

**PRELIMINARY OFFICIAL STATEMENT DATED DECEMBER 5, 2018**

**NEW ISSUE**

**UNRATED**

*In the opinion of DeCotiis, FitzPatrick, Cole & Giblin, LLP, Bond Counsel, assuming continuing compliance by the City of Newark, in the County of Essex, State of New Jersey (the "City") with certain covenants described herein, under current law, interest on the Notes (as defined herein) is not includable in gross income for federal income tax purposes and is not an item of tax preference under Section 57 of the Internal Revenue Code of 1986, as amended ("Code"), for purposes of computing the federal alternative minimum tax. No opinion is expressed regarding other federal tax consequences arising with respect to the Notes. Further, in the opinion of Bond Counsel, under current law, interest on the Notes and any gain on the sale thereof are not includable as gross income under the New Jersey Gross Income Tax Act. See "TAX MATTERS" herein.*

**CITY OF NEWARK,  
in the County of Essex, New Jersey**

**\$10,100,000  
TAX APPEAL REFUNDING NOTES, SERIES 2018D  
(Book-Entry Only) (Non-Callable)**

**Dated: Date of Delivery**

**Due: December 20, 2019**

The \$10,100,000 aggregate principal amount of Tax Appeal Refunding Notes, Series 2018D (the "Notes"), will be issued for the purpose of financing payments of certain tax appeal refunds owing to others in respect of taxes levied by and in the City and paying costs of issuance expenses. The Notes will be issued as fully registered Notes and, when issued, will be registered in the name of and held by Cede & Co., as nominee for The Depository Trust Company ("DTC"). Purchases of the Notes will be made in book-entry-only form (without certificates) in denominations of \$5,000 or any integral multiple of \$1,000 in excess thereof. So long as DTC, or its nominee Cede & Co., is the registered owner of the Notes, payment of the principal of and interest on the Notes is to be made directly to Cede & Co., which is to remit such payment to DTC participants, which in turn is to remit such payment to the beneficial owners of the Notes (see "BOOK-ENTRY ONLY SYSTEM" herein). Interest on the Notes is payable at maturity. Interest shall be computed on the basis of a three hundred sixty (360) day year consisting of twelve (12) months of thirty (30) days each.

The Notes are not subject to redemption prior to their maturity.

**\$10,100,000 \_\_\_\_ % Tax Appeal Refunding Notes, Series 2018D, Due December 20, 2019 – Price \_\_\_\_ % to Yield \_\_\_\_ %**

The Notes constitute general obligations of the City, and the full faith and credit and unlimited taxing power of the City are pledged to the payment of the principal of and interest on the Notes.

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

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

AN INVESTMENT IN THE NOTES INVOLVES A SIGNIFICANT DEGREE OF RISK. POTENTIAL NOTEHOLDERS ARE ADVISED TO READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING THE APPENDICES HERETO. SPECIAL REFERENCE IS MADE TO THE SECTIONS "CITY FINANCIAL CONDITION", "RISK FACTORS", AND "CITY FINANCIAL SCHEDULES 2013 BUDGET – 2018 BUDGET" IN APPENDIX A HEREIN FOR A DISCUSSION OF CERTAIN RISK FACTORS WHICH SHOULD BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE NOTES.

The Notes are offered when, as and if issued by the City and delivered to the Underwriter (as defined herein), subject to the approval of legality by DeCotiis, FitzPatrick, Cole & Giblin, LLP, Teaneck, New Jersey, Bond Counsel, and other conditions described herein. Certain legal matters will be passed on for the City by Kenyatta Stewart, Esq., Corporation Counsel, and for the Underwriter by its Counsel, McManimon, Scotland & Baumann, LLC, Roseland, New Jersey. It is expected that the Notes will be available for delivery on or about December 21, 2018. The Notes are to be delivered through the facilities of DTC.

**TD SECURITIES**

Dated: December \_\_, 2018

This is a Preliminary Official Statement, complete with the exception of the specific information permitted to be omitted by Rule 15c2-12 of the Securities and Exchange Commission. The City has authorized distribution of this Preliminary Official Statement to prospective purchasers and others. In accordance with Rule 15c2-12, this Preliminary Official Statement is deemed final. Upon the issuance of the Notes described herein, the City will deliver a final Official Statement within the earlier of seven business days following such issuance or in order to accompany the Underwriter's confirmation that request payment for the Notes.

**CITY OF NEWARK,  
IN THE COUNTY OF ESSEX, NEW JERSEY**

**MAYOR**

Ras J. Baraka

**CITY COUNCIL MEMBERS**

Mildred C. Crump, President, At-Large  
Luis A. Quintana, Vice President, At-Large  
Augusto Amador, East Ward  
LaMonica McIver, Central Ward  
Carlos M. Gonzalez, At-Large  
John Sharpe James, South Ward  
Joseph A. McCallum Jr., West Ward  
Eddie Osborne, At-Large  
Anibal Ramos, Jr., North Ward

**BUSINESS ADMINISTRATOR**

Eric S. Pennington, Esq.

**DIRECTOR OF FINANCE AND CHIEF FINANCIAL OFFICER**

Danielle A. Smith

**CITY CLERK**

Kenneth Louis

**CORPORATION COUNSEL**

Kenyatta Stewart, Esq.

**AUDITORS**

Samuel Klein and Company  
Certified Public Accountants  
Newark, New Jersey

**BOND COUNSEL**

DeCotiis, Fitzpatrick, Cole & Giblin, LLP  
Teaneck, New Jersey

**FINANCIAL ADVISOR**

NW Financial Group, LLC  
Hoboken, New Jersey

No dealer, broker, salesperson or any other person has been authorized by the City of Newark, in the County of Essex, New Jersey or the Underwriter to give any information or to make any representations, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the foregoing. The information contained herein has been provided by the City and other sources deemed reliable; however, no representation or warranty is made as to its accuracy or completeness and such information is not to be construed as a representation or warranty by the Underwriter or, as to information from sources other than the Underwriter, by the City. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder shall, under any circumstances, create any implication that there has been no change in any of the information herein since the date hereof, or the date as of which such information is given, if earlier.

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

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Notes in any jurisdiction in which it is unlawful for any person to make such an offer, solicitation or sale. No dealer, broker, salesman or other person has been authorized to give any information or to make any representations other than as contained in this Official Statement. If given or made, such other information or representations must not be relied upon as having been authorized by the City.

In connection with this offering, the Underwriter for the Notes may over allot or effect transactions that stabilize or maintain the market price of the Notes at a level above that which might be otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

Certain statements included or incorporated by reference in this Official Statement, including specifically (but not limited to) the statements contained under the headings "INTRODUCTION - Future Financing Plans", "CITY FINANCIAL CONDITION", "RISK FACTORS" and "APPENDIX A – CITY FINANCIAL SCHEDULES – “-2013 Budget”, “-2014 Budget”, “-2015 Budget”, “-2016 Budget”, “-2017 Budget” and “-2018 Budget” constitute projections or estimates of future events, generally known as forward-looking statements. These statements are generally identifiable by the terminology used, such as "plan", "expect", "estimate", "budget" or similar words. These forward-looking statements are based on the beliefs of, and assumptions made by, City officials and on information currently available to City officials. The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to, items described under the above-referenced headings. Other than as may be required by law, the City does not plan to issue any updates or revisions to these forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based, occur.

The Underwriter for the Notes may offer and sell the Notes to certain dealers, dealer banks, and banks acting as agent at prices lower than the public offering price or higher than the yield, as applicable, stated on the cover hereof. Such public offering prices or yields, as applicable, may be changed from time to time by the Underwriter.

**IN MAKING ANY INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE CITY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

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**OFFICIAL STATEMENT  
OF THE  
CITY OF NEWARK,  
IN THE COUNTY OF ESSEX, NEW JERSEY**

**\$10,100,000 TAX APPEAL REFUNDING NOTES, SERIES 2018D**

**INTRODUCTION**

This Official Statement, which includes the cover page hereof and appendices attached hereto (the “Official Statement”), has been prepared by the City of Newark, in the County of Essex, New Jersey (the “City”) in connection with the sale and issuance of \$10,100,000 aggregate principal amount of Tax Appeal Refunding Notes, Series 2018D (the “Notes”). This Official Statement has been “deemed final” by the City as of its date pursuant to Rule 15c2-12 of the Securities and Exchange Commission, has been authorized by the Municipal Council and executed by and on behalf of the City by the Director of Finance and Chief Financial Officer of the City and may be distributed in connection with the sale of the Notes.

This Official Statement contains specific information relating to the Notes, including their general description, certain matters affecting the financing, certain legal matters, historical financial information and other information pertinent to this issue. This Official Statement should be read in its entirety.

All financial and other information presented herein has been provided by the City from its records, except for information expressly attributed to other sources. The presentation of information is intended to show recent historical information and, but only to the extent specifically provided herein, certain projections of the immediate future, and is not necessarily indicative of future or continuing trends in the financial position or other affairs of the City.

**Authorization and Purpose for the Notes**

The Notes are authorized by and are to be issued pursuant to N.J.S.A. 40A:2-1 et seq. (the “Local Bond Law”), specifically, N.J.S.A. 40A:2-51 and the refunding bond ordinance of the City set forth in the table below (the “Refunding Bond Ordinance”). The Refunding Bond Ordinance has been approved and published as required by law, and has been approved by the Local Finance Board, Division of Local Government Services (the “Division), New Jersey Department of Community Affairs (together, the “Local Finance Board”) on November 7, 2018. The City will apply the proceeds from the sale of the Notes to finance the payment of certain tax appeal refunds owing to others in respect of taxes levied by and in the City and to pay issuance expenses.

<b>Ordinance and Adoption Date</b>	<b>Purpose(s)</b>	<b>Amount to be Issued</b>
6PSF-c – (11/8/2018)	Tax Appeals	\$10,100,000
Total Series 2018D Notes		\$10,100,000

Various matters in connection with the sale and issuance of the Notes have been authorized by a resolution adopted by the Municipal Council of the City on November 27, 2018.

**City Financial Condition**

See the heading “CITY FINANCIAL CONDITION” below for a discussion of the City’s current financial condition and proceedings of the Local Finance Board which resulted in the City being placed under the fiscal supervision of the State of New Jersey (the “State”), which State fiscal supervision was not renewed in 2017 by the Local Finance Board.

The City filed its Annual Financial Statement for the 2016 fiscal year, representing the City's 2016 unaudited financial statements, with the Municipal Securities Rulemaking Board (the "MSRB") on April 13, 2017 and filed its Audited Financial Statements with the MSRB on November 6, 2017. The City's 2016 Audited Financial Statements revealed an approximately \$40 million current fund surplus for the 2016 fiscal year. The City filed its Annual Financial Statement for the 2017 fiscal year, representing the City's 2017 unaudited financial statements, with the MSRB on March 28, 2018.

### **Future Financing Plans**

The City has adopted bond ordinances authorizing various water and sewer projects eligible for the annual financing program of the New Jersey Infrastructure Bank (the "NJIB"), formerly known as the New Jersey Environmental Infrastructure Trust. The City anticipates closing \$7,000,000 in short-term NJIB Construction Financing Program loans during the first quarter of 2019.

The Municipal Council adopted a \$75,000,000 water utility bond ordinance to finance the replacement, from the water main in the street to the meter in the structure, of lead service lines in the City that are serviced by the City's water distribution system. The Local Finance Board approved the bond ordinance under the Municipal Qualified Bond Act with conditions. The City anticipates that the lead service lines will be replaced in ten (10) phases over a projected 8-year period. An application is pending with the NJIB and the New Jersey Department of Environmental Protection under the State Water Bank Financing Program for the financing of Phase I of the lead service lines replacement program. The City currently anticipates that it will enter into an interim construction financing program loan in the approximate amount not to exceed \$7,500,000 with the NJIB in early 2019 to provide interim financing for Phase I of the lead service lines replacement project.

The Joint Meeting of Essex and Union Counties (the "Joint Meeting") is undertaking two capital improvement projects. The City is a participant in the Joint Meeting and is required to issue a portion of capital improvement obligations for capital projects undertaken by the Joint Meeting. After expected Local Finance Board approval on December 12, 2018, the City will be finally adopting a bond ordinance in the amount of \$1,350,000 to fund its share of the first capital project and soft costs and will be financing such costs through the NJIB in early winter 2019.

On November 7, 2018, the City received approval from the Local Finance Board for the adoption of a bond ordinance in the amount of \$61,000,000 and a maturity schedule therefor pursuant to the Municipal Qualified Bond Act (N.J.S.A. 40A:3-1 et seq.) for the purpose of reacquiring title to 16 properties within the City from the Essex County Improvement Authority. The City expects to adopt the bond ordinance on November 27, 2018, to adopt the resolution authorizing the sale in January 2019 and to issue the bonds on or about February 2019.

The City may, from time to time, issue revenue bonds with respect to redevelopment projects to be undertaken within the City. Certain of such bonds may be issued as "redevelopment area bonds", whereby certain service charges collected by the City in lieu of property taxes would be pledged as security for the payment of such bonds. Absent a separate municipal guaranty, such bonds would not be considered to be debt of the City, but would be payable solely from such pledged service charges.

The City annually budgets for the payment of property tax refunds payable in respect of prior year taxes, but has on occasion (including in 2011, 2014, 2015, 2017 and 2018) received Local Finance Board approval for the issuance of tax appeal refunding notes to fund such payments.

**THERE CAN BE NO ASSURANCE THAT THESE FUTURE FINANCING PLANS WILL BE FINALIZED AND UNDERTAKEN BY THE CITY.**

## CITY FINANCIAL CONDITION

### 2013 Operational Deficit and State Supervision of City Finances

The City faced extraordinary challenges to the adoption of a balanced cash basis budget for its 2014 fiscal year. The City's Audited Financial Statements for the year ended December 31, 2013 (the "2013 Audited Financial Statements") reflected an operational deficit of approximately \$30.1 million, representing approximately 8% of the total amount of taxes levied. At the joint request of the City and the Division, on October 6, 2014 the Superior Court of New Jersey, Law Division entered a judgment that there had been a gross failure to comply with the provisions of the Local Budget Law (N.J.S.A. 40A:4-1 et seq.) (specifically, the inability of the City to prepare a cash basis budget for fiscal year 2014) which substantially jeopardized the fiscal integrity of the City. Such judgment provided the basis for the Director of the Division (the "Director") to convene a public hearing of the Local Finance Board, which was held on October 8, 2014. At the conclusion of such hearing, the Local Finance Board adopted a resolution determining that the City be subject to supervision pursuant to Article 4 of the Local Government Supervision Act of 1947, P.L. 1947, c.151, as amended by P.L. 1981, c.211 and set forth as N.J.S.A. 52:27BB-54 et seq. (the "Supervision Act"), and enumerating the specific statutory powers to be assumed by the Director and/or the Local Finance Board in respect of the City's fiscal affairs. The resolution became effective on October 9, 2014 following approval by certain State cabinet officers, whereupon the State's fiscal supervision of the City took effect.

The terms of State supervision over the City's finances provided generally for Director approval and/or supervision over, among other things, the issuance and liquidation of bonds and other obligations, municipal expenditures and appropriations, appointment and dismissal of managers, and supervision of revenue administration. The Director may also have acted as controller, and provide for the appointment of a fiscal control officer for the municipality. The Director may also have authorized the City to exceed certain statutory spending limitations, liquidate or refinance current debt, and appropriate less than the full amount required to be included in the budget for certain deferred charges and statutory expenditures. The specific supervisory powers are set forth in N.J.S.A. 52:27BB-57, -58, -60, -61, -62, -66, -66.1, -73, 74, -75, -76, -77, -78, -79, -80, -81, -82, -83, -84, -85, -86, -87, -88, -89 and -90. To remain effective, the Local Finance Board resolution (and cabinet officer approvals) that placed the City under supervision was required to be renewed each year. **Such resolution of the Local Finance Board was not renewed in 2017.**

In connection with the City's receipt of Transitional Aid from the State in 2014, the City entered into a Memorandum of Understanding with the Division (the "2014 MOU"). The 2014 MOU required the City to obtain the prior consent of the Director before taking certain actions, including (but not limited to) new hiring, employee raises and promotions, expansion of municipal services, certain contracts and bond authorizations, and granting of tax abatements. The City was also required to adhere to certain contracting procedures, report to the Division on its progress toward implementing recommendations from State-commissioned performance audits, and present a transition plan detailing how the City intends to eliminate its reliance on special State assistance.

### 2014 Operational Deficit and 2015 City Budget

The City continued to face challenges to the adoption of a balanced cash basis budget in 2015. The City's Audited Financial Statements for the fiscal year ended December 31, 2014 reflected an operational deficit of approximately \$22.3 million, representing approximately 5.8% of the total amount of taxes levied. Under the powers conferred under the Supervision Act, on September 22, 2015 the Local Finance Board adopted a balanced 2015 operating budget, reflecting, among other things, the receipt of \$10 million in Transitional Aid from the State, an approximately 8.67% increase in the City's municipal property tax levy and a ten-year amortization of the 2013 deficit and 2014 deficit.

In connection with the City's receipt of Transitional Aid from the State in 2015, the City entered into a Memorandum of Understanding with the Division (the "2015 MOU"). As with previous Memoranda of Understanding between the City and the State, the 2015 MOU required the City to obtain the prior consent of the Director before taking certain actions, including (but not limited to) new hiring, employee raises and promotions, expansion of municipal services, certain contracts and bond authorizations, and granting of tax abatements. The City was also required to adhere to certain contracting procedures, report to the Division on its progress toward implementing recommendations from State-

commissioned performance audits, and present a transition plan detailing how the City intends to eliminate its reliance on special State assistance.

The City's 2015 Annual Financial Statement, representing the City's unaudited financial statements for the fiscal year, ended December 31, 2015, reflected a fund balance of approximately \$29.6 million.

### **2016 City Budget**

The City's 2016 budget was introduced by the Municipal Council on May 18, 2016. Such introduced budget reflected, among other things, a 2% increase in the City's municipal property tax levy, the receipt of \$10 million in Transitional Aid from the State and the continued amortization of the 2013 deficit and 2014 deficit over a ten-year period. Under the powers conferred under the Supervision Act, on October 19, 2016 the Local Finance Board adopted a balanced 2016 operating budget, reflecting, among other things, the receipt of \$9.5 million in Transitional Aid from the State, an approximately 2% increase in the City's municipal property tax levy and a ten-year amortization of the 2013 deficit and 2014 deficit. The City's 2016 Annual Financial Statement, representing the City's unaudited financial statements for the fiscal year, ended December 31, 2016, reflected a fund balance of approximately \$40.1 million, an increase of approximately \$10.5 million from December 31, 2015.

In connection with the City's receipt of \$9.5 million in Transitional Aid from the State in 2016, the City entered into a Memorandum of Understanding with the Division (the "2016 MOU"). As with previous Memoranda of Understanding between the City and the State, the 2016 MOU required the City to obtain the prior consent of the Director before taking certain actions, including (but not limited to) new hiring, employee raises and promotions, expansion of municipal services, certain contracts and bond authorizations, and granting of tax abatements. The City is also required to adhere to certain contracting procedures, report to the Division on its progress toward implementing recommendations from State-commissioned performance audits, and present a transition plan detailing how the City intends to eliminate its reliance on special State assistance.

### **2017 City Budget**

The City's 2017 budget was introduced by the Municipal Council on July 19, 2017. On September 13, 2017, the Local Finance Board adopted a balanced 2017 operating budget, reflecting, among other things, the receipt of \$7.4 million in Transitional Aid from the State, an approximately 1.7% increase in the City's municipal property tax levy and a ten-year amortization of the 2013 deficit and 2014 deficit. The City's 2017 Annual Financial Statement, representing the City's unaudited financial statements for the fiscal year, ended December 31, 2017, reflected a fund balance of approximately \$58.1 million, an increase of approximately \$17.8 million from December 31, 2016.

In connection with the City's receipt of \$7.4 million in Transitional Aid from the State in 2017, the City entered into a Memorandum of Understanding with the Division (the "2017 MOU"). Unlike previous Memoranda of Understanding between the City and the State, the 2017 MOU is more limited in scope and only requires the City to obtain the prior consent of the Director before the granting of tax abatements. The City is also required to adhere to certain contracting procedures, report to the Division on its progress toward implementing recommendations from State-commissioned performance audits, and present a transition plan detailing how the City intends to eliminate its reliance on special State assistance. The provisions of the 2017 MOU shall remain in force and effect until a successor MOU is executed. Provided, however, if the City adopts a budget for CY 2018 that leaves a structural imbalance heading into 2018 that is greater than 5% of their levy as determined by the Director, the 2017 MOU shall remain in force and effect until such time as a budget is adopted for 2018 or a subsequent year that is free of such a structural imbalance in the sole discretion of the Director. The Director's determination to extend the provisions of the 2017 MOU can be appealed to the Local Finance Board, but the Director's decision shall remain final unless and until a majority of appointed members vote to overturn the Director's decision. If the City adopts a budget for Calendar Year 2018 that does not rely on Transitional Aid, the State may offer early termination.

### **2018 City Budget**

While the City presently expects that the 2017 MOU shall remain in force and effect for the calendar year 2018, the City is no longer subject to State supervision pursuant to the Supervision Act. In early 2018, the City projected an



approximately \$10 million structural budget gap with respect to its 2018 budget. The Municipal Council of the City introduced the 2018 budget on July 17, 2018 and adopted the 2018 budget on September 25, 2018. The City's adopted 2018 budget includes an approximate 1.7% increase in the municipal purpose tax levy.

## DESCRIPTION OF THE NOTES

### General

The Notes are dated the date of delivery and will mature on December 20, 2019. The Notes will bear interest at the rate set forth on the front cover hereof and be payable at maturity. The Notes are not subject to redemption prior to maturity. Purchases of the Notes will be made in book-entry only form (without certificates) in denominations of \$5,000 or any integral multiple of \$1,000 in excess thereof. So long as the Notes are registered to The Depository Trust Company, New York, New York ("DTC"), or its nominee, Cede & Co., payment of the principal of and interest on the Notes will be made directly to DTC. Interest on the Notes will be credited to the participants of DTC as listed on the records of the DTC. The City will serve as Paying Agent for the Notes.

### BOOK-ENTRY ONLY SYSTEM

The description which follows of the procedures and recordkeeping with respect to beneficial ownership interest in the Notes, payment of principal and interest and other payments on the Notes to Direct and Indirect Participants (defined below) or Beneficial Owners (defined below), confirmation and transfer of beneficial ownership interests in the Notes and other related transactions by and between DTC, Direct Participants and Beneficial Owners, is based on certain information furnished by DTC to the City. Accordingly, the City does not make any representations as to the completeness or accuracy of such information.

DTC will act as securities depository for the Notes. The Notes 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 Note certificate will be issued for the Notes, in the aggregate principal amount of the Notes, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of 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 Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of the Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of each Note ("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 Notes are to be

accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes 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 Notes 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 Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes 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 Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes, such as redemptions, tenders, defaults, and proposed amendments to the Note documents. For example, Beneficial Owners of Notes may wish to ascertain that the nominee holding the Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Notes unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, principal, and interest payments on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, any Paying Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or any 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 Notes at any time by giving reasonable notice to the City and/or its Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Note certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Note certificates for each series of Notes will be printed and delivered.

