Ratio of 100% (which is referred to as an amortization method). This requires the actuary to calculate that portion of the UAAL that the State needs to contribute in order to follow that schedule. The actuaries of the Pension Plans use different methods in developing that schedule. Except for the CP&FPF and the POPF, the Pension Plans use a level dollar amortization method in place of the level percent of pay method previously used to calculate the amount of the UAAL that is included in the actuarially recommended rates of contribution, which means that the actuary assumes that the State will pay the same dollar amount to amortize the UAAL in each year of the amortization period. Pursuant to state pension statutes, the UAAL is being amortized over an open-ended 30-year period through the July 1, 2018 actuarial valuation for PERS, TPAF, SPRS and JRS, and through the July 1, 2017 actuarial valuation for PFRS. Beginning with the July 1, 2019 actuarial valuation for PERS, TPAF, SPRS and JRS, and the July 1, 2018 actuarial valuation for PFRS, the UAAL will be amortized over a closed 30-year period until the remaining period reaches 20 years, when the amortization period will revert to an open-ended 20-year period. An open amortization period means that the period over which the UAAL is amortized may reset to 20 years with each actuarial valuation if the unfunded actuarial accrued liability increases whereas, in a closed amortization period, the period is reduced with each actuarial valuation.

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Historical Statutory Funding Status

The following table sets forth the historical statutory funding status of the Pension Plans from the Fiscal Year ended June 30, 2010 through the Fiscal Year ended June 30, 2019.

HISTORICAL STATUTORY FUNDING STATUS AGGREGATE PENSION FUND ACTUARIAL LIABILITIES AND ASSETS⁽¹⁾ Actuarial Valuations as of July 1, 2010 through July 1, 2019 (In Millions)

Valuation Year Ending June 30,	Actuarial Value of Assets⁽²⁾	Actuarial Accrued Liability⁽²⁾	Unfunded Actuarial Accrued Liability (UAAL)⁽²⁾	Funded Ratio	Market Value of Assets⁽³⁾
2010 ⁽⁴⁾	\$47,950.5	\$72,588.5	\$24,638.0	66.1%	\$37,765.8
2011	46,736.7	75,622.0	28,885.3	61.8	40,795.3
2012	45,293.4	77,991.1	32,697.7	58.1	38,271.3
2013	44,494.5	80,051.0	35,556.5	55.6	39,486.0
2014	42,486.4	82,563.3	40,076.9	51.5	40,594.3
2015	41,397.4	85,212.0	43,814.6	48.6	38,505.9
2016 ⁽⁵⁾	39,731.6	88,800.3	49,068.7	44.7	34,698.9
2016 Rev ⁽⁶⁾	52,304.8	88,800.3	36,495.5	58.9	47,272.1
2017	51,416.6	92,150.6	40,734.0	55.8	48,354.5
2018	51,018.0	93,807.5	42,789.5	54.4	48,762.3
2019	51,090.4	100,789.0	49,698.6	50.7	48,743.9

Source: New Jersey Department of the Treasury, Division of Pensions and Benefits. Information was derived from the actuarial valuation reports as of July 1, 2010 through July 1, 2019 for all the Pension Plans.

- (1) The actuarial liabilities and assets shown in this chart are based on the actuarial methods and assumptions used to determine the statutory contributions and are different from the actuarial liabilities and assets based on GASB Statement No. 67.
- (2) For a description of these terms, see “—Actuarial Valuations and Actuarial Funded Status of Pension Plans” above.
- (3) The market value of assets as shown in the actuarial valuation reports for the Pension Plan and included in the table differs from the value of the investment portfolio of the Pension Plans as reported by the Division of Investment. The market value of assets of each of the Pension Plans is as set forth in the actuarial valuation reports for the Pension Plans and represents the full market value of the assets held by the Pension Plan, including expected receivable contributions from the State, local employers and participants and the estimated value of the Lottery Contribution beginning with the July 1, 2016 valuation.
- (4) The June 30, 2010 data reflects the impact on the Pension Plans of pension reforms enacted pursuant to *L. 2011, c. 78*, which resulted in a decrease in the State’s aggregate unfunded actuarial accrued liability (UAAL) from \$37.1 billion to \$24.6 billion and an increase in the State’s aggregate funded ratio from 56.4% to 66.1%.
- (5) Information was derived from the original actuarial valuation reports as of July 1, 2016 and excludes the value of the Lottery Contribution.
- (6) Information was modified to include \$12.573 billion in the Actuarial Value of Assets and Market Value of Assets representing the estimated value of the Lottery Contribution as of July 1, 2016. For the fiscal year ended as of June 30, 2016, this improved the overall funded ratio of the Pension Plans from 44.7% to 58.9% as compared to the original actuarial valuation reports as of July 1, 2016.

Prospective Statutory Funding Status

The following table sets forth the prospective statutory funding status of the Pension Plans for the Fiscal Year ended June 30, 2019 through the Fiscal Year ended June 30, 2048. The following information constitutes forward-looking information and does not represent a prediction of actual results. The following information represents a projection of the future funded status of the Pension Plans that is based on the assumptions and methodologies used by the actuaries to prepare the actuarial valuations for the Pension Plans and assumes that the State continues to make its contributions to the Pension Plan in accordance with its current funding policy. Accordingly, the following information is based on numerous assumptions and methodologies and actual results will likely differ. Investors should read carefully all of the footnotes to the following table and the related cross-references to understand the assumptions and methodologies upon which the following information is based.

PROSPECTIVE STATUTORY FUNDING STATUS
AGGREGATE PENSION FUND ACTUARIAL LIABILITIES AND ASSETS⁽¹⁾
For the Fiscal Year Ending June 30, 2019 through June 30, 2048
(In Millions)

Valuation Year Ending June 30	Actuarial Value of Assets (AVA)⁽²⁾⁽³⁾	Actuarial Accrued Liability (AAL)⁽²⁾⁽³⁾	Unfunded Actuarial Accrued Liability (UAAL)⁽²⁾	AVA Statutory Funded Ratio⁽²⁾
2019	\$ 51,090.4	\$100,789.0	\$49,698.6	50.7%
2020	51,267.3	102,862.9	51,595.6	49.8
2021	52,352.5	108,406.7	56,054.2	48.3
2022	54,496.1	110,520.2	56,024.1	49.3
2023	56,791.7	112,632.8	55,841.1	50.4
2024	59,233.9	114,745.8	55,511.9	51.6
2025	61,819.6	116,864.8	55,045.3	52.9
2026	64,539.9	118,988.0	54,448.1	54.2
2027	67,371.3	121,099.8	53,728.6	55.6
2028	70,312.4	123,197.8	52,885.3	57.1
2029	73,364.8	125,285.6	51,920.8	58.6
2030	76,515.5	127,353.0	50,837.5	60.1
2031	79,738.4	129,390.2	49,651.8	61.6
2032	83,033.2	131,392.9	48,359.7	63.2
2033	86,405.5	133,363.2	46,957.7	64.8
2034	89,852.9	135,296.7	45,443.8	66.4
2035	93,386.3	137,195.9	43,809.6	68.1
2036	97,024.3	139,074.1	42,049.8	69.8
2037	100,787.9	140,946.1	40,158.2	71.5
2038	104,699.5	142,827.1	38,127.7	73.3
2039	108,789.4	144,740.1	35,950.8	75.2
2040	113,095.3	146,714.7	33,619.4	77.1
2041	117,655.1	148,780.2	31,125.1	79.1
2042	122,501.1	150,959.8	28,458.7	81.1
2043	127,651.4	153,260.9	25,609.5	83.3
2044	133,121.7	155,687.3	22,565.6	85.5
2045	138,951.4	158,265.4	19,314.0	87.8
2046	145,154.2	160,997.9	15,843.7	90.2
2047	152,530.2	163,880.1	11,349.9	93.1
2048	160,378.4	166,921.7	6,543.4	96.1

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

⁽¹⁾ The actuarial liabilities and assets shown in this chart are based on the actuarial methods and assumptions used to determine the statutory contributions and are different from the actuarial liabilities and assets based on GASB Statement No. 67. The estimates recognize the preliminary unaudited actual rate of return of 1.21% for Fiscal Year 2020 and a \$70 million reduction in Lottery Net Proceeds estimated for Fiscal Year 2020. Future contributions assume the State will appropriate an amount equivalent to 90% of the actuarially determined contribution in Fiscal Year 2022 and 100% of the actuarially recommended contribution beginning in Fiscal Year 2023.

⁽²⁾ For a description of these terms, see “—Actuarial Valuations and Actuarial Funded Status of Pension Plans” above.

⁽³⁾ Actuarial value of assets includes the value of the Lottery Contribution. Fiscal Year 2020 includes Lottery Net Proceeds of \$1 billion and future Fiscal Years are adjusted for Lottery Net Proceeds projected to be received. Projected Lottery Net Proceeds are based on projections prepared prior to the enactment of LECA. See “—Lottery Enterprise Contribution Act” above.

GASB Statements No. 67 and 68

The State and the Pension Plans are required to follow GASB Statements No. 67 and 68 in preparing their financial statements. These GASB Statements are intended to improve comparability between public pension plans by standardizing the way certain financial data relating to these plans are disclosed. But they do not require plans to change their methods used to compute actual employer contributions to the plan. The State’s actual contributions to the Pension Plans continue to be calculated under the requirements of the governing State statutes.

GASB Statements No. 67 and 68 require governmental plans use specific methods in calculating the required disclosures, and those methods differ from the methods that the actuaries of the Pension Plans use in calculating UAAL and Funded Ratio. These include the method used to calculate how much cost each member's pension accrues over time and the discount rate used to discount projected benefit payments. In addition, the standards require the calculation of a "depletion date" based on a projection as to the length of time assets will cover projected benefit payments over a 99-year projection period under certain assumptions. For purposes of projecting future employer contributions, GASB 67 requires that assumed contributions be based on a consistent contribution pattern per state statute or other formally adopted policy. Since the State has not contributed the full actuarial recommended contribution for many years, the GASB valuation report uses the percentage of the actuarially recommended contribution the State is expected to make in the given year and assumes that percentage is what the State contributes for all future Fiscal Years. For example, for the most recent July 1, 2019 GASB valuation report, the asset depletion projection assumes the State will make future contributions based on 70% of the full statutory contribution amount, which represented the expected contribution percentage in Fiscal Year 2020 based on funding appropriated by the State and anticipated Lottery Net Proceeds. The GASB Statements require that the discount rate used to discount projected benefits payments to their present value will be based on a single rate that reflects (a) the long-term expected rate of return on plan investments as long as the plan net position is projected under specific conditions to be sufficient to pay pensions of current plan members and the pension plan assets are expected to be invested using a strategy to achieve that return; and (b) a yield or rate index on tax-exempt 20-year, AA- or higher rated municipal bonds to the extent that conditions for use of the long-term expected rate of return are not met.

In Fiscal Year ending June 30, 2021, the State is planning to make a contribution that, after accounting for the impact of the LECA will result in the Pension Plans receiving 78% of its actuarially recommended contribution. Based on the policy followed in prior years, the State will seek to use a 78% of actuarially recommended contribution assumption for the GASB 67 reports for Fiscal Year ended June 30, 2020. This change, if authorized through the Fiscal Year 2020 audit process, will lead to higher assumed future contributions and, therefore, help to extend the dates of depletion in the calculations. By extending the depletion dates further into the future, there will be a longer period of time (pre-depletion) when liabilities will be discounted at the Pension Plans' assumed rate of return (currently, 7.0%). This, in turn, will reduce Total Pension Liabilities and increase the funded ratio as calculated pursuant to GASB 67.

The GASB 67 reports for the State are based on information from the prior Fiscal Year's actuarial valuations of the Pension Plans, except that the information is updated to reflect market value of assets as of the date of the GASB 67 report and the information is adjusted to reflect events that the actuarial valuation assumed to occur in the Fiscal Year. Thus, the GASB 67 reports as of June 30, 2019 use information from the actuarial valuations of the Pension Plans as of June 30, 2019 subject to these adjustments.

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The results, summarized for the GASB 67 Reports as of June 30, 2019 are shown in the following chart:

GASB STATEMENT NO. 67 DISCLOSURE
Net Pension Liability Plan Fiduciary Net Position⁽¹⁾
Based on Actuarial Valuations as of July 1, 2019
(In Millions)

Pension Plan	Plan Fiduciary Net Position	Total Pension Liability	Plan Net Pension Liability	Plan Fiduciary Net Position as a % of TPL	Depletion Date (June 30)
PERS ⁽²⁾	\$29,848.0	\$ 71,004.2	\$ 41,156.2	42.04%	2057
TPAF	22,696.7	84,215.8	61,519.1	26.95	2054
PFRS ⁽³⁾	27,792.4	46,164.3	18,371.9	60.20	2076
CP&FPF	1.4	4.3	2.9	32.33	⁽⁴⁾
SPRS.....	1,791.8	4,619.9	2,828.1	38.78	2051
JRS.....	157.9	1,110.2	952.3	14.22	2030
POPF.....	4.9	4.7	(\$0.2)	104.25	⁽⁴⁾
Total	<u>\$82,293.1</u>	<u>\$207,123.4</u>	<u>\$124,830.3</u>	<u>39.73%</u>	

⁽¹⁾ Based on Market Value as of June 30, 2019. Audited. Does not take into consideration the Lottery Contribution.

⁽²⁾ Of the total Net Pension Liability of \$41,156.2 million for PERS, \$23,012.4 million is the estimated State portion and \$18,143.8 million is the estimated Local portion.

⁽³⁾ Of the total Net Pension Liability of \$18,371.9 million for PFRS, \$4,201.7 million is the estimated State portion and \$14,170.2 million is the estimated Local portion.

⁽⁴⁾ The Plan's fiduciary net position was projected to be sufficient to make all projected future benefit payments of current Plan members.

