NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY

MEMORANDUM

TO: Members of the Authority

FROM: Caren S. Franzini
Chief Executive Officer

SUBJECT: NJEDA/School Facilities Construction Bonds and
School Facilities Construction Notes, 2010 Series
Par Amount Not to Exceed $2 billion

DATE: April 15, 2010

SUMMARY OF PROPOSED FINANCING

On behalf of the State of New Jersey and in accordance with the Educational Facilities and Construction Financing Act originally enacted in 2000, as amended, the Authority is being asked to issue bonds to support the State's School Facilities Construction Program. The debt service on these bonds is paid by the State subject to annual appropriations by the Legislature and there is no financial exposure by the Authority.

The Authority is currently being asked to approve the issuance of one or more series of the 2010 School Facilities Construction Bonds (the "2010 Series Bonds"), the 2010 School Facilities Construction Notes (the "2010 Series Notes") and the 2010 School Facilities Construction Refunding Bonds (the "2010 Refunding Bonds") (collectively, the "2010 Series Obligations") and various related actions described below.

The 2010 Series Obligations will be issued for one or more of the following purposes:

(i) to pay the principal of and/or interest on the 2009 Series A School Facilities Construction Notes maturing on June 18, 2010 (approximately $400,000,000)

(ii) to restructure and refund portions of one or more Series of outstanding School Facilities Construction Bonds as part of the State's ongoing financial management of its overall debt portfolio (approximately $850,000,000) and

(iii) to provide financing for the costs of School Facilities Projects (approximately $500,000,000).

BACKGROUND

The Educational Facilities Construction and Financing Act, L. 2000, c. 72, as amended and supplemented by L. 2007, c. 137 and L. 2008, c. 39 (the "Act"), establishes a comprehensive program for the design, renovation, repair and new construction of primary and secondary schools throughout the State. Initially, the Act authorized the Authority to issue up to $8.6 billion of State contract bonds to finance the acquisition, construction and/or renovations of K-12 School Facilities Projects throughout the State. Thereafter, the Act was amended and supplemented in 2008 by L. 2008, c. 39 (the "2008 Amendment to the Educational Facilities Act") to authorize the Authority to issue up to an additional $3.9 billion bonds for the funding of School Facilities Projects.

Since April 2001, the Authority has issued twenty four (24) series of tax-exempt and taxable School Facilities Construction Bonds and Notes totaling $8,145,929,000 under the Act, including one (1) series of tax-exempt School Facilities Construction Notes totaling $400,000,000 and three (3) series of taxable Qualified Zone Academy Bonds totaling $45,929,000. Additionally, the Authority has issued four (4) series of refunding bonds in the par amount of $3,149,100,000 that restructured and refunded a portion of several Series of tax-exempt bonds previously issued under the Act. To date, all of such Bonds and Notes have been issued pursuant to the original $8.6 billion of bonding authorization contained in the Act and under and pursuant to the School Facilities Construction Bond Resolution adopted by the Authority on February 13, 2001, as amended September 5, 2002 (the "General Bond Resolution"). As a result of the issuance of such Bonds and Notes, only $454,071,000 aggregate principal amount of new Bonds or Notes can be issued pursuant to the original bonding authorization.

In 2009 the Internal Revenue Code of 1986 (the "Code") was amended under the American Recovery and Reinvestment Act to include a new form of taxable governmental bonds which may be issued for any purpose for which tax-exempt governmental bonds may be issued known as issuer subsidy Build America Bonds ("BABs"). Rather than receive tax-exempt interest, BABs provide the holders of these bonds taxable interest payments on which the issuer receives subsidy payments from the U.S. Treasury. Specifically, the issuer may elect to issue taxable interest bearing BABs and receive a direct subsidy from the federal government on (or after in the case of variable rate BABs) each interest payment date, equal to 35% of the amount of interest payable by the issuer on such interest payment date to the holders of such BABs.