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

**THE CITY WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR**

PROVIDING OF NOTICE FOR THE DTC PARTICIPANTS, OR THE INDIRECT PARTICIPANTS, OR BENEFICIAL OWNERS.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE NOTES, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE NOTEHOLDERS OR REGISTERED OWNERS OF THE NOTES (OTHER THAN UNDER THE CAPTION “TAX MATTERS”) SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE NOTES.

### **Discontinuation of Book-Entry Only System**

If the City, in its sole discretion, determines that DTC is not capable of discharging its duties, or if DTC discontinues providing its services with respect to the Notes at any time, the City will attempt to locate another qualified securities depository. If the City fails to find such securities depository, or if the City determines, in its sole discretion, that it is in the best interest of the City or that the interest of the Beneficial Owners might be adversely affected if the book-entry only system of transfer is continued (the City undertakes no obligation to make an investigation to determine the occurrence of any events that would permit it to make such determination), the City shall notify DTC of the termination of the book-entry only system.

## **SECURITY FOR THE NOTES**

### **General Obligation Pledge**

The Notes constitute general obligations of the City and the full faith and credit of the City are pledged to the payment of the principal thereof and the interest thereon. The Notes will be valid and binding general obligations of the City and, unless paid from other sources, the City is authorized and required by law to levy *ad valorem* taxes, if necessary, on all taxable real property within the City for the payment of the principal of and interest on the Notes without limitation as to rate or amount. The City is required to include the total amount of interest and principal due on all of its general obligation indebtedness for the then-current year in each annual municipal budget unless a provision has been made for payment from other sources.

In addition to being secured by the pledge of the City’s full faith and credit, the City may (at some future date) permanently finance the Notes with bonds that will be entitled to the benefits of the Municipal Qualified Bond Act, Title 40A of the New Jersey Statutes, Section 40A:3-1 *et seq.*, as amended (the “Municipal Qualified Bond Act”, such bonds being called “Qualified Bonds”). Pursuant to the Municipal Qualified Bond Act, a portion of certain State aid (the “Municipal Qualified Revenues”) allocated to the City in amounts sufficient to pay debt service on Qualified Bonds is to be withheld by the State Treasurer and forwarded to the Paying Agent for such Qualified Bonds on or before the principal and interest payment dates for such Qualified Bonds for deposit into accounts established for the purpose of paying debt service on such Qualified Bonds. Those funds are further deposited into accounts established for the purpose of paying debt service on such bonds. See “APPENDIX A – CITY INDEBTEDNESS AND DEBT LIMITS – Municipal Qualified Bond Act” herein.

**With respect to any Qualified Bonds issued to refund the Notes, the Municipal Qualified Bond Act does not contain a pledge or guarantee that any amounts payable to the Paying Agent will, in fact, be made or continued. Each such annual amount is subject to appropriation by the State Legislature. Moreover, the State is not required to continue to make appropriations of such amounts, nor is the State limited or prohibited from repealing or amending any law heretofore or hereafter enacted for the payment or apportionment of such amounts or in the manner, time or amount thereof. Further, the amount payable to the Paying Agent would not constitute an additional source of revenue available to the City.**

**THE NOTES ARE NOT ENTITLED TO THE BENEFITS OF THE MUNICIPAL QUALIFIED BOND ACT.**

## RISK FACTORS

AN INVESTMENT IN THE NOTES INVOLVES A SIGNIFICANT DEGREE OF RISK. POTENTIAL NOTEHOLDERS ARE ADVISED TO READ THIS ENTIRE OFFICIAL STATEMENT, INCLUDING THE APPENDICES HERETO. SPECIAL REFERENCE IS MADE TO THE SECTIONS “CITY FINANCIAL CONDITION”, “RISK FACTORS”, AND “CITY FINANCIAL SCHEDULES 2013 BUDGET – 2018 BUDGET” IN APPENDIX A HEREIN FOR A DISCUSSION OF CERTAIN RISK FACTORS WHICH SHOULD BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE NOTES.

The following description summarizes some of the risk factors associated with the Notes and does not purport to be complete. This Official Statement should be read in its entirety. Actual and projected reductions in State aid, combined with structural issues, will require the implementation of various additional actions by the City in order to achieve a balanced cash basis budget for the 2018 fiscal year and beyond.

The City applied for Transitional Aid in 2014, and the City’s annual budget for 2014, as adopted by the Local Finance Board on October 14, 2014, anticipated the receipt of \$10 million in financial assistance under the Transitional Aid program. The City entered into a 2014 Memorandum of Understanding (the “2014 MOU”) with the State to reflect the requirements binding upon the City in connection with the 2014 State award of Transitional Aid. The 2014 MOU remained in effect through December 31, 2015. See “CITY FINANCIAL CONDITION - 2014 City Operational Deficit and 2015 Budget” and “CITY FINANCIAL SCHEDULES – 2014 Budget” in APPENDIX A herein.

The City continued to face challenges to the adoption of a balanced cash basis budget in 2015. Under the powers conferred under the Supervision Act, on September 22, 2015 the Local Finance Board adopted a balanced 2015 operating budget, reflecting, among other things, the receipt of \$10 million in Transitional Aid from the State, an approximately 8.67% increase in the City’s municipal property tax levy and a ten-year amortization of the 2013 deficit and 2014 deficit.

The City’s 2016 budget was introduced by the Municipal Council on May 18, 2016. Such introduced budget reflects, among other things, a 2% increase in the City’s municipal property tax levy, the receipt of \$10 million in Transitional Aid from the State and the continued amortization of the 2013 deficit and 2014 deficit over a ten-year period. Under the powers conferred under the Supervision Act, on October 19, 2016 the Local Finance Board adopted a balanced 2016 operating budget, reflecting, among other things, the receipt of \$9.5 million in Transitional Aid from the State, an approximately 2% increase in the City’s municipal property tax levy and a ten-year amortization of the 2013 deficit and 2014 deficit.

Although the City successfully adopted a balanced budget for 2017, it did so only as a result of the exercise of certain extraordinary powers that were available to the Local Finance Board because the City was placed under State fiscal supervision, and the award of Transitional Aid to the City. The City’s adopted budget for 2018 does not include an allocation for Transitional Aid. As a result, the City does not presently expect to be subject to a memorandum of understanding with the State in its 2019 fiscal year.

**The City’s ability to adopt a balanced FY 2019 budget will be dependent on a number of factors, including, among other things, the willingness of the Division to continue to approve certain deferrals of required appropriations and the maintenance of State aid at current levels.**

**While the City administration and the Division are working to address these and other financial matters, no representation is made regarding whether such actions will be successfully undertaken or whether any required State or third-party approvals will be obtained.**

In addition to the financial condition of the City, the market for the Notes could be affected by a variety of factors, some of which are beyond the City’s control. There can be no assurance that adverse events in the State and in other jurisdictions of the country, including, for example, the seeking by a municipality or large taxable property owner in the

City of remedies pursuant to the federal Bankruptcy Code or otherwise, will not occur which might affect the market price of and the market for the Notes. If a significant default or other financial crisis should occur in the affairs of the State or any of its agencies or political subdivisions or in other jurisdictions of the country which further impacts the acceptability of obligations issued by borrowers within the State, both the ability of the City to arrange for additional borrowings and the market for and market value of outstanding debt obligations, including the Notes, could be adversely affected. The City is dependent in part on financial assistance from the State. However, if the State should experience difficulty in borrowing funds in anticipation of the receipt of State taxes in order to pay State aid to municipalities and school districts in the State, including the City, in any year, the City may be affected by a delay, until sufficient taxes have been received by the State to make State aid payments to the City. In several recent years, payments of State aid to the City have been delayed which resulted from the State's delay in adopting its budget and appropriating State aid to municipalities and school districts, and consequent delay in State borrowing to finance such appropriations. See "STATE AID PROGRAMS - State Aid" in APPENDIX A herein.

## LITIGATION

To the knowledge of the Corporation Counsel, there is no litigation of any nature now pending or threatened, restraining or enjoining the issuance and delivery of the Notes, or the levy or the collection of any taxes to pay the principal of or the interest on the Notes, or in any manner questioning the validity of the Notes or the levy or the collection of taxes, or contesting the corporate existence or the boundaries of the City or the title of any of the present officers to their respective offices; and that, to his knowledge, there is no litigation, pending or threatened that would, if adversely decided, materially affect the financial stability of the City; and that no authority or proceedings for the issuance of the Notes has or have been repealed, revoked, or rescinded and that all actions or proceedings in regard to the issuance of the Notes. Upon delivery of the Notes, the City shall furnish an opinion of its Corporation Counsel, dated the date of delivery of the Notes, attesting to the status of litigation in the City.

A complaint has been filed against the City of Newark by the Newark Education Workers' Caucus and Natural Resources Defense Council, Inc. alleging lead in the City's water. Plaintiffs seek injunctive and declaratory relief which includes supplying Newark residents with bottled water, filters and the implementation of a lead line replacement program. The City has adopted a \$75 million bond ordinance to fund a phased lead line replacement program through the New Jersey Infrastructure Bank (formerly the NJEIT). Although the litigation is in its beginning stages, at this point in time, it does not appear that the litigation will have a material adverse impact on the financial status of the City.

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

**Negligence Actions:** There are presently lawsuits alleging tortious conduct and claiming damages against the City and defended by the Office of the Corporation Counsel or contracted outside counsel. In all cases, the City is self-insured and there are appropriate reserves sufficient to cover losses based on experience. To the knowledge of the Corporation Counsel, there is no threat of exposure outside of the self-insurance program.

**Contract Actions:** There are presently no lawsuits based upon breach of contractual obligations against the City that potentially would have a material adverse impact on the City, if decided adversely. In all cases, the City is self-insured and there are appropriate reserves sufficient to cover losses based on experience. To the knowledge of the Corporation Counsel, there is no threat of exposure outside of the self-insurance program.

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

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

**Tax Appeals:** There are Property Tax Appeals pending in the Tax Court of New Jersey against the City involving commercial, industrial and residential properties. It is impracticable for the City to describe in detail each of the appeals that are currently pending against the City. The City vigorously defends each of these appeals through extensive discovery, settlement negotiations and, if necessary, trial. At this time it is impossible to specifically quantify the extent of any potential exposure to the City relating to these appeals. To the knowledge of the Corporation Counsel, the outcome of the Property Tax Appeals will not have a materially adverse impact upon the financial status of the City.

**Condemnations:** The City is presently the defendant in a few condemnation actions initiated by the State of New Jersey for highway projects. In all of the cases, the City has no overriding public need for the property.

**Labor and Employment Matters:** There are various labor and employment matters against the City and defended by the Office of Corporation Counsel or contracted outside counsel. In all cases, the City is self-insured and there are appropriate reserves sufficient to cover losses based on experience. To the knowledge of Corporation Counsel, there is no threat of exposure outside of the self-insurance program.

See, also, "CITY FINANCIAL SCHEDULES – Sewer Utility Balances, Revenues and Expenditures" in APPENDIX A herein for a description of potential City exposure for penalties under an Administrative Consent Order relative to the City's combined sewer outfall system.

## **TAX MATTERS**

The City has covenanted to comply with any continuing requirements that may be necessary to preserve the exclusion from gross income for purposes of federal income taxation of interest on the Notes under the Internal Revenue Code of 1986, as amended ("Code"). Failure to comply with certain requirements of the Code could cause interest on the Notes to be includable in gross income for federal income tax purposes retroactive to the date of issuance of the Notes. In the opinion of DeCotiis, FitzPatrick, Cole & Giblin, LLP, Bond Counsel, to be delivered at the time of original issuance of the Notes, assuming continuing compliance by the City with certain covenants described herein, under current law, interest on the Notes is not includable in gross income for federal income tax purposes and is not an item of tax preference under Section 57 of the Code for purposes of computing the federal alternative minimum tax. No opinion is expressed regarding other federal tax consequences or other federal taxes arising with respect to the Notes.

Notwithstanding Bond Counsel's opinion that interest on the Notes is not an item of tax preference for purposes of the federal alternative minimum tax, for taxable years beginning before January 1, 2018, such interest will be included in adjusted current earnings of certain corporations, and such corporations are required to include in the calculation for alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses). The alternative minimum tax on corporations has been repealed for taxable years beginning after December 31, 2017.

The Code imposes certain significant ongoing requirements that must be met after the issuance and delivery of the Notes in order to assure that the interest on the Notes will be and remain excludable from gross income for federal income tax purposes. These requirements include, but are not limited to, requirements relating to use and expenditure of proceeds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on investments of gross proceeds of the Notes be rebated to the federal government. Noncompliance with such requirements may cause interest on the Notes to become subject to federal income taxation retroactive to their date of issuance, regardless of the date on which such noncompliance occurs or is discovered. The City has covenanted that it shall do and perform all acts permitted by law that are necessary or desirable to assure that interest on the Notes will be and will remain excluded from gross income for federal income tax purposes. The City will deliver its Arbitrage and Tax Certificate concurrently with the issuance of the Notes, which will contain provisions relating to compliance with the requirements of the Code, including certain covenants in that regard by the City. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the City in connection with the Notes, and Bond Counsel has assumed compliance by the City with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Notes from gross income under Section 103 of the Code.

In the opinion of Bond Counsel, under current law, interest on the Notes and any gain on the sale thereof are not includable as gross income under the New Jersey Gross Income Tax Act.

The opinion of Bond Counsel is limited to and based upon the laws and judicial decisions of the State and the federal laws and judicial decisions of the United States of America as of the date of the opinion, and is subject to any amendment, repeal or other modification of the applicable laws or judicial decisions that served as the basis for its opinion or to any laws or judicial decisions hereafter enacted or rendered. Bond Counsel assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel expresses no opinion on the effect of any action taken after the date of the opinion or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Notes.

*Bank Qualification.* The Notes will not be designated as qualified under Section 265 of the Code by the City for an exemption from the denial of deduction for interest paid by financial institutions to purchase or to carry tax-exempt obligations.

*Branch Profits Tax.* Section 884 of the Code imposes on foreign corporations a branch profits tax equal to 30 percent of the "dividend equivalent amount" for the taxable year, unless modified, reduced or eliminated by income tax treaty in certain instances. Interest on the Notes received or accrued by a foreign corporation subject to the branch profits tax may be included in computing the "dividend equivalent amount" of such corporation for purposes of the branch profits tax.

*S Corporation Tax.* Section 1375 of the Code imposes a tax on the "excess net passive income" of certain S corporations with passive investment income in excess of 25 percent of gross receipts for a taxable year. The U.S. Department of Treasury has issued regulations indicating that interest on tax-exempt notes, such as the Notes, held by an S corporation would be included in the calculation of excess net passive income.

*Other Federal Tax Consequences.* Owners of the Notes should be aware that the ownership of tax-exempt obligations may result in other collateral federal income tax consequences to certain taxpayers, including property and casualty insurance companies, individual recipients of Social Security and Railroad Retirement benefits, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or to carry tax-exempt obligations. Owners of each of the Notes should consult their own tax advisors as to the applicability and the effect on their federal income taxes of the alternative minimum tax, the branch profits tax and the tax on S corporations, as well as the applicability and the effect of any other federal income tax consequences.

*Possible Government Action.* Legislation affecting municipal tax-exempt obligations is regularly under consideration by the United States Congress. In addition, the Internal Revenue Service ("IRS") has established an expanded audit program for tax-exempt obligations. There can be no assurance that legislation enacted or proposed or an audit initiated or concluded by the IRS after the issue date of the Notes involving either the Notes or other tax-exempt obligations will not have an adverse effect on the tax-exempt status or market price of the Notes.

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

## CLOSING CERTIFICATES

The Underwriter will be furnished, at the time the Notes are delivered, certificates in form satisfactory to Bond Counsel and Underwriter's Counsel evidencing (a) the proper execution and delivery of the Notes, (b) receipt and payment therefor, and (c) the absence of litigation now pending, or to the knowledge of the officers signing the Notes, threatened to restrain or enjoin the issuance and delivery of the Notes and the payment of principal thereof and interest thereon.

## OFFICIAL STATEMENT

The City hereby states that the descriptions and statements herein, including financial statements, are true and correct in all material facts and it will confirm to the Underwriter that such descriptions and statements, as of the date of this Official Statement, were true and correct in all material facts and do not omit to state a material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading.

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

## LEGALITY FOR INVESTMENT

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

## MUNICIPAL BANKRUPTCY

The undertakings of the City should be considered with reference to Chapter IX of the Bankruptcy Act, 11 U.S.C. Section 901, et seq., as amended by Public Law 94-260, approved April 8, 1976, and as further amended on November 6, 1978 by the Bankruptcy Reform Act of 1978, effective October 1, 1979, as further amended by Public Law 100-597, effective November 3, 1988, the Bankruptcy Reform Act of 1994, effective October 22, 1994, and other bankruptcy laws affecting creditor's rights and municipalities in general. The amendments of P.L. 94-260 replace former Chapter IX and permit the State or any political subdivision, public agency, or instrumentality that is insolvent or unable to meet its debts to file a petition in a court of bankruptcy for the purpose of effecting a plan to adjust its debt; directs such a petitioner to file with the court a list of petitioner's creditors; provides that a petition filed under this chapter shall operate as a stay of the commencement or continuation of any judicial or other proceeding against the petitioner; grants priority to debt owned for services or material actually provided within three months of the filing of the petition; directs a petitioner to file a plan for the adjustment of its debts; and provides that the plan must be accepted in writing by or on behalf of creditors holding at least two-thirds in amount or more than of-half in number of the listed creditors.

The State of New Jersey has authorized political subdivisions thereof to file such petitions for relief under the Federal Bankruptcy Code pursuant to and subject to Article 8 of the New Jersey Municipal Finance Commission Act (the "Finance Commission Act"). The Finance Commission Act provides such petitions may not be filed without the prior approval of the Municipal Finance Commission and that no plan of adjustment of the debt of a municipality may be filed or accepted by the petitioner without express authority from the Municipal Finance Commission to do so. It is unclear whether or not the provision of the Finance Commission Act requiring that the plan of adjustment be approved by the Municipal Finance Commission is enforceable.

Reference should also be made to N.J.S.A. 52:27-40 *et seq.*, which provides that a municipality has the power to file a petition in bankruptcy provided the approval of the Municipal Finance Commission has been obtained. The powers of the Municipal Finance Commission have been vested in the Local Finance Board. The Federal Bankruptcy Code specifically provides that Chapter IX does not limit or impair the power of a state to control, by legislation or otherwise, the procedures that a municipality must follow in order to take advantage of the provisions of the Federal Bankruptcy Code.

**The above references to the Federal Bankruptcy Code are not to be construed as an indication that the City expects to resort to the provisions of the Federal Bankruptcy Code or that, if it did, such action would be approved by the Local Finance Board, or how any proposed plan would affect the source of payment of and security for the Notes.**



## APPROVAL OF LEGALITY

All legal matters incident to the authorization, the issuance, the sale and the delivery of the Notes are subject to the approval of the law firm of DeCotiis, Fitzpatrick, Cole & Giblin, LLP, Teaneck, New Jersey, Bond Counsel to the City, whose approving legal opinion will be delivered with the Notes substantially in the form set forth as APPENDIX C hereto. Certain legal matters will be passed on for the City by its Corporation Counsel, Kenyatta Stewart, Esq., and for the Underwriter by its Counsel, McManimon, Scotland & Baumann, LLC, Roseland, New Jersey.

## CONTINUING DISCLOSURE

The City has agreed to comply with the terms of the Securities and Exchange Commission (the “SEC”) Rule 15c2-12, as amended (the “Rule”), as it relates to the Notes. The City will agree in a Continuing Disclosure Certificate, substantially in the form set forth in APPENDIX D hereto, to provide, in a timely manner, to the MSRB, notice of the occurrence of certain events with respect to the Notes. The specific nature of the information to be contained in the notice of material events is specified in “APPENDIX D — FORM OF CONTINUING DISCLOSURE CERTIFICATE.”

The obligations of the City described above will remain in effect only for such period that (i) the Notes are outstanding in accordance with their terms and (ii) the City remains an obligated person with respect to the Notes within the meaning of the Rule. The City acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit of the holders of the Notes (including holders of beneficial interests in the Notes).

The City has previously entered into a number of continuing disclosure undertakings in respect of various bond and note issues for the filing of annual financial information and operating data. Such undertakings were entered into with respect to City obligations as well as obligations of the Essex County Improvement Authority, the Housing Authority of the City of Newark and the North Jersey District Water Supply Commission. The City has, on several occasions, completed a late or incomplete filing of annual financial information and operating data with the MSRB and/or the Nationally Recognized Municipal Securities Repositories formerly designated by the SEC in accordance with the Rule (the “NRMSIRs”), and in several instances it appears that the City may not have filed its unaudited statements (in lieu of audited financial statements) in a timely manner. Additionally, such annual financial information and operating data was not in all cases properly linked to all CUSIPs of the City and those of the other issuers described above. The City has retained Digital Assurance Certification L.L.C. (“DAC”) to assist it in complying with its continuing disclosure undertakings under the Rule.

The Local Fiscal Affairs Law requires that every municipality have an annual audit of its books and accounts to be completed within six months after the close of its fiscal year. The City’s audit has historically been completed approximately 12 months after the close of the fiscal year.

For the fiscal year ended December 31, 2012, the City filed its unaudited financial statements and operating data with the MSRB on June 28, 2013, and filed its audited financial statements on April 7, 2014. Although the December 31, 2012 operating data was filed on June 28, 2013, certain required information was omitted and corrected by the December 13, 2013 and 2014 operating data filings submitted on June 26, 2014 and August 11, 2015, respectively.

For the fiscal year ended December 31, 2013, the City filed its unaudited financial statements and operating data with the MSRB on April 17, 2014 and June 26, 2014, respectively. Although the December 31, 2013 operating data was filed on June 26, 2014, certain tables were omitted and subsequently filed on August 11, 2015. The City filed its audited financial statements on January 26, 2015.

For the fiscal year ended December 31, 2014, the City filed its unaudited financial statements with the MSRB on April 7, 2015 and filed its audited financial statements on August 12, 2015. The City filed its operating data for the fiscal year ended December 31, 2014 with the MSRB on July 1, 2015, but certain information pertaining to the City’s overlapping debt was omitted and filed late as part of the December 31, 2015 operating data filing on June 15, 2016.

For the fiscal year ended December 31, 2015, the City filed its unaudited financial statements with the MSRB on March 17, 2016 and filed its audited financial statements on November 16, 2016. The City filed its operating data for the

fiscal year ended December 31, 2015 with the MSRB on June 15, 2016, but certain information pertaining to the City's overlapping debt was omitted and filed late on December 5, 2016. The City's 2015 annual debt statement was filed late on November 15, 2017.