As of the most recently audited GASB 67 reports, in all Pension Plans, except the CP&FPF and POPF, it has been determined that future assets will not cover all projected future benefit payments to current plan members and, as a result, a lower or blended discount rate has been used to value the Pension Plans' liabilities in the Pension Plans.

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The State requested its actuary to provide an estimate of the GASB 67 Net Pension Liability calculations for its five largest pension plans as of June 30, 2020. To prepare these estimates, the actuary based the calculations on the actuarial valuations of the Pension Plans as of June 30, 2019, estimated the market value of assets as of June 30, 2020, and took into consideration the Lottery Contribution. In addition, the actuary assumed that the State's future contributions will be equivalent to 78% of the full actuarially recommended contribution less the Special Asset Adjustment pursuant to LECA in every Fiscal Year. See "—Lottery Enterprise Contribution Act—Special Asset for Actuarial Calculation Purposes" above. These estimated calculations are estimates and do not represent calculations complying with GASB 67 and only provide an indication of the impact that the percentage of actuarially recommended contribution and the Lottery Contribution will have upon the calculations prescribed by and disclosed pursuant to GASB 67.

ESTIMATED GASB STATEMENT NO. 67 DISCLOSURE
Net Pension Liability Plan Fiduciary Net Position
Based on Indicative Actuarial Valuation as of June 30, 2020*
Future Contributions Assumption
(78% of actuarially recommended contribution)
(in Millions)

Pension Plan	Plan Fiduciary Net Position	Total Pension Liability	Plan Net Pension Liability	Plan Fiduciary Net Position as a % of TPL	Depletion Date (June 30)
PERS.....	\$28,728.0	\$ 67,772.0	\$ 39,044.0	42.4%	none
TPAF.....	21,413.0	88,071.0	66,658.0	24.3	2063
PFRS.....	27,335.0	46,757.0	19,422.0	58.5	none
SPRS.....	1,728.0	5,067.0	3,339.0	34.1	2058
JRS.....	146.0	1,269.0	1,123.0	11.5	2034
Total.....	<u>\$79,350.0</u>	<u>\$208,936.0</u>	<u>\$129,586.0</u>	<u>38.0%</u>	

* Estimates. Actual numbers for the Fiscal Year ended June 30, 2020 will be audited. Not separated between State and Local Portions.

In addition, the State requested its actuaries perform estimated June 30, 2020 GASB 67 Net Pension Liability calculations for its five largest pension plans using the same assumptions as the immediately preceding table except to assume as the State's future contributions that it will follow its current funding policy, which provides that the State's contributions will increase to 90% of the actuarially recommended contribution in Fiscal Year 2022 and 100% of the actuarially recommended contribution beginning in Fiscal Year 2023. These indicative calculations have not been audited and do not represent calculations complying with GASB 67 and only provide an indication of the impact that the percentage of actuarially recommended contribution and the Lottery Contribution will have on the calculations prescribed by and disclosed pursuant to GASB 67.

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ESTIMATED GASB STATEMENT NO. 67 DISCLOSURE
Net Pension Liability Plan Fiduciary Net Position
Based on Indicative Actuarial Valuation as of June 30, 2020*
Future Contributions Assumption
(Expected Contribution Phase-In)
(in Millions)

Pension Plan	Plan Fiduciary Net Position	Total Pension Liability	Plan Net Pension Liability	Plan Fiduciary Net Position as a % of TPL	Depletion Date (June 30)
PERS.....	\$28,728.0	\$ 67,772.0	\$ 39,044.0	42.4%	none
TPAF.....	21,413.0	73,253.0	51,840.0	29.2	2115
PFRS.....	27,335.0	46,757.0	19,422.0	58.5	none
SPRS.....	1,728.0	3,966.0	2,238.0	43.6	none
JRS.....	146.0	865.0	719.0	16.9	none
Total.....	<u>\$79,350.0</u>	<u>\$192,613.0</u>	<u>\$113,263.0</u>	<u>41.2%</u>	

* Estimates. Actual numbers for the Fiscal Year ended June 30, 2019 will be audited. Not separated between State and Local Portions.

An informational copy of the July 1, 2018 and July 1, 2019 valuation report is posted on the Division of Pensions and Benefits' website at: <http://www.state.nj.us/treasury/pensions/financial-reports.shtml>. No information posted on the Division's website is incorporated by reference in this Appendix I.

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

GASB Statement No. 68 Results

GASB Statement No. 68 ("GASB 68") requires each participating employer to recognize and record as a liability on their financial statements their proportionate share of the collective net pension liability determined under GASB 67. For the Fiscal Year ending June 30, 2020, each participating employer must recognize their share of the total net pension liability of \$124,830.3 million determined as of measurement date of June 30, 2019. The State's share of the collective net pension liability as of June 30, 2019 has been determined to be \$90,766.3 million. This amount will be recorded as a liability on the State's financial statements for the fiscal year ending June 30, 2020.

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The following chart summarizes the allocation of the net pension liability of \$124,830.3 million as of June 30, 2019 determined under GASB 68:

GASB STATEMENT NO. 68 DISCLOSURE
Allocation of Net Pension Liability (NPL) per GASB 68⁽¹⁾
(In Millions)

Pension Plan	State	State Non-Employer⁽¹⁾	Total State	State Colleges & Universities	Locals	Plan Net Pension Liability
PERS.....	\$19,379.0	\$ 125.3	\$19,504.3	\$3,633.4	\$18,018.5	\$ 41,156.2
TPAF.....	148.2	61,370.9	61,519.1			61,519.1
PFRS.....	4,016.7	1,943.1	5,959.8	174.3	12,237.8	18,371.9
CP&FPF.....	2.9		2.9			2.9
SPRS.....	2,828.1		2,828.1			2,828.1
JRS.....	952.3		952.3			952.3
POPF.....	(0.2)		(0.2)			(0.2)
Total.....	\$27,326.9	\$63,439.4	\$90,766.3	\$3,807.7	\$30,256.3	\$124,830.3

⁽¹⁾ Audited. The TPAF and a portion of local government component of PFRS represent special funding situations because the State is legally responsible for making contributions directly to these plans that is used to provide retirement benefits to non-State employees. Pursuant to GASB 68, these special funding situations require the State to recognize its proportionate share of the collective NPL for these plans.

Since there is no statutory requirement that the State fund the pension costs for the State colleges and universities, the State is not required under GASB 68 to include the State college and university portion of the net pension liability, which is estimated to be \$3.808 billion as of June 30, 2019, as a liability on its financial statements. However, the State's longstanding practice has been to pay the required pension contributions on behalf of the various State higher education institutions and it is expected that this longstanding practice will continue in the future.

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

FUNDING POST-RETIREMENT MEDICAL BENEFITS

In addition to the pension benefits, the State provides post-retirement medical ("PRM") benefits for certain State and other retired employees meeting the service credit eligibility requirements. This includes retired State employees of PERS, TPAF, PFRS, SPRS, JRS and ABP; local retired TPAF and other school board employees; and some local PFRS retirees. To become eligible for this State-paid benefit, a member of these Pension Plans must retire with 25 or more years of pension service credit or on a disability pension. These benefits are provided through the State Health Benefits Program ("SHBP") and the School Employees' Health Benefits Program ("SEHBP"). The SHBP and the SEHBP are administered by the Division of Pensions and Benefits. The benefits provided include medical, prescription drug, and Medicare Part B and Part D reimbursement for covered retirees, spouses and dependents. In Fiscal Year 2020, the State paid PRM benefits for 171,990 State and local retirees.

The State funds post-retirement medical benefits on a "pay-as-you-go" basis, which means that the State does not pre-fund, or otherwise establish a reserve or other pool of assets against the PRM expenses that the State may incur in future years. For Fiscal Years 2019 and 2020, the State contributed \$1.908 billion and \$1.578 billion, respectively, to pay for pay-as-you-go PRM benefit costs incurred by covered retirees. The reduction between Fiscal Year 2019 and 2020 is attributable to plan savings realized from various reform initiatives, and the use of funding provided by the federal government under the CARES Act to cover COVID-19 related costs. For Fiscal Year 2021, the Fiscal Year 2021 Appropriations Act includes \$1.692 billion to cover PRM benefit costs. The Fiscal Year 2021 appropriation assumes savings from previously enacted reforms, the adoption of a Medicare Advantage health plan for SEHBP retirees, audits, pharmacy and medical services contract renewals, and negotiated savings through collective bargaining. See "FINANCIAL RESULTS AND ESTIMATES – *Health Benefits*" herein.

Impact of COVID-19 on SHBP & SEHBP

The long-term financial impact of the COVID-19 Pandemic on health benefits costs is still unknown. Ultimately, the financial impact will depend on myriad variables, including the cost of novel treatments, vaccines, and new tests, as well as the possibility of a second wave, reinfection rates, and the impact of the coming winter season. The Division of Pensions and Benefits is closely tracking all costs related to COVID-19, including treatment and testing. Additional costs related to COVID-19 include the SHBP/SEHBP's waiver of all cost share related to testing and treatment, as well as cost share waiving for in-network telemedicine services. Also, there have been several Executive Orders regarding waiver of certain regulations and statutory requirements for mandatory waiting periods for new employees and returning employees to enroll in health benefits coverage, all of which result in incremental costs to the State.

New Governmental Accounting Standards

Beginning in Fiscal Year 2018, the State was required to calculate and disclose its obligation to pay PRM to current and future retirees based on new GASB requirements. GASB 74 and 75 reflect a fundamental overhaul in the standards for accounting and financial reporting for post-employment benefits other than pensions ("OPEB") and replace the current statements, GASB 43 and 45. The term "OPEB" as used in the following discussion on the new GASB requirements refers to the funding of post-retirement medical benefits. GASB 74 is for OPEB plans and was effective for plan fiscal years beginning after June 15, 2016. GASB 75 applies to employers that sponsor OPEB plans and is effective for employer fiscal years beginning after June 15, 2017. For the State and local participating employers who report on a fiscal year basis, the new GASB 75 reporting and disclosure requirements are effective beginning with the issuance of their financial reports for the fiscal year ending June 30, 2018.

Many of the provisions of GASB 74 and 75 for OPEB are parallel to the provisions of GASB 67 and 68 for pensions. The new GASB statements will require a liability for OPEB obligations, known as the net OPEB liability ("NOL"), to be recognized on the balance sheet of the employers participating in the OPEB plan. In addition, an OPEB expense will be recognized in the income statement of the participating employers. This is very similar to what happened with GASB 67 and 68 for pensions.

Certain actuarial methods and assumptions required under GASB 67 and 68 must also be used to develop the NOL under GASB 74 and 75. For instance, the new standards require that the entry age normal actuarial cost method be utilized to determine the total OPEB liability. The new standards also require that future OPEB benefit payments be discounted using a discount rate that reflects a 20-year tax-exempt municipal bond yield or index rate if assets are not available to cover such future benefit payments.

Like GASB 67 and 68, the new standards do not enforce OPEB funding or impact the State's current funding practice which is to fund PRM benefits on a pay-as-you-go basis as benefits become due.

GASB 75 Valuation Results

The State's portion of the total OPEB liability decreased from \$90.4 billion to \$75.9 billion between the June 30, 2017 and June 30, 2018 GASB 75 actuarial valuations. The reduction in the State's OPEB liabilities is mainly attributable to gains resulting from the change in the pharmacy benefit manager to Optum Rx effective on January 1, 2018, lower than forecasted medical claims due in part to saving initiatives implemented by the State and an increase in the discount rate used to determine the OPEB liabilities from 3.58% to 3.87%.

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The results of the June 30, 2018 GASB actuarial valuations are summarized in the table below:

GASB Statement No. 75 Accounting Disclosures
Based on Measurement Date of June 30, 2018⁽¹⁾
For the Fiscal Year Ending June 30, 2019
(In Millions)

	State Retired Fund	Education Retired Fund	Local Govt Retired Fund	Total
OPEB Liability				
(a) Retirees Receiving Benefits	\$10,205.8	\$17,863.5	\$ 5,907.6	\$33,976.9
(b) Active Participants	13,395.6	28,247.3	10,073.5	51,716.4
(c) Total	23,601.4	46,110.8	15,981.1	85,693.3
Plan Fiduciary Net Position	—	—	314.5	314.5
Net OPEB Liability	\$23,601.4	\$46,110.8	\$15,666.6	\$85,378.8

⁽¹⁾ Audited.

Estimated Allocation of GASB 75 Liability

OPEB Fund	State	State Non- Employer*	Total State	Locals	Net OPEB Liability
State	\$16,454.5	\$ 7,146.9	\$23,601.4	\$ —	\$23,601.4
Education	—	46,110.8	46,110.8	—	46,110.8
Local Govt	—	6,213.8	6,213.8	9,452.8	15,666.6
Total	\$16,454.5	\$59,471.5	\$75,926.0	\$9,452.8	\$85,378.8

* The State is legally responsible for funding post-retirement benefit costs for state college and university retirees, education retirees, and certain PFRS local government retirees under the provisions of Chapter 330, P.L. 1997. Since the State is funding the retiree benefits for these groups, it represents a special funding situation under GASB 75 and the State is required to recognize its proportionate share of the collective Net OPEB liability for these plans.

Aon calculated the State OPEB liability based on plan provisions, as provided by the State, along with certain demographic and economic assumptions recommended by Aon and approved by the State, and which conform to the requirements of GASB Statements No. 74 and 75. Aon used the entry age normal Actuarial Method to calculate the OPEB liability of the State and local participating employers. Many of the actuarial assumptions used to project the OPEB liability are the same as those used to determine the accrued actuarial liabilities of the Pension Plans. The discount rate used to determine the retiree healthcare liabilities is 3.87%, which is the maximum discount rate that GASB 74 and 75 permit when employers do not pre-fund their OPEB liabilities and is based on a 20-year tax-exempt municipal bond index. When projecting the growth of expected claims of the lifetimes of the qualifying retirees, (1) Aon assumed that pre-age 65 PPO medical benefits would increase at a rate of 5.8% in Fiscal Year 2018 and decrease to a 5.0% long-term trend after eight (8) years. For self-insured post-65 PPO medical benefits, the trend rate is 4.5%. For HMO medical benefits for both pre- and post-age 65, the trend rate is 5.8% in Fiscal Year 2018 and decreases to a 5.0% long-term trend rate after eight (8) years; and (2) Aon assumed that prescription drug benefits would increase at a rate of 8% for current and future retirees in Fiscal Year 2018 and decrease to a 5.0% long-term trend rate after seven (7) years. The Medicare Advantage trend rate is 4.5% in Fiscal Year 2018 and all future years. An informational copy of the valuation report is posted on the Division of Pensions and Benefits' website at: <http://www.state.nj.us/treasury/pensions/financial-reports.shtml>.