APPROVAL REQUEST

The Members are requested to approve the adoption of the Twenty-Fifth Supplemental School Facilities Construction Bond Resolution (the "Twenty-Fifth Supplemental Resolution") authorizing issuance of one or more series of the 2010 Bonds, the 2010 Notes and the 2010 Refunding Bonds in an amount not to exceed $2 billion. The 2010 Series Obligations will be issued for the purposes set forth above as determined by an Authorized Officer of the Authority in consultation with the State Treasurer, Office of Public Finance, Attorney General's Office and Bond Counsel. The 2010 Series Obligations will be secured by the State Contract with the State Treasurer, as amended by the Amendment to the State Contract (which the Members will be requested to approve below). Payments will be directly remitted by the State Treasurer to pay the debt service on the bonds and the notes subject to appropriation by the State Legislature for this purpose.

The 2010 Series Obligations may be issued as fixed rate and/or variable interest rate, tax-exempt or taxable bonds or notes, including BABs, as determined by an Authorized Officer of the Authority in consultation with the State Treasurer, Office of Public Finance, Attorney General's Office and Bond Counsel and subject to the following parameters:

(i) The final maturity of any 2010 Series Bonds will not exceed 30 years;
(ii) The final maturity of any 2010 Refunding Bonds will not exceed 30 years provided, however, that in any event the maturity of the bonds being refunded and restructured shall not be extended. The issuance of the 2010 Refunding Bonds must generate a net present value savings;
(iii) The final maturity of any 2010 Series Notes will not exceed 62 months;
(iv) The true interest cost for fixed rate bonds or notes will not exceed 8%; and
(v) The maximum interest rate on any variable interest rate bonds or notes (other than bank bonds) will not exceed 15% (except as set forth below as it applies to 2010 Series Obligations issued as BABs.

For purposes of calculating the true interest cost for any 2010 Series Obligations which constitute BABs, the amount of the interest to be paid by the Authority on the 2010 Series Obligations will be reduced by the amount of the cash subsidy payments expected to be received by the Authority from the United States Treasury in an amount equal to 35% of the interest payable on such 2010 Series Obligations on (or after in the case of variable rate BABs) each interest payment date for such 2010 Series Obligations.

Due to the fact that there is only $454,071,000 of bonding capacity remaining under the original authorization contained in the Act, all or a portion of the 2010 Series Obligations may be funded under the new authorization contained in the 2008 Amendment to the Educational Facilities Act. It is currently contemplated that the 2010 Series Obligation will be funded under the new authorization as the remaining money will kept aside to fund other School Construction projects that may not otherwise be funded under the new authorization. In connection with the use of any of the new authorization, the Members are requested to approve an amendment to the State Contract to implement the funding provisions of the 2008 Amendment to the Educational Facilities Act.

The Board is being asked to approve certain actions and delegation of actions to an Authorized Officer with information provided by the State Treasurer, Bond Counsel and the State Attorney General, and in consultation with, the Office of Public Finance, Bond Counsel and the Attorney General's Office, as applicable and as approved by the State Treasurer, which actions are more fully set forth in the Twenty-Fifth Supplemental Resolution and will be memorialized in one or more Series Certificates, and may include, without limitation:

- To determine the date of issuance, sale and delivery, the maturity date, the principal amount, the variable rate interest provisions and the redemption and tender provisions of each Series of 2010 Series Obligations in accordance with the parameters set forth above;

- To determine whether each Series of the 2010 Series Obligations shall bear interest at fixed or variable interest rates in accordance with the parameters set forth above;

- To determine whether each Series of the 2010 Series Obligations shall be issued as tax-exempt or taxable obligations and to determine whether to treat any series as BABs;

- To make any designations, representations and irrevocable elections required by the Code to have the provisions of Section 54AA of the Code apply to any 2010 Series Obligations designated as Build America Bonds;

- To select and appoint any additional co-managers and/or underwriters for the 2010 Series Obligations upon recommendation of the State Treasurer, utilizing Treasury's RFQ/RFP process in accordance with Executive Order No. 26 and Executive Order No. 37;

- To determine whether the 2010 Series Obligations are issued pursuant to the debt limitations established by the Educational Facilities Act as in effect prior to the enactment of the 2008 Amendment to the Educational Facilities Act or the debt limitations established by the 2008 Amendment to the Educational Facilities Act;