For the fiscal year ended December 31, 2016, the City filed its unaudited financial statements with the MSRB on April 13, 2017 and filed its audited financial statements on November 6, 2017. The City filed its operating data for the fiscal year ended December 31, 2016 with the MSRB on November 9, 2017. The City's 2016 annual debt statement was filed late on November 15, 2017.

For the fiscal year ended December 31, 2017, the City filed its unaudited financial statements with the MSRB on March 28, 2018. The City filed its operating data for the fiscal year ended December 31, 2017 with the MSRB on July 5, 2018.

Certain of the City's bond issues were additionally secured by bond insurance policies or were entitled to the benefit of the Municipal Qualified Bond Act or the School Qualified Bond Act, P.L. 1976, c. 39 (N.J.S.A. 18A:24-85 et seq., as amended (the "School Qualified Bond Act"). During the past several years, each of the major bond insurance companies has been downgraded by the major credit rating services, and certain of such companies have been downgraded a number of times. In addition, rating changes affecting the State of New Jersey have impacted the credit rating of bonds secured by the Municipal Qualified Bond Act and the School Qualified Bond Act. While the City has filed material event notices in accordance with such undertakings with respect to certain of such downgrades, it has not promptly filed such notices in respect of all such downgrades. However, the City has subsequently filed various material event notices, which identify the current credit ratings of such previous City bond issues where such ratings are based upon the ratings of such bond insurance companies.

## **FINANCIAL STATEMENTS**

Summaries of the unaudited financial statements of the City for the year ended December 31, 2017 (the "Unaudited Financial Statements), and summaries of the audited financial statements for the years ended December 31, 2016, 2015, 2014 and 2013 (the "Audited Financial Statements," and together with the "Unaudited Financial Statements," the "Financial Statements") are presented in APPENDIX B to this Official Statement. The Audited Financial Statements have been audited by Samuel Klein and Company, Certified Public Accountants, Newark, New Jersey, an independent auditor (the "Auditor"), as stated in its report appearing in APPENDIX B to this Official Statement. See "APPENDIX B – City of Newark Auditor's Report and Financial Statements."

## **FINANCIAL ADVISOR**

NW Financial Group, LLC, Hoboken, New Jersey, has served as Financial Advisor to the City with respect to the issuance of the Notes (the "Financial Advisor"). The Financial Advisor is not obligated to undertake, and has not undertaken, either to make an independent verification of, or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement and the Appendices hereto.

## **UNDERWRITING**

The Notes are being purchased from the City by TD Securities (USA) LLC (the "Underwriter") at a price of \$ \_\_\_\_\_. The purchase price of the Notes reflects the par amount of Notes, plus an original issue premium of \$ \_\_\_\_\_, less an Underwriter's discount of \$ \_\_\_\_\_. The Underwriter is obligated to purchase all of the Notes.

The Underwriter intends to offer the Notes to the public initially at the offering yield set forth on the cover page of this Official Statement, which may subsequently change without any requirement of prior notice. The Underwriter reserves the right to join with dealers and other underwriters in offering the Notes to the public. The Underwriter may offer and sell Notes to certain dealers (including dealers depositing Notes into investment trusts) at a yield higher than the public offering yield set forth on the cover page, and such public offering yield may be changed, from time to time, by the Underwriter without prior notice.

The Underwriter has entered into a negotiated dealer agreement (the “Dealer Agreement”) with TD Ameritrade for the retail distribution of certain securities offerings, including the Notes, at the original issue price. Pursuant to the Dealer Agreement, TD Ameritrade may purchase Notes from the Underwriter at the original issue price less a negotiated portion of any selling concession applicable to any of the Notes that TD Ameritrade sells.

The Underwriter and its affiliates are full service financial institutions engaged in various activities, which may include trading, commercial, and investment banking, investment management, principal investment, hedging, financing and brokerage activities. The Underwriter and its affiliates have, from time to time, performed, and may in the future perform, various banking services for the City for which they received or will receive customary fees.

#### **MISCELLANEOUS**

So far as any statements made in this Official Statement involve matters of opinion or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of the statements will be realized. Neither this Official Statement nor any statement that may have been made verbally or in writing is to be construed as a contract with the holders of the Notes.

**City of Newark, in the County of Essex,  
State of New Jersey**

By: \_\_\_\_\_  
Danielle A. Smith  
Director of Finance and  
Chief Financial Officer

Dated: December \_\_, 2018

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**APPENDIX A**

**CERTAIN GENERAL INFORMATION CONCERNING  
THE CITY OF NEWARK**

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## **THE CITY OF NEWARK**

The City of Newark, New Jersey (the “City” or “Newark”) is a municipal corporation having the largest population in the State of New Jersey (the “State” or “New Jersey”). The City covers a land area of 24.14 square miles in the southeastern section of the County of Essex (the “County”) in the State and is located eight (8) miles west of the City of New York and 80 miles northeast of the City of Philadelphia. Newark’s 2010 census population was 277,140, an increase of 15,520 since the 2000 census.

The City is serviced by the area’s major commercial and commuter transportation systems. It is connected to New York City by PATH railroad tubes and Amtrak’s Northeast Coast Corridor tracks and is served by Newark Liberty International Airport as well as the major container and cargo facilities of Port Newark/Elizabeth. Newark is the transportation capital of the State and is headquarters for New Jersey Transit (“NJT”), the State’s rail and bus transportation operating agency that manages the operations of Newark’s Pennsylvania Station (“Penn Station”).

The City is the insurance, finance, and banking capital of the State. Among its largest employers are the Prudential Insurance Company, New Jersey’s largest public utility, Public Service Electric and Gas Company, Anheuser Busch Brewing Company, Verizon, and Horizon Blue Cross/Blue Shield of New Jersey. In addition, banking institutions with an ongoing presence in Newark include: Wells Fargo Bank, N.A., TD Bank, N.A., Bank of America, JP Morgan Chase Bank, PNC Bank, and City National Bank. Newark continues to be one of the State’s major corporate centers.

The City also serves as the County seat for Essex County, with County, State, and Federal courts and governmental offices attracting large numbers of law firms to the City’s central business district (the “Central Business District”).

Newark is a large, vibrant city at the hub of New Jersey industry, transportation, education and commerce. The City continues to grow and embrace the innovation and forward-thinking leadership needed by the current national and state economic climate.

### **CITY GOVERNMENT STRUCTURE**

Newark is a Mayor-Council form of government organized pursuant to the “Faulkner Act” (N.J.S.A. 40:69A-1 *et seq.*). Incorporated in 1836, the City adopted its present Mayor-Council form of government in November 1954. Under this system, the Mayor functions as the chief executive officer and a nine-member Municipal Council functions as the legislative body.

The executive power of the City is exercised by the Mayor. The Mayor is elected at the regular municipal election for a term of four (4) years. As the chief executive officer of the City, he supervises the administration of the charter and ordinances of the City. Included among his powers are the right to veto ordinances adopted by the Municipal Council; appointment of the directors of the ten (10) operating departments with the approval of the Municipal Council; supervision, through the Business Administrator, of the operating departments and agencies of the City government; establishment of salaries, wages, and other compensation for all administrative employees; and various other powers of appointment and removal as provided by the charter and general laws. In addition to the duties and powers outlined above, it is the responsibility of the Mayor in conjunction with the Business Administrator to prepare an annual operating budget and to submit it to the Municipal Council for approval.

The legislative power of the City is vested in the Municipal Council, which is comprised of nine (9) council members elected at the regular municipal election for a term of four (4) years. One council member is elected from each of the City’s five (5) wards and four (4) council members are elected at large. The Municipal Council is responsible for the approval of the municipal budget, the establishment of financial controls, and the setting of salaries for all employees of the Municipal Council and the City Clerk. The Municipal Council is empowered to review and approve the Mayor’s annual budget, reduce or increase municipal appropriations requested by the Mayor, override the Mayor’s veto of any ordinance approved by the Municipal Council, remove any City officer for cause, other than the Mayor or a member of the Municipal Council, and investigate the conduct of any department, office, or agency. Additionally, mayoral appointments of department heads are subject to the advice and consent of the Municipal Council. The City Clerk serves as the clerk of the Municipal Council and maintains the minutes and records of its proceedings in the appropriate form.

The Mayor and Municipal Council members all serve four (4) year non-staggered terms (July 1, 2018-June 30, 2022). The last general election was held in May 2018. The current Mayor and Members of the Municipal Council are as follows:

<u>Name</u>	<u>Title</u>
Ras J. Baraka	Mayor
Augusto Amador	East Ward Councilperson
LaMonica McIver	Central Ward Councilperson
Mildred C. Crump	Council President Councilperson-at-Large
Carlos M. Gonzalez	Councilperson-at-Large
John Sharpe James	South Ward Councilperson
Joseph A. McCallum Jr.	West Ward Councilperson
Eddie Osborne	Councilperson-at-Large
Anibal Ramos Jr.	North Ward Councilperson
Luis A. Quintana	Council Vice-President Councilperson-at-Large

#### ADMINISTRATION

The City conducts daily operations under ten (10) Departments: Office of the Business Administrator; Administration; Economic and Housing Development; Engineering; Health and Community Wellness; Neighborhood Services; Finance; Water and Sewer Utility; Police; and Fire. In addition to the listed Departments, the City administers the operations of various Boards and Offices including but not limited to: the Boards of Adjustment, Planning, Alcoholic Beverage Control, Office of Affirmative Action, and Rent Control Board, each of which perform certain special functions.

The following are brief biographical sketches of the City officials with major responsibility for financial management:

**Ras J. Baraka** was elected Mayor of the City of Newark in May 2014, and reelected in May 2018, becoming Newark’s 40th Chief Executive since the City’s incorporation in 1836. Baraka was educated in the Newark Public schools and received a Bachelor of Arts degree in Political Science and History from Howard University in Washington, D.C. and a Master’s Degree in Education Supervision from St. Peter’s University in Jersey City. He was elected to the Newark Municipal Council to represent the South Ward in May 2010. Mayor Baraka taught elementary school for 10 years and coached girls’ basketball before becoming the principal of Central High School in 2007, serving in that position until 2014. In 1994, Baraka became a Deputy Mayor under former Mayor Sharpe James, serving in that role until November 2005. That same year, he was appointed to complete the Municipal Council vacancy created by the death of Councilmember-at-Large Donald K. Tucker.

Baraka has established various anti-crime initiatives, which include Newark’s Committee on Violence, the opening of a mini-precinct in partnership with the Newark Police Department, securing additional patrols by collaborating with county officials and creating the annual “24 Hours of Peace Cultural Event,” where he joined local and nationally recognized talent to advocate for peace and gun control, aimed at ensuring 24 hours of non-violence. An advocate for gang intervention and prevention, Baraka served as one of the key organizers and mediators of the Newark Cease Fire/Peace Initiative that took place in May 2004. He was also a founding member and served as the chairman for the historic First National Hip-Hop Political Convention, held in Newark in 2004. Baraka has also focused his time in public service on leveling the disparity between low and moderate-income and market-rate housing as well as bringing affordable housing to urban areas.



**Eric S. Pennington, Esq.** was appointed as Business Administrator on July 11, 2018. Mr. Pennington is the Managing Partner of Eric S. Pennington, PC, and former Chief Judge of the Orange Municipal Court. Mr. Pennington graduated from Rutgers School of Law-Newark campus in 1992. After graduating, Mr. Pennington went on to clerk for Robert N. Wilentz, Chief Justice of the New Jersey Supreme Court, and then clerked for the Honorary Damon J. Keith of the United States Court of Appeals for the Sixth Circuit. Before starting his own practice in 1999, Mr. Pennington worked for two of the largest law firms in the country. Specifically, Mr. Pennington worked in the New York office of Paul, Weiss, Rifkind, Wharton & Garrison, where he practiced corporate law, and for Gibbons, Del Deo, Dolan, Griffinger & Vecchione (now Gibbons PC), where he served as an attorney working principally in the Labor and Employment Group. Mr. Pennington has served as a Commissioner of the New Jersey State Commission of Investigation, the New Jersey State Bar's Continuing Legal Education Advisory Committee, the Ethics Diversionary Program Committee and on the Board of Trustees for the University of Medicine & Dentistry of New Jersey. Additionally, Mr. Pennington currently serves on the Board of Trustees of the Urban League of Essex County. Mr. Pennington also is an active member of the Garden State and New Jersey State Bar Associations, and is a member of the Alpha Phi Alpha Fraternity. Mr. Pennington has also served as an Adjunct Professor for Seton Hall University School of Law and frequently advises employers and law enforcement agencies regarding best practices regarding their civil rights and employment obligations under the law.

**Danielle A. Smith** was named as Finance Director and Chief Financial Officer in 2015. Ms. Smith has worked for the City of Newark for 23 years and has served in various positions in the Finance Department. From 2006 to December 2013, she was the Comptroller for the City. Ms. Smith graduated from Morgan State University with a Bachelor of Science degree in Business Administration. She also holds a Master of Business Administration from Hampton University. In addition, Ms. Smith is a Certified Municipal Finance Officer and completed the Certified Public Management courses for levels 1, 2 and 3.

#### **Administration – Auxiliary**

The following are operations of Newark that are not directly operated by the City's administration, but are fiscally budgeted or processed through the City's budget.

#### **Municipal Court**

The Municipal Court of the City of Newark has three (3) main divisions: the Criminal Division; the Traffic Violations Bureau; and the Administrative Support Unit that includes Finance and Data Processing. There are seven (7) full-time judges sitting in the Municipal Court and approximately 93 other employees.

#### **Free Public Library**

The Newark Public Library system, comprising the Main Library, the Business Information Center, and 11 neighborhood branches, serves the citizens of Newark as an information center, a learning resource for those in school and those engaged in independent learning, a research center, and a preschoolers' door to learning. Through its NEON project (NEwark ONline), it offers all residents access to the Internet and other on-line resources. Under state and federal grants, it also serves as a statewide reference and research center.

#### **Newark Museum Association**

The Newark Museum Association (the "Museum"), located near the intersection of Central Avenue and Washington Street, operates a museum which contains 60,000 square feet of exhibition space and 30,000 square feet of direct arts and sciences educational program space, including classrooms and a 300-seat auditorium. Founded in 1909, the Museum is New Jersey's preeminent cultural institution. Its distinguished collections are international in scope and include American painting and sculpture, decorative art, classical arts, the arts of Asia, Africa, the Americas and the Pacific, numismatics, and the natural sciences. The Museum also includes a restored Victorian mansion, the Ballantine House (circa 1885), designated a national historic landmark, the Newark Fire Museum, and a restored 18th-century schoolhouse. The Museum has 95 full-time and 100 part-time employees.

## Newark Public Schools

The Newark School District (the “School District”), with 75 schools, 7,000 employees and a student population of 37,443, is the largest and one of the oldest school systems in New Jersey. The system employs professional and non-professional personnel, including teacher's aides. The student population is provided with a comprehensive school program including college preparatory programs, vocational training and special education classes housed in regular elementary and secondary schools. The school system currently includes 61 elementary, 1 regional day and 13 high schools.

Since 1995, the school system has been operated by the State pursuant to the New Jersey Public School Education Act of 1975, as amended, N.J.S.A. 18A:7A-1 et seq. The Commissioner of Education appointed a State Superintendent to manage the School District.

The State-operated school district enabling legislation, N.J.S.A. 18A:7A-34 et seq., makes provision for the City to provide moneys to the State-operated school district for the payment of operating expenditures. Chapter 139 of the Pamphlet Laws of 1991 provided a mechanism similar to the pre-existing one for the authorization and issuance of school promissory notes and school serial bonds by the City secured by the power and authority of the City to levy *ad valorem* real property taxes. The Capital Project Control Board of the Newark Public Schools (the “Capital Project Control Board”) has the authority to review and recommend the necessity for capital projects proposed by the Superintendent. Following the adoption of a resolution by the Capital Project Control Board, the Municipal Council of the City shall consider a school bond ordinance. The State, by the takeover of the school system in the City, has not affected, modified or impaired the authority or the obligation of the City for the levy and collection of sufficient real property taxes to pay the principal of and interest on outstanding school debt.

The School District commenced litigation against the State seeking to terminate the State-operated status. On July 8, 2013, the New Jersey Superior Court, Appellate Division, rejected the School District’s appeal to terminate the State-operated status. On June 4, 2014, the State Board of Education voted to restore local control over the functional area of Fiscal Management to the School District, to take effect upon the State’s approval of a transition plan. Local control over Operations had previously been restored. On June 26, 2015, Governor Chris Christie and Mayor Ras Baraka announced the appointment of the Newark Educational Success Board charged with developing a timeline and benchmarks for the restoration of local control of the remaining three functional areas – Curriculum and Instruction, Personnel and Governance – to the School District. In 2017, the State Board of Education voted to initiate return of local control to the School District. Toward that end, the School District and the State Department of Education entered into a Transition Plan for the return of local control dated December 19, 2017 with an effective date of February 1, 2018.

Public School Budgeting Process. Under the provisions of the New Jersey Public Education Act of 1975, as amended, the Superintendent of a State-operated school district, after preparation of and hearing on a proposed budget, is required to fix and determine the amount of money necessary to be appropriated for the school year and is required to certify the amounts to be raised by taxes. The City may appeal to the Commissioner of Education the amount determined necessary. The Commissioner of Education, upon receipt of such appeal and completion of the hearing process, shall determine the amount necessary for the district to provide a thorough and efficient educational program including the implementation of any plan to correct deficiencies. The City may apply to the Director of the Division for a determination that the local share of revenues needed to support the district's budget results in an unreasonable tax burden. Based upon this review, the Director of the Division certifies the amount of revenues which can be raised locally to support the budget of the State-operated district. Any difference between the amount which the Director of the Division certifies and the total amount of local revenues required by the budget approved by the Commissioner of Education is paid by the State in the fiscal year in which the expenditures are made, subject to the availability of appropriations. Since Fiscal Year 2000, the State has not supplemented the City's school tax revenues.

## ECONOMIC AND HOUSING DEVELOPMENT

The City is pursuing a comprehensive economic development strategy. The City’s economic development efforts will enable Newark to take full advantage of its strategic assets, including its location and transportation infrastructure: seaport and airport; a diverse and underutilized workforce; a large amount of developable land; a concentration of corporate and business service firms; several major universities; and a wealth of arts and cultural institutions. The Department of Economic and Housing Development centralizes the City’s divisions responsible for a wide array of activities – including housing production, business development and attraction, sustainability, prisoner reentry, city

planning, and workforce development – in order to ensure that economic development strategies and activities have a comprehensive, unified approach. The City is also committed to developing a variety of green economic initiatives, including promoting energy efficiency, green energy production, and urban agriculture.

The City continues to concentrate such efforts on the following areas:

- Newark has strengthened its status as a global transportation and logistics center by building on growing trade at Port Newark-Elizabeth Marine Terminal (“Port Newark”), improving its competitiveness in the expanding logistics industry, and creating greater access to port and airport employment opportunities for City residents. The City has made use of environmentally sound development practices at port, airport and rail hubs. In addition, the City is actively engaged in attracting businesses and industry to the area around Port Newark.
- The establishment of the Newark Port Career and Business Development Center, which has served 1,700 clients since its launch in 2008, has placed 450 clients in transportation/logistics/distribution jobs.
- Newark has worked to reposition the downtown area as a mixed-use Central Business/Residential District. A new downtown living initiative is at the core of this ongoing effort to transform the City’s downtown area into a vibrant destination and place to live. The ongoing transformation is already evidenced by the 950+ units of market-rate residential housing currently under development or construction downtown.
- Newark’s 150,000 jobs represent the largest concentration of jobs in New Jersey. In order to more effectively meet the employment and training needs of Newarkers, the City has undertaken a restructuring of NewarkWorks (formerly the Mayor’s Office of Employment and Training). The agency is now positioned to take the lead in local workforce development as the operator of the Newark One Stop System as well as a One Stop partner agency delivering Workforce Investment Act, Work First New Jersey, and Workforce Learning Link employment and training services to Newark residents.
- The Brick City Development Corporation (“BCDC”) was formed in 2007. BCDC is a non-profit 501(c)(3) public benefit corporation, which was formed and funded to be the City’s catalyst for economic development, real estate transactions, business attraction, and retention. BCDC initiatives have included the Grow Newark Fund, the agency’s small business loan program, which has deployed over \$6 million in loan funding to 13 small businesses in Newark; a bond assistance program that has resulted in over \$8 million in successful bond bids; and small business technical assistance sessions that have served over 75 clients. On December 1, 2014, BCDC filed a Certificate of Amendment to its Certificate of Incorporation with the State changing its name to the Newark Community Economic Development Corporation (“NCEDC”).
- To ensure optimal value and interconnectedness of the City’s assets, Newark established a new City planning department, the Department of Planning and Community Development, to coordinate comprehensive, planned development of the City’s neighborhoods and key growth areas such as the port.

### **Current Economic and Housing Development Projects**

Among the developers with projects currently in progress or recently completed are the following:

- RBH Group has received various approvals, including Local Finance Board approval, for a Redevelopment Area Bond (“RAB”) for “Teachers Village at Four Corners,” which will consist of 221 residential units and three (3) charter schools. The project received approval from the City’s Landmarks and Preservation Commission and Central Planning Board. The project broke ground in February of 2012 and was completed in October of 2017.
- In 2015, RPM Development Group completed construction of a new 77 unit building fronting along Nevada Street and commenced construction on a new 87 residential unit development above 7,000 square feet of retail space fronting along Broad Street.
- RBH Group is redeveloping the 212 Rome site into a sustainable “Makers Village” with an anchor tenant, Aero Farms, an aeroponic farm that grows leafy greens, herbs and flowers in a controlled environment. It will

be the largest aeroponic farm in the world. The redevelopment builds upon the goals and objectives of the community and the City of Newark's sustainable manufacturing initiatives and will create 14 corporate and 68 permanent manufacturing jobs.

- Dranoff Properties and NJPAC developed One Theater Square, adjacent to New Jersey Performing Arts Center-area, a \$110 million, 22 story high-rise residential rental development with 244+ units and 20,000 square feet of retail space. The project was awarded \$38 million from the State's Urban Transit Hub Tax Credit program, \$9.5 million from the City's issuance of Motor Vehicle Rental Tax Revenue Bonds in 2015 and \$2.3 million in additional RAB proceeds. The building was completed in July 2018 and is now renting and available for occupancy.
- The owner of the Robert Treat Hotel, Miles Berger, formed East Park Street Hospitality and has constructed a Tryp Hotel at 24 East Park Street in downtown Newark. The City of Newark received various approvals, including Local Finance Board approval for a RAB. The 100-room hotel includes a 64 seat restaurant/lounge and a 370 square foot multi-purpose library. The hotel has been completed and the ribbon cutting ceremony took place on May 2<sup>nd</sup>, 2018.

### **Affordable Housing and Neighborhood Revitalization**

Since 2014, the City of Newark has undertaken a strategic approach to improving the neighborhoods outside the Central Business District. The Model Neighborhood Initiative (MNI) has concentrated financial and human resources to areas in the South and West wards. More police has been deployed to "hot spots" in the neighborhoods where 80% of the homicides are committed; the health department has expanded services and a new health clinic is under construction in the South Ward and a new clinic has opened in an existing facility in the West Ward; over 100 vacant lots have been sold to developers and construction has commenced on new homes; murals have improved the landscape and over 200 trees have been planted throughout the neighborhoods. The MNI model has demonstrated tremendous progress in the neighborhoods and is validated by a reduction in crime and increased resident participation.