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LITIGATION

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

Abbott v. Burke (Motion in Aid of Litigants' Rights)

On November 8, 2019, the State defendants (consisting of the Commissioner of Education, the Budget Director, the Treasurer, and the State Board of Education) received a motion in aid of litigants' rights filed by the Education Law Center (the "ELC") seeking an order from the New Jersey Supreme Court to compel the State defendants to: (1) within 30 days and based on the 2019 Educational Facilities Needs Assessment, submit to the State Legislature a revised statewide strategic plan of priority school facilities projects in SDA districts, as required by N.J.S.A. 18A-7G-5(m)(3), to be funded and managed by the New Jersey Schools Development Authority over the next five (5) years; and (2) promptly seek and secure such school construction funding from the State Legislature as is required to manage and complete the school facilities projects in the to-be revised statewide strategic plan. The ELC is seeking to enforce the school facilities construction funding mandate set forth in *Abbott v. Burke*, 153 N.J. 480 (1998) and *Abbott v. Burke*, 164 N.J. 84 (2000). The New Jersey Supreme Court denied ELC's motion in aid of litigants' rights and dismissed the motions filed by various parties to participate as amicus curiae.

Abbott v. Burke (Threatened Facilities Litigation)

On October 20, 2020, the ELC sent a letter to the Governor, the Senate President and the Assembly Speaker concerning the State's compliance with the New Jersey Supreme Court's orders for funding of school facilities construction projects in the SDA districts. In the October 20, 2020 letter the ELC claims that the State has not taken the requisite action that New Jersey Supreme Court anticipated the State to fulfill its constitutional obligation to provide safe and adequate facilities in the SDA districts as set forth in *Abbott v. Burke*, 153 N.J. 480 (1998) and *Abbott v. Burke*, 164 N.J. 84 (2000). The ELC demands that the State fulfill its obligations to secure additional funding, otherwise the ELC will bring suit to enforce the New Jersey Supreme Court's *Abbott v. Burke* orders. The State will vigorously defend this matter.

East Cape May Associates v. New Jersey Department of Environmental Protection

This matter is a regulatory taking case in which the Plaintiff claims that it is entitled to in excess of \$30 million in damages for a taking of its property without just compensation. The property is approximately 96 acres of freshwater wetlands in the City of Cape May. Plaintiff filed its complaint in Superior Court, Law Division, on December 8, 1992, after the DEP denied an application for 366 single family homes. On motion for summary judgment, the trial court ruled that the State was liable for a regulatory taking as of December 1992. Thereafter, the New Jersey Appellate Division held that DEP could avoid liability by approving development on the property under Section 22(b) of the Freshwater Wetlands Protection Act. In addition, the Appellate Division remanded the case for a determination of whether the "property" also included 100 acres previously developed by the Plaintiff's principals. On remand from the Appellate Division, the trial court ruled on October 8, 1999 that the "property" did not include the 100 acres previously developed, and that DEP could not approve development of the 80 remaining acres without first adopting rules. Since DEP had not adopted rules, the trial court held that DEP's development offer of 64 homes on the 80 acres was ineffective and DEP was liable for a taking of the property. DEP filed an appeal of the trial court's decision and East Cape May Associates filed a cross-appeal. On July 25, 2001, the Appellate Division affirmed the trial court's decision, and found that before DEP could approve limited development to avoid a taking, it was required to adopt rules. The Appellate Division remanded the case for such rule-making, the making of a development offer under the rules, and a determination by the trial court as to whether the new offer complies with the rules and avoids a taking. Upon remand from the Appellate Division, DEP promulgated regulations to implement Section 22(b), which took effect on January 22, 2002. On July 1, 2009, the parties reached a settlement of the case, and submitted a consent order and stipulation of dismissal to the trial court contingent upon federal approval from the United States Army Corps of Engineers. The relevant federal agencies expressed opposition to the proposed settlement. On May 25, 2012, East Cape May Associates served notice asserting its rights to terminate the settlement, demanding that within 60 days DEP initiate the reconsideration process. DEP initiated the reconsideration process pursuant to the regulations.

On June 4, 2014, DEP issued its amelioration authorization which approves development of between 80 to 90 dwelling units clustered on approximately 25 acres of land on the 100-acre parcel. The authorization is consistent with municipal residential zoning, requiring conservation of the remaining 75 acres. DEP is also requiring mitigation of 25 acres of barren land which will serve the migratory bird species which now use the subject property. Plaintiff has reinstated its longstanding complaint in the trial court claiming that the amelioration authorization is excessive for this environmentally sensitive property and therefore does not follow DEP's rules, and is also inadequate to avoid a taking.

Trial was scheduled to begin November 12, 2019, but the new trial court judge *sua sponte* requested emergent briefing on the issue of burden of proof, reversed the decision of the previous judge who had ruled DEP had the burden of proof, and declared a mistrial. With the burden rightfully placed on Plaintiff, the Plaintiff requested an adjournment of the trial and additional discovery. The trial is now scheduled to begin on November 30, 2020. Surrounding neighbors also formed a nonprofit entity and intervened to challenge the amelioration authorization. The State is vigorously defending this matter.

NL Industries, Inc. v. State of New Jersey

The Raritan Bay Slag Superfund Site (the "Site") is approximately 47 acres of real property located in the Laurence Harbor section of Old Bridge Township and Sayreville. Portions of the Site are located on State riparian lands. In 2012, the United States Environmental Protection Agency ("EPA") informed NL Industries, Inc. ("NL") that EPA believed that slag was generated, in part or in whole, by NL's (then National Lead Industries) lead-smelting facility in Perth Amboy. EPA selected a remediation remedy and named NL as the potentially responsible party subject to enforcement. On March 19, 2014, NL filed an initial complaint for contribution against the State in the Superior Court, Law Division for the costs to remediate the Site. On August 16, 2017, NL filed an amended complaint alleging that in the 1980s the State dredged areas that were impacted by hazardous substances, transported the contaminated sediments and discharged the hazardous substances on areas of the Site, and that the State has caused or contributed to the discharge by virtue of the State's failure, as owner of a portion of the Site, to remove the slag after the enactment of the Spill Act in 1977. In the amended complaint, NL sought declaratory relief as to the State's liability for cleanup and removal costs, including future costs or damages. The State filed its answer denying liability and asserting defenses under the Tort Claims Act. The State also filed a counterclaim asserting claims under the Spill Act seeking the State's past and future remediation costs, and natural resource damages. Discovery in this matter is ongoing. The State is vigorously defending these matters.

Chapter 7 Trustee for Richard Bernardi, Marilyn Bernardi & Strategic Environmental Partners v. New Jersey Department of Environmental Protection

Richard Bernardi, Marilyn Bernardi, and Strategic Environmental Partners (collectively, "Debtors") are Chapter 7 Debtors in Federal Bankruptcy Court, Trenton. Debtors are the owners/operators of the former "Fenimore Landfill" in Roxbury Township, Morris County. In February 2011, Debtors purchased the landfill property with the stated purpose of closing the landfill and redeveloping it as a solar farm. In conjunction with closure of the landfill, Debtors were authorized to import certain solid waste material. Between November 2012 and June 26, 2013, the DEP investigated over 2500 complaints of noxious hydrogen sulfide gas ("H₂S") odors emitting from the landfill. On June 26, 2013, following enactment of the "Legacy Landfill Law," *N.J.S.A. 13:1E-125.1 et seq.*, DEP issued an emergency order authorizing DEP to enter the landfill property to take measures to abate the H₂S odors, which the Debtors had failed to control. DEP entered the property and eventually installed a gas collection system, thermal oxidizer and scrubber to capture and destroy the H₂S. DEP continues to occupy a portion of the property in order to operate the H₂S treatment systems.

In June 2016, the Debtors filed separate bankruptcy petitions under Chapter 11 of the Bankruptcy Code and a trustee was appointed (the "Chapter 7 Trustee"). In July 2017 the matters were consolidated and converted to Chapter 7 bankruptcy. In December 2017, the Chapter 7 Trustee's counsel advised DEP that they were preparing an adversary complaint in Bankruptcy Court against the DEP seeking damages for DEP's take-over. After brief settlement discussions, on June 14, 2018, the Chapter 7 Trustee filed the adversary complaint for unspecified damages, alleging, inter alia, a taking of Debtors' property without just compensation. DEP filed counter-claims seeking costs incurred to date by DEP abating the H₂S emissions. Discovery is currently ongoing. The trial is tentatively scheduled to begin in February 2021. The State is vigorously defending this matter.

PDX North, Inc., and SLS Delivery Services, Inc. v. Robert Asaro-Angelo (in his capacity as Commissioner of the Department of Labor and Workforce Development)

PDX North, Inc. (“PDX”) facilitates, brokers and provides distribution and transportation services of wholesale auto parts to auto dealers in the northeast. The Department of Labor and Workforce Development (“DOLWD”) issued three (3) assessments to PDX for unpaid contributions under New Jersey’s unemployment compensation law (“UCL”) from 2006 to 2015. PDX has challenged those assessments in the Office of Administrative Law (“OAL”).

PDX filed a federal complaint and sought to declare void and permanently enjoin the enforcement of the unemployment compensation tax exemptions set forth in *N.J.S.A.* 43:21-19(i)(6) and -19(i)(7)(X), claiming those statutes are preempted by the Federal Aviation Administration Authorization Act of 1994 (“FAAAA”), 49 *U.S.C.* § 14501(c). The complaint specifically alleged that PDX was damaged by the imposition of three (3) audit assessments lodged by the DOLWD for unpaid unemployment compensation taxes. PDX also claimed that it would have to substantially change its business model because of its inability to satisfy the exemptions promulgated in *N.J.S.A.* 43:21-19(i)(6) and -19(i)(7)(X).

SLS Delivery Services, Inc. (“SLS”) facilitates and provides distribution and transportation services of packages and parcels to national and international carriers. SLS was permitted to intervene in the PDX federal complaint as a plaintiff and SLS sought the same relief as PDX.

On July 29, 2019, the U.S. District Court entered judgment in favor of the DOLWD with respect to both the PDX complaint and the SLS complaint. Both PDX and SLS appealed the District Court’s decision to the Third Circuit. The appeal was fully briefed and oral argument took place on April 15, 2020. The Third Circuit issued its decision on October 22, 2020, affirming the District Court’s decision in favor of DOLWD with respect to PDX and remanded the SLS matter back to the District Court.

The PDX matter is currently stayed in the OAL pending the federal matter. The State is vigorously defending this matter.

Along with the PDX matter, there is another administrative proceeding with similar claims, *Eagle Intermodal, Inc. v. N.J. Dept. of Labor and Workforce Development*, with a related federal matter filed by Eagle also claiming that the ABC Test is preempted by the FAAAA, violates the Contracts Clause of the United States Constitution, and violates substantive due process under the United States and New Jersey Constitutions. An initial decision approving a settlement of the *Eagle* matter was executed by the Administrative Law Judge on September 11, 2019. The settlement in the *Eagle* administrative matter became final, and the *Eagle* federal complaint was dismissed with prejudice.

Verizon Americas Inc. (fka Vodafone Americas Inc.) v. Director, Division of Taxation

On July 28, 2016, Verizon Americas Inc. (“Verizon”) filed a series of Complaints in the Tax Court of New Jersey, contesting the New Jersey Department of the Treasury, Division of Taxation’s (“Division”) Corporation Business Tax (“CBT”) refund denials. The Division concluded that Verizon was a general partner in a partnership doing business in New Jersey and subject to CBT. In addition, the Division concluded that Verizon is “unitary” with the partnership and, thus, subject to CBT. In the Complaints, Verizon asserts that it is not subject to tax and entitled to a refund for tax years ending December 2002 through March 2014. The parties are in the initial discovery stage. The State is vigorously defending this matter.

Johnson & Johnson v. Director, Division of Taxation and Commissioner, Banking & Insurance

On November 2, 2015, Johnson & Johnson submitted a request to the New Jersey Department of Banking & Insurance and the New Jersey Department of the Treasury, Division of Taxation seeking a refund of self-procured insurance premium taxes paid pursuant to *N.J.S.A.* 17:22-6.64 for the period November 1, 2011 through March 31, 2015. Johnson & Johnson obtained its insurance through Middlesex Assurance Company Limited, its captive insurance company domiciled in Vermont. Middlesex Assurance is a nonadmitted insurer, that is, it is not authorized

to conduct insurance business in New Jersey. The basis for Johnson & Johnson's refund request is the assertion that the Nonadmitted and Reinsurance Reform Act ("NRRA") and, by extension, *N.J.S.A.* 17:22-6.64, were never intended to apply to captive insurance companies. On August 9, 2016, the Division denied Johnson & Johnson's refund claim. Johnson & Johnson filed a complaint in the Tax Court on October 24, 2016 challenging the Division's denial of the refund claim. The State's answer was filed on February 21, 2017. Both parties moved for summary judgment. The motions were argued in the Tax Court on February 26, 2018. The Tax Court issued a published opinion and order on June 15, 2018, granting summary judgment to the State and dismissing Johnson & Johnson's complaint. Johnson & Johnson filed a notice of appeal with the Appellate Division on July 27, 2018. On September 25, 2019, the Appellate Division reversed the Tax Court decision and remanded the case to the Tax Court for determination of the refund amount due. The State filed a petition for certification with the New Jersey Supreme Court. The Supreme Court granted the petition for certification on February 19, 2020. Oral argument was held on October 27, 2020. The State is vigorously defending this matter.