- To permit the addition of a letter of credit or a stand-by bond purchase agreement or other credit enhancement upon recommendation of the State Treasurer utilizing Treasury's RFQ/RFP process in accordance with Executive Order No. 26 and Executive Order No. 27, to some or all series or sub-series of variable interest rate 2010 Series Obligations, in order to provide liquidity for the periodic optional and mandatory tenders for each series in variable interest mode. Each liquidity provider must have a long-term rating or short term rating by any two of the rating agencies of A2/VMIG-1, A/A-1 and A/F-1. The interest rate on bonds purchased by the standby purchaser as bank bonds or bank notes, respectively, shall not exceed the maximum rate in the liquidity facility which shall not exceed the maximum interest rate permitted by applicable law; the term of such facility cannot exceed 7 years and the term-out period for the Authority to repay amounts payable under the liquidity facility cannot be less than 3 years;

- To permit the termination, amendment or substitution of existing letters of credit or stand-by bond purchase agreements or other credit enhancements entered into in connection with outstanding variable interest rate bonds issued under the Resolution, including, without limitation, the letter of credit entered into with Allied Irish Bank in connection with the Series 2009V-1 Bonds. Due to the uncertainty of the financial condition of the Allied Irish Bank, it is currently contemplated to terminate the Allied Irish Bank letter of credit and substitute it with a letter of credit bank of higher quality selected upon recommendation of the State Treasurer utilizing Treasury's RFQ/RFP process in accordance with E.O. 26 and E.O. 27;

- To select and appoint one or more remarketing agents for any 2010 Series Obligations issued as variable rate bonds upon recommendation of the State Treasurer via a competitive process utilizing Treasury's RFQ/RFP process in accordance with Executive Order No. 26 and Executive Order No. 37. The amount of compensation to be paid to the remarketing agent will not exceed $1.20 per $1000 of the 2010 Series Obligations issued as variable rate interest obligations;

- To purchase one or more municipal bond insurance policies with respect to any or all of the maturities of the 2010 Series Bonds or 2010 Series Notes if determined that municipal bond insurance is necessary, available or desired in order to achieve the economic objectives of the financing;

- To select and appoint a firm upon recommendation of the State Treasurer through a competitive process utilizing Treasury's RFQ/RFP process in accordance with Executive Order No. 26 and Executive Order No. 37, to serve as bidding agent to solicit bids, to enter into or to purchase investment securities with proceeds of the 2010 Series Bonds or 2010 Series Notes in the event it is determined that it is advantageous to invest any proceeds of the 2010 Series Bonds or 2010 Series Notes in such investment securities;

- To permit amendments to the swaps related to School Facilities Construction Bonds or entering into new swaps, to assist in restructuring the cash flows under the existing swaps, including but not limited to: amendments to offset the cash flows under the swaps for a period of time; restructuring to manage the volatility in the existing swaps during a period when bonds are paying interest at a different frequency; sale of a cancellation option to a counterparty, the proceeds of which would be deposited into bond accounts under the resolution and would be used to pay for the costs of the conversion of bonds to variable rate demand obligations or other interest rate modes. The notional amounts of the renegotiated or new swaps may not exceed the notional amounts of the existing swaps, final maturity date of the renegotiated or new swaps may not be later than the final maturity date of the applicable bonds or if such swap agreement does not relate to any Series of the Authority's Bonds, September 1, 2037 (the last maturity of any of the School Facilities Construction Bonds), and any renegotiated fixed rate payable by the Authority shall not exceed 5.00%. The minimum rating on any new swap provider is A2/A- from any two rating agencies.

In exercising the Authority's discretion to approve specific transactions authorized under the Twenty-Fifth Supplemental Resolution, it is anticipated that the Authorized Officers of the Authority will make decisions on behalf of the Authority in consultation with the Treasurer and will select the option(s) that makes the most financial sense for the State and its overall debt portfolio. The Board will be updated upon completion of the transaction.