The City of Newark has added over 1,000 units of affordable and market rate housing projects since 2014, of which 600 units are new construction. The Housing Authority of the City of Newark has built 897 units of housing within the same timeframe, 468 of which are affordable housing and 429 are market rate housing units.

**Land Disposition and Tax Abatement Policies** – The City has created new land disposition and tax abatement initiatives that provide incentives for such community benefits as creating job opportunities for Newark residents, committing to minority contracting, incorporating union labor, and using environmentally sound building techniques. The City has put 104 parcels up for sale that will be governed by the new Land Disposition Policy.

**West Ward Initiative** – Piloting the land disposition policy and drawing upon the City's new abandoned property ordinance, this initiative will reactivate City-owned vacant and privately owned abandoned properties within a 20-block area in the West Ward. A team of 13 developers, led by organizations like the Newark Housing Partnership, includes 11 minority-owned developers and ten (10) Newark-based firms. The development was guided by partners including the Urban League of Essex County and Habitat for Humanity.

- Over 233 units were rehabilitated by 17 small, local contractors.
- The Greater Newark Conservancy's (the "GNC") Clean and Green Crew has addressed over 50 lots in the area and planted over 200 trees.
- The GNC is building a community garden for use by the 13<sup>th</sup> Avenue School Community in addition to constructing traffic bump-outs and crosswalks along 12<sup>th</sup> Avenue.

Working with NCEDC, the City has supported new businesses, expanded cultural opportunities, and installed streetscape and lighting improvements along Clinton Avenue, a corridor with great potential to be the thriving link between the Lincoln Park neighborhood and downtown.

With more than \$40 million dollars committed over the past decade, the City is in the midst of the largest open space expansion and rehabilitation in over a century, and has already doubled City parkland.

## Economic Development Activity

Teachers Village is a vibrant, mixed use, pedestrian-oriented community on five (5) blocks in the heart of downtown Newark in the Central Business District. Prior to the groundbreaking, 90% of the neighborhood was comprised of surface parking lots. The project consists of six (6) new buildings that contain:

- Three (3) not-for-profit charter schools (SPARK Academy for grades k through 5; Discovery Charter School for 4<sup>th</sup> through 8<sup>th</sup> graders; and Great Oaks for grades 6 through 8) and a daycare facility that together serve more than 1,000 predominantly low income students in over 104,000 square feet. The schools are housed in two (2) buildings that were completed in 2014.
- 204 units of rental housing marketed to teachers in 235,000 square feet, about 20% of the units of which will be dedicated to affordable housing. The residential portion is currently “oversubscribed” with teachers who make up its prospective renters. A lottery was recently held for the first 123 apartment units.
- 20 different high quality retail businesses in 65,000 square feet will provide jobs and services to the neighborhood. Thirteen leases have been signed and ten (10) of these are currently in design or under construction.

In 2015, Prudential completed construction of an office tower in close proximity to its existing headquarters on Broad Street. The \$444 million, 740,000 square foot, 20-story building includes approximately 47,000 square feet of retail development with tenants like Nike and Starbucks. About 3,000 of Prudential’s nearly 48,000 employees across the globe will be located in the new tower.

Over the past few years, the City has experienced a surge of small and large-scale economic development projects initiated by the private sector. This private sector investment is a result of a coordinated effort by the Department of Economic and Housing Development, the Newark Housing Authority, and other municipal planning and development agencies. The Central Business District has been the site for a number of these projects.

Newark has continued to grow in a difficult economic environment. Industrial development and leasing remain strong in Newark, with strong continuing demand for warehouse, transportation, and distribution facilities.

### Summary of Projects under Construction and Completed:

	<u>Project Investment</u>
The Hahnes Project (Completed)	175,000,000
Teachers Village (Completed)	159,000,000
East Park Street Hospitality Urban Renewal (Tryp Hotel) (Completed)	15,000,000
36-54 Rector Urban Renewal (Market Rate Housing)	64,000,000
Riverside Arms Apartments (Completed)	24,000,000
Carrino Plaza Apartments	26,000,000
Hari Newark Urban Renewal (Homewood Suites Hotel by Hilton)	14,000,000
999 Broad Street Phase 1 (Completed)	20,400,000
Hampton Valley Apartments (Completed)	3,000,000
Aero Farms at the 212 Rome site (Completed)	14,000,000
Cherry Park Apartments (Completed)	12,000,000
Scattered Sites Housing Projects	10,000,000
Lofts @ Lincoln Park Condominiums	6,000,000
One Theatre Square (Completed)	110,000,000
Montgomery II	45,000,000
540 Broad Street	107,000,000
New Horizon	35,000,000
579 Broad Street	17,000,000
Tuckerview Redevelopment	10,000,000

## **Newark Liberty International Airport and Port Newark**

Newark Liberty International Airport (the “Airport”), partially located in the City, is approximately 16 miles west of midtown Manhattan. In 2013, over 35 million passengers travelled through the Airport, along with 662,422 tons of air cargo and 54,677 tons of air mail. A shuttle service provides access to the Airport for passengers of the PATH system and Amtrak commuter trains. NJT buses connect the City’s two train (2) stations and bus terminals with Terminals A, B, and C of the Airport. Over the past decade, the Airport has completed over \$1 billion in infrastructure improvements, including a \$400 million Airport Railroad Station at Waverly Yards that connects the on-airport passenger monorail tram system with the Northeast Corridor and NJT passenger train service. The Airport is the first metro region airport offering passenger rail services from the Northeast Corridor directly to air passenger terminals. In addition, NJT completed construction of the first two-mile operable segment of the Newark Elizabeth Rail Link, a light rail transit system linking NJT’s Newark Broad Street Station to Penn Station.

Port Newark is a waterfront terminal development located on Newark Bay adjacent to Newark Liberty International Airport. The marine terminal contains approximately 2,230 acres of maritime property, including wharves, berthing space (about 41,000 lineal feet), container cranes, transit sheds, open storage areas, buildings, roadways, and railroad trackage. The terminal is served by Conrail which offers direct ship-to-rail transfer at the vessel berths. Port Newark handles over 2.5 million containers annually and rising, making it the third busiest port in the United States. Port Newark is currently undergoing a \$650 million expansion, which will generate as many as 6,900 jobs a year throughout the region.

The City has leased Newark Liberty International Airport and Port Newark to the Port Authority of New York and New Jersey (the “Port Authority”) since March 22, 1948.

### **Lease Between City and Port Authority**

In 2002, the City reached agreement with the Port Authority on an extension of the Port Authority’s lease of the land on which Newark Liberty International Airport and Port Newark are located. Pursuant to this agreement, the lease was extended through 2065 and established a minimum annual rent of \$68 million beginning in 2002, with higher rent should certain gross revenue levels be reached; the minimum annual rent may increase every five (5) years based on Port Authority average gross revenues from the two (2) facilities. From 2012-2016, the City received \$84.7 million in annual rent. From 2017-2021, the City will receive \$97.6 million in annual rent. The next round of negotiations between the City and Port Authority will be in 2022. There are separate payments by the Port Authority in the amount of \$12.5 million per year for 35 years that area pledged, and assigned by the Newark Housing Authority to the Trustee for the bonds, to pay debt service on bonds issued by the Newark Housing Authority (as the City’s assignee), which bonds financed the construction of the Prudential Arena and other related redevelopment projects located in the Newark Downtown Core Redevelopment District. *See* “Newark Downtown Core District Redevelopment Plan” below.

Additionally, the lease agreement provides that, if the Port Authority enters into a new lease with the City of New York relating to John F. Kennedy International Airport and LaGuardia Airport, or amends the existing lease with respect to those airports, Newark will have the right to amend the provisions of its lease with the Port Authority with respect to the Airport to conform to the terms agreed upon with New York City. Furthermore, if there is a binding award to New York City pursuant to the ongoing arbitration proceeding with New York City, or any other dispute between New York City and the Port Authority relating to John F. Kennedy International Airport or LaGuardia Airport, or a settlement thereof, Newark has the right to a proportionate award from the Port Authority, except where this would result in a double recovery to Newark or where amounts are awarded to New York City with respect to an issue unrelated to the leases with Newark. Finally, the lease agreement provides that the proportion of total Passenger Facility Charges received by the Port Authority from the three (3) major airports that is attributable to the Airport shall be used for projects at that Airport.

### **Other Public Transportation**

The City is serviced by the Garden State Parkway, the New Jersey Turnpike and a system of interconnecting highways, which provide access to the major commercial, industrial and residential areas of Newark and the County. The State recently committed monies for improvements and changes in access ramps into the City from Routes 78 and 280.

The City is connected to New York City and cities in New Jersey by PATH, Amtrak and NJ Transit. In addition, NJT rail lines connect the City directly with the Airport linking the two (2) major transportation hubs.

NJT provides citywide bus service. NJT and Newark share oversight of bus lanes for the Central Business District. During peak traffic hours in the morning (6:30 a.m. - 9:30 a.m.) and afternoon (4:30 p.m. - 6:30 p.m.) the curb lanes on both sides of Broad and Market Streets are dedicated for buses only. This program has dramatically improved the flow of traffic and has improved the timeliness of bus service. In addition, the City is served by the NJT Light Rail (the "Light Rail"), an aboveground rail system, which was completed in 2001. The Light Rail connects the City's residents and visitors with many destinations throughout the City, including Newark Penn Station, Newark Broad Street Station and the Downtown Business District.

### **Cultural Arts, Entertainment and Sports in Newark**

Cultural activities continue to be a growing attraction within the City. Newark has seen an increase in programs and events attended by Newarkers, New Jerseyans and those from other states as well.

The New Jersey Performing Arts Center ("NJPAC") opened in October 1997. The NJPAC is home to the Garden State Ballet, the New Jersey Symphony, and the New Jersey State Opera. In 2010, the New Jersey Symphony welcomed internationally respected Jacques Lacombe as its Music Director. NJPAC also hosted the Dodge Poetry Festival in 2010 and 2012. This event alone brought thousands of poets, scholars and students to Newark. Over \$100 million of public and private (donated) funds were invested to create the NJPAC on a 12-acre tract in the Central Business District. The center currently consists of a building which houses a 2,700 seat multi-purpose theater, a 500 seat studio theater, a restaurant, banquet facilities, and a gift shop.

Newark Symphony Hall is a 3,000-seat theater originally built in 1925 and added to the National Register of Historic Places in 1977. In addition, the Cathedral Concert Series is held in Sacred Heart Cathedral, the fifth largest Gothic cathedral in the country.

In addition to NJPAC and Symphony Hall, Newark is home to the Bears & Eagles Riverfront Stadium (previous home to the former Newark Bears minor league baseball team) and the Prudential Center, an 18,000 seat multi-purpose arena that opened in October 2007. The Bears & Eagles Stadium was sold to Lotus Equity Group in March 2016. Lotus Equity Group plans to demolish the stadium and build a mixed-use, high-rise tower, office space, parking, commercial and other public amenities in its place. The Prudential Center is home to the New Jersey Devils, a professional indoor hockey team, the New Jersey Ironmen, a professional indoor soccer team, Seton Hall University Men's Basketball and various collegiate hockey teams.

The Prudential Center hosts over 200 events a year including sporting events; major concerts such as Black Eyed Peas, Carrie Underwood, Andrea Bocelli, Usher, Bruce Springsteen, The Who and The Rolling Stones; and major attractions such as Disney on Ice and professional boxing. Along with major events, the Prudential Center is ushering in a new era in sports and entertainment in Newark and the entire Northern New Jersey area. The success of the Prudential Center brings direct and collateral revenue to the City, and the area surrounding the Prudential Center has witnessed an influx of restaurants and other service establishments.

### **Newark Downtown Core District Redevelopment Plan**

On October 6, 2004, the Newark Municipal Council adopted an ordinance authorizing creation of the Newark Downtown Core District Redevelopment Plan & Amendment to the Newark Plaza Urban Renewal Plan (the "Newark Downtown Core District"). Concurrently, the Newark Municipal Council adopted a resolution designating the Newark Housing Authority as the Redevelopment Entity under the New Jersey Housing and Redevelopment Act, to implement the Newark Downtown Core District Redevelopment Plan.

In October 2005, the \$310 million Newark Downtown Core Redevelopment District Project was approved by the Newark Municipal Council. The Newark Downtown Core District's keystone was the construction and opening of the Prudential Center. Plans for the Newark Downtown Core District also included structured parking, retail and entertainment and a headquarters building for the Newark Public Schools, to be constructed by others, for a projected total of 1,800,000 square feet at an estimated combined public and private investment of \$588 million. The Courtyard Newark

Downtown, a six-story, 140 room hotel with over 4,000 square feet of meeting space, along with arena-area restaurants such as Dinosaur Bar-B-Que and Joe's Crab Shack add new street life to the Prudential Center area.

### **Passaic Waterfront Park Mixed-Use Development Project**

The U.S. Corps of Engineers is completing plans and designs for a \$75 million Passaic Riverfront restoration in the Central Business District. Riverfront Park runs from Bridge Street to Brill Street featuring a pedestrian walkway with active and passive recreational amenities. It includes 6,000 linear feet of new bulkhead, 3,200 linear feet of riverbank restoration and 9,200 linear feet of pedestrian waterfront walkway. Presently, 1,800 linear feet of new bulkhead has been constructed, with the pedestrian walkway still to be constructed between Newark Penn Station and NJPAC. Newark Riverfront Park will be the City's first true waterfront park, covering 3.5 acres and including a 1/3 mile riverfront walk, a public access floating boat dock, native plantings, and lawns for informal gatherings and performances.

The principal property owners are proposing three (3) mixed-use office-residential-retail developments within the Passaic Riverfront Park Area. Participating property owners include Hartz Mountain Industries, the Matrix and Edison Properties. Combined, these companies are proposing to develop over one million square feet of commercial office space within walking distance of Newark Penn Station, including 600 rental residential units and up to 50,000 square feet of retail along the proposed Passaic Riverfront pedestrian walkway.

As an interim waterfront improvement, the City built a public access floating boat dock with a \$139,000 grant from the New Jersey Department of Transportation. This will be the first public dock in Newark in over a century. Future plans for the riverfront site include residential, structured parking, open space and retail along the Passaic Riverfront connecting to the Minish Passaic Riverfront Park pedestrian walkway.

### **Health Care and Hospitals**

Newark's health care facilities represent a growing source of financial strength, investment, and employment. The following are descriptions of the three (3) major hospitals located in Newark:

#### **Newark Beth Israel Medical Center**

Newark Beth Israel Medical Center ("Newark Beth Israel") is a 673-bed, regional care, teaching hospital in Newark with more than 800 physicians, 3,200 employees and 150 volunteers. Newark Beth Israel has over 300,000 outpatient visits and 25,000 admissions annually and is one of only two (2) hospitals in New Jersey where heart transplants are performed, and the only hospital in New Jersey certified to perform lung transplants. Newark Beth Israel is also home to Children's Hospital of New Jersey, the State's premier children's hospital, which provides state-of-the-art care in nearly 30 subspecialties.

#### **St. Michael's Medical Center**

Saint Michael's Medical Center is a 357-bed regional tertiary care, teaching, and research center in the heart of Newark's business and educational district. In January 2008, Cathedral Healthcare System announced its approval of its sale to Catholic Health East of three (3) hospitals located in the City – Saint James Hospital, Columbus Hospital and Saint Michael's Medical Center. In July 2008, St. Michael's Medical Center issued bonds to fund Catholic Health East's acquisition of Saint Michael's Medical Center, and to fund the termination of acute care services at Saint James Hospital and Columbus Hospital and transfer their acute care services to Saint Michael's Medical Center, in an effort to consolidate inpatient acute care services in the City. Catholic Health East has subsequently entered into an agreement to sell St. Michael's Medical Center to Prime Healthcare Services, a for-profit corporation. The proposed sale would include a plan to invest \$30 million in equipment upgrades and capital improvements, but has been opposed by various community groups and local public officials. The proposed sale is currently under State regulatory review. St. Michael's Medical Center filed for bankruptcy protection on August 10, 2015 due to the uncertainty of the State's ongoing review of the proposed sale.

#### **The University Hospital**

The University Hospital is the core teaching facility of Rutgers Biomedical and Health Sciences of New Jersey, and is the center of referral for many of the State's most advanced medical services and specialty care programs. The hospital is staffed by 300 full-time attending physicians who are also faculty members of the New Jersey Medical School. The University Hospital includes 530 beds and 2,999 full-time employees and has more than



19,000 admissions, 1,700 births, and 220,000 outpatient visits annually. Effective July 1, 2013, University Hospital became a separate public entity, independent of the University of Medicine and Dentistry of New Jersey (“UMDNJ”). However, it is expected that all existing clinical affiliations will continue.

## **Higher Education**

The City is the site of the University Hospital, which is the principal teaching hospital for Rutgers Biomedical and Health Sciences. The City is also the site of the New Jersey Institute of Technology (“NJIT”), Rutgers - The State University of New Jersey (“Rutgers-Newark”), Seton Hall University Law School, Essex County College (“ECC”) and Berkeley College. These six (6) colleges and universities are spread out over 320 acres and serve a population of 35,000 students and faculty. Rutgers-Newark includes the State’s largest health care professional education center with more than 2,500 students and has a 530-bed acute care hospital. NJIT offers undergraduate and graduate degrees in engineering, architecture, and computer science. Rutgers-Newark offers undergraduate degrees and graduate degrees in law, nursing, business administration, public administration, chemistry, and economics. In 2009, Rutgers-Newark opened its flagship business school at 1 Washington Park, occupying 11 of 17 floors of this refurbished building, and anchoring its presence as a key partner in Newark – both through the increasing size of its footprint and through a variety of Newark programs, including a small business loan fund administered with the BCDC. Seton Hall University Law School, also located in the City, is the third largest Catholic law school in the United States. ECC offers Associate degrees and one-year certificates. In addition, Berkeley College recently opened a campus in Newark, beginning with more than 150 students.

Newark has promoted and enhanced its status as a regional knowledge center by making its several higher education institutions the focal point for the expansion of new academic and research activities, new industries, and housing and cultural opportunities that more closely integrate these institutions with Newark’s neighborhoods. The Council on Higher Education in Newark (“CHEN”), composed of ECC, NJIT and Rutgers University-Newark, is developing a 50-acre, \$200 million University Heights Science Park to attract science and technology-based businesses to benefit from its proximity to university research, students, faculty, and facilities.

## **RELATED PUBLIC AUTHORITIES**

In addition to the agencies described under “CITY INDEBTEDNESS AND DEBT LIMITS – Overlapping Debt” herein, certain regional and City agencies have cooperated with the City in the provision of services to the residents of the City. A description of these agencies and the relationship of each to the City follow.

### **Joint Meeting of Essex and Union Counties**

The Joint Meeting of Essex and Union Counties (the “Joint Meeting”) was organized in accordance with legislation passed in 1899 and operates a joint system for sewage collection and treatment. The City is one of 15 participating municipalities. As a participant, the City assumes a portion of the capital construction and operating costs of the Joint Meeting. The City has occasionally satisfied capital obligations of the Joint Meeting through the issuance of City bonds, and the City intends to do so again in 2019. The City’s share of operating costs of the Joint Meeting is based on a user charge system and is provided for annually in the City’s Current Fund budget.

### **Second River Joint Meeting**

The Second River Joint Meeting (the “SRJM”) was organized in 1928. The SRJM operates a joint sewer for seven (7) municipalities to control overflow of sewage into the Second River. Under contractual agreement, the City’s share of operating expenses for the SRJM is 3.19%. There are no construction projects at present for which the City is proportionately responsible. Each participating municipality authorizes and issues its own debt to finance any construction projects. There is currently no debt for the SRJM that is authorized and unissued.

### **Newark Parking Authority**

The Newark Parking Authority (the “Parking Authority”) was created in 1956. Its seven (7) member board is appointed by the Mayor with the advice and consent of the Municipal Council.

Pursuant to a Resolution of the Municipal Council adopted on August 6, 2008 and an Interlocal Agreement between the City and the Parking Authority dated August 8, 2008 (the “Interlocal Agreement”), the City has transferred to

the Parking Authority all existing parking assets owned, controlled or operated by the City to become part of the Parking Authority's parking system (the "Parking System"). The term of the Interlocal Agreement is 40 years, with an option to the Parking Authority to renew for two (2) additional 10 year terms. During the term of the Interlocal Agreement, the Parking Authority is responsible for all costs of operating, constructing, and maintaining the parking assets of the Parking System. The parking assets transferred include parking meter operation and other conveyances, structures and equipment and other real and personal property and rights therein and appurtenances necessary or useful and convenient to the operation of the Parking System.

Under the Interlocal Agreement, the Parking Authority is entitled to share in the City's ticket revenues. The Parking Authority is required to pay to the City certain amounts to allow the City to pay debt service on debt issued for certain upgrades to the Parking System.

Under the Interlocal Agreement, the Parking Authority is obligated to operate and maintain, and to the extent the Parking Authority deems feasible, enlarge the Parking System. To allow the Parking Authority to effectively and efficiently operate the Parking System, the Parking Authority's duties include, among others, bus lane enforcement, the establishment of a billing system, control over on-street parking spaces and meters, and the operation of towing and vehicle storage facilities.

In 2019, the Parking Authority is expecting to issue not-to-exceed \$40,000,000 aggregate principal amount of Parking Revenue Bonds for the purpose of constructing a structured parking facility containing (a) a 510 space parking garage, (b) office space for the Finance Department of the City, (c) storage and office space for the Municipal Court of the City, (d) offices for the Parking Authority and (e) retail/café space. The proposed project is situated on land currently used as the City Hall parking lot and is located directly east of the City's Municipal Court and approximately 500 feet from the Prudential Center Arena. The proposed issuance of Parking Revenue Bonds will not be backed by the City's general obligation taxing power.

### **Newark Watershed Conservation and Development Corporation**

This agency was responsible for the protection, coordination, review, and planning of limited development of the 35,000 acres in the Pequannock Watershed which the City owns in northwestern New Jersey. This watershed contains five (5) reservoirs from which the City obtains 80 mgd. The storage capacity of the five (5) reservoirs is 14.4 billion gallons. The watershed is 35 miles from the City and is one of the region's largest open spaces. Limited economic development is being planned on a small portion of the watershed for the purpose of relieving the City of the tax burden of this property resulting from the obligation of the City to pay taxes to various municipalities included in the watershed. Such funds are raised annually in the City's Water Utility operating budget.

On March 26, 2013, the City was informed that the Newark Watershed Conservation and Development Corporation would be dissolving as of May 31, 2013. As a result, the City reassumed control of its water utility as of such date and has hired certain former employees of the Corporation to assist in such operation. The City appointed Andrea Adebowale as Director of the Water and Sewer Utilities.