Paz v. Director, Division of Taxation

Plaintiff and certain grantor trusts owned 100% of an S-Corporation in New Jersey. Plaintiff purportedly sold the corporation to a third-party purchaser pursuant to a deemed "asset sale" under Internal Revenue Code Section 338(h)(10). On his GIT return for 2010, Plaintiff apportioned the gain from the sale of an S-Corporation to the 23 states where the corporation conducted business. The Division audited Plaintiff and the S-Corporation and assigned 100% of the gain on the sale to the State as "non-operational income" under the CBT Act and assessed Plaintiff accordingly. In a related matter, the Division issued an alternative assessment against the S-Corporation based on the trusts' share of tax due. Plaintiff argued that the Division erred or was not otherwise authorized to classify the gains from the sale of the stock as non-operational income. The Division filed an Answer on April 15, 2016. On or about July 7, 2016, the Plaintiff and related parties filed a motion for summary judgment. On October 18, 2016, the Division filed cross-motion for summary judgment. The Tax Court heard oral argument on December 16, 2016. On April 7, 2017, the Tax Court issued its published opinion that upheld the GIT assessment against the Plaintiff in its entirety. The Tax Court, however, vacated the alternative assessment against the S-Corporation. Finally, the Tax Court abated the underpayment penalties assessed against the Plaintiff and denied Plaintiff's motion for attorney fees. On June 22, 2017, Plaintiff filed a notice of appeal. On January 31, 2019, the Appellate Division affirmed the decision of the Tax Court upholding the GIT assessment against the Plaintiff. On February 20, 2019, Plaintiff filed both a notice of appeal and petition for certification with the New Jersey Supreme Court. The State filed its opposition to the petition for certification on May 20, 2019. The New Jersey Supreme Court denied Plaintiff's petition for certification on September 17, 2019, and the United States Supreme Court denied Plaintiff's writ for certiorari on March 23, 2020.

Oracle International Corporation v. Director, Division of Taxation

On or about March 25, 2009, Oracle International Corporation ("Oracle") filed a complaint contesting the Division's December 17, 2008 Notice of Assessment Relating to Final Audit Determination, imposing CBT for the audit period June 1, 2001 through May 31, 2007. Oracle alleges it is not subject to tax in the State, and challenges the assessment on a number of grounds, including that Oracle does not have nexus to the State and that the State's "Throw Out Rule" under *N.J.S.A.* 54:10A-6(b) is facially invalid and unconstitutional as applied under the State and federal constitutions. Oracle withdrew the appeals on March 26, 2020.

Banc of America Consumer Card Holdings Corporation v. Director, Division of Taxation

On or about August 5, 2011, Banc of America Consumer Card Holdings Corporation ("BOA") filed a complaint in the Tax Court of New Jersey, contesting the Division's May 9, 2011 denial of a CBT refund for tax periods January 1, 2006 through December 31, 2008. BOA does not challenge the State's jurisdiction to impose CBT. BOA alleges that its income from intangibles should be sourced to BOA's alleged commercial domicile outside of the State. The State filed an answer to the complaint on October 4, 2011, and an amended answer on March 6, 2012. The parties have completed the initial stage of discovery. On April 2, 2015, BOA filed a motion for partial summary judgment. The State's opposition was filed on July 14, 2015. Oral argument on the motion was heard on February 3, 2016. On October 6, 2016, the Tax Court issued a written decision and concluded that BOA was required to source to the State 100% of its interest income and interchange fee income generated from New Jersey card holders. The Tax Court also held that BOA was required to source to the State 50% of its service fee income from New Jersey card

holders. On November 1, 2016, the Tax Court issued an order awarding BOA a significantly reduced refund. On December 14, 2016, BOA filed a Notice of Appeal with the Appellate Division and the appeal was briefed. BOA stipulated to the dismissal of the appeals on October 21, 2019.

Public Service Electric & Gas Company, Inc. v. Director, Division of Taxation

For tax years 2006 through 2014, Public Service Electric & Gas Company, Inc. (“PSE&G”) filed CBT returns and included its transitional energy facility assessment (“TEFA”) in its CBT base, in accordance with *N.J.S.A.* 54:10A-4.1. Thereafter, PSE&G recalculated its CBT liability, removed the TEFA from the tax base and sought a CBT refund. Notably, the Appellate Division recently concluded that TEFA payments are included in the CBT base and denied a similar refund claim. *Rockland Electric Co. v. Director, Div. of Taxation*, 30 N.J. Tax 448 (Tax 2018), aff’d, A-4522-17T2 (App. Div. June 24, 2019), cert. denied. *Rockland Electric Co.* is now final and binding upon the Tax Court. The Division’s denied PSE&G’s refund claim. On or about May 28, 2019, PSE&G filed a Complaint in the Tax Court of New Jersey, contesting the CBT refund denial. The Division filed its answer to the complaint. The State intends to vigorously defend this matter.

Stanislaus Food Products Co. v. Director, Division of Taxation

On or about July 31, 2017, Stanislaus Foods filed a complaint in the Tax Court contesting the constitutionality of the Corporation Business Tax’s Alternative Minimum Assessment (“AMA”) component. For periods after June 30, 2006, the AMA is \$0, except for foreign corporations protected from income tax by *P.L.* 86-272. Stanislaus Foods alleges the AMA discriminates against foreign corporations in violation of the federal constitution’s Dormant Commerce Clause and Supremacy Clause. The parties filed partial cross-motions for summary judgment. On June 28, 2019, the Tax Court concluded that the AMA, for periods after June 30, 2016, conflicts with the mandates of federal law *P.L.* 86-272, and thus, violates the federal Supremacy Clause. The remainder of the case continues to proceed in Tax Court to address remaining non-constitutional issues. The Division filed a motion for reconsideration on March 2, 2020, and the Tax Court heard oral argument on June 19, 2020. The Tax Court has not yet issued its decision. The State is vigorously defending this matter.

Cargill Meat Solutions Corporation. v. Director, Division of Taxation

Plaintiff, based out of Kansas, sells meat products and services throughout the United States. Plaintiff does not engage in meat processing or packaging in New Jersey. Rather, its operations in New Jersey are limited to storage and distribution, as it arranges for delivery of its products to a 180-mile radius market covering portions of Pennsylvania, New Jersey, New York and Maryland. In calculating its New Jersey Litter Control Fee liabilities, Plaintiff took a \$465 million deduction in 2014 and \$509 million deduction in 2015, claiming its sales to wholesalers are not subject to the Litter Control Fee under *N.J.S.A.* 13:1E-216(a), the wholesaler-to-wholesaler exception. The Division disallowed these deductions, finding that the Plaintiff was not entitled to the wholesaler-to-wholesaler exception because even though Plaintiff’s sales were all to wholesalers, the Plaintiff is a manufacturer and, thus, not entitled to a wholesaler exemption. Taxation imposed additional Litter Control Fee to comport with the disallowance of the deductions. Plaintiff filed a complaint with the Tax Court contesting the denial of the deduction and, to invalidate the additional Litter Control Fee assessment by challenging the facial constitutionality of the Litter Control Fee statute. The Division filed an answer on July 16, 2018, and on June 14, 2019, filed a motion to dismiss the facial constitutional challenge to the Litter Control Fee. On March 12, 2020, the court granted the Division’s motion. The State is vigorously defending this matter.

Gomez v. DCPD et al.

On March 12, 2012, the Plaintiff child was allegedly assaulted by her biological father. The Plaintiff suffered severe injuries. The DCPD allegedly knew that the Plaintiff’s parents had a history of drug and alcohol abuse, psychiatric problems and were unemployed. The biological mother had two other children removed from her care and was in a methadone program when the Plaintiff was born. The biological father also had an extensive criminal history of domestic violence. Plaintiff claims DCPD failed to comply with its own policy and procedure, failed to remove the Plaintiff from the home, negligent training, violation of the New Jersey Child Placement Bill of Rights, and Section 1983 claims. The complaint was filed in State court on February 12, 2015. On March 11, 2015, DCPD removed the case to the U.S. District Court for the District of New Jersey and filed a motion to dismiss the complaint.

The State's motion to dismiss the complaint was denied without prejudice on May 8, 2015. The Plaintiff agreed to withdraw the federal claims and the matter was remanded to State court. Discovery is ongoing. The State is vigorously defending this matter.

J.A. v. Monroe Township Board of Education

On May 23, 2018, Plaintiffs filed a complaint in the United States District Court for the District of New Jersey naming the New Jersey Department of Education ("NJDOE"), New Jersey Office of Administrative Law ("NJOAL"), Commissioner of Education, and Administrative Law Judge Jeffrey R. Wilson (collectively, the "State Defendants"), as well as the Monroe Township Board of Education, as defendants. Plaintiffs purport to bring class action claims against State Defendants under the Individuals with Disabilities Education Act ("IDEA") and 42 U.S.C. § 1983 alleging two (2) separate systemic violations of the IDEA. They also seek to bring a class action declaratory judgment claim against State Defendants and to appeal three (3) separate interlocutory orders of the Administrative Law Judge. Among other things, Plaintiffs seek the following relief: (1) a trust fund to provide educational services to all class members for the denial of a Free and Appropriate Public Education ("FAPE") as such term is defined in IDEA; (2) a trust fund to reimburse class members for the denial of a FAPE; (3) punitive damages; and (4) attorneys' fees and costs.

State Defendants filed a motion to dismiss. Plaintiffs opposed that motion and subsequently filed a motion to amend the complaint, seeking to add additional plaintiffs and a claim for "Federal Preemption." The proposed amended complaint seeks the same relief as the original complaint. The U.S. District Court has yet to issue a decision on the State Defendants' motion to dismiss and the Plaintiffs' motion to amend the complaint.

The State Defendants renewed the motion to dismiss the amended complaint. With that motion pending, Plaintiffs filed a motion on May 30, 2020, seeking to supplement the record with the opinion and transcript of the motion to dismiss decision filed in *C.P., et al. v. NJDOE, et al.*, 1:19-cv-12807 (NLH/KMW) ("*C.P.*"). (*C.P.* is a related matter with similar claims, but only seeks injunctive and declaratory relief). On June 28, 2020, the U.S. District Court denied the State Defendants motion to dismiss without prejudice and ordered the parties to show cause as to why this matter should not instead be consolidated with the *C.P.* matter. Both parties opposed consolidation and Plaintiffs instead proposed to stay this matter until the *C.P.* matter has been fully litigated and appealed. However, Plaintiffs have not yet filed a motion for a stay. The U.S. District Court has not issued a formal order or decision on this State Defendants' motion to dismiss the amended complaint, and the State Defendants' time to answer the amended complaint has been extended until such time as the U.S. District Court does so. The State intends to vigorously defend this matter.

Jersey City Board of Education and E.H., a minor, by his guardian ad litem, Shanna C. Givens v. State of New Jersey

On April 29, 2019, the Jersey City Board of Education ("JCBOE") and E.H., a minor, by his guardian ad litem, Shanna C. Givens ("Plaintiffs") filed a complaint against the State and various State officials (collectively, the "State Defendants") alleging that the recent amendments to the School Funding Reform Act, *N.J.S.A.* 18A:7F-43 to -63 (the "Amendments"), violate the State's constitutional requirement to "provide for the maintenance and support of a thorough and efficient system of free public schools..." *N.J. Const.* art. VIII, § 4. The Amendments at issue slowly phase out certain additional State aid previously granted to SDA districts. The phase out of this additional State aid is to occur over a six-year period beginning in the 2019-2020 school year. Plaintiffs allege that the reduction in State aid to JCBOE will jeopardize JCBOE's ability to provide the level of funding necessary to meet the legal standard of a "thorough and efficient" education.

The Plaintiffs seek, among other things, a preliminary and permanent injunction enjoining the State Defendants from reducing funding to JCBOE. On July 23, 2019, Plaintiffs filed a first amended complaint, which continues to allege that the reduction in State aid to JCBOE as a result of the School Funding Reform Act Amendments will jeopardize JCBOE's ability to provide a thorough and efficient education to its students. The State Defendants filed a motion to dismiss the first amended complaint, which was denied by the trial court on January 17, 2020. The State Defendants filed an answer to the first amended complaint on March 4, 2020. On September 1, 2020, the Plaintiffs filed a second amended complaint, which made factual and substantive allegations identical to the first amended complaint and merely made changes to the identity of a

participating minor-plaintiff. The State Defendants' filed an answer to the second amended complaint was filed. Discovery is currently ongoing. The State intends to vigorously defend this matter.

J.A. v. Monroe Township Board of Education, et al. United State District Court for the District of New Jersey, (NLH/KMW)

On July 28, 2020, Plaintiff J.A., individually and on behalf of her minor child J.A., filed a complaint in the New Jersey District Court naming the New Jersey Department of Education ("NJDOE"), New Jersey Office of Administrative Law ("NJOAL"), Kevin Dehmer, Interim Commissioner of Education, Administrative Law Judge MaryAnn Bogan, Administrative Law Judge Joseph A. Ascione and NJDOEs 1-250 Similarly Situated Administrative Law Judges (collectively "State Defendants"), as well as the Monroe Township Board of Education, as defendants. Plaintiff's Complaint alleges various systemic violations of the Individuals with Disabilities Education Act ("IDEA") and 42 U.S.C. § 1983; a claim of discrimination under the Americans with Disabilities Act of 1990, 42 U.S.C. § 12101 et seq.; and a claim of retaliation pursuant to Section 504 of the Rehabilitation Act of 1973, 29 U.S.C. § 701 et seq. Plaintiff also seeks to appeal a final decision and order of ALJ Ascione's ruling in *Monroe Twp. Bd. of Ed. v. J.A. et al.*, OAL Dkt. No. EDS 04281-2020S (the subject of this litigation). Plaintiff seeks declaratory and injunctive relief and monetary relief as follows: (1) damages in the amount of \$400,000,000; (2) punitive damages in excess of \$4,500,000,000; (3) compensatory education; and (4) attorneys' fees and costs. The State Defendants' answer is due on November 19, 2020. The State intends to vigorously defend this matter.