Professionals for the 2010 Series Bonds and Notes were selected in compliance with Executive Order No. 26. McCarter & English, LLP was selected as Bond Counsel through a competitive RFP/RFQ process performed by the Attorney General's Office on behalf of Treasury for State appropriation backed transactions. Through Treasury's competitive RFP/RFQ process the following professionals were chosen: Merrill Lynch, Pierce, Fenner & Smith Incorporated as senior manager; Citigroup Global Markets Inc., Goldman, Sachs & Co., JP Morgan Securities Inc. and Morgan Stanley & Co. Incorporated as co-senior managers, Lamont Financial Services Corporation as swap advisor; and U.S. Bank National Association as Trustee, Paying Agent, Registrar, Dissemination Agent, Calculation Agent, Escrow Agent and Tender Agent. The Twenty-Fifth Supplemental Resolution will also authorize Authority staff to take all necessary actions incidental to the issuance of the 2010 Series Bonds and the 2010 Notes subject to the State Treasurer's approval, including without limitation, the selection of additional underwriters and bond insurers, if any, pursuant to a competitive process utilizing Treasury's RFP/RFQ process in accordance with Executive Order No. 26 and Executive Order No. 37.

RECOMMENDATION

Based upon the above description, and subject to the criteria set forth above, the Members are requested to: (i) approve the adoption of the Twenty-Fifth Supplemental Resolution authorizing the issuance of the 2010 Series Bonds and the 2010 Series Notes (including the 2010 Refunding Bonds) in the total aggregate principal amount not to exceed $2 billion as well as other matters in connection with the issuance and sale thereof and otherwise described above; (ii) approve several actions and delegation of actions to an Authorized Officer as may be necessary or advisable in order to issue the 2010 Series Obligations on terms most favorable to the Authority, in light of changing market and new federal tax subsidy; (iii) approve the Amendment to State Contract; (iv) authorize the use of the aforementioned professionals; and (v) authorize Authority staff to take all necessary actions incidental to the issuance of the 2010 Series Bonds and 2010 Series Notes; subject to final review and approval of all terms and documentation by Bond Counsel and the Attorney General's Office.

Prepared by: Teresa Wells

CHRIS CHRISTIE
Governor

KIM GUADAGNO
Lt. Governor

State of New Jersey

DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC FINANCE
P.O. BOX 005
TRENTON, NJ 08625-0005

ANDREW P. SIDAMON-ERISTOFF
State Treasurer

April 14, 2010

MEMORANDUM TO: Caren Franzini, Chief Executive Officer
New Jersey Economic Development Authority

FROM: James M. Petrino, Director JMP

SUBJECT: School Facilities Construction Bond Sale – Spring 2010

The attached document from the State Treasurer's Office summarizes the purposes and structures for the proposed School Facilities Construction Bond Sale governed by the 25th Supplemental Resolution that is being submitted to your Board on April 15, 2010 for approval. Please review and let me know if you have any questions or concerns.

Attachment

NJ Economic Development Authority
School Facilities Construction Bond Sale – Spring 2010

The State Treasurer's Office is hereby asking the NJEDA to issue School Construction Bonds for the benefit of the School Development Authority. The total transaction is expected to consist of 4 to 5 series of bonds and/or notes to be issued on both a fixed rate and variable rate basis. The State Treasurer is requesting an accelerated schedule that includes a May 17th closing. The reasons for this request are as follows:

- to ensure that Fiscal Year 2010 State debt service savings of $59.0 million occur;
- to satisfy a $400.0 million Fiscal Year 2009 Note that matures on June 18, 2010 ;
- to close prior to May 18, 2010 as it is the State's usual practice to avoid issuing bonds during the budget negotiation period which begins with the Treasurer's testimony in front of the State Legislature (presently scheduled for May 18, 2010).

The proposed transaction will consist of two bond sales. The first sale is expected to occur on or about April 22, 2010 in the approximate amount of $850.0 million of long-term fixed rate bonds. It will consist of refunding and restructuring bonds in the approximate amount of $700.0 million as well as approximately $150.0 million for school construction projects. The refunding and restructuring portion will provide General Fund cash flow relief in the amounts of approximately $60.0 million for Fiscal Year 2010, $205.0 million for Fiscal Year 2011, $200.0 million in Fiscal Year 2012 and $200.0 million in Fiscal Year 2013. In order to issue the refunding bonds, the refunding and restructuring transaction must generate positive net present value savings as required by the State Treasurer's Office and shall not extend the maturity of the bonds to be refunded. Fiscal Year 2012 and Fiscal Year 2013's School Construction Bonds' debt service is included in the restructuring to facilitate future State bond transactions in meeting the debt service requirements of the Governor's Fiscal Year 2011 Budget Message.