### **Newark Housing Authority**

The Housing Authority of the City of Newark (the "Housing Authority") is operated by a seven-member Board of Commissioners, five (5) of whom are appointed by the Mayor with the concurrence of the Municipal Council, one of whom is appointed by the Governor, and one of whom is appointed by the Mayor without the concurrence of the Municipal Council. Operations of the Housing Authority are centered in two divisions, Public Housing and Urban Renewal. The responsibilities of the Urban Renewal Division include the redevelopment of residential, industrial, and commercial properties, relocation of affected residents, and acquisition and disposal of properties.

The Housing Authority has a total of 325 employees and currently operates 7,000 public housing units, plus 4,000 Section 8 units. Certain outstanding bonds of the Housing Authority are described below.

In February 2007, the Housing Authority issued \$7,780,000 Port Authority-Port Newark Marine Terminal Additional Rent-Backed Bonds, Series 2007 (City of Newark Redevelopment Projects) and \$168,320,000 Port Authority-Port Newark Marine Terminal Additional Rent-Backed Refunding Bonds, Series 2007 (City of Newark Redevelopment Projects), which bonds (the "2007 Bonds") refinanced the construction of the Prudential Arena and other related

redevelopment projects located in the Newark Downtown Core Redevelopment District. A portion of the 2007 bonds were refunded in 2017.

In July 2009, the Housing Authority issued \$68,000,000 of its City Secured Police Facility Revenue Bonds (South Ward Police Facility), Series 2009A (the “Police Facility Bonds”), the payment of which is secured by semiannual capital grant payments required to be made by the City in an amount sufficient to pay all debt service on the Police Facility Bonds. The Housing Authority’s Series 2016 Bonds were issued on July 6, 2016 to advance refund on December 1, 2019 the Police Facility Bonds maturing on or after December 1, 2020 (the “Series 2016 Bonds”).

With the exception of the outstanding Police Facility Bonds and the Series 2016 Bonds, none of the Housing Authority’s debt is a liability of the City.

## **CITY INDEBTEDNESS AND DEBT LIMITS**

### **General**

The Local Bond Law, N.J.S.A. 40A:2-1 *et seq* (the “Local Bond Law”), generally governs the issuance of bonds and notes to finance certain general municipal and utility capital expenditures. Among its provisions are requirements that bonds must mature within the statutory period of usefulness of the projects bonded, that bonds be retired in serial installments, and, with certain exceptions, a 5% cash down payment is required toward the financing of expenditures for municipal purposes. Nearly all bonds and notes issued by the City are general (“full faith and credit”) obligations.

The City may sell short-term “bond anticipation notes” to temporarily finance a capital improvement or project in anticipation of the issue of bonds, if the bond ordinance so provides. Under the Local Bond Law, bond anticipation notes, which are full faith and credit obligations of the issuer, may be issued for a period not exceeding one (1) year and may be renewed from time to time, for a period that does not exceed one (1) year. All bond anticipation notes, including all renewals, must be paid not later than three (3) years from their original date, unless the issuer begins to amortize such notes beginning in the third year. If the appropriate amortization is commenced in the third year, such notes must finally mature and be paid not later than the first day of the fifth month following the close of the tenth fiscal year next following the date of the original notes.

To ensure the continuing tax exemption of its various outstanding bond and note issues, the City is required to periodically determine its liability, if any, relating to arbitrage rebate. The City cannot estimate at this time the amount of any such liability, which could also include liability for interest and penalties.

### **Tax Anticipation Notes**

The City may issue tax anticipation notes in any fiscal year in anticipation of the collection of taxes for such year whether levied or to be levied in such year or in anticipation of certain other revenues for such year, subject to the limits described below. The proceeds of the sale of such notes, unless used to redeem outstanding notes, must be applied to purposes provided for in the City budget or for which taxes are levied or to be levied for such year and may not be applied for any other purpose. Under State law, tax anticipation notes and any renewals thereof shall mature not later than 120 days after the close of the fiscal year.

The City is limited in the amount of tax anticipation notes of any fiscal year that can be outstanding at any time. Such amount shall not exceed an amount certified as the gross borrowing power of the City and no such notes shall be authorized in excess of an amount certified as the net borrowing power of the City. The gross borrowing power of the City with respect to tax anticipation notes for any fiscal year is 30% of the tax levy of the preceding fiscal year for all purposes plus 30% of the amount of the miscellaneous revenues realized in cash during the preceding fiscal year. The net borrowing power of the City for tax anticipation notes is determined by subtracting from the gross borrowing power the amount of tax anticipation notes outstanding for the current fiscal year except such notes as will be renewed by or paid from the proceeds of the bonds to be issued.

The City has not issued tax anticipation notes since 2016.

## Debt Limits

State statutes set forth debt limits for counties and municipalities. The City's net debt is limited by the Local Bond Law to an amount equal to 3 1/2% of its equalized valuation basis. The equalized valuation basis of the City is set by statute as the average value of all taxable real property within its boundaries as annually certified in the valuation of all taxable real property in the table of equalized valuation by the Director of Taxation, Department of Treasury, State of New Jersey (the "Division of Taxation"). Certain categories of debt are permitted by statute to be deducted for purposes of computing the statutory debt limit. As of December 31, 2017, the City has statutory net debt in the amount of \$352,024,089, which amount equals 2.464% of its three (3) year average of equalized valuation basis as of December 31, 2017.

## Exceptions to Debt Limit - Extensions of Credit

The debt limit of the City may be exceeded only with the approval of the Local Finance Board. If all or any part of a proposed debt authorization would exceed its debt limit, the City must apply to the Local Finance Board for an extension of credit. In considering the request, the Local Finance Board concentrates its review on the effect of the proposed authorization on outstanding obligations. If the Local Finance Board determines pursuant to statute and regulation that a proposed debt authorization would materially impair the ability of the City to meet its obligations or to provide essential services, approval would be denied. The City has not exceeded its debt limit.

## Municipal Qualified Bond Act

Pursuant to the Municipal Qualified Bond Act, Title 40A of the New Jersey Statutes, N.J.S.A. 40A:3-1, et seq., as amended (the "Municipal Qualified Bond Act", such bonds being called "Qualified Bonds"), a portion of certain State aid (the "Municipal Qualified Revenues") allocated to the City in amounts sufficient to pay debt service on Qualified Bonds, is to be withheld by the State Treasurer and forwarded to the paying agent for such bonds on or before the principal and interest payment dates for such Qualified Bonds for deposit into accounts established for the purpose of paying debt service on such Qualified Bonds.

The Municipal Qualified Bond Act provides that the Municipal Qualified Revenues so withheld and paid or to be paid to and held by the paying agent are deemed to be held in trust and exempt from being levied upon, taken, sequestered, or applied toward paying the debts of the City other than the payment of debt service on any such Qualified Bonds of the City issued for municipal purposes or water utility purposes and entitled to the benefits of the Municipal Qualified Bond Act.

The Municipal Qualified Bond Act does not relieve the City of its obligation to include in its annual budget amounts necessary to pay, in each year, the principal of and interest on any such Qualified Bonds. Such budgeted amounts must be used to pay debt service on such Qualified Bonds of the City in any year in which sufficient Municipal Qualified Revenues are not appropriated. The State has covenanted in the Municipal Qualified Bond Act with the holders of Qualified Bonds that it will not repeal, revoke, rescind, modify, or amend the provisions of such act providing for the withholding of Municipal Qualified Revenues and payment of such revenues to the paying agent for such Qualified Bonds so as to create any lien or charge on or pledge, assignment, diversion, withholding payment or other use of or deduction from such revenues which is prior in time or superior in right to the payment of debt service on such Qualified Bonds.

### Municipal Qualified Revenues/Debt Service Coverage Ratios

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Qualified Revenues	\$101,290,117	\$101,290,117	\$101,290,117	\$101,290,117	\$101,290,117
Transitional Aid	7,431,000	9,500,000	-	-	-
Qualified Bond Debt Service	39,458,600	32,627,809	28,732,557	29,790,218	27,545,244
Coverage Ratio	2.57	3.10	3.53	3.40	3.68

*The Municipal Qualified Bond Act does not contain a pledge or guarantee that any amounts payable to the paying agent for such Qualified Bonds will, in fact, be made or continued. Each such annual amount is subject to appropriation by the State Legislature. Moreover, the State is not required to continue to make appropriations of such amounts, nor is the State limited or prohibited from repealing or amending any law heretofore or hereafter enacted for the payment or apportionment of such amounts or in the manner, time or amount thereof. Further, the amount payable to the paying agent for such Qualified Bonds does not constitute an additional source of revenue available to the City.*

## School Qualified Bond Act

In addition to being secured by the pledge of the City's full faith and credit, certain bonds of the City are entitled to the benefits of the School Qualified Bond Act, Title 18A of the New Jersey Statutes, N.J.S.A. 18A:24-85 et seq., as amended (the "School Qualified Bond Act"). Pursuant to the School Qualified Bond Act, a portion of the amount of State school aid payable to the School District, in amounts sufficient to pay debt service on such bonds, is to be withheld by the State Treasurer and forwarded directly to the paying agent on or before the principal and interest payment dates for such bonds. Those funds are further deposited into accounts established for the purpose of paying debt service on such bonds.

Pursuant to the provisions of the School Qualified Bond Act, the City shall certify to the State Treasurer the name and address of the paying agent, maturity schedule, interest rate or rates and dates of payment of debt service on such bonds within 10 days after the issuance thereof. After receipt of such certificate, the State Treasurer is required to withhold with respect to such bonds from the amount of State school aid payable to the School District an amount which will be sufficient to pay debt service on such bonds as it becomes due. For purposes of the School Qualified Bond Act, "State school aid" means funds made available to local school districts pursuant to the Quality Education Act of 1990, N.J.S.A. 18A:7D-4.

The School Qualified Bond Act provides that the State school aid so withheld and paid or to be paid to and held by the paying agent for such bonds are deemed to be held in trust and exempt from being levied upon, taken, sequestered or applied toward paying the debts of the City other than the payment of debt service on such bonds and other bonds of the City issued for school purposes and entitled to the benefits of the School Qualified Bond Act.

The School Qualified Bond Act does not relieve the City of its obligation to include in its annual budget amounts necessary to pay, in each year, the principal of and interest becoming due on such bonds. However, such budgeted amounts will be forwarded by the City to the School District, to the extent that appropriated amounts have been withheld from the State school aid payable to the School District and have been forwarded to the paying agent for such bonds. Such budgeted amounts must be used to pay debt service becoming due on such bonds and other bonds of the City issued for school purposes and entitled to the benefits of the School Qualified Bond Act in any year in which sufficient State school aid is not appropriated.

The State has covenanted in the School Qualified Bond Act with the holders of bonds entitled to the benefits of such act, that it will not repeal, revoke, rescind, modify or amend the provisions of such act providing for the withholding of State school aid and payment of such monies to the paying agent for such bonds so as to create any lien or charge on or pledge, assignment, diversion, withholding payment or other use of or deduction from such monies which is prior in time or superior in right to the payment of debt service on such bonds.

### School Qualified Revenues/Debt Service Coverage Ratios

	<u>2017*</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Qualified School Revenues	\$715,271,519	\$715,271,519	\$715,271,519	\$714,315,679	\$714,315,679
Qualified School Debt Service	\$8,945,255	\$9,064,478	\$10,654,818	\$10,764,000	\$11,501,618
Coverage Ratio	79.96	78.91	67.13	66.36	62.11

\*Unaudited

*The School Qualified Bond Act does not contain a pledge or guarantee that any amounts payable to the paying agent for such bonds will, in fact, be made or continued. Each such annual amount is subject to appropriation by the State Legislature. Moreover, the State is not required to continue to make appropriations of such amounts, nor is the State limited or prohibited from repealing or amending any law heretofore or hereafter enacted for the payment of such amounts or in the manner, time or amount thereof. Further, the amount payable to the paying agent does not constitute an additional source of revenues available to the City.*

## Debt Statements

The City must report all new authorizations of debt or changes in previously authorized debt to the Division through the filing of Annual and Supplemental Debt Statements. The Supplemental Debt Statement must be submitted to the Division of Local Government Services before final passage of any debt authorization. Before January 31, of each

year the City must file an Annual Debt Statement with the Division. This report is made under oath and states the authorized, issued, and unissued debt of the City as of the previous December 31. Through the Annual and Supplemental Debt Statements, the Division monitors all local borrowing. The City's Annual Debt Statement as of December 31, 2017 was filed with the Division on January 26, 2018.

## **Overlapping Debt**

Several regional and City agencies have issued debt for the payment of which the City and its taxpayers are responsible in varying degrees. A description of those agencies and the relationship of each to the City follow.

### **County of Essex**

The County of Essex, directly and indirectly through the Essex County Improvement Authority, has issued various bonds, notes and other obligations payable ultimately from taxes levied upon all taxable properties within the County of Essex, a portion of which is allocated to properties within the City. Accordingly, such debt constitutes overlapping debt with respect to properties within the City. As of December 31, 2017, the County had \$986,493,661 in outstanding debt and \$369,508,661 in outstanding net debt. The City's percentage of County debt of 17.03% is based on the equalized valuation of City properties as a percentage of the total County equalized valuation (see table on page A-20 for more information on the City's overlapping debt).

### **Board of Education of the City of Newark**

Prior to the takeover of operations by the State, the Board of Education of the City of Newark (the "Board of Education") issued various bonds, notes and other obligations payable ultimately from taxes levied upon all taxable properties within the School District, which is coextensive with the boundaries of the City. Accordingly, such debt constitutes overlapping debt with respect to properties within the City. As of the date of this Official Statement, the Board of Education has no debt outstanding.

### **Passaic Valley Sewerage Commission**

The Passaic Valley Sewerage Commission (the "PVSC") was created on March 27, 1902 by legislative action of the State of New Jersey as a corporate body politic established for the purpose of developing a plan for eliminating pollution from the streams and rivers within the Passaic River valley drainage area extending from the Great Falls in Paterson to Newark Bay. The boundaries of the sewerage district known as the Passaic Valley Sewerage District includes portions of Essex, Passaic, Bergen, and Hudson Counties. Nine (9) Commissioners are appointed by the Governor with the advice and consent of the State Senate. Of the nine (9) Commissioners, each County within the Passaic Valley Sewerage District is represented by two (2) Commissioners, both of whom reside in the sewerage district and in the County they represent. At least one (1) of the two (2) Commissioners from each County must reside in a contracting municipality or in a leasing municipality. Not more than five (5) of the nine (9) members of the PVSC shall be from the same political party. The ninth member shall be an at-large member who shall serve during the term of office of the Governor of the State. Each Commissioner serves for a term of five (5) years or until his successor is appointed, except for the at-large member.

State law provides that municipalities may enter into agreements with the PVSC for the construction, maintenance, and operation of sewerage plants and works, in addition to trunk or main sewage lines. The actual construction and operation of these facilities remain within the jurisdiction of the PVSC. The cost of construction and operation of the system is apportioned annually to the respective contracting municipalities and other users of the system according to their total flow and wastewater quality.

The original Passaic Valley Sewerage System (the "System") consisted of a primary treatment plant and steam powered pumping station located near Newark Bay, an interceptor sewer running parallel to the Passaic River between Paterson and Newark Bay, and an outfall into New York Harbor. Since completion of these original facilities in 1924, the PVSC has made numerous modifications to improve treatment and increase capacity. Construction of the secondary treatment facility, which is the principal component of the System, was initiated in 1977 and completed in 1985. The interim sludge handling facilities constructed in 1990 are the most recent addition to the System. In the 1990's, various capital improvements and upgrades were completed. The outstanding principal amount of senior debt issued by the PVSC

as of December 31, 2017 is \$147,850,000 and \$91,409,266 in subordinated debt (see table on page A-23 for more information on the City's overlapping debt).

### **North Jersey District Water Supply Commission**

The City is a member by contract of the North Jersey District Water Supply Commission (the "Commission") that is authorized to supply and distribute water to twelve member municipalities comprising the Commission. The Commission is empowered to finance, construct, and operate facilities necessary for the treatment, filtration, transmission, and distribution of water to municipalities that may desire to participate in a water supply project. The Commission consists of a board of seven (7) members appointed by the Governor with the advice and consent of the State Senate for terms of four (4) years. The Commission developed the Wanaque North Project, the operation of which is governed by an agreement executed on December 28, 1940 between the Commission and the participating municipalities. Newark's allotment of water from the Wanaque North Project is approximately 38.07 million gallons per day or 40.5 percent of the daily yield of the Wanaque Reservoir System.

The Wanaque South Project is a joint undertaking of the Commission and SUEZ North America, formerly United Water New Jersey. This project was designed to increase substantially the water supply available to the co-owners and to relieve the threat of a water crisis in northeastern New Jersey. 50 percent of the additional water supply is available to the Commission for distribution to the Wanaque South participants, including the City. As of December 31, 2015, the Commission had \$26,669,344 in outstanding bonds for the Wanaque North Project and as of December 31, 2016 the Commission had \$8,774,608 in outstanding bonds for the Wanaque South Project (see table on page A-23 for more information on the City's overlapping debt).

### **Essex County Improvement Authority**

Other than the several occasions where the City has participated in financing programs through the Essex County Improvement Authority (the "Improvement Authority" or "ECIA") as a direct borrower, the additional overlapping debt of the Improvement Authority, if guaranteed by the County, is covered in the gross debt of the County as noted in this section. For the City's direct debt under the ECIA, see "Total Debt Service Schedule for City General Obligation Bonds" herein.

In December 2010, the City entered into a sale-leaseback transaction with the ECIA, whereby the City sold 16 City buildings to the ECIA, and the ECIA undertook to make certain capital improvements to such buildings and to lease such improved buildings back to the City. To finance the cost of such acquisition and improvements, the ECIA issued \$74,080,000 in lease revenue bonds, which are payable solely from lease-purchase payments to be made by the City over a 20-year period. This transaction resulted in the economic defeasance of approximately \$8 million in City obligations and inclusion into the City's 2010 fiscal year budget of approximately \$39.6 million in net sale proceeds, with a resulting annual lease payment obligation of approximately \$6.7 million per year through 2030.

### **Newark Downtown District**

The Newark Downtown District (the "NDD") is a special improvement district which was formed by the City as a means of providing additional services, which additional services are funded by annual assessments against properties located within the NDD. The NDD is managed by the Newark Downtown District Management Corp. (the "NDDMC"), a nonprofit corporation. In 2007, the New Jersey Economic Development Authority (the "NJEDA") issued \$10 million in bonds for the purpose of financing various improvement projects of the NDDMC secured by annual assessments generated within the NDD, but such NJEDA bonds are not otherwise secured by the City. As of December 31, 2016, the NDD has \$8,365,000 in outstanding bonds.

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## Statutory Debt

The following chart shows the net statutory debt for the City as of December 31, 2017:

### STATUTORY DEBT AS OF DECEMBER 31, 2017

	<b>Gross Debt</b>	<b>Deductions <sup>(1)</sup></b>	<b>Net Debt</b>
School Purposes	\$ 90,705,031	\$ 90,705,031	\$ -
Combining Water/Sewer Utility	196,334,147	196,334,147	-
Municipal Purposes	478,021,124	125,997,035	352,024,089
Total	\$ 765,060,302	\$ 413,036,213	\$ 352,024,089
Avg. Equalized Valuation of Real Property (Years 2015-2017)			\$14,285,167,374
Statutory Net Debt Percentage			2.464%

(1) Deductions from gross debt are allowed in accordance with the Local Bond Law which allows a deduction from gross school purposes of an amount equal to 8% of average equalized valuations and for any Additional State School Building Aid Bonds authorized. The deduction from municipal gross debt represents bonds issued to meet cash grants-in-aid for a housing authority, redevelopment agency, or municipality acting as its local public agency, and cash on hand to pay refunded bonds.

State law also provides for deduction from gross debt of the bonds outstanding of a “self-liquidating” utility. Section 40A:2-45 of the New Jersey statutes defines a self-liquidating utility as having receipts in a fiscal year sufficient to meet operating and maintenance costs and debt service, without drawing on fund balances carried forward from prior years.

Certain other obligations of the City, such as its obligation to make periodic lease or capital grant payments under housing authority bond issues (such as the \$63,300,000 of outstanding Housing Authority of the City of Newark City-Secured Police Facility Revenue Bonds (South Ward Police Facility), Series 2009A) and \$52,527,035 in Pension Refunding Bonds of 2003, 2008 and 2013 are currently either excluded or deducted from the statutory debt calculations.

Source: City of Newark 2017 Annual Debt Statement

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## Debt Incurring Capacity

The following chart shows the debt incurring capacity of the City as of December 31, 2017:

### Municipal:

1. Average Equalized Valuation of Real Property (Years 2015, 2016 and 2017)	\$14,285,167,374
2. 3.5% Borrowing Margin (3-year average of Equalized Valuations)	499,980,858
3. Net Debt Issued and Outstanding and Authorized and Unissued (including refunding bonds)	<u>352,024,089</u>
4. Available Borrowing (Line 2 minus Line 3)	\$147,956,769

### School:

5. 8% Borrowing Margin (3-year average of Equalized Valuations)	\$1,142,813,390
6. Net Debt Issued and Outstanding and Authorized and Unissued	<u>90,705,031</u>
7. Available Borrowing Margin - School (Line 5 minus Line 6)	\$1,052,108,359

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Source: City of Newark 2017 Annual Debt Statement

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**Overlapping Debt of the City of Newark  
as of 12/31/2017**

	<b>Outstanding Net Debt</b>	<b>Percentage allocated to the City<sup>(2)</sup></b>	<b>Dollar amount allocated to the City</b>
County of Essex	\$ 369,508,661	17.01%	\$ 62,853,423
Passaic Valley Sewerage Commission <sup>(1)</sup>			
Senior Bonds	147,850,000	29.43%	43,512,255
Subordinated Bonds	91,409,266	29.43%	26,901,747
North Jersey District Water Supply Commission			
Wanaque North Project <sup>(3)</sup>	23,081,891	40.50%	9,348,166
Wanaque South Project <sup>(4)</sup>	8,744,608	28.68%	2,507,954
<b>TOTAL</b>	<b>\$ 640,594,426</b>		<b>\$ 145,123,545</b>

<sup>(1)</sup>Newark's percentage includes flow to East Orange and Hillside

<sup>(2)</sup>The City's allocation is subject to change based on actual usage

<sup>(3)</sup>Based on 2016 Audited Financial Statements for Wanaque North Project as 2017 information was unavailable

<sup>(4)</sup>Based on 2016 Audited Financial Statements for Wanaque South Project as 2017 information was unavailable

Source: 2017 Audited Financial Statements for County of Essex, 2017 Audited Financial Statements for Passaic Valley Sewerage Commission and 2016 Audited Financial Statements for North Jersey District Water Supply Commission

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## Total Debt Service Schedule for City General Obligation Bonds<sup>1 2 3 4 5 6 7</sup>

The following table sets forth the total debt service (principal and interest) payable on General Obligation Bonds of the City that are paid through annual budget appropriations as of the date of this Official Statement.