Lorillard Tobacco Co. v. Director, Division of Taxation

This case involves constitutional challenges to the Division's regulation, N.J.A.C. 18:7-5.18(b), the Division's interpretation of the unreasonableness exception to the State's corporate royalty addback statute, N.J.S.A. 54:10A-4.4(c)(1)(b), and Division's Schedule G-2, which implements the calculation of the unreasonable exception based on Taxation's interpretation of its regulation. In 2006, the Division assessed Corporation Business Tax ("CBT") on a subsidiary of Lorillard Tobacco Co. ("Lorillard") for tax years 1999-2004 based on royalty payments the subsidiary had received from Lorillard. The subsidiary was a non-filer in New Jersey and contested the assessment in the New Jersey Tax Court claiming, among other things, that it did not have physical presence in the State so it lacked substantial nexus to permit it to be subject to CBT. While the subsidiary's case was pending in the Tax Court, Lorillard filed refund claims for 2002-2005 by filing amended CBT returns, claiming it would be improper, unreasonable, and unconstitutional to deny it a deduction for the royalty payments if, at the same time, the Division subjected its subsidiary to tax on such amounts. Taxation denied the claims as "protective" and Lorillard filed a complaint with the Tax Court in 2007. The subsidiary ultimately conceded nexus, filed CBT returns and paid taxes under the State's 2009 Tax Amnesty program, after the U.S. Supreme Court denied certiorari regarding the New Jersey Supreme Court decision in *Lanco v. Dir., Div. of Taxation*, 188 N.J. 380 (2006). In *Lanco*, the Court held that the State could subject a taxpayer to CBT even though it lacked physical presence in the State. Thereafter, Lorillard sought an expedited payment of the CBT refund based on the Division's Schedule G-2 calculation, which limited Lorillard's deduction due to its subsidiary's lower allocation factor. Lorillard reserved its challenge to the remainder of the exemption. In 2012, Lorillard filed another complaint with the Tax Court challenging the Division's partial refund denial for tax years 2008-2010 on the same basis as the 2007 complaint.

Lorillard claims that the Division improperly and unconstitutionally granted only a partial deduction of royalty payments that Lorillard made to its subsidiary. In February 2019, the Tax Court issued a decision granting Lorillard summary judgment, and holding that the Division's denial of a deduction for the full amount of royalties Lorillard paid was not a reasonable exercise of the Division's discretion. The Tax Court found it unnecessary to address Lorillard's constitutional attacks.

The Division appealed to the Appellate Division, and Lorillard filed a cross-appeal, re-asserting its constitutional challenges. The Tax Court issued a final judgment on Lorillard's 2012 complaint based on its reasoning regarding the 2007 complaint. Both parties again appealed and the matters were consolidated by the Appellate Division. Oral argument is currently scheduled on December 14, 2020. The State is vigorously defending this matter.

Medicaid, Tort, Contract, Workers' Compensation and Other Claims

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

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

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

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

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

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

Approximately two dozen hospitals have challenged in the Office of Administrative Law and the Appellate Division the Medicaid reimbursement rates paid to these hospitals alleging that there were calculation errors or that the methodology used to calculate the rates is incorrect. Additionally, a group of hospitals have challenged the constitutionality of the charity care statute and the inpatient Medicaid rate reimbursement framework. This group of hospitals allege the losses incurred in treatment of the charity care and Medicaid patients is an unconstitutional taking of the hospitals property. These challenges date back to 2002. The State is vigorously defending this matter. To date, there have been no findings against the State. In the event the hospitals are successful, DHS has advised that they may possibly need to refund millions of dollars to the hospitals over the various relevant years. The State is unable to estimate its exposure for these claims.

Affirmative Litigation

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

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APPENDIX-I-A
SUMMARY OF CERTAIN STATE TAXES

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APPENDIX-I-A
SUMMARY OF CERTAIN STATE TAXES

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Summary of Certain State Taxes

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

Alcoholic Beverage Tax

The Alcoholic Beverage Tax applies to the first sale or delivery of beer, liquor, wine and sparkling wine to retailers in New Jersey. This tax is collected from licensed manufacturers, wholesalers and State beverage distributors, based on the number of gallons, or fractions thereof, sold. License fees for manufacturing, distributing, transporting and warehousing alcoholic beverages are also imposed pursuant to this law. Materials used by distilleries to produce hand sanitizer during a public health emergency are exempt. *L. 2020, c. 33.*

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

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

Casino Control Tax

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

Current Rate: 8% (both taxes).

There is also a \$3 per day occupancy fee on hotel rooms in a casino hotel facility, leaving to the casinos’ discretion whether to pay the charge on behalf of the patrons or charge the patrons for the fee, and fees for casino hotel parking in Atlantic City.

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

Revenue received by casinos from sports wagering is subject to an 8.5% tax, while revenue received from Internet sports wagering is subject to a 13% tax. *L. 2019, c. 36.*

Cigarette Tax and Tobacco and Vapor Products Tax

The Cigarette Tax is imposed on the sale, use or possession of all cigarettes within New Jersey. This tax is collected from licensed distributors who receive cigarettes directly from out-of-state manufacturers and also on consumers who possess untaxed cigarettes. Receipts from the sale or use of tobacco products, other than cigarettes, by a distributor or wholesaler to a retail dealer or consumer are subject to the Tobacco Products Wholesale Tax. *L. 1990, c. 39.* As of March 1, 2002, the Tobacco Products Wholesale Tax is imposed on the price that a distributor pays to buy products from the manufacturer. *L. 2001, c. 448.* The Tobacco Products Wholesale Tax is imposed on liquid nicotine used in electronic cigarettes and similar devices. *L. 2018, c. 50.* The Act was renamed the Tobacco and Vapor Products Tax Act and container e-liquid is now subject to the tax. *L. 2019, c. 147.*

Current Rates: Cigarette Tax — \$0.135 per cigarette and \$2.70 per pack of twenty cigarettes; Moist snuff — \$0.75 per ounce with a proportionate tax rate for fractional amounts; Tobacco and Vapor Products Tax — 30%; \$0.10 per milliliter of liquid nicotine with a proportionate tax rate on fractional amounts and 10% of the retail price of container e-liquid.

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

Corporation Business Tax (CBT)

Corporations are subject to mandatory unitary business combined reporting and market sourcing for tax years beginning on and after January 1, 2019. Combined reporting treats the unitary business members of a combined group as one single economic enterprise. Combined reporting is intended to reduce tax sheltering by multistate or multinational businesses. *L. 2018, c. 48.* The definition of “unitary business” has been expanded to mean “a single economic enterprise that is made up either of separate parts of a single business entity or of a group of business entities under common ownership” and is “construed to the broadest extent permitted under the Constitution of the United States.” *L. 2018, c. 48.* Provisions regarding the entire net income tax base and operative dates for combined reporting were amended, a CBT deduction in the amount of a federal deduction claimed on certain foreign related income under 26 *U.S.C.* § 250 was added, and the tax treatment of certain tax credits awarded by the EDA was clarified. In addition, a surtax was imposed with a phase down over four tax years: a 2.5% surtax in Tax Years 2018 and 2019; a 1.5% surtax in Tax Years 2020 and 2021; and no surtax beginning in Tax Year 2022. *L. 2018, c. 131.* The 2.5% surtax is now retroactively imposed from January 1, 2020 through December 31, 2023. However, if the federal corporate income tax rate imposed pursuant to IRC §11 is increased to a rate of at least 35% of taxable income, the imposition of the surtax imposed pursuant to *c. 95* shall be suspended following the conclusion of a taxpayer's privilege period corresponding with the increase to the federal corporate income tax rate. *L. 2020, c. 95.*

L. 2017, c. 254 authorizes the establishment of a drug donation program that encourages the donation of over-the-counter drugs, prescription drugs, and administrative supplies for use by people who are indigent, uninsured, or underinsured. Drug donors may claim a corporation business tax or gross income tax credit equal to the sum of: the cost of the over-the-counter drugs, prescription drugs and administration supplies; and the verifiable cost incurred to make the donation of the drugs and supplies.

On November 4, 2014, Article VIII, Section II of the State Constitution was amended to provide that from July 1, 2015, until June 30, 2019, an amount equivalent to 4% of the revenue annually derived from the CBT (or any other law of similar effect) be credited to a special account in the General Fund to be appropriated for the preservation, development, and stewardship, of lands for recreation and conversation purposes. Commencing on July 1, 2019, an amount equivalent to 6% of the revenue annually derived from the CBT (or any other law of similar effect) shall be credited to this special account to be appropriated for these purposes.

NJEDA provides tax credits which can be used to offset CBT (as well as Insurance Premiums Tax) through the Urban Transit Hub Tax Credit Act (“UTHTCA”), the Grow New Jersey Assistance Act (“GNJAA”), the New Jersey Economic Stimulus Act of 2009 (“NJESA 2009”), the Public Infrastructure Program (“PIP”), and through BEIP grants. Awards for any of these programs are based on actual performance and achievement of job and capital investment requirements. *L. 2012, c. 35,* amends the UTHTCA to increase the cap on the total amount of tax credits authorized under such Act for eligible businesses making capital investments in the State. The cap was increased from \$1.5 billion to \$1.75 billion, to be utilized over a ten-year period. The overall cap on PIP credits is \$22 million. There is no overall cap on GNJAA credits. The UTHTCA program is now closed to new applications.

L. 2013, c. 14, known as the “New Jersey Angel Investor Tax Credit Act,” provides tax credits against CBT and GIT for qualified investments made by high net worth individuals into high-risk start-up ventures. Subject to certain limitations, tax credits equal 10% of a taxpayer’s qualifying investment in an emerging technology company, up to a maximum allowed credit of \$500,000 per year for each qualifying investment. The total cap on the credit is \$25 million per year. *L. 2017, c. 40,* permits holding companies of eligible New Jersey emerging technology companies to receive investments under the Act. The amount of the CBT and GIT credits that are available for qualified investments increased from 10% to 20% of the qualified investment and a taxpayer may be allowed a tax credit in an amount equal to 25% of the qualified investment when the emerging technology business is located in a qualified opportunity zone or low income community, as defined by federal law, or is certified by the State as a minority or women’s business. *L. 2019, c. 145.*

Credits against the CBT and IPRT are also available to residential developers, through the ERG program, authorized by NJEDA in 2009. The total cap on credits is \$823 million, to be utilized over a ten-year period. *L. 2015, c. 69* provides that mixed use parking project developers are eligible for credits, but does not increase the cap. The ERG program expired on July 1, 2019, and no new applications are being accepted.

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

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

Most tax credit programs administered by the NJEDA are nonrefundable, meaning that a taxpayer may not claim a tax credit greater than its tax liability. The nonrefundable status of the tax credits negates the potential for a tax refund based upon the applicable NJEDA tax credit in any tax year for taxpayers without sufficient tax liability. However, many of the tax credits can be sold.

L. 2018, c. 56, known as the "Garden State Film and Digital Media Jobs Act," provides a tax credit for qualified film production expenses and for digital media content production expenses against the CBT and the GIT. The application for the credits must be submitted to the NJEDA and approved in order to receive the credits. For qualified film production expenses, the credit is 30% of the expenses during a tax year beginning on or after July 1, 2018, but before July 1, 2028. *L. 2019, c. 506*. The credit is 35% for qualified film production expenses incurred by a taxpayer for services performed or tangible personal property purchased from sellers with a primary place of business in Atlantic, Burlington, Camden, Cape May, Cumberland, Gloucester, Mercer, or Salem County. For digital media content production expenses, the credit is 20% of the qualified digital media content production expenses of the taxpayer during a privilege period beginning on or after July 1, 2018 but before July 1, 2023. The credit is 25% for expenses incurred by a taxpayer in Atlantic, Burlington, Camden, Cape May, Cumberland, Gloucester, Mercer, or Salem County. NJEDA may not approve more than \$75 million in tax credits for qualified film production expenses for Fiscal Year 2019 and in each Fiscal Year thereafter prior to Fiscal Year 2024, and no more than \$10 million in tax credits for qualified digital media content production expenses in Fiscal Year 2019 and in each Fiscal Year thereafter prior to Fiscal Year 2024.

A tax credit is available for employers of impaired employees to help to offset the cost to the employer of any wage increases for those employees caused by the enactment of the increased minimum wage. The minimum wage is scheduled to increase in stages from \$8.80 per hour to \$15 per hour by January 1, 2024. *L. 2019, c. 32*.

L. 2020, c. 320 creates the "Pass-Through Business Alternative Income Tax Act." The alternative tax is elected by the entity's members and calculated by a progressive percentage, 5.675% to 10.9%, depending on the amount of pass-through proceeds. If paid, the members are entitled to a corresponding GIT credit.

Employers are provided a CBT and GIT tax credit for workers who missed time due to donating organs or bone marrow, capped at 25% of the worker's salary for up to thirty days of missed time. *L. 2019, c. 444*.

Starting July 1 2019, a taxpayer can claim credits against CBT and GIT up to \$10,000 for start-up costs immediately following a qualifying one-year apprenticeship in an apprenticable trade. *L. 2019, c. 417*. The Division of Taxation's Director can approve up to \$1,000,000 in credits annually.

Energy Tax Receipts

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

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

Utilities are generally subject to the CBT, with certain exceptions. The retail sale of energy and utility service is subject to the State's Sales and Use Tax, with certain exceptions. A portion of the revenues derived from the taxation of energy and utility service is credited to a special dedicated fund known as the "Energy Tax Receipts Property Tax Relief Fund" ("Fund"). *L. 1997, c. 167*. Sewerage and water corporations are exempt from the CBT, but are subject to a specific excise tax which applies only to them. Utilities are also assessed by the Board of Public Utilities. Certain utilities may also be subject to the Uniform Transitional Utility Assessment.