The second bond sale is expected to occur on or about May 11, 2010 in the approximate amount of $750.0 million. Of that amount, $350.0 million of proceeds will be used for school construction projects. The remaining $400.0 million will be used to pay, at maturity, the NJEDA 2009 Series A Notes. This second bond sale will consist of the issuance of Floating Rate Notes.

Structure:
The proposed bond sales have different structures. An explanation of each proposed structure is as follows:

- **First Bond Sale.** Approximately $675.0 million of refunding and restructuring bonds will be sold as long-term fixed rate tax-exempt debt. Approximately $25.0 million of refunding bonds may be issued as taxable bonds as required by tax law. The portion of the fixed-rate debt that is associated with the new money funding, approximately $150.0 million, may be issued as taxable, fixed-rate, Build America Bonds. These bonds are eligible for a 35% direct pay subsidy payable to the Authority from the US Treasury for each interest payment, making them cost effective versus traditional tax-exempt debt.

- **Second Bond Sale.** In order to satisfy payment obligations created under existing swap obligations, the second bond sale will consist of approximately $750.0 million in variable rate debt. In today's market, the most cost effective variable rate debt option is for the NJEDA to issue taxable, Build America Bonds, which will be issued as Floating Rate Indexed Notes. Interest on the Floating Rate Indexed Notes are taxable, but are eligible to receive a 35% direct subsidy. There is no put or call on the Notes. The Notes are not remarketed; therefore, there is no need for letters of credit or remarketing agents. The Notes may have a stated maturity of three years, at which time the State Treasurer's Office will look to refinance the obligations.

Upon closing of the bond sales the NJEDA will be updated on the final structure of each sale.

NJEDA School Construction Bond Program Swap Obligations
The State Treasurer, through the NJ Office of Public Finance, monitors all of the derivatives that relate to State-backed appropriation obligations. This transaction meets the requirements of the upcoming May 1, 2010 forward starting swap in the notional amount of $500.0 million by providing variable rate obligations to be satisfied from

payments received under such swap obligation. In addition, the proposed transaction will allow the State to terminate an existing reversal swap the NJEDA entered into when it issued the 2009 Series A Notes. Finally, the last portion of Floating Rate Indexed Notes, $250.0 million, may relate to existing swap obligations.

Goals Achieved:

The successful implementation of the proposed transaction will achieve the following:

1. Provide for the timely refinancing of the $400.0 million NJEDA 2009 Series A Notes.
2. Provide $59.0 million in budgeted Fiscal Year 2010 General Fund savings.
3. Provide for additional General Fund savings in Fiscal Year 2011 of $205.0 million as part of the Governor's Fiscal Year 2011 Budget Message.
4. Provide for subsequent State bond restructurings to achieve General Fund savings as well as net present value savings as part of the Governor's Fiscal Year 2011 Budget Message.
5. Achieve the most cost effective and efficient variable rate to match existing swap needs.
6. Maintain letter of credit capacity for future needs of the State Treasurer's Office.
7. Achieve the lowest cost of capital under market conditions.
8. Eliminate the need for additional swap exposure.
9. Eliminate a swap reversal that was part of the 2009 Series A Notes.
10. Provide $500.0 million of new money proceeds to fund the School Construction Program through Fiscal Year 2011.

Background:

During February 2010, the State, in accordance with Executive Order No. 26, sent out a Request For Proposals for Investment Banking Services. Responses were due on March 26, 2010. A scoring committee consisting of one NJEDA professional and two Treasury professionals selected Bank of America, Merrill Lynch as Senior Manager to underwrite this transaction.

Through subsequent meetings, it was determined that Floating Rate Indexed Notes were the most cost effective and efficient variable rate debt. It is estimated that these securities after receipt by the NJEDA of the 35% federal Build America Bond subsidy would cost 50 basis points less under current market conditions than more commonly offered variable rate demand bonds. Such debt would also more effectively match the variable rate to be received under the existing NJEDA School Construction Bond Program swap obligations. It was also determined that the $150.0 million of new money bonds should be issued as taxable Build America Bonds. After the 35% interest rate subsidy described above, the net interest cost of these bonds will be significantly less than that of traditional fixed-rate tax-exempt debt. The $675.0 million of refunding bonds will be offered and sold as traditional fixed-rate tax-exempt bonds. The tax law does not allow this type of refunding bonds to be issued as Build America Bonds.

NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY

MEMORANDUM

TO: Members of the Authority

FROM: Caren S. Franzini
Chief Executive Officer

DATE: April 15, 2010

SUBJECT: 5011 Circle Associates, LLC
Farmingdale, Monmouth County
SLP Loan with Central Jersey Bank
Bank Loan Balance: $1,453,295
25% EDA Participation: $ 463,506

Request:

1) Consent to the substitution of a third party tenant to lease the space formerly occupied by the now defunct related operating company of 5011 Circle Associates, LLC, All American Camper and RV, LLC (AAC).
2) Consent to a (second) 6 month principal moratorium on the loan from 4/1/10 – 10/1/10.

Background:

5011 Circle Associates, LLC (Circle) is a real estate holding company formed to acquire real estate located at 5011 State Highway 33/34, Farmingdale, NJ.

In July 2006 EDA provided 25% ($500,000) participation and 25% guarantee (initially $375,000) guarantee (expired in August 2008) in a $2,000,000 loan from Central Jersey Bank to acquire a 10,000 sf building on 2.2 acres for a newly formed entity, AAC, a retail seller of new and used recreational vehicles, trailers, accessories and services and to provides showroom space for a related entity, Monmouth Equipment and Service Company, Inc. (MESC).

MESC, which began operations in 1974 and was acquired by the current owners in 1983, is supplier of customized wheelchair lifts, modified driver controls and custom interiors for handicapped van owners. The company also sells scooters, wheel chairs and residential lifts under the trade name Garden State Scooters.

Due to rising fuel costs and downturn in the economy which severely impacted many of the leisure industries, AAC failed. In November 2008, the principals dissolved ACC and returned 85% of its unsold inventory to Textron, its floor plan lender. The remaining inventory was sold at liquidation prices. The borrowers incurred approximately $330,000 in debt to dissolve the business, but all creditors were paid.

In addition, MESC's sales were also impacted by the economy in 2008, which precipitated a request for a 6 month principal moratorium in April 2009. At that time, the principals were confident that the business would rebound from new orders gained from participating in the 2009 spring/summer expositions shows and by securing Medicare accreditation, the latter of which was expected to increase scooter and lift sales through high-end assisted living facilities.

Concurrent to the Bank and EDA providing a moratorium, the company took proactive steps to improve cash flow by reducing staff and expanding services to include basic automotive service and repairs on all vehicles types. Additionally, both 5011 and 5105 locations were listed with a realtor to be leased or sold.

As a result of listing, the borrower has very recently had strong interest from a prospective tenant for the 5011 facility. The proposed lessee is an existing local used automobile business that will have high visibility in the location. The tenant has tentatively agreed to sign a three year lease and at the end of six months will have the option to purchase the property.

The Bank and Borrower believe this is the best interim solution to keep the property from going dark and providing time for a more permanent solution that can be offered.

Because the proposed tenant is not related to the real estate holding company, it will now be a mostly non-owner occupied transaction as opposed to the owner/operated transaction that the members approved in 2006. As such, the members are being asked to approve the substitution of tenants to a third party tenant and a second six month principal moratorium on the loan to provide the borrower with cash flow relief during this interim period.

The bank has consented to the transaction and EDA staff has reviewed the financial statements of the tenant and believes it has the ability to pay the rent due under the lease. Staff notes that the monthly rental payments of approximately $8,800 will not fully cover the $10,400 interest payments on the loan, but have been assured that MESC and/or the personal guarantors on our loan will cover all deficiencies.

The members are asked to consent to: 1) the substitution of tenants from the owner occupied former operating company of this real estate holding company to a third party tenant; 2) a second six month principal moratorium from 4/1/10 – 10/1/10.

This approval will avert a vacancy in the facility and provide cash flow relief to our borrower until a more permanent solution for the property (sale to the tenant) or alternate sale can occur.

Prepared by: Lisa Coane and Jerry Stesney