Year	General Obligation Bonds	Water Utility Bonds	School Bonds	Sewer Utility Bonds (NJIB)	ECIA Bonds	Total Outstanding Debt
2018	\$39,482,374	\$4,947,092	\$6,787,005	\$6,248,311	\$8,186,586	\$65,651,368
2019	37,886,152	4,876,055	6,780,905	6,204,241	8,183,361	63,930,714
2020	36,118,270	4,314,328	6,782,155	6,210,180	8,181,886	61,606,819
2021	34,266,900	4,258,105	6,787,155	6,165,279	7,891,111	59,368,550
2022	33,454,950	3,580,382	6,802,700	6,184,863	7,654,465	57,677,360
2023	33,765,914	3,570,298	6,826,463	6,128,337	7,660,536	57,951,547
2024	33,626,788	3,549,275	6,853,988	6,124,241	7,651,246	57,805,536
2025	33,493,653	3,531,286	6,886,500	6,063,184	7,971,288	57,945,910
2026	33,360,584	3,524,001	477,500	4,547,216	8,015,356	49,924,656
2027	31,334,119	3,499,958	467,750	4,512,361	8,014,789	47,828,977
2028	31,207,844	2,954,422	462,500	2,267,837	7,613,506	44,506,109
2029	22,205,294	2,241,228	451,500	2,272,637	7,607,522	34,778,181
2030	15,520,074	1,526,665		1,402,218	6,718,850	25,167,807
2031	12,984,913	1,037,276		674,536		14,696,724
2032	13,369,563	1,031,326		672,786		15,073,674
2033	13,787,050	1,034,876		702,302		15,524,229
2034	7,625,613	1,037,345				8,662,957
2035	7,699,888	1,038,720				8,738,607
2036	5,768,600	1,041,182				6,809,782
2037	4,481,750	1,042,432				5,524,182
2038	4,483,500	1,044,664				5,528,164
2039		1,046,776				1,046,776
2040		669,720				669,720
2041		668,476				668,476
2042		666,826				666,826
2043		670,001				670,001
2044		667,826				667,826
2045		665,476				665,476
2046		667,951				667,951
<b>TOTAL</b>	<b>\$485,923,789</b>	<b>\$60,403,970</b>	<b>\$56,366,120</b>	<b>\$66,380,531</b>	<b>\$101,350,499</b>	<b>\$770,424,908</b>

<sup>1</sup> Includes Type I and State-operated School District bonds paid through City budget appropriation

<sup>2</sup> The above schedule does not include any Bond Anticipation Notes or other short term note obligations

<sup>3</sup> All General Obligation Bonds are covered under the Municipal Qualified Bond Act, Title 40A of the New Jersey Statutes, N.J.S.A. 40A:3-1, et seq., with the exception of the Housing Authority of the City of Newark City-Secured Police Facility Revenue Bonds (South Ward Police Facility) Series 2009A and a State loan

<sup>4</sup> A portion of the City's Water Utility Bonds are covered under the Municipal Qualified Bond Act, Title 40A of the New Jersey Statutes, N.J.S.A. 40A:3-1, et seq.

<sup>5</sup> All School Bonds are covered under the School Qualified Bond Act, School Qualified Bond Act, Title 18A of the New Jersey Statutes, N.J.S.A. 18A:24-85 et seq.

<sup>6</sup> A portion of the Sewer Utility Bonds (NJIT) are covered under the Municipal Qualified Bond Act, Title 40A of the New Jersey Statutes, N.J.S.A. 40A:3-1, et seq.

<sup>7</sup> Unaudited

## **CITY FINANCIAL PROCEDURES**

### **The Municipal Budget Process**

The municipal operating budget process includes submission of the budget by the Mayor to the Municipal Council, its approval and adoption by the Municipal Council, and its certification by the Director of Local Government Services and subsequent certification of tax rate by the County of Essex. This process is governed by City charter and State statute. According to the City charter, the Mayor is to prepare his budget for submission to the Municipal Council on or before January 15. The Department of Administration under the direction of the Business Administrator is charged by the Mayor with responsibility for the initial formulation of the budget. This work is carried out by the Office of Management and Budget under the supervision of the Budget Director, who is responsible for compiling the budget document in accordance with policies established by the Mayor. The statute requires the budget to be in line-item format.

The budgetary process consists primarily of modification and review by the Office of Management and Budget of appropriation requests of the City's various departments and agencies. Revenue estimates are provided by the Department of Finance and are based on the previous year's receipts and instructions from the State as to what level of revenue may be anticipated.

The Municipal Council must initially introduce the budget by February 10 after which it is advertised and reviewed at public hearings held by the Municipal Council. After the close of the public hearings, and, provided certification of the Director of Local Government Services approving the budget has been received, the Municipal Council may adopt the budget, provided there are no amendments that statutorily require advertisement and a public hearing.

In order to provide for expenditures to be made in the period commencing January 1 and ending with the adoption of the regular budget, temporary appropriations must be made by the Municipal Council by resolution adopted prior to January 31 and are generally limited to 26.25% of the total appropriations made for all purposes during the preceding year. The 26.25% limit may be waived by the Director of Local Government Services for specific items falling due during the temporary budget period. Debt service, capital improvements, and public assistance payments are exempt from such limits. Appropriations for interest and principal payments coming due during this period in time must be made in full.

The 2013 Budget was adopted on September 10, 2013. The 2014 Budget was adopted on behalf of the City by the Local Finance Board on October 14, 2014. The 2015 Budget was adopted on behalf of the City by the Local Finance Board on September 22, 2015. The 2016 Budget was adopted on behalf of the City by the Local Finance Board on October 19, 2016. The 2017 Budget was adopted on behalf of the City by the Local Finance Board on September 13, 2017. The 2018 Budget was adopted on behalf of the City by the Local Finance Board on September 25, 2018.

### **Limitations on Expenditures (The Cap Law)**

Section 40A:4-45.3 of the Local Budget Law, commonly referred to as the "CAP" law, provides that municipalities are prohibited by law from increasing their final appropriations (the budget) over the previous year's final appropriations by more than 2.5% or the "cost-of-living" adjustment (the rate of annual percentage increase in the Implicit Price Deflator for State and Local Government Purchases of Goods and Services), whichever is less, subject to certain exceptions, including all debt service requirements of a municipality.

The current exceptions to the CAP law, which has been amended from time to time, are summarized as follows:

- 1) Capital expenditures, including appropriations for current capital expenditures, whether in the capital improvement fund or as a component of a line item elsewhere in the budget, provided that any such current capital expenditure would otherwise be bondable under the Local Bond Law
- 2) An increase based upon an emergency temporary appropriation to meet an urgent situation or an emergency appropriation made pursuant to the Local Budget Law
- 3) Most debt service requirements

- 4) Cash deficits of prior years, subject to the approval of the Local Finance Board in the Division of Local Government Services
- 5) Amounts reserved for uncollected taxes
- 6) Appropriations related to new or increased service fees imposed by municipal ordinances
- 7) When approved by referendum
- 8) Amounts required to be paid pursuant to any contract with respect to use, service, or provision of any project facility or public improvement for water, sewer, solid waste, parking, senior citizen housing or similar purpose or payments on account of debt service therefor between other political subdivisions of the State
- 9) Programs funded in whole or in part by Federal or State funds and amounts received or to be received from Federal, State, or other funds in reimbursement for local expenditure
- 10) Amounts expended to fund a free public library established pursuant to a provision of law
- 11) Amounts expended in preparing and implementing a housing element and fair share plan pursuant to the provisions of P.L. 1985, C. 222 and any amounts received by a municipality under a regional contribution agreement pursuant to Section 12 of that act
- 12) Amounts expended to aid privately owned libraries and reading rooms
- 13) Extraordinary expenses, approved by the Local Finance Board, required for the implementation of an interlocal service agreement
- 14) Any expenditure mandated as a result of a natural disaster, civil disturbance, or other emergency that is specifically authorized pursuant to a declaration of an emergency by the President of the United States or the Governor of the State
- 15) Expenditures for the cost of services mandated by any order of court, by any Federal or State statute, or by administrative rule, directive, order or other legally binding device issued by a State Agency
- 16) Expenditures of amounts actually realized in the Local Budget Year from the sale of municipal assets in extraordinary cases and with the permission of the Local Finance Board
- 17) Any Local Unit which is determined to be experiencing fiscal distress pursuant to the provisions of P.L. 1987, C. 75 and which has available surplus pursuant to the spending limitations imposed by P.L. 1976, C. 68, may appropriate and expend an amount of that surplus approved by the Director and the Local Finance Board
- 18) Newly authorized operating appropriations expended for the staffing and operations of the municipal court when approved by the vicinage Presiding Judge of the Municipal Court
- 19) Expenditures related to the cost of conducting and implementing a total property tax levy sale, subject to the approval of the Local Finance Board
- 20) Amounts expended for a length of service award program
- 21) Amounts expended to provide municipal services or reimbursement amounts to multifamily dwellings with respect to solid waste collections
- 22) Amounts expended under an interlocal services agreement
- 23) Amounts expended under a joint municipal contract

24) Amounts required to be paid by a municipality in connection with the recycling tax imposed on owners and operators of solid waste facilities.

Under the Cap Law, any emergency appropriation as defined in Section 40A:4-46 of the Local Budget Law, must be set forth by resolution and must be approved by at least two-thirds of the governing body and must be approved by the Director of the Division. Supplemental appropriations made after the adoption of the budget and determination of the tax rate may be authorized by the governing body of the municipality. However, with minor exceptions, such appropriations must be included in full in the following year's budget.

For budget years beginning before July 1, 2012, N.J.S.A 40A:4-45.3e permits increases in appropriations for increased health insurance costs in excess of 4% (but not more than the average percentage increase of the State Health Benefits Program). The "Cap Law" is subject to amendment by the State Legislature.

See, also, "ASSESSMENT AND COLLECTION OF TAXES - Property Tax Reform" below for a description of the separate tax levy cap which was enacted in 2007 and substantially amended in 2010.

### **Anticipation of Real Estate Taxes**

In regard to current taxes, "receipts from the collection of taxes levied or to be levied by the municipality, or in case of a county for general county purposes and payable in the fiscal year, shall be anticipated in an amount which is not in excess of the percentage of taxes levied and payable during the next preceding fiscal year which was received in cash by the last day of such preceding fiscal year." (Section 40A:4-41 of the Local Budget Law)

This provision requires that an additional amount (the "Reserve for Uncollected Taxes") be added to the tax levy required to balance the budget so that when the percentage of the prior year's tax collection is applied to the combined total the product will at least equal the tax levy required to balance the budget.

Section 40A:4-29 of the Local Budget Law sets limits on the anticipation of delinquent tax collections: "The maximum which may be anticipated is the sum produced by the multiplication of the amount of delinquent taxes unpaid and owing to the local unit on the first day of the current fiscal year by the percentage of collection of delinquent taxes for the year immediately preceding the current fiscal year."

The City school district and the County receive 100% of their tax levies, which are collected and paid to them by the City.

### **Anticipation of Miscellaneous Revenues**

Section 40A:4-25 of the Local Budget Law provides that "No miscellaneous revenues from any sources shall be included in the anticipated revenue in the budget in an amount in excess of the amount actually realized in cash from the same source during the next preceding fiscal year, unless the Director shall determine upon application by the governing body that the facts clearly warrant the expectation that such excess amount will actually be realized in cash during the fiscal year and shall certify such determination, in writing, to the local unit."

### **Deferral of Current Expenses**

Supplemental appropriations made after the adoption of the budget and determination of the tax rate may be authorized by the governing body of the City. However, with minor exceptions, such appropriations must be included in full in the following year's budget. Under the Cap Law, Section 40A:4-45.3a of the Local Budget Law, any emergency appropriation must be declared by resolution according to the definition provided in Section 40A:4-46 of the Local Budget Law, must be approved by at least two-thirds of the governing body and must be approved by the Director of the State Division of Local Government Services.

### **Audit Requirement**

The Local Fiscal Affairs Law requires that every municipality have an annual audit of its books and accounts to be completed within six months after the close of its fiscal year. The City's audit has historically been completed approximately 12 months after the close of the fiscal year. The audit must be conducted by a registered municipal

accountant and the audit report must be filed with the municipal clerk and with the Director of the Division of Local Government Services. (N.J.S.A. 40A:5-4 through 40A:5-10). The audit for the year ended December 31, 2016 was filed on November 6, 2017.

The City’s accounting methods conform to practices prescribed by the Division, which practices differ in some respects from generally accepted accounting principles. *See* Appendix B “City of Newark Auditor’s Report and Financial Statements” and the notes thereto for a description of the City’s accounting policies.

### STATE AID PROGRAMS

The State of New Jersey provides financial support to local governments through various programs aimed at reducing reliance on the local property tax base.

#### Aid for School Debt Service

Based on the then-existing foundation aid formulas, the State has provided a percentage of the City’s annual debt service requirement for Type I and for Type II State-Controlled school district bonds as follows:

City Fiscal Year	Debt Service Requirements Not Including Ch. 177, Ch. 10 and Ch. 74 Bonds	State Assistance Under P.L. 1975, c. 212	State Assistance as Percentage of Debt Service
2017	\$ 8,945,255	3,390,523	37.9%
2016	9,064,478	3,527,299	38.9
2015	10,654,818	5,370,397	50.4
2014	10,764,000	5,448,645	50.6
2013	11,501,618	5,916,458	51.4

On January 7, 2008, the New Jersey Legislature passed a comprehensive revision to the school funding formula applicable to local school districts. Such legislation was approved by the Governor on January 13, 2008, and first applied to the 2008-2009 school year.

The new funding formula provides a more streamlined approach, consolidating 23 aid categories into 8. The formula calculates aid based on the student population rather than district location, in order to distribute aid equitably during periods of changing demographics and enrollment shifts. The formula also allocates additional resources to support students who live in districts with high concentrations of poverty, regardless of the school district location. The adequacy budget is determined by enrollment data. Once the adequacy budget is identified, the portion of the adequacy budget that will be paid for by the State and the portion paid for by the local taxpayers is determined using a calculation that is part of the funding formula, giving consideration to the districts’ ability to pay. The new funding formula also includes a revised calculation for special education services that will provide increases in aid for special education students and include reforms to Extraordinary Special Education Costs Aid.

#### Distributed Taxes

The State collects various taxes for distribution to local governments. The proceeds are apportioned and distributed each year, according to a formula based upon the location, value of utility property, and sales. The State also collects certain taxes on financial businesses, banking corporations, and insurance companies for appropriation and distribution to the municipalities in which they do business.

#### State Aid

Beginning with State fiscal year 1996, the State has consolidated many of the municipal aid programs into a single program called the “Consolidated Municipal Property Tax Relief Act” (“COMPTRA”). The amount received by the City under COMPTRA has been approximately the same as the total received from the component aid and grant programs in the year preceding COMPTRA. The State’s 2010 Budget for the City’s fiscal year 2009 included an

approximately \$118.7 million allocation to the City, which included \$12 million in Special Municipal Aid, a 4.65% decrease from the prior fiscal year. The State's 2011 Budget for the City's fiscal year 2010 included an approximately \$91.3 million allocation to the City, an approximately 2.3% decrease from the City's fiscal year 2009. The State's 2012 Budget for the City's fiscal year 2011 included an approximately \$91.3 million allocation to the City (level with the preceding year), and an additional \$32 million in State assistance was provided under the hereafter defined 2011 MOU. See "CITY FINANCIAL SCHEDULES – 2011 Budget" herein. The State's 2013 Budget for the City's fiscal year 2012 included an approximately \$91.3 million allocation to the City (level with the preceding year), and an additional \$10 million in State assistance was provided under the Transitional Aid program. See "CITY FINANCIAL SCHEDULES – 2012 Budget" herein. The State's 2014 Budget for the City's fiscal year 2013 included an approximately \$101.3 million allocation to the City (level with the combined State Aid and Transitional Aid received by the City in the preceding year), and the City was advised that an additional \$15 million would be received from separate State sources (such additional amount was not received by the City). The State's 2015 Budget for the City's fiscal year 2014 included an approximately \$101.3 million allocation to the City (level with the State Aid received by the City in the preceding year). The City did not apply for Transitional Aid for the City's fiscal year 2013. The City's adopted budget for fiscal year 2014 included an allocation of \$10 million in Transitional Aid. The City entered into a Memorandum of Understanding in connection with its receipt of such Transitional Aid in 2014. See "CITY FINANCIAL SCHEDULES - 2014 Budget" herein. The City's 2015 Budget included an allocation of \$10 million in Transitional Aid. The City's 2016 adopted budget anticipates \$9.5 million in Transitional Aid. The City's 2017 adopted budget included an allocation of \$7.4 million in Transitional Aid. The City's 2018 adopted budget does not include an allocation for Transitional Aid.

The State has announced that, as in previous years, five percent (5%) of State assistance will be withheld from municipalities which fail to achieve a sufficient score on a best practices inventory promulgated by the State. No State assistance has previously been withheld to the City on this basis, and the City believes that no such withholding shall apply to the projected State assistance for the City's 2018 fiscal year.

### **Tax Exemption Reimbursement**

The State reimburses municipalities for the full cost of mandated property tax deductions and exemptions for certain categories of taxpayers (\$100 per year for veterans and/or disabled citizens and \$250 per year for senior citizens).

### **Welfare**

The State pays the entire non-federal share of Medicaid. New Jersey municipalities have no financial responsibility to fund these programs. The State also makes aid payments to counties with above-average welfare burdens. Effective July 1, 2008, the General Assistance administrative component was transferred to the County of Essex. The City now bears no cost for the program.

### **Transit**

The subsidization of mass transit is the responsibility of the State. The municipalities are not required to make financial contributions.

### **College Aid**

The State subsidizes the system of State colleges and universities, with no obligation for municipal financial assistance. County colleges are supported by county governments with State assistance. Municipalities have no financial responsibility for the county college system.

### **Other**

The State mandates a variety of smaller programs of grants-in-aid to municipalities in such areas as housing, neighborhood preservation, health, recreation, and social services.



## CITY FINANCIAL SCHEDULES

### Financial Statements

The City's financial statements for the fiscal year ended December 31, 2017 (the "Unaudited Financial Statements"), and summaries of the audited financial statements for the fiscal years ended December 31, 2016, 2015, 2014, 2013 and 2012 (the "Audited Financial Statements," and together with the "Unaudited Financial Statements," the "Financial Statements") are set forth in APPENDIX B. The Audited Financial Statements have been audited by Samuel Klein and Company, Certified Public Accountants, Newark, New Jersey, an independent auditor (the "Auditor"), as stated in its report appearing in APPENDIX B to this Official Statement. See "APPENDIX B – City of Newark Auditor's Report and Financial Statements."

### 2013 Budget

The City adopted its annual budget for 2013 on September 10, 2013. Such budget did not include participation in the Transitional Aid program. Accordingly, the 2012 MOU terminated by its terms on December 31, 2013. The 2013 budget contained municipal purpose appropriations of \$583,447,177, representing a 2.42% increase over 2012 appropriations. The 2013 budget included an overall 5.33% increase in the municipal purpose tax levy, producing additional annual revenues of approximately \$9.5 million. Total formula aid to the City was \$101,290,117, which was a \$10 million increase over the amount received by the City in 2012. The City continued the fiscal initiatives described under the heading "2010 Budget and Fiscal Initiatives of the City", including the issuance of \$54.95 million in tax anticipation notes payable in the subsequent fiscal year (representing a reduction of approximately \$5 million from the amount of tax anticipation notes that were issued in 2012). \$5 million of such notes were retired prior to maturity in December 2013, and the remaining \$49.95 million was paid at maturity in the subsequent fiscal year.

In preparing the City's budget for fiscal year 2013, the City again faced a large structural budget gap. The adopted budget did not anticipate (and the City did not apply for) the receipt of Transitional Aid. See "CITY FINANCIAL CONDITION AND STATE SUPERVISION – 2013 Operational Deficit and State Supervision of City Finances" for a discussion of the approximately \$30.1 million cash deficit for 2013 which is reflected in the City's audited financial statements for such fiscal year.

### 2014 Budget

The City faced extraordinary challenges to the adoption of a balanced cash basis budget for its 2014 fiscal year. At the joint request of the City and the Division, on October 6, 2014, the Superior Court of New Jersey, Law Division entered a judgment that there had been a gross failure to comply with the provisions of the Local Budget Law (N.J.S.A. 40A:4-1 et seq.) (specifically, the inability of the City to prepare a cash basis budget for fiscal year 2014) which substantially jeopardized the fiscal integrity of the City. Such judgment provided the basis for the Director of the Division to convene a public hearing of the Local Finance Board, which was held on October 8, 2014. At the conclusion of such hearing, the Local Finance Board adopted a resolution determining that the City be subject to supervision pursuant to Article 4 of the Local Government Supervision Act of 1947, P.L. 1947, c.151, as amended by P.L. 1981, c.211 and set forth as N.J.S.A. 52:27BB-54 et seq. (the "Supervision Act"), and enumerating the specific statutory powers to be assumed by the Director and/or the Local Finance Board in respect of the City's fiscal affairs. The resolution became effective on October 9, 2014 following approval by certain State cabinet officers, whereupon the State's fiscal supervision of the City took effect.

The terms of State supervision over the City's finances provide generally for Director approval and/or supervision over, among other things, the issuance and liquidation of bonds and other obligations, municipal expenditures and appropriations, appointment and dismissal of managers, and supervision of revenue administration. The Director may also act as controller, and provide for the appointment of a fiscal control officer for the municipality. The Director may also authorize the City to exceed certain statutory spending limitations, liquidate or refinance current debt, and appropriate less than the full amount required to be included in the budget for certain deferred charges and statutory expenditures. The specific supervisory powers are set forth in N.J.S.A. 52:27BB-57, -58, -60, -61, -62, -66, -66.1, -73, -74, -75, -76, -77, -78, -79, -80, -81, -82, -83, -84, -85, -86, -87, -88, -89 and -90. To remain effective, the Local Finance Board resolution (and cabinet officer approvals) that placed the City under supervision must be renewed each year.

In addition to State supervision, the City was subject to a Memorandum of Understanding with the Division in respect of the \$10 million in Transitional Aid received in fiscal year 2014 (the "2014 MOU"). The 2014 MOU required

the City to obtain the prior consent of the Director before taking certain actions, including (but not limited to) new hiring, employee raises and promotions, expansion of municipal services, certain contracts and bond authorizations, and granting of tax abatements. The City was also required to adhere to certain contracting procedures, report to the Division on its progress toward implementing recommendations from State-commissioned performance audits, and present a transition plan detailing how the City intends to eliminate its reliance on special State assistance. The 2014 MOU remained in effect through December 31, 2015 and was replaced with the 2015 MOU (as hereinafter defined).

In 2015, the Division selected McEnerney Brady & Company LLC to provide ongoing oversight over the City's Finance Department. Such functions are in addition to the supervisory responsibilities of the Director (or any fiscal control officer) under the Supervision Act and under the 2014 MOU.