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

Gross Income Tax (GIT)

The GIT is imposed on enumerated categories of gross income of New Jersey resident individuals, estates and trusts. New Jersey source income, except pension and annuity income or other retirement income, such as income from Internal Revenue Code § 401(k), 403, 414, 457 Plans (*L. 1989, c. 219*), of non-resident individuals, estates and trusts, is also subject to GIT. Gambling winnings of non-residents are subject to the GIT as well. *L. 1993, c. 143*. Non-residents pay GIT based on a statutory calculation which requires non-residents to compute liability as though they are residents and then prorate liability by the proportion of New Jersey source income to total income. *L. 1993, c. 178*. However, the requirement that non-residents must compute their tax liability on a prorated basis may be suspended provided New York State eliminates a similar requirement for its non-resident personal income taxpayers. *L. 1993, c. 320*. *Current Rates*: Beginning in 1996 and thereafter, further rate reductions enacted pursuant to *L. 1995, c. 165* will result in cumulative decreases from the 1993 taxable year levels of 30%, 15% and 9% for certain taxable income levels.

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

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

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

Effective January 1, 2018 and thereafter, a new graduated gross income tax rate of 10.75% is imposed on taxpayers with income over \$5,000,000. *L. 2018, c. 45.*

Effective January 1, 2020 and thereafter, the tax rate for income between \$1,000,000 and \$5,000,000 increases from 8.97% to 10.75%. *L. 2020, c. 94.*

The GIT includes many of the same taxable additions as the federal income tax, but allows only certain deductions such as for personal exemptions, medical expenses, alimony payments, property taxes on principal residences and qualified contributions of certain real property interests. Gross income does not include employer-provided commuter transportation benefits for employees who participate in ride-sharing programs beginning January 1, 1997, \$1,200 is deductible, with this amount annually adjusted based on relevant C.P.I.'s. *L. 1996, c. 121; L. 2002, c. 162.* Gross income also does not include earnings on or distributions from an individual trust account or savings account established pursuant to the New Jersey Educational Savings Trust Program (*L. 1997, c. 237*) or the New Jersey Achieving a Better Life Experience (ABLE) Program (*L. 2015, c. 185*); or contributions to or distributions from a medical savings account excluded from federal gross income under 26 *U.S.C.* 220 (*L. 1997, c. 414*). Roth IRA's also receive favorable tax treatment. *L. 1998, c. 57.* Additionally, under the "New Jersey Limited Liability Company Act," for State tax purposes, members or assignees of members of the newly created limited liability companies are treated as partners in a partnership and single member limited liability companies are treated as sole proprietorships, unless treated otherwise for federal income tax purposes. *L. 1993, c. 210; L. 1998, c. 79.* Military pension and survivor benefits respecting service in the United States Armed Forces are not included in gross income. *L. 2001, c. 84.* However, for taxable years beginning on or after January 1, 2004, *L. 2005, c. 63* excludes from taxable income housing and subsistence allowances received by New Jersey National Guard members on State Active duty, and by members of the U.S. Armed Forces' active and reserve components (effective April 7, 2005). For taxable years beginning on or after January 1, 2021, military combat zone pay excluded under IRC §112 is also excluded from New Jersey gross income. *L. 2020, c. 93.*

Pursuant to *N.J.S.A. 54A:3A-17*, New Jersey resident taxpayers are permitted a deduction of up to \$10,000 from gross income for property taxes. Effective January 1, 2018 and thereafter, the deduction from gross income for property taxes increases to \$15,000. *L. 2018, c. 45.* Married residents filing separately are allowed one-half of the deduction permitted by law on the qualifying homestead. Allowable deductions are subject to certain limitations. The deductions are available in some instances for renters as well. The law also provides for a minimum benefit for certain classes of taxpayers in the form of a \$50 credit, which was phased in for 1996 in the amount of \$25 and for 1997 in the amount of \$37.50. For sales or exchanges of principal residences occurring after May 7, 1997, gains of up to \$500,000 on joint returns and \$250,000 on single returns may be excluded, subject to certain limitations and qualifications. *L. 1998, c. 3.*

The minimum taxable income for gross income tax purposes is amounts in excess of \$10,000 for unmarried individuals, married persons filing separately, estates, and trusts, for tax years commencing January 1, 1999. *L. 1994, c. 8.* With respect to married persons filing joint returns, and individuals filing as head of household or as a surviving spouse for federal income tax purposes pursuant to *N.J.S.A. 54A:2-1*, the minimum taxable income subject to tax is amounts in excess of \$20,000.

L. 2000, c. 80 created an Earned Income Tax Credit (EITC) program in New Jersey. Effective January 1, 2007, an eligible New Jersey resident can claim a credit based upon a percentage of the individual's federal EITC, which is allowed and applied for, under section 32 of the federal Internal Revenue Code of 1986 (26 *U.S.C.* 32). *L. 2008, c. 109.* The credit percentages for eligible claimants are as follows: 20% from 2003 through 2007, 22.5% in 2008, 25% for 2009, 20% for 2010 through 2014, 30% for 2015 (*L. 2015, c. 73*), 35% for 2016 through 2017 (*L. 2016, c. 57*), 37% for 2018 (*L. 2018, c. 45*), 39% for 2019 (*L. 2018, c. 45*) and 40% for 2020 and thereafter. (*L. 2018, c. 45*). Eligibility under the EITC program now includes taxpayers that are at least 21 years of age. (*L. 2020, c. 98*).

L. 2004, c. 55 amends the Gross Income Tax Act by imposing a Gross Income Tax obligation on nonresident individuals, estates, or trusts to report and pay estimated Gross Income Tax on any gain derived from the sale or transfer of real property in the State. Chapter 55 specifies that county recording officers will act as agents of the Director, Division of Taxation, in collecting the estimated gross income tax due at an amount no less than 2% of the

consideration stated in the deed for the sale or transfer of property and transmitting those funds, net of the administrative fee, to the Division of Taxation in such form and manner as the Director will determine.

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

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

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

The uncoupling will apply to the other activities described above and that are set forth under the American Jobs Creation Act of 2004, and will apply to qualified production property that was grown or extracted by the taxpayer, (*L. 2005, c. 127*, effective July 6, 2005).

For taxable years beginning after December 31, 2017, the entire IRC §199 deduction has been repealed for federal and New Jersey purposes by the federal Tax Cuts and Jobs Act. (*Pub. L. 115-97*, title I, § 13305(a), Dec. 22, 2017, 131 Stat. 2126). *L. 2018, c. 48*.

For taxable years beginning after December 31, 2017, the GIT is decoupled from any deduction provided under section 199A of the federal Internal Revenue Code. Section 199A allows taxpayers other than corporations a deduction of 20% of qualified business income earned in a qualified trade or business, subject to certain limitations. *L. 2018, c. 48*.

L. 2018, c. 45 provides a nonrefundable tax credit for certain child and dependent care expenses. Effective January 1, 2018, an eligible New Jersey resident taxpayer with New Jersey taxable income of \$60,000 or less can claim a credit for expenses for household and dependent care services based upon a percentage of the individual’s federal credit which is allowed and applied for under section 21 of the Internal Revenue Code of 1986 (26 *U.S.C.* 21). The credit shall be in an amount equal to a percentage of the credit allowed the taxpayer for federal income tax purposes for the taxable year as follows: Income not over \$20,000 receives 50% of federal credit; income over \$20,000 but not over \$30,000 receives 40% of federal credit; income over \$30,000 but not over \$40,000 receives 30% of federal credit; income over \$40,000 but not over \$50,000 receives 20% of federal credit; and income over \$50,000 but not over \$60,000 receives 10% of federal credit.

L. 2005, c. 130 eliminates the GIT pension exclusion and other retirement income exclusion for certain taxpayers. The GIT pension exclusion and other retirement income exclusion will increase over the next four years to a total of \$100,000 for joint filers, \$75,000 for individuals, and \$50,000 for married but filing separately in 2020. *L. 2016, c. 57*.

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

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

L. 2009, c. 69 suspends the property tax deduction for tax year 2009 for taxpayers who have gross income for that taxable year of more than \$250,000 and are not: (1) 65 years of age or older; or (2) allowed a personal exemption as a blind or disabled individual and caps the maximum property tax deduction to \$5,000 for taxpayers who have gross income for that taxable year of more than \$150,000, but not exceeding \$250,000, and are not: 65 years of age or older; or allowed a personal exemption as a blind or disabled individual. Chapter 69 also provides that New Jersey State Lottery winnings from prizes exceeding \$10,000 are taxable under the GIT and authorizes the New Jersey State Lottery to withhold a percentage of such winnings for GIT. *L. 2009, c. 69*.

An additional annual personal exemption of \$3,000 is allowed for any individual New Jersey gross income taxpayer who is a veteran honorably discharged or released under honorable circumstances from active duty in the Armed Forces of the United States, a reserve component thereof, or the National Guard of New Jersey in a federal active duty status. *L. 2016, c. 57*. The additional annual personal exemption for veterans was increased from \$3,000 to \$6,000. *L. 2019, c. 146*.

L. 2017, c. 67, the Wounded Warrior Caregivers Relief Act, provides tax credits for qualified family caregivers of qualified armed service members.

L. 2017, c. 174, established the "Gold Star Family Counseling Program" in the Department of Military and Veterans Affairs and provides an annual tax credit that shall be determined by the department as the sum of the hours of donated counseling provided to the Gold Star family member multiplied by the documented compensation rate applied to these hours.

Individuals can elect to direct part or all of their GIT refund to the Meals on Wheels program, directly on their GIT return. *L. 2019, c. 295*.

The deadline to file GIT returns for tax year 2019 was extended to July 15, 2020. *L. 2020, c. 19*. The statute of limitations for assessments was also extended until ninety days after the conclusion of the state of emergency declared by the governor. *L. 2020, c. 19*.

L. 2020, c. 320 creates the "Pass-Through Business Alternative Income Tax Act." A GIT credit is available in the amount of the individual member's pro rata share of the entity's elected alternative minimum tax.

Unreimbursed costs related to donating organs or bone marrow can be deducted from gross income, up to \$10,000. *L. 2019, c. 444*.

Insurance Premiums Tax

The Insurance Premiums Tax is imposed on net premiums collected by every stock, mutual and assessment insurance company transacting business in New Jersey for insurance contracts covering property and risks in the State. Effective January 1, 1992, health service corporations became subject to tax on their experience-rated health insurance. *L. 1989, c. 295*. A surtax on all automobile insurance premiums, except as exempted by statute, was imposed from June 1, 1990 through May 31, 1992. *L. 1990, c. 8*. There is also a retaliatory tax imposed against foreign insurance companies doing business in New Jersey where the foreign company's state, country, or province (in the event that the foreign country is Canada) imposes an overall tax (including but not limited to fines and penalties) on New Jersey insurance companies doing business in that jurisdiction higher than the tax New Jersey imposes on the foreign company doing business in New Jersey. The tax rate is equal to the difference between the two rates.

Current Rates: 1.05% on group accident and health or legal insurance policies; 2.1% on life and non-life insurance companies; 5% on surplus lines coverage; 5.25% on marine insurance companies; 2% on foreign fire insurance companies.

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

L. 2009, c. 75, allowed for a one-time transfer of \$60 million from the New Jersey Surplus Lines Insurance Guaranty Fund to the Health Care Subsidy Fund but provided a contingency appropriation not to exceed \$27 million from the General Fund in the event the New Jersey Surplus Lines Insurance Guaranty Fund was left with insufficient funds to meet its obligations under the law. *L. 2009, c. 75*.

Chapter 75 also excludes accident and health insurance premiums from the 12.5% limitation of tax on a company's total premiums when the ratio of New Jersey's business to total business is greater than 12.5%. Moreover, Chapter 75 changed the definition of insurance company to include dental service corporations for purposes of the insurance premiums tax provisions for a period of one year from January 1, 2009 through December 31, 2009. A dental service corporation must file and remit the tax at a rate of 1.35% for the 2009 calendar year on March 1, 2010. *L. 2009, c. 75*.

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

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

Motor Fuels Tax

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

Current Rates: Motor Fuel — 10.5 cents per gallon for gasoline and blended fuel that contains gasoline or is intended for use as gasoline; 13.5 cents per gallon for diesel fuel and blended fuel that contains diesel fuel or is intended for use as diesel fuel and kerosene (but does not include aviation grade kerosene). Liquefied Petroleum Gas

— 5.25 cents per gallon; Aviation Gasoline — 10.5 cents per gallon. In addition to the forgoing, aviation fuel distributed to a general aviation airport is taxed at 2 cents per gallon. *L. 2010, c. 22.*

Article VIII, Section 2, Paragraph 4 of the State Constitution provides for a dedication of revenue from the Motor Fuels Tax to the Transportation Trust Fund Account for improvements to the State Transportation infrastructure. Effective July 1, 2007, through the fiscal year beginning July 1, 2015, the dedicated funds shall be an amount equivalent to \$0.105 per gallon. For each subsequent fiscal year, the dedicated funds shall be an amount equivalent to all revenue derived from collection of the Motor Fuels Tax.

Petroleum Gross Receipts Tax

The Petroleum Gross Receipts Tax applies to gross receipts from the first sale or use of petroleum products in New Jersey. Exempt sales include home heating oil and propane gas used exclusively for residential heating, certain sales to non-profit or governmental entities, sales to the federal government (*L. 1991, c. 19*) and asphalt. This tax does not apply to the sale of fuel oil used by any utility, co-generation facility or wholesale operation facility to generate electricity.