The City's Audited Financial Statements for the fiscal year ended December 31, 2014 reflected an operational deficit of approximately \$22.3 million, representing approximately 5.8% of the total amount of taxes levied. This operational deficit resulted chiefly from a net reduction in realized revenues of approximately \$12.9 million from the amount budgeted (taking into account the receipt of non-budget revenues of approximately \$1.7 million), interfund advances originating in 2014 in the amount of \$18.7 million, and the elimination of invalid prior year bank reconciliation items in the amount of \$7.1 million. The 2014 Audited Financial Statements were filed with the MSRB on August 12, 2015 and are included in Appendix B herein. See APPENDIX B – "AUDITOR'S REPORT, FINANCIAL STATEMENTS AND NOTES TO FINANCIAL STATEMENTS" herein.

### **2015 Budget**

The City faced challenges to the adoption of a balanced cash basis budget in 2015. Under the powers conferred under the Supervision Act, on September 22, 2015 the Local Finance Board adopted a balanced 2015 operating budget, reflecting, among other things, the receipt of \$10 million in Transitional Aid from the State, an approximately 8.67% increase in the City's municipal property tax levy and a ten-year amortization of the 2013 deficit and 2014 deficit.

In connection with the City's receipt of \$10 million in Transitional Aid from the State in 2015, the City entered into another Memorandum of Understanding with the Division (the "2015 MOU"). As with the 2014 MOU, the 2015 MOU requires the City to obtain the prior consent of the Director before taking certain actions, including (but not limited to) new hiring, employee raises and promotions, expansion of municipal services, certain contracts and bond authorizations, and granting of tax abatements. The City is also required to adhere to certain contracting procedures, report to the Division on its progress toward implementing recommendations from State-commissioned performance audits, and present a transition plan detailing how the City intends to eliminate its reliance on special State assistance. The 2015 MOU shall continue in effect until the City adopts a budget that does not have a structural imbalance that is greater than 5% as determined by the Director, and may be replaced by a subsequent Memorandum of Understanding in respect of any Transitional Aid as may be awarded in connection with its FY2016 budget. The City currently anticipates that it will remain under State supervision for the foreseeable future.

The City's 2015 Annual Financial Statement, representing the City's unaudited financial statements for the fiscal year, ended December 31, 2015, reflected a fund balance of approximately \$29.5 million. This fund balance resulted chiefly from a net increase in realized revenues of approximately \$11.2 million from the amount budgeted, unexpended balances of budgeted appropriations in 2015 of approximately \$12 million, prior year interfunds returned in 2015 of approximately \$4.7 million and unexpended balances of 2014 budgeted appropriations of approximately \$3.4 million. The 2015 Audited Financial Statements were filed with the Municipal Securities Rulemaking Board (the "MSRB") on November 16, 2016. See APPENDIX B – "AUDITOR'S REPORT, FINANCIAL STATEMENTS AND NOTES TO FINANCIAL STATEMENTS" herein.

### **2016 Budget**

The City's 2016 budget was introduced by the Municipal Council on May 18, 2016. Such introduced budget reflects, among other things, a 2% increase in the City's municipal property tax levy, the receipt of \$10 million in Transitional Aid from the State and the continued amortization of the 2013 deficit and 2014 deficit over a ten-year period. Under the powers conferred under the Supervision Act, on October 19, 2016 the Local Finance Board adopted a balanced 2016 operating budget, reflecting, among other things, the receipt of \$9.5 million in Transitional Aid from the State, an

approximately 2% increase in the City’s municipal property tax levy and a ten-year amortization of the 2013 deficit and 2014 deficit.]The City currently anticipates that it will remain under State supervision for the foreseeable future.

On April 19, 2016, the City issued \$54,905,000 principal amount of Tax Anticipation Notes that matured on February 15, 2017.

**2017 Budget**

The City’s 2017 budget was introduced by the Municipal Council on July 19, 2017. On September 13, 2017 the Local Finance Board adopted a balanced 2017 operating budget, reflecting, among other things, the receipt of \$7.4 million in Transitional Aid from the State, an approximately 1.7% increase in the City’s municipal property tax levy and a ten-year amortization of the 2013 deficit and 2014 deficit.

**2018 Budget**

In early 2018, the City projected an approximately \$10 million structural budget gap with respect to its 2018 budget. The Municipal Council introduced its 2018 budget on July 17, 2018 and adopted the 2018 budget on September 25, 2018. The adopted 2018 budget includes an approximate 1.7% increase in the municipal purpose tax levy. The adopted 2018 budget does not include an allocation for Transitional Aid.

**Current Fund Balances, Revenues and Expenditures**

The Current Fund is used to account for the resources and expenditures for governmental operations of a general nature, including debt service on general purpose bonds and notes. The fund balance in the Current Fund as of December 31 of each year is comprised of cash, investments, and certain receivables. Under State law, only the amount of the Current Fund balance held in cash or quick assets may be included as anticipated surplus in the succeeding fiscal year’s budget, unless the Director of the Division of Local Government Services gives written consent to an exception.

The City’s Current Fund balances as of December 31, 2013-2017 and the surplus included in the budget for each succeeding year are as follows:

<b>Surplus</b>		
<u>Year</u>	<u>Current Fund Balance, December 31<sup>(1)</sup></u>	<u>Used in Succeeding Year Budget</u>
2017*	\$58,070,932	\$5,300,000
2016	40,282,275	-
2015	29,654,215	-
2014	-	-
2013	-	-

\*Unaudited

(1) In accordance with the accounting principles prescribed by the State of New Jersey, Department of Community Affairs, Division of Local Government Services, the City realizes revenue on a cash basis except as described in notes to the financial statements in Appendix B. Expenditures are accrued based upon the budget when it is adopted and any unexpended balances are credited to fund balance at the end of the year succeeding the budget period. See Note 1 to the annual financial statements in Appendix B for a further discussion of the City’s method of accounting.

## Deferred Charges

Under State law, emergency appropriations and cash deficits must be provided for in the subsequent year's budget. Emergency appropriations, those made after the adoption of the budget and determination of the tax rate, may be authorized by the governing body of the municipality. However, with minor exceptions, such appropriations which are not funded in the current fiscal year must be included in full in the following year's budget as deferred charges. When such appropriations exceed 3% of the adopted operating budget, consent of the Director of Local Government Services must be obtained before such appropriation can be made. In response to the ongoing recovery from Hurricane Sandy, the Local Finance Board issued Local Finance Board Notice 2012-22, which granted blanket approval of emergency resolutions that exceed the 3% expenditure limit. The exceptions are certain enumerated quasi-capital projects such as ice, snow, and flood damage to streets, roads, and bridges which may be financed over three (3) years, and tax map preparation, the costs related to the revision of ordinances, master plan preparations, revaluations and contractually required severance liabilities resulting from the layoff or retirement of employees which may be financed over five (5) years.

### Special Emergencies, Emergency Appropriations and Cash Deficits Deferred to Subsequent Years 2013-2017

<u>Year</u>	<u>Deferred to Following Year</u>	<u>Deferred to Subsequent Years</u>
2017*	\$8,447,454	\$44,184,523
2016	9,324,993	47,940,885
2015	8,625,273	45,656,158
2014	5,925,143	44,281,431
2013	-	40,321,209

\*Unaudited

In addition to emergency appropriations, there are other classes of expenditures which are treated in the same manner as emergency appropriations. This category consists almost entirely of over expenditures of appropriations and deficits from operations.

## Water Utility Balances, Revenues and Expenditures

The City has, by provisions contained in duly adopted ordinances, covenanted for the holders of a portion of its Water System Improvement Bonds (see "Total Debt Service Schedule of City General Obligation Bonds" herein) that (1) the City shall fix and collect rates, rentals, or other charges for connection with use of, and for water furnished by, the water supply system established, maintained, and operated by the City, including any improvements thereto and extensions thereof hereafter constructed or acquired, and (2) such rates, rentals, and other charges shall be sufficient to produce in each fiscal year of the City the revenues necessary to provide for the payment of (a) all expenses of operation, maintenance, and repair of such water supply system, incurred or payable during such fiscal year, and (b) 110% of all principal and interest payable during such fiscal year with respect to all of such bonds and also all other bonds heretofore issued to finance such water supply system, and (3) if a deficiency with respect to the covenants nevertheless results, the City shall forthwith revise its rates as necessary to make up such deficiency.

The City has further covenanted that it shall establish a "Maintenance Reserve and Replacement Fund" for repair and improvements of the Water Supply System. No money shall be transferred from the water supply system's accounts to any other City account unless all operations, maintenance, and debt service have been provided for and there remains in the Maintenance Reserve and Replacement Fund the lesser of \$10 million or 50% of the system's most recent annual operations budget. Nothing in the covenants, however, prohibits the use of money from the Maintenance Reserve and Replacement Fund for the payment of debt service or the expenses of operation and maintenance of the water supply system.

The City's Water Utility Fund is used to account for the receipts and expenditures arising from operations of the water utility and the assets and liabilities relative to these activities. The balance in the Water Utility Fund as of

December 31 of each year is comprised of cash, investments, and certain receivables. Under State law, only the amount of Water Utility Fund balance held in cash or quick assets may be included as anticipated surplus in the succeeding fiscal year's Water Utility budget, unless the Director of the Division of Local Government Services gives written consent to an exception.

The Water Utility Fund balances as of December 31, 2013-2017 and the surplus included in the budget for each succeeding year are shown below:

<b>Surplus</b>			
<b>Year Ending December 31</b>	<b>Water Fund Balance <sup>(1)</sup></b>	<b>Used in Succeeding Year Budget</b>	<b>Anticipated as Current Fund Revenue</b>
2017*	\$15,936,178	\$ 2,725,253	\$8,700,000
2016	6,684,640	3,684,640	3,000,000
2015	11,157,121	4,660,000	-
2014	4,146,479	880,000	-
2013	2,820,188	854,000	-

\* Unaudited

- (1) In accordance with the accounting principles prescribed by the State of New Jersey, Department of Community Affairs, Division of Local Government Services, the City realizes revenue on a cash basis except as described in notes to the financial statements in Appendix B. Expenditures are accrued based upon the budget when it is adopted and any unexpended balances are credited to fund balance at the end of the year succeeding the budget period. See Note 1 to the annual financial statements in Appendix B for a further discussion of the City's method of accounting.

The following schedules of the Water Utility Fund operations for the years ended the years ended December 31, 2013-2017 have been prepared by the City in conformity with accounting principles and practices prescribed by the Division of Local Government Services in the Department of Community Affairs, State of New Jersey, which principles and practices differ in certain respects and which in some instances may differ materially, from generally accepted accounting principles applicable to local government units. The following schedules should be read in conjunction with the financial statements and related notes.

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**SCHEDULE OF REVENUES  
WATER UTILITY FUND**

	<b>2017*</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<u>Revenue and Other Income</u>					
Surplus Anticipated	3,684,640	4,660,000	4,080,000	854,000	
Water Rents	56,995,420	56,657,219	51,031,251	47,218,766	45,890,706
Public and Private Funds					
Deficit - General Budget					
Other Credits to Income:					
Appropriation Reserves					
Lapsed	12,214,430	1,752,351	2,999,501	1,026,951	3,328,074
Accounts Payable Cancelled	1,139,579			132,405	
Nonbudgeted Revenue	1,316,513	27,823	59,680	1,053,701	740,939
Miscellaneous	205,369	34,752	81,114	179	67,909
	<u>75,555,951</u>	<u>63,132,145</u>	<u>58,251,546</u>	<u>50,286,002</u>	<u>50,027,628</u>
<u>Expenditures</u>					
Operating	45,084,628	44,681,773	38,935,078	39,140,613	37,289,695
Debt Service	4,710,930	4,307,057	4,459,560	4,670,607	4,934,449
Deferred Changes and Statutory					
Expenditures	1,499,709	1,515,180	956,887	1,099,134	1,093,331
Capital Improvements	7,820,000	6,854,657	4,190,916	2,967,316	3,814,512
	<u>59,115,267</u>	<u>57,358,667</u>	<u>48,542,441</u>	<u>47,877,670</u>	<u>47,131,987</u>
Prior Years Revenue Refunded	227,953	34,164	55,091	120,466	75,453
Reserve for Protested Checks					
Cancellations - Other	391,720			107,575	
	<u>59,734,940</u>	<u>57,392,831</u>	<u>48,597,532</u>	<u>48,105,711</u>	<u>47,207,440</u>
Excess in Revenue	<u>15,821,011</u>	<u>5,739,314</u>	<u>9,654,014</u>	<u>2,180,291</u>	<u>2,820,188</u>
Statutory Excess in Operating					
Fund Balance	15,821,011	5,739,314	9,654,014	2,180,291	2,820,188
Fund Balance January 1	6,799,807	9,720,493	4,146,479	2,820,188	
	<u>22,620,818</u>	<u>15,459,807</u>	<u>13,800,493</u>	<u>5,000,479</u>	<u>2,820,188</u>
Decreased by:					
Utilized as Anticipated Revenue	3,684,640	4,660,000	4,080,000	854,000	
Transfer to Current Fund as					
Anticipated Revenue	3,000,000	4,000,000			
Fund Balance December 31	<u>15,936,178</u>	<u>6,799,807</u>	<u>9,720,493</u>	<u>4,146,479</u>	<u>2,820,188</u>

\*Unaudited

## Sewer Utility Balances, Revenues and Expenditures

The Sewer Utility Fund was established on August 31, 1994. It is used to account for the receipts and expenditures arising from the operations of the sewer utility and the assets and liabilities pertaining to these activities. Prior to 1994, these receipts and expenditures were accounted for in the City's Current Fund. The balance in the Sewer Utility Fund as of December 31 of each year is comprised of cash, investments, and certain receivables. Under State law, only the amount of the Sewer Utility Fund balance held in cash or quick assets may be included as anticipated surplus in the succeeding fiscal year's Sewer Utility budget, unless the Director of the Division of Local Government Services gives written consent to an exception.

The Sewer Utility Fund balances as of December 31, 2013-2017 and the surplus included in the budget for each succeeding year are shown below:

<u>Year</u>	<b>Surplus</b>		
	<u>Sewer Utility Fund Balance, December 31<sup>(1)</sup></u>	<u>Used in Succeeding Year Budget</u>	<u>Anticipated as Current Fund Revenue</u>
2017*	\$9,708,290	\$494,917	\$6,000,000
2016	7,321,438	-	7,000,000
2015	6,132,380	-	-
2014	-	-	-
2013	10,705	10,705	-

(1) In accordance with the accounting principles prescribed by the State of New Jersey, Department of Community Affairs, Division of Local Government Services, the City realizes revenue on a cash basis except as described in notes to the financial statements in Appendix B. Expenditures are accrued based upon the budget when it is adopted and any unexpended balances are credited to fund balance at the end of the year succeeding the budget period. See Note 1 to the annual financial statements in Appendix B for a further discussion of the City's method of accounting.

\* Unaudited

The following schedules of Sewer Utility Fund operations for the years ended December 31, 2013-2017 have been prepared by the City in conformity with accounting principles and practices prescribed by the Division of Local Government Services in the Department of Community Affairs, State of New Jersey, which principles and practices differ in certain respects and which in some instances may differ materially, from generally accepted accounting principles applicable to local government units. The following schedules should be read in conjunction with the financial statements and related notes.

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**SCHEDULE OF REVENUES  
SEWER UTILITY FUND**

	<b>2017*</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<u>Revenue and Other Income</u>					
Surplus				10,705	277,150
Sewer Rentals	55,724,880	55,876,160	52,553,249	49,661,807	51,977,346
East Orange - Passaic Valley					
Sewerage Commission	2,572,185	2,862,651	2,707,606	1,464,629	2,422,878
Nonbudget Revenue	934,234	420,984	106,845	108,840	52,471
Appropriation Reserves Lapsed	5,477,879	329,439	1,723,902	1,230,664	849,107
Commitments Payable Cancelled	5,017		651,783	28,745	
	<u>64,714,195</u>	<u>59,489,234</u>	<u>57,743,385</u>	<u>52,505,390</u>	<u>55,578,952</u>
<u>Expenditures</u>					
Operating	47,817,846	46,892,793	41,744,122	46,930,986	47,877,507
Capital Outlay	1,100,000	2,780,000	750,000	500,000	550,000
Debt Service	6,012,863	6,049,269	6,195,470	6,105,966	6,584,741
Deferred Charges and Statutory					
Expenditures	396,634	578,114	1,921,413	560,720	556,000
Cancellation of Payroll Transfer				2,497	
	<u>55,327,343</u>	<u>56,300,176</u>	<u>50,611,005</u>	<u>54,100,169</u>	<u>55,568,248</u>
Excess (Deficit) in Operations	9,386,852	3,189,058	7,132,380	(1,594,779)	10,704
<u>Fund Balance</u>					
Balance January 1	7,321,438	6,132,380		10,705	277,151
	<u>16,708,290</u>	<u>9,321,438</u>	<u>7,132,380</u>	<u>10,705</u>	<u>287,855</u>
Decreased by:					
Utilized as Anticipated Revenue				10,705	277,150
Transferred to Current Fund as					
Anticipated Revenue	7,000,000	2,000,000	1,000,000		
	<u>7,000,000</u>	<u>2,000,000</u>	<u>1,000,000</u>	<u>10,705</u>	<u>277,150</u>
Balance December 31	<u>9,708,290</u>	<u>7,321,438</u>	<u>6,132,380</u>		<u>10,705</u>

\*Unaudited

On May 21, 2001, the City entered into an Administrative Consent Order (the “ACO”) with the New Jersey Department of Environmental Protection (the “NJDEP”) relating to certain alleged violations by the City of the permits by which the City operates its combined sewer outfall system (the “CSO system”). Under the ACO, the City has committed to undertake various improvements to the CSO system and to achieve certain milestone dates in connection therewith, subject to permitted delays by reason of, among other things, force majeure. The City has failed to achieve a number of such milestone dates, and has obtained extensions from NJDEP based on force majeure. The current extension called for completion of the construction and commencement of operation of these CSO facilities at various dates from October 31, 2012 until December 31, 2014 dependent upon the Facility. The City intends to complete the required improvements to the CSO system, and has authorized and/or issued bonds in an amount it deems to be sufficient to do so. However, because of the delays experienced to date, and in view of the time needed to complete the required improvements, the City is at risk for payment of substantial penalties to the NJDEP under the ACO. While these fines could be substantial, up to \$500 per day per facility not completed, it is currently believed that the requirements of the ACO will be satisfied if the needed properties are acquired from the private owners where the facilities must be constructed. The City was granted another extension in October 2016 for a completion date of September 2018. The City has since completed the construction of the last three netting facilities.



## ASSESSMENT AND COLLECTION OF TAXES

### Property Valuation and Tax Rates

The City derives its power to levy direct real and personal property taxes from Article VIII, Section I of the Constitution of the State. The City serves as the taxing district for the assessment and collection of the local property tax.

Real property must be assessed at the percentage of true value established by the Essex County Board of Taxation (the “Board”). The Board has established such percentage at 100% of real value, and has normally required revaluation by cities within the County when assessed valuations reach a level of 80% of true value. *See* “Revaluation” herein.

The County apportions its taxes among its constituent taxing districts according to its own calculation of equalized valuation. In turn, the State annually develops its own equalized valuation for each of its taxing districts, such State equalized valuation being used in the calculation and distribution of school Equalization Support as well as the valuation basis for purposes of computation of the City’s statutory borrowing capacity.

The only personal property subject to local assessment is the machinery, implements, and equipment of telephone companies. These companies annually submit a listing and valuation of all such equipment to the City Assessor. Through application of the State-supplied ratio, the City fixes the assessed valuation of such property.

The following table indicates municipal and County equalized valuations for recent years:

<b>Year</b>	<b>Municipal <sup>(1)</sup></b>	<b>County Equalized</b>
2007	11,001,867,400	16,479,325,288
2008	10,858,108,700	17,919,971,676
2009	11,001,329,400	19,450,553,513
2010	10,763,710,300	19,166,383,151
2011	10,768,452,500	17,120,880,697
2012	10,871,953,866	16,805,296,955
2013*	12,979,522,245	15,437,845,761
2014	12,435,612,711	14,055,479,957
2015	12,435,954,600	14,075,593,561
2016	12,236,101,176	13,772,278,770
2017	12,151,100,300	14,267,991,416

Source: City of Newark, Division of Assessments

(1)Includes Personal Property

\*Revaluation

### Property Tax Reform

In recent years, the New Jersey Legislature has considered various proposals to lessen the dependence of local governments on property taxes and to find alternative means to fund vital governmental services.

On July 13, 2010, the Governor approved legislation which, in addition to the “Cap Law” described under “THE CITY OF NEWARK – Limitation on Expenditures” above, amends the property tax levy cap that was enacted in 2007. This law puts a limitation of 2% on the property tax levy set in the annual budget. The law allows for exclusions for capital expenditure, debt service, increase in pension contributions and accrued liability for pension contributions in excess of 2% and increases in health care costs in excess of 2%. This limitation may be exceeded by approval of an affirmative vote in excess of 50% of the people voting at a special referendum held for such purpose.

Any legislation or constitutional amendments which alter the existing system of real property taxation in New Jersey may adversely affect the security and/or market value of bonds, notes and other obligations of counties and municipalities (such as the City).

## Property Classification and Valuation

The following table indicates assessed valuation by property classification and number of assessments since 2013:

<b>Year</b>	<b>Real Personal</b>	<b>Real Land</b>	<b>Real Residential</b>	<b>Real Commercial</b>	<b>Real Industrial</b>	<b>Real Apartment</b>	<b>Total Valuation</b>
2013*							
No. of Assessments	1	4,311	29,532	5,118	1,096	1,242	41,281
Municipal Valuation	83,692,945	511,003,000	5,081,645,900	4,669,282,700	1,367,845,500	1,256,046,200	12,979,522,245
2014							
No. of Assessments	1	4,338	29,518	5,066	1,085	1,238	41,246
Municipal Valuation	71,521,800	502,622,411	5,107,658,300	4,277,947,100	1,270,718,800	1,185,139,760	12,435,612,111
2015							
No. of Assessments	1	4,306	29,555	5,023	1,081	1,239	41,205
Municipal Valuation	77,950,600	483,146,400	5,149,943,700	4,211,460,500	1,278,315,500	1,145,137,900	12,345,954,600
2016							
No. of Assessments	1	4,205	29,443	4,975	1,062	1,232	40,918
Municipal Valuation	82,061,076	480,677,400	5,145,165,500	4,210,411,500	1,204,850,600	1,112,935,100	12,236,101,176
2017							
No. of Assessments	1	4,098	29,555	5,002	1,046	1,234	40,936
Municipal Valuation	80,837,700	526,351,800	5,178,122,900	4,126,216,000	1,197,894,900	1,041,677,000	12,151,100,300

Source: City of Newark, Division of Assessments

\*Revaluation

## Tax-Exempt Properties

The previous chart only includes the taxable assessed valuations within the City. Tax-exempt property includes that owned by the Port Authority of New York and New Jersey, which comprises more than 20.5% of the total land area of the City. It also includes property of the Newark Housing Authority, as well as County buildings and parks. Other categories of tax-exempt property include State property, public schools, Federal property, charitable and church property, hospitals, municipal property, and higher education institutions.