Current Rate: 7% for petroleum products, \$.124 per gallon for fuel oil, \$.266 per gallon for gasoline and liquefied petroleum gas, and \$.307 per gallon for diesel effective November 1, 2016 (*L. 2016, c.57*). Aviation fuel remains subject to tax at \$0.04 per gallon. Effective October 1, 2018, the tax on gasoline and liquefied petroleum is \$.309 per gallon and the tax on diesel is \$.35 per gallon. Effective October 1, 2020, the tax on gasoline and liquefied petroleum is \$.402 per gallon and the tax on diesel is \$.442 per gallon.

In November 2000 Article VIII, Section 2 of the State Constitution was amended to dedicate to the Transportation Trust Fund Account in the General Fund not less than \$100 million for the fiscal year commencing July 1, 2000, and not less than \$200 million for each fiscal year thereafter from the petroleum products tax to fund transportation infrastructure improvements. For each fiscal year after 2016, an amount equivalent to all revenue from the collection of the tax on gross receipts of petroleum products shall be dedicated to the Transportation Trust Fund Account.

Realty Transfer Tax

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

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

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

A new general purpose fee is imposed under *N.J.S.A. 46:15-7* in addition to the above-recited RTT on grantors upon presentation for filing deeds evidencing transfers of real property whose value is more than \$350,000. *L. 2004, c. 66*. The general purpose fee is also being collected by the counties. The general purpose fee is \$0.90 for each \$500 on the first \$550,000 of the value recited in the deed of transfer; \$1.40 on each \$500 of the value between \$550,000 and \$850,000; \$1.90 on each \$500 of value between \$850,000 and \$1,000,000; and \$2.15 for each \$500 of the value over \$1,000,000. *L. 2004, c. 66*.

In addition, the grantee (buyer) of residentially-zoned real property, whether improved or not, is required to pay a separate fee equal to 1% of the full amount of the consideration for consideration in excess of \$1,000,000. The fee imposed by subsection a. of *L. 2004, c. 66, § 8 (N.J.S.A. 46:15-7.2)* shall not apply to a deed if the transfer of real property is incidental to a corporate merger or acquisition if the equalized assessed value of the real property transferred is less than 20% of the total value of all assets exchanged in the merger or acquisition. *L. 2006, c. 33*. Pursuant to Section 9 of *L. 2004, c. 66*, the 2004 RTT amendments apply to deeds presented for recording that evidence real property transfers occurring on or after August 1, 2004. Effective February 1, 2005, *L. 2005, c. 19* amended the 1% fee so that it only applies to the purchase of certain types of residentially-zoned property for consideration in excess of \$1,000,000, including real property that: (1) is classified for assessment purposes as Class 2 (residential); (2) includes certain property classified for assessment purposes as Class 3A (farm property (regular)) and other real property sold in conjunction with such property; or (3) that is a cooperative unit; or (4) that is classified pursuant to the requirements of *N.J.A.C. 18:12-2.2* as Class 4A (commercial properties). *L. 2006, c. 33*. If a transfer includes property classified pursuant to the requirements of *N.J.A.C. 18:12-2.2* as Class 4 property or any type, the parties to the transaction shall file affidavits of consideration indicating the consideration, the county and municipality in which the property is situated, and the block and lot description of the real property conveyed.

L. 2006, c. 33 did not alter *L. 2005, c. 19*, which exempts from the fee any transfer to a 26 *U.S.C. 501(c)(3)* charitable organization, and permits a full refund to be provided to a buyer who paid the fee but would not have been required to do so under the amended law.

Sales and Use Tax

The Sales and Use Tax (“SUT”) is imposed on the receipts from: (a) the retail sale, rental or use of tangible personal property not specifically exempted by statute; (b) the retail sale of services, except for resale, including producing, fabricating, processing, installing, maintaining, repairing, storing and servicing tangible personal property and certain advertising services; (c) sales of food and drink by restaurants and other similar establishments; and (d) the sale, except for resale, of telecommunications. This tax is also imposed on the rental of hotel and motel rooms, and certain admission charges including those for professional wrestling. Effective July 1, 1992, retail sales of alcoholic beverages are also subject to this tax. *L. 1990, c. 40*. Beginning on October 1, 2018, the rental of a transient accommodation is subject to this tax and to the State Occupancy Tax unless the transaction is completed through a New Jersey real estate broker. *L. 2018, c. 49*. Rentals of hotels, motels, and transient accommodations located in one of the 14 municipalities that participate in the Meadowlands revenue sharing program are subject to an additional 3% Meadowlands regional hotel use assessment. *L. 2018, c. 49; L. 2018, c. 52*. On and after August 9, 2019, transient accommodation taxes and fees are only applicable when the renter obtains the rental unit through a transient space marketplace or when the unit is professionally managed. *L. 2019, c. 235*. In addition, travel agencies and online travel agencies are now considered to be transient space marketplaces and are required to collect the transient accommodation taxes and fees.

Current Rate: 7% (*L. 2006, c. 44*). The rate is reduced from 7% to 6.875% on and after January 1, 2017 and the tax rate decreased to 6.625% on and after January 1, 2018. (*L. 2016, c. 57*).

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

The Sales Tax is also extended as of October 1, 2006, to services, subject to some exemptions, including, but not limited to, furnishing of space for storage; parking, storing or garaging a motor vehicle; tanning services, massage services, tattooing, investigation and security services, information services, limousine services originating within

New Jersey; and initiation fees, membership fees or dues for access to the use of property or facilities of a health and fitness, athletic, sporting or shopping club or organization. *L. 2006, c. 44*. The imposition of sales and use tax on limousine transportation services is repealed. *L. 2017, c. 27*.

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

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

Article VIII, Section II of the State Constitution provides for the dedication of up to \$98 million annually from sales tax revenues for open space, farmland and historic preservation commencing on July 1, 1999 and the dedication of and not less than \$200 million annually for credit to the Transportation Trust Fund Account in the General Fund to be used to fund improvements to the State’s transportation infrastructure.

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

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

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

Effective November 1, 2018, following the U.S. Supreme Court decision in *South Dakota v. Wayfair*, in which the Court determined that physical presence within a state was not a prerequisite for the collection of sales tax. *L. 2018, c. 132* established sales tax nexus for remote sellers. Nexus is established when a seller makes \$100,000 in taxable sales or 200 or more separate transactions into the State in a calendar year or in a prior year and the seller must collect the tax. A “marketplace facilitator” now has sales tax collection and reporting requirements. A “marketplace facilitator” means any person or business who provides a forum to a retailer to advertise, promote, and list the retailer’s products and who also collects receipts from the customer and remits payment to the seller.

Commercial redevelopment projects qualifying under the ERG program are eligible for funding of up to 20% of the total cost of the project. *L. 2009, c. 90*. The funds are paid to the developer out of incremental tax revenue from the project, which is primarily SUT, but also includes various other taxes. The payments are made from up to 75% of

incremental tax revenue (85% in a Garden State Growth Zone) over a period of up to twenty years. The ERG program expired on July 1, 2019, and no new applications are being accepted.

Exemptions from the SUT include, but are not limited to: prescription medicines and drugs; enumerated medical equipment and supplies; clothing (except fur clothing) and footwear; household paper products; recycling equipment; certain sales of direct mail advertising materials for distribution to out-of-State recipients and related printing and production costs; certain sales of materials and supplies for contractors' use in constructing, improving or rehabilitating housing projects financed by the New Jersey Housing and Mortgage Financing Agency and other government subsidiaries; sales of telephones, telephone lines, cables, central office equipment or station apparatus or other similar equipment, provided that the sale is made to a service provider subject to the jurisdiction of the Board of Public Utilities or the Federal Communications Commission; coin-paid charges for coin-operated telecommunications devices; and property used directly and primarily on farms. The SUT on receipts from certain retail sales in counties in which there is an entrance to an interstate bridge or tunnel connecting New Jersey with a state which does not impose a sales and use tax or imposes such a tax at a rate at least five percentage points lower than the New Jersey rate, is reduced by 50%. *L. 1993, c. 373.* Sales and leases of new and used boats and other vessels are exempt to the extent of 50% of the tax imposed under the SUT Act, with a cap of \$20,000 on the total tax. *L. 2015, c. 170.* In addition, out-of-state boats operated and registered lawfully can be used in New Jersey in a non-commercial manner for up to 30 days per year without incurring use tax. Sales of materials integral to sand casting processes and operations are now exempt from SUT. *L. 2019, c. 98.* Receipts from the sale or use of energy and utility service to or by a recovered materials manufacturing facility for use or consumption directly and primarily in the production of tangible personal property is exempt from SUT for a period of seven years. *L. 2019, c. 437.*

Transfer Inheritance and Estate Tax

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

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

For decedents dying after December 31, 2001, but before January 1, 2018, the estate tax is computed in accordance with the federal estate tax as of December 31, 2001 or under a simplified method prescribed by the Director of the Division of Taxation, as the estate representative may elect. *L. 2002, c. 31.* The estate tax is due nine months after the death of the decedent.

The New Jersey Estate Tax exemption will increase from \$675,000 to \$2 million for the estates of resident decedents dying on or after January 1, 2017, but before January 1, 2018. For these estates, the New Jersey Estate Tax no longer conforms to the provisions of the federal Internal Revenue Code of 1986 in effect on December 31, 2001, and instead follows the current federal Internal Revenue Code for determining the value of the estate which will be subject to New Jersey Estate Tax. *L. 2016, c.57.*

New Jersey Estate Tax was reduced to zero percent and is not imposed on transfers of estates of resident decedents dying on or after January 1, 2018. *L. 2016, c. 57.*

APPENDIX II

PROPOSED FORMS OF LEGAL OPINIONS

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PROPOSED FORM OF APPROVING OPINIONS OF EACH OF
THE ATTORNEY GENERAL OF THE STATE OF NEW JERSEY
AND CO-BOND COUNSEL EXPECTED TO BE DELIVERED IN
CONNECTION WITH THE ISSUANCE OF THE BONDS

[CLOSING DATE]

The Honorable Philip D. Murphy
Governor of the State of New Jersey

The Honorable Elizabeth Maher Muoio
New Jersey State Treasurer

The Honorable David Ridolfino
Acting Director of the Division of Budget and Accounting
in the Department of the Treasury of the State of New Jersey

**RE: State of New Jersey
\$3,672,360,000 New Jersey COVID-19 General Obligation Emergency Bonds,
2020 Series A**

Dear Governor Murphy, Treasurer Muoio and
Acting Director Ridolfino:

We have examined the Constitution and the Act (as hereinafter defined) of the State of New Jersey (the “State”), the opinion of the Supreme Court of New Jersey in New Jersey Republican State Committee v. Murphy, 243 N.J. 574 (2020), and a record of proceedings and other proofs (all of the foregoing, collectively, the “Proceedings”) relating to the sale and issuance of the State’s \$3,672,360,000 aggregate principal amount of New Jersey COVID-19 General Obligation Emergency Bonds, 2020 Series A (the “Bonds”).

The Bonds are dated the date of delivery thereof and shall bear interest from such date, payable semiannually on June 1 and December 1 of each year, commencing June 1, 2021, at the respective rates per annum, and will mature on June 1 in each of the years and in the principal amounts, all as set forth in the November 18, 2020 Resolution (as hereinafter defined).

The Bonds are issuable as fully registered bonds, without coupons, and when issued will be registered in the name of and held by Cede & Co., as nominee for The Depository Trust Company, an automated depository for securities and clearinghouse for securities transactions. Purchases of the Bonds will be made in book-entry form (without certificates) in the denomination of \$5,000 or any integral multiple thereof.

The Honorable Philip D. Murphy
The Honorable Elizabeth Maher Muoio
The Honorable David Ridolfino
[CLOSING DATE]
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The Bonds are not subject to redemption prior to their respective stated maturity dates.

The Bonds are authorized and issued under and pursuant to the provisions of the New Jersey COVID-19 Emergency Bond Act, constituting Chapter 60 of the Laws of New Jersey of 2020 (the “Act”).

We have reviewed the Proceedings and such other matters of fact and law as we have deemed necessary to enable us to render the opinions contained herein.

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

1. The sale and issuance of the Bonds are authorized by the Constitution, the Act, the resolution of the Issuing Officials (as defined in the Act) adopted on September 22, 2020, as approved by the Select Commission on Emergency COVID-19 Borrowing on September 28, 2020, and the resolution of the Issuing Officials adopted on November 18, 2020 (the “November 18, 2020 Resolution”).

2. The Bonds are valid and legally binding direct and general obligations of the State, and the faith and credit of the State are pledged for the payment of the interest thereon as the same shall become due and the payment of the principal thereof at the stated maturity date thereof or upon earlier redemption.

Further, we have examined an executed Bond of each series and, in our opinion, the form and execution of such Bonds are regular and proper.

Respectfully,

PROPOSED FORM OF TAX OPINION OF
CO-BOND COUNSEL EXPECTED TO BE DELIVERED IN
CONNECTION WITH THE ISSUANCE OF THE BONDS

[CLOSING DATE]

The Honorable Philip D. Murphy
Governor of the State of New Jersey

The Honorable Elizabeth Maher Muoio
New Jersey State Treasurer

The Honorable David Ridolfino
Acting Director of the Division of Budget and Accounting
in the Department of the Treasury of the State of New Jersey

**RE: State of New Jersey
\$3,672,360,000 New Jersey COVID-19 General Obligation Emergency Bonds,
2020 Series A**

Dear Governor Murphy, Treasurer Muoio and
Acting Director Ridolfino:

We have examined the Constitution and the Act (as hereinafter defined) of the State of New Jersey (the "State") and a record of proceedings and other proofs relating to the sale and issuance of \$3,672,360,000 aggregate principal amount of New Jersey COVID-19 General Obligation Emergency Bonds, 2020 Series A (the "Bonds"), including (i) a Tax Regulatory Agreement of the State dated the date hereof (the "Tax Regulatory Agreement"), and (ii) such other matters of fact and law as we have deemed necessary to enable us to render the opinion contained herein.

The Bonds are authorized and issued under and pursuant to the provisions of the New Jersey COVID-19 Emergency Bond Act, constituting Chapter 60 of the Laws of New Jersey of 2020 (the "Act").

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

The Internal Revenue Code of 1986, as amended (the "Code"), imposes certain requirements that must be met on a continuing basis subsequent to the issuance of the Bonds in order to assure that the interest on the Bonds will be excluded from gross income for federal income tax purposes under Section 103 of the Code. The State's Tax Regulatory Agreement, which is being delivered concurrently with the delivery of the Bonds, contains provisions and procedures regarding compliance with the requirements of the Code. The State, in executing its Tax Regulatory Agreement, has represented that the State expects and intends to comply and, to

The Honorable Philip D. Murphy
The Honorable Elizabeth Maher Muoio
The Honorable David Ridolfino
[CLOSING DATE]
Page 2

the extent permitted by law, will comply with the provisions and procedures set forth in the Tax Regulatory Agreement and will do all things necessary to assure that the interest on the Bonds will be excluded from gross income under Section 103 of the Code. Failure by the State to comply with the requirements of the Code may cause interest on the Bonds to be included in gross income retroactive to the date of issue of the Bonds. In rendering the opinions set forth below, we have assumed compliance by the State with its Tax Regulatory Agreement.

We are of the opinion that, pursuant to the applicable provisions of the Code and related rulings, regulations and judicial decisions, (i) interest on the Bonds is not includable in gross income for federal income tax purposes, and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed under the Code.

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

No opinion is expressed, however, as to the extent the accrual or receipt of interest on the Bonds may otherwise affect the federal income tax liability of or other consequences to the recipients thereof, which will depend on each recipient's particular tax status and other items of income or deduction.

We also are of the opinion that, under existing laws of the State, 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.

Except as expressly stated herein, we express no opinion as to any federal or state tax consequences of the ownership or disposition of the Bonds.

This opinion is rendered on the basis of the laws of the State and the applicable laws of the United States of America, as enacted and construed on the date hereof, and we express no opinion as to the laws of any other jurisdiction.

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

Respectfully,

APPENDIX III

FORM OF AGREEMENT WITH RESPECT TO CONTINUING DISCLOSURE

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AGREEMENT WITH RESPECT TO CONTINUING DISCLOSURE

The State of New Jersey (the "State") hereby undertakes for the benefit of the beneficial holders of \$3,672,360,000 New Jersey COVID-19 General Obligation Emergency Bonds, 2020 Series A (the "Bonds"), to provide information pertaining to the State generally of the type set forth in Section (b)(5)(i) of Rule 15c2-12 promulgated pursuant to the Securities Exchange Act of 1934 (as such Section is now in effect) (hereinafter, the "Rule"), while the Bonds are outstanding.

In connection therewith, (i) annual financial information and operating data of the State substantially of the type captioned as follows in APPENDIX I to the Official Statement, dated November 18, 2020, pertaining to the Bonds under the headings: "STATE FINANCES," "FINANCIAL RESULTS AND ESTIMATES," "TAX AND REVENUE ANTICIPATION NOTES," "LONG-TERM OBLIGATIONS," "MORAL OBLIGATIONS," "STATE EMPLOYEES," "STATE FUNDING OF PENSION PLANS," "FUNDING POST-RETIREMENT MEDICAL BENEFITS," and "LITIGATION" and (ii) the State's Comprehensive Annual Financial Report, being the report prepared annually by the Office of the State Auditor with respect to the State's general purpose financial statements for each year, in accordance with provisions of the Governmental Accounting Standards Board Statements No. 34 and No. 35 (the "Report"), in each case, will be provided in an electronic format, accompanied by such identifying information as shall be prescribed by the Municipal Securities Rulemaking Board (the "MSRB") Rule G-32, which shall be in effect on the date of filing of such information, and may cross-reference other information which is available to the public on the MSRB's internet website or which has been filed with the SEC (and if the document incorporated by reference is a final official statement, it must be available from the MSRB), to the MSRB, (a) by not later than April 1, 2021 with respect to the twelve month fiscal period of the State ending June 30, 2020, (b) by not later than April 1, 2022 with respect to the twelve month fiscal period of the State ending June 30, 2021, and (c) by not later than April 1 of each year thereafter during which any of the Bonds remain Outstanding, with respect to the fiscal year of the State ending the preceding June 30; provided however, that the audited financial statements of the State may be submitted separately if such audited financial statements are not available by such date but only if the unaudited financial statements are included in the submission.

Additionally, in a timely manner not in excess of ten (10) business days after the occurrence of such event, the State shall deliver to the MSRB or such other entity then required or permitted under the Rule, in such electronic format as is prescribed by the MSRB and accompanied by such identifying information as is prescribed by the MSRB, notice of the occurrence of any of the following events (collectively, "Reportable Events") with respect to the Bonds, to the extent such Reportable Events may be applicable to the Bonds:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults, if material;
3. Unscheduled draws on any debt service reserves reflecting financial difficulties;
4. Unscheduled draws on any credit enhancements reflecting financial difficulties;
5. Substitution of any credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-

TEB) or other material notices or determinations with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

7. Modifications to rights of bondholders, if material;
8. Bond calls, if material, and tender offers;
9. Defeasances;
10. Release, substitution or sale of property securing payment of the Bonds, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the State;
13. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, 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;
14. Appointment of a successor or additional trustee, or the change of name of a trustee, if material;
15. Incurrence of a Financial Obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the obligated person, any of which affect security holders, if material; and
16. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the obligated person, any of which reflect financial difficulties.

With respect to events (15) and (16), "Financial Obligation" means (A) debt obligation; (B) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (C) guarantee of (A) or (B), but shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

Also, in a timely manner, not later than the last business day of the month in which the Report was due, the State shall deliver to the MSRB or such other entity then required or permitted under the Rule, in such electronic format as is prescribed by the MSRB and accompanied by such identifying information as is prescribed by the MSRB, notice of a failure to provide the Report on or before the date specified herein.

The sole and exclusive remedy for any failure of the State to provide the information in the manner specified in this Agreement shall be the right to obtain specific performance of such obligation to provide such information in a judicial proceeding instituted in accordance with applicable legislation pertaining to suits against the State; provided, however, that the State shall

have received written notice of any such failure at least sixty (60) days prior to the commencement of any such judicial proceeding.

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

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

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

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

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

IN WITNESS WHEREOF, the State Treasurer has caused this Agreement to be executed and delivered on behalf of the State of New Jersey this 24th day of November, 2020.

TREASURER,
STATE OF NEW JERSEY

Elizabeth Maher Muoio
State Treasurer

[SIGNATURE PAGE TO AGREEMENT WITH RESPECT TO CONTINUING DISCLOSURE]

APPENDIX IV

PROVISIONS FOR BOOK-ENTRY ONLY SYSTEM AND GLOBAL CLEARANCE PROCEDURES

The information set forth in this APPENDIX IV is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream (DTC, Euroclear and Clearstream together, the "Clearing Systems") currently in effect. The information in this APPENDIX IV concerning the Clearing Systems has been obtained from sources believed to be reliable, but the Issuer does not take any responsibility for the accuracy, completeness or adequacy of the information in this APPENDIX IV. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. The Issuer will not have any responsibility or liability for any aspect of the records relating to, or payments made on account of beneficial ownership interests in the Bonds held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

So long as Cede & Co. is the registered owner of the Bonds, as nominee for DTC, references herein to the Bondholders, registered owners or owners (or similar terms) of the Bonds shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Bonds.

DTC Book-Entry-Only System

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond 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 depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+.

The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission.

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 interest 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 DTC nominee do not effect 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. Beneficial Owners of the Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer 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).

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 Participant's accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners

will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the 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 the Issuer or the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The Issuer 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.

NEITHER THE ISSUER NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR THE PERSONS FOR WHICH THEY ACT AS NOMINEES WITH RESPECT TO THE BONDS, OR FOR ANY PRINCIPAL OF OR INTEREST PAYMENT THEREON.

The Issuer and the Paying Agent may treat DTC (or its nominee) as the sole and exclusive registered owner of the Bonds registered in its name for the purposes of payment of the principal of, or interest on, the Bonds, giving any notice permitted or required to be given to registered owners under the Trust Agreement, registering the transfer of the Bonds, or other action to be taken by registered owners and for all other purposes whatsoever. The Issuer and the Paying Agent shall not have any responsibility or obligation to any Direct or Indirect Participant, any person claiming a beneficial ownership interest in the Bonds under or through DTC or any Direct or Indirect Participant, or any other person which is not shown on the registration books of the Issuer (kept by the Paying Agent) as being a registered owner, with respect to the accuracy of any records maintained by DTC or any Direct or Indirect Participant; the payment by DTC or any Direct or Indirect Participant of any amount in respect of the principal of or interest on the Bonds; any notice which is permitted or required to be given to registered owners thereunder or under the conditions to transfers or exchanges adopted by the Issuer; or other action taken by DTC as registered owner.

Global Clearance Procedures

Beneficial interests in the Bonds may be held through DTC, Clearstream Banking, S.A. (“Clearstream”) or Euroclear Bank SA/NV (“Euroclear”) as operator of the Euroclear System, directly as a participant or indirectly through organizations that are participants in such system.

Euroclear and Clearstream. Euroclear and Clearstream each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream have established an

electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream customers are worldwide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system, either directly or indirectly.

Clearing and Settlement Procedures. The Bonds sold in offshore transactions will be initially issued to investors through the book-entry facilities of DTC, or Clearstream and Euroclear in Europe if the investors are participants in those systems, or indirectly through organizations that are participants in the systems. For any of such Bonds, the record holder will be DTC's nominee. Clearstream and Euroclear will hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream's and Euroclear's names on the books of their respective depositories.

The depositories, in turn, will hold positions in customers' securities accounts in the depositories' names on the books of DTC. Because of time zone differences, the securities account of a Clearstream or Euroclear participant as a result of a transaction with a participant, other than a depository holding on behalf of Clearstream or Euroclear, will be credited during the securities settlement processing day, which must be a business day for Clearstream or Euroclear, as the case may be, immediately following the DTC settlement date. These credits or any transactions in the securities settled during the processing will be reported to the relevant Euroclear participant or Clearstream participant on that business day. Cash received in Clearstream or Euroclear as a result of sales of securities by or through a Clearstream participant or Euroclear participant to a DTC Participant, other than the depository for Clearstream or Euroclear, will be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement in DTC.

Transfer Procedures. Transfers between participants will occur in accordance with DTC rules. Transfers between Clearstream participants or Euroclear participants will occur in accordance with their respective rules and operating procedures. Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream participants or Euroclear participants, on the other, will be effected by DTC in accordance with DTC rules on behalf of the relevant European international clearing system by the relevant depositories; however, cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in the system in accordance with its rules and procedures and within its established deadlines in European time.

The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its depository to take action to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal procedures for same day funds settlement applicable to DTC. Clearstream participants or Euroclear participants may not deliver instructions directly to the depositories.

The Issuer will not impose any fees in respect of holding the Bonds; however, holders of book-entry interests in the Bonds may incur fees normally payable in respect of the maintenance and operation of accounts in DTC, Euroclear and Clearstream.

Initial Settlement. Interests in the Bonds will be in uncertified book-entry form. Purchasers electing to hold book-entry interests in the Bonds through Euroclear and Clearstream accounts will follow the settlement procedures applicable to conventional Eurobonds. Book-entry interests in the Bonds will be credited to Euroclear and Clearstream participants' securities clearance accounts on the business day following the date of delivery of the Bonds against payment (value as on the date of delivery of the Bonds). DTC participants acting on behalf of purchasers electing to hold book-entry interests in the Bonds through DTC will follow the delivery practices applicable to securities eligible for DTC's Same Day Funds Settlement system. DTC participants' securities accounts will be credited with book-entry interests in the Bonds following confirmation of receipt of payment to the Issuer on the date of delivery of the Bonds.

Secondary Market Trading. Secondary market trades in the Bonds will be settled by transfer of title to book-entry interests in Euroclear, Clearstream or DTC, as the case may be. Title to such book-entry interests will pass by registration of the transfer within the records of Euroclear, Clearstream or DTC, as the case may be, in accordance with their respective procedures. Book-entry interests in the Bonds may be transferred within Euroclear and within Clearstream and between Euroclear and Clearstream in accordance with procedures established for these purposes by Euroclear and Clearstream. Book-entry interests in the Bonds may be transferred within DTC in accordance with procedures established for this purpose by DTC. Transfer of book-entry interests in the Bonds between Euroclear or Clearstream and DTC may be effected in accordance with procedures established for this purpose by Euroclear, Clearstream and DTC.

Special Timing Considerations. Investors should be aware that investors will only be able to make and receive deliveries, payments and other communications involving the Bonds through Euroclear or Clearstream on days when those systems are open for business. In addition, because of time-zone differences, there may be complications with completing transactions involving Clearstream and/or Euroclear on the same business day as in the United States. U.S. investors who wish to transfer their interests in the Bonds, or to receive or make a payment or delivery of the Bonds, on a particular day, may find that the transactions will not be performed until the next business day in Luxembourg if Clearstream is used, or Brussels if Euroclear is used.

Clearing Information. It is expected that the Bonds will be accepted for clearance through the facilities of Euroclear and Clearstream. The CUSIP numbers for the Bonds are set forth on the inside cover of the Official Statement.

General. Neither Euroclear nor Clearstream is under any obligation to perform or continue to perform the procedures referred to above, and such procedures may be discontinued at any time.

NEITHER THE ISSUER NOR ANY OF ITS AGENTS WILL HAVE ANY RESPONSIBILITY FOR THE PERFORMANCE BY EUROCLEAR OR CLEARSTREAM OR THEIR RESPECTIVE DIRECT OR INDIRECT PARTICIPANTS OR ACCOUNT HOLDERS OF THEIR RESPECTIVE OBLIGATIONS UNDER THE RULES AND PROCEDURES GOVERNING THEIR OPERATIONS OR THE ARRANGEMENTS REFERRED TO ABOVE.

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