The City derives revenue from many of these “tax-exempt” properties. The State makes in lieu of tax payments for State owned property in an amount equal to the equalized Municipal Tax Rate times the assessed value of the property. The Port Authority makes a payment to the City under a long-term lease agreement for Newark Liberty International Airport and Port Newark. The City also realizes significant monies from Fox-Lance and Limited Dividend properties, which have property taxes abated according to a statutory formula. In addition, tax abatement and exemptions for up to five (5) years can be made available for industrial, commercial, and residential rehabilitation and new construction projects.

Therefore, City officials believe that analytical ratios based upon traditional measurements of property value, either assessed or full, fail to portray the true nature of urban redevelopment in Newark. Whether they are intended to measure the City’s economic or financial base, they do not reflect the extent of development in the City where older properties leave the assessment rolls and are replaced by new developments which provide revenues and economic activity but which frequently do not enter the traditional tax base because they are built under alternative tax formulas.

The following table compares taxable municipal valuation with the valuation of all tax-exempt property, including Port Authority, County, State, school, municipal, and charitable holdings as well as tax-abated development properties.

### Assessed and Tax-Exempt Valuation

<b>Year</b>	<b>Taxable Municipal Valuation</b>	<b>Tax-Exempt Valuation</b>
2017	\$12,151,100,300	\$11,331,981,400
2016	12,236,101,176	11,256,046,500
2015	12,345,954,600	11,181,566,900
2014	12,435,612,111	11,023,124,300
2013*	12,979,522,245	10,961,729,900

Source: City of Newark, Division of Assessments

\*Revaluation

## Tax Appeals

Taxpayers may appeal assessments to the Board prior to April 1 of the tax year. The Board sits as an appeals body to consider such claims. The Board's decision may be appealed to the State Tax Court. Certain appeals are made directly to the State Tax Court. Successful appeals often result in a payment due from the City to the taxpayer for prior overpayments (while the appeal was pending).

## Revaluation

In 2013, the City revaluation was completed by Appraisal Systems, Inc. The new valuations appeared on the 2013 Tax List.

## Tax Levy

The amount to be raised by taxation includes the City's share of the County tax, apportioned by the Board among its taxing districts, and the amounts to be raised for school and municipal purposes as set forth in the City budget. The amount required to be collected is the amount to provide the sums needed to balance the municipal and school budgets and the City's share of the amount needed to balance the County's budget after other revenue sources have been taken into account. State law requires that the amount of the levy be equal to amounts necessary to balance the respective budgets with certain adjustments plus an additional amount as a reserve for uncollected taxes based on the preceding year's collection experience. The City must pay its share of the County budget levy on the 15th of each month in which quarterly tax payments are due. School district taxes are paid by a 20% initial payment and thereafter as requested by the custodian of school funds.

The burden of a shortfall in tax collections exceeding the reserve for uncollected taxes must be assumed by the municipal portion of the City budget. *See* "CITY FINANCIAL PROCEDURES - The Municipal Budget Process". The City is authorized to borrow for the purpose of making required payments to the County and City School district.

The following table presents the property tax levies for fiscal years 2013-2017. Certain deductions are given to veterans and senior citizens. These adjustments are made pursuant to the Constitution of the State, which provides for annual reductions of property taxes of veterans or their widows and qualifying senior citizens. The State provides 100% for these deductions.

## Analysis of Tax Levy

	2013	2014	2015	2016	2017*
Municipal	\$178,055,013	\$184,583,686	\$201,929,223	\$222,820,605	\$226,192,218
Municipal Open Space			1,234,596	3,670,830	3,645,330
School	114,542,284	116,486,882	118,688,979	123,843,297	131,233,421
County	74,907,035	67,813,075	70,376,489	71,034,431	71,423,204
Total Amount Required to Balance	\$367,504,332	\$368,883,643	\$392,229,287	\$420,869,208	\$432,494,173
Reserve for Uncollected	15,656,000	16,650,211	16,201,150	16,290,669	16,103,000
Total Required General Tax Levy	\$383,160,332	\$385,533,854	\$408,430,437	\$437,159,877	\$448,597,173
Less: Veteran's and Senior Citizens	319,250	306,500	280,750	269,500	252,250
Required Property Tax Levy Billed	\$382,841,082	\$385,26,354	\$408,149,687	\$436,890,377	\$448,344,923

\*Unaudited

## City Special Taxes

The total value of all revenue collected from special taxes in 2017 was \$83,166,711 (\$51,067,559 from payroll taxes, \$24,887,059 from parking taxes, and \$7,212,093 from hotel taxes), an increase of approximately \$4.4 million from the amounts received in 2016. These taxes are imposed and collected by the City under authority granted by the State Legislature.

The enacted 2007 New Jersey State bill S2891 increased the parking tax from 15% to 22% for special events and therefore increased the annual revenue collected from the parking tax. The economic activity generated by the Prudential Center and other local attractions increased the number of vehicles utilizing local paid parking facilities for special events.

The City’s authority to impose special taxes has been renewed by the Legislature several times in the past upon its expiration. On December 22, 2004, the Governor signed a bill that eliminated the sunset provision (expiration date) in the City’s authorization to impose and collect parking and payroll taxes.

Beginning in 2016, the State Division of Taxation has agreed to share its employer database with the City with respect to employers located in the City. The City is in the process of cross-referencing its database with such State-provided information to ensure that businesses located in the City that are required to pay the City’s payroll tax are paying the amount required.

**Collections**

For collection comparison purposes, several adjustments are made to the amount of the current levy to reflect adjustment due to rounding of the tax rate and to additional assessments.

**CURRENT GENERAL TAX LEVY**

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017*</b>
Municipal	\$178,055,013	\$184,583,686	\$201,929,223	\$222,820,650	\$226,192,218
Municipal Open Space			1,234,596	3,670,830	3,645,330
School	114,542,284	116,486,882	118,688,979	123,843,297	131,233,421
County	74,907,035	67,813,075	70,376,489	71,034,431	71,423,204
Reserve for Uncollected Taxes	15,656,000	16,650,211	16,201,150	16,290,669	16,103,000
<b>Total</b>	<b>\$383,160,332</b>	<b>\$385,533,854</b>	<b>\$408,430,437</b>	<b>\$437,159,877</b>	<b>\$448,597,173</b>
<b>TOTAL CURRENT COLLECTIONS</b>	<b>\$348,817,915</b>	<b>\$376,813,048</b>	<b>\$400,276,147</b>	<b>\$425,448,894</b>	<b>\$438,429,045</b>
Percent Collected of Current Levy	91.04%	97.73%	98.0%	97.32%	97.73%
Percent Collected of Current Levy Minus Reserve for Uncollected Taxes	94.66%	102.15%	102.05%	101.88%	101.37%

\*Unaudited

**Delinquent Taxes and Tax Title Liens**

The local property tax is due in quarterly installments on February 1, May 1, August 1, and November 1. The first two (2) installments are billed and collected at the previous year’s rate and valuation with necessary adjustments made in the final installments.

Delinquent taxes are enforced and collected by the City through the sale of the tax liens against the property. Tax Certificates are offered at the maximum rate of interest (18%) for holding the lien during the redemption period. If the lien is not purchased, it is acquired by the City. The redemption period is the time during which the property owner may pay the taxes, penalties, and costs required to remove the lien. This is a two (2) year period for privately-held liens and six (6) months for municipally held liens. At the expiration of the redemption period, the lien holder may move to acquire a tax deed for the property. When the lien is held by the City, it may move to foreclose, In Rem, at the end of six (6) months from the time the City became lien holder.

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017*</b>
Delinquent Tax Collected	\$3,077,959	\$13,424,931	\$990,625	\$400,164	\$1,774,031
Delinquent Tax Balance December 31	22,454,342	2,506,590	4,759,691	6,433,615	4,888,891
Tax Title Liens Collected	6,088,151	7,448,893	9,351,077	5,540,726	6,446,484
Tax Title Liens Balance December 31	29,045,984	37,188,531	36,331,139	36,552,759	32,955,187
Foreclosed Prop. Balance December 31	131,612,758	131,612,758	132,103,680	132,388,937	133,797,233

\*Unaudited

## CITY EMPLOYEES

Under the laws of the State, municipal employees have certain organizational and representational rights, which include the right to organize, to bargain collectively by representatives of their choosing, and to engage in lawful concerted activities for bargaining. The law prohibits strikes by municipal employees.

Approximately 3,000 regular employees of the City are covered by collective bargaining agreements, which have been negotiated with twenty different collective bargaining units. The right of most public employees to organize for collective bargaining is guaranteed by New Jersey law.

A general distinction is made between uniformed employees and non-uniformed employees. The uniformed employees – police and fire – are organized into four (4) major bargaining units: Police, Police Superior Officers, Firemen, and Fire Officers, although some superior officers bargain in a much smaller unit. While the New Jersey Constitution prohibits strikes by all public employees, the Legislature has given uniformed employees the right to interest arbitration, which is a binding process resulting in a settled agreement. No other bargaining units have the right to binding interest arbitration. Interest arbitrators are appointed by the New Jersey Public Employment Relations Commission.

The City has been proactive in its approach to resolve all open contracts, stabilize the negotiating process, pursue voluntary, rather than arbitrated settlements, and bring consistency to the many terms of employment. Two (2) major focuses of the City's negotiations are a reduction in soaring health insurance costs and operational changes to reduce overtime.

Successor agreements with all uniform unions were reached and have been formally adopted by Council through 2016, with the exception of the Police Superior Officers' Association (SOA), in contract through 2015 and the expired agreement operating in full force and effect. For the period 2013-2016, negotiations with all remaining uniformed personnel provided for an average annual increase of 1.08% over four years (all contracts are for the term: January 1, 2013 - December 31, 2016 and the increases are as follows: '13 – 0.0%, '14 – 2.0%, '15 – 2.0% and '16 – .33%; SOA increases for the period 2013-2015 are 1.33%). All parties recognized the continuing need for all employees to assist the City in cost saving measures. This concession is extremely significant since arbitration would have reduced saving to the City dramatically. In addition, the City continues to implement caps on the banking and payment of compensatory, with payment or utilization of this time within the 24 month period of accrual. Payouts are at the current rate of pay, as opposed to the previous practice of paying it all out on a lump sum basis at the time of separation (or a higher rate of pay). In each case, the goal of achieving out-of-pocket savings, where possible, and operational changes, to reduce overtime and compensatory time remain consistent. The City has yet to begin preliminary negotiations with uniform unions over new successor agreements.

The City has reached agreement with three SEIU units – Blue Collar, Police Communications Clerks and Officers, and School Traffic Guards - for the period 2014-2018. In addition, it is in negotiations with seven other units representing non-uniformed personnel, three (3) of these – AFSCME 2297 (Mechanics), AFSCME 2297 (Supervisors) and Newark Council 21, NJCSA, having recently migrated to Fact-Finding process under the auspices of NJ PERC.

The approach taken with both uniformed and non-uniformed employee groups, however, as well as the City's goals, is the same. Recognizing the significant role that personnel costs play in the City's budget, the negotiation of mutually acceptable collective bargaining agreements is a major priority.

The City is in compliance with Chapter 78, P.L. 2011, which provided for changes to the manner in which the State-administered retirement systems operate and to the benefit provisions of those systems. The law also changed the manner in which the State-administered Health Benefits Programs operate and the employee contribution and benefit provisions of those programs.

## INSURANCE

Since 1996, the City has purchased property insurance, which protects the City from loss to properties by fire and other perils in excess of \$100,000 with a total insurance coverage of \$299,060,229.

The City also purchases insurance coverage for Pollution Liability for its water treatment facility, a Blanket Public Employee's Dishonesty Bond and Statutory Public Officials Bonds.

Responsibility for insurance and risk management including purchase of insurance and maintenance of insurance trust funds (including Worker's Compensation) lies with the Insurance Fund Commission, a statutory commission consisting of three commissioners appointed by the Mayor and Council. The City Business Administrator is currently Chairman of the Insurance Fund Commission with the Director of Finance and the Corporation Counsel serving as the other two (2) members. The Commission's efforts are supported by the City's Risk Manager, a role created in 2007 to augment the City's insurance and risk management efforts.

The Worker's Compensation Trust Fund is administered by the City Law Department. Worker's Compensation Claims are handled by the City Law Department who coordinates the administration process with the Insurance Fund Commission and a Third Party Administrator. Tort claims are handled in house by the Law Department. Claims for property losses are handled directly by the Insurance Fund Commission and the City's Risk Manager. Claims are paid by the City Treasurer after approval by Mayor and Council and/or the Law Department, City Comptroller, or Insurance Fund Commission.

In 1977, the City established a comprehensive Self-Insurance and Risk Management Program including the creation of separate dedicated trust funds for each of the City's insurance needs. Year-end balances for the past five (5) years were as follows:

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017*</u>
Worker's Comp	\$1,614,154	\$2,743,945	\$2,374,603	\$1,803,092	\$589,960
Liability	8,540,698	9,212,147	7,913,351	8,041,942	9,288,401
State Unemployment	<u>2,792,298</u>	<u>2,673,193</u>	<u>2,255,851</u>	<u>2,437,208</u>	<u>2,121,009</u>
TOTAL	\$13,937,150	\$14,629,285	\$16,643,805	\$12,282,242	\$11,999,370

\*Unaudited

## PENSION SYSTEMS

City employees who are eligible for pension coverage are enrolled, depending on their employment status, in one of four pension systems. All four (4) pension systems were established by acts of the State Legislature. Benefits, contributions, means of funding, and the manner of administration are determined by State legislation. Three (3) of the pension systems are directly administered by the State; the fourth system is administered by the City. City public school teachers are enrolled in the State Teachers Pension and Annuity Fund. The City's pays its State-assessed annual pension contribution to the State in full each year. Such payment was approximately \$55 million for the City's 2016 fiscal year, approximately \$52 million was appropriated in the City's 2017 adopted budget for the City's 2017 fiscal year and approximately \$55 million was appropriated in the City's 2018 adopted budget for the City's 2018 fiscal year.

### State Administered Pension Funds

Three (3) primary State Administered pension funds include the Consolidated Police and Firemen's Pension Fund, the Police and Firemen's Retirement System, and the Public Employees' Retirement System. The Division of Pensions within the Treasury Department of the State is the administrator of the funds with benefit and contribution levels set by the State.

### Consolidated Police and Firemen's Pension Fund

The Consolidated Police and Firemen's Pension Fund is a closed system with no active members and was established in January 1952 to provide coverage to municipal police and firemen who were appointed prior to July 1, 1944.

## **Police and Firemen's Retirement System**

All uniformed employees of the City who began employment after 1944 are enrolled in this system. At the present time the State's requirement for municipal contribution is equal to 8.5% of gross employee salaries. Employee contributions depend on age at date of entry and range from 6.73% to 9.32% of salary. In addition, the City is required to pay its share of unfunded past service liability in order to amortize this liability over the next 35 years.

## **Public Employees' Retirement System**

The Public Employees' Retirement System ("PERS") includes all temporary non-uniformed employees and all non-uniformed permanent employees who because of physical condition are not eligible for the City's Employee Retirement System. The system is evaluated every year and the required rate of contribution of participating municipalities is determined at that time. Contributions for normal service are generally set for municipalities at 150% of employee contribution. At the present time, such contributions approximate 5.0% of gross salaries. In addition, the City is required to pay its share of unfunded past service liability in order to amortize this liability over the next 35 years.

## **Defined Contribution Retirement Program**

The Defined Contribution Retirement Program ("DCRP") was established on July 1, 2007 for eligible public employees, with a minimum base salary of \$1,500 or more, with a tax-sheltered, defined contribution retirement benefit, in addition to life insurance and disability coverage. With the DCRP the value of the pension is based on the amount of the contribution made by the employee and employer and through investment earnings. Contributions made by employees for DCRP are currently at 5.5% of gross wages. Member contributions are matched by a 3.0% employer contribution. The DCRP is jointly administered by the Division of Pensions and Benefits and Prudential Financial.

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## SOCIOECONOMIC AND DEMOGRAPHIC INFORMATION OF THE CITY

### LARGEST TAXPAYERS 2017 Assessed Valuation

Prudential Insurance Co. of America	\$190,629,700
Anheuser Busch, Inc.	125,000,000
Prudential Newark Realty, LLC	108,535,600
NJBT CO, C/O Duff & Phelps	102,454,900
2 Gateway Center Partners LLC	92,750,000
80 Park Place SPE LLC	90,000,000
Newark Legal Port Authority	62,833,400
3 Gateway Center Prop.	52,000,000
Advance at One Gateway, LLC	51,012,400
33 Washington Street, LLC	49,624,400

Source: City of Newark Tax Assessor

### POPULATION

Year	City	County	State
1960	405,220	923,545	6,066,782
1970	381,930	929,986	7,192,805
1980	329,248	851,116	7,364,823
1990	275,221	778,206	7,730,188
2000	261,620	793,633	8,414,350
2010	277,140	783,969	8,791,894

Source: US Department of Commerce, Bureau of the Census, General Social and Economic Characteristics

### LABOR FORCE - CITY OF NEWARK

Year	Labor Force (000)	Employed (000)	Percent Employed	Unemployment Rate		
				City	County	State
2012	108.6	92.7	85.4%	14.5%	10.3%	9.6%
2013	109.3	93.0	85.1	14.2	10.1	8.5
2014	118.9	106.6	89.6	10.4	8.0	6.7
2015	118.4	108.0	91.2	8.8	6.7	5.6
2016	117.1	107.8	92.1	7.9	6.0	5.0
2017	116.8	108.0	92.5	7.5	5.7	4.6

Source: New Jersey Department of Labor and Workforce Development



**APPENDIX B**

**CITY OF NEWARK  
AUDITOR'S REPORT AND FINANCIAL STATEMENTS**

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***SAMUEL KLEIN AND COMPANY***  
***CERTIFIED PUBLIC ACCOUNTANTS***

*550 Broad Street  
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Phone (973) 624-6100  
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**INDEPENDENT AUDITOR'S REPORT**

To the Mayor and Members of the City Council  
City of Newark  
Newark, New Jersey 07102

The accompanying summary financial statements - regulatory basis, and the related notes, are derived from the audited basic financial statements of the City of Newark, State of New Jersey, as of and for the years ended December 31, 2016, 2015, 2014 and 2013. We expressed unmodified audit opinions on those audited financial statements - regulatory basis in our report dated September 29, 2017. The audited financial statements - regulatory basis, and the summary financial statements - regulatory basis derived therefrom, do not reflect the effects of events, if any, that occurred subsequent to the date of our report on the audited financial statements - regulatory basis.

The summary financial statements - regulatory basis do not contain all the disclosures required by Generally Accepted Accounting Principles of the City of Newark, State of New Jersey. Reading the summary financial statements - regulatory basis, therefore is not a substitute for reading the audited financial statements - regulatory basis of the City of Newark, State of New Jersey.

**Management's Responsibility for the Summary Financial Statements**

Management is responsible for the preparation of the summary financial statements - regulatory basis on the basis described in Note 1.

**Auditor's Responsibility**

Our responsibility is to express an opinion about whether the summary financial statements - regulatory basis are consistent, in all material respects, with the audited financial statements - regulatory basis based on our procedures, which were conducted in accordance with auditing standards generally accepted in the United States of America. The procedures consisted principally of comparing the summary financial statements - regulatory basis with the related information in the audited financial statements - regulatory basis from which the summary financial statements - regulatory basis have been derived, and evaluating whether the summary financial statements - regulatory basis are prepared in accordance with the basis described in Note 1. We did not perform any audit procedures regarding the audited financial statements - regulatory basis after the date of our report on those financial statements.

## Opinion

In our opinion, the summary financial statements - regulatory basis of the City of Newark, State of New Jersey as of and for the years then ended December 31, 2016, 2015, 2014 and 2013 referred to above are consistent, in all material respects, with the audited financial statements - regulatory basis from which they have been derived, on the basis described in Note 1.

## Emphasis-of-Matter

These summary financial statements - regulatory basis were prepared for the purpose of inclusion in an official statement for the issuance of Tax Appeal Refunding Notes, Series 2018 and were abstracted from audit reports issued under the periods referred to above as dated September 29, 2017, October 21, 2016, June 26, 2015 and January 8, 2015, respectively.

  
SAMUEL KLEIN AND COMPANY  
CERTIFIED PUBLIC ACCOUNTANTS

JOSEPH J. FACCONI, RMA, PA

Newark, New Jersey  
September 29, 2017

CITY OF NEWARK

CURRENT FUND - COMPARATIVE BALANCE SHEET - REGULATORY BASIS

Sheet #1

	Unaudited	Audited			
	Balance Dec. 31, 2017	Balance Dec. 31, 2016	Balance Dec. 31, 2015	Balance Dec. 31, 2014	Balance Dec. 31, 2013
<b>ASSETS AND DEFERRED CHARGES</b>					
<u>Regular Fund</u>					
Cash	\$ 72,432,881	\$109,133,038	\$127,119,636	\$ 60,585,295	\$ 55,514,885
Cash - Deposit with State	11,969,034	11,841,676	9,050,586	9,223,480	9,786,238
Sub-Total	84,401,915	120,974,714	136,170,222	69,808,775	65,301,123
Cash - Change Fund	2,440	2,440	2,440	2,440	2,440
	<u>84,404,355</u>	<u>120,977,154</u>	<u>136,172,662</u>	<u>69,811,215</u>	<u>65,303,563</u>
Delinquent Property Taxes Receivable	4,888,891	6,433,615	4,759,691	2,506,590	22,453,733
Tax Title Liens Receivable	32,955,187	36,552,759	36,331,139	37,188,531	29,045,984
Protested Checks			2,313,864	3,609,540	2,628,278
Revenue Accounts Receivable		78,923	858,224	2,089,714	
Deposits with County Registrar	2,231	2,231	2,231	2,231	2,231
Property Acquired for Taxes:					
Assessed Valuations	133,797,233	132,388,937	132,103,680	131,612,758	131,612,758
Sales Contracts Receivable	12,554,477	12,554,478	12,554,478	12,554,478	12,554,478
Petty Cash Fund		4,951	2,351	3,052	2,800
Tax Abatements Receivable	20,640,912	10,656,248	73,332	157,640	2,295,793
Interfunds Receivable			5,878,446	18,716,526	180,802
Due from Housing for Senior Citizens	14,906	14,906	14,906	14,906	14,906
Due from East Orange - Passaic Valley	90,118	90,118	90,118	90,118	90,118
Due from Payroll Transfer Account					267,888
Other		232,367			
	<u>204,943,955</u>	<u>199,009,533</u>	<u>194,982,460</u>	<u>208,546,084</u>	<u>201,149,769</u>
Deferred Charges:					
Emergency Authorizations	52,631,977	57,265,878	54,281,431	56,906,574	40,321,209
	<u>341,980,287</u>	<u>377,252,565</u>	<u>385,436,553</u>	<u>335,263,873</u>	<u>306,774,541</u>
<u>State and Federal Grants</u>					
Cash	6,734,195	11,441,243	6,779,775	26,239,483	24,031,601
State and Federal Grants Receivable	121,101,710	120,388,825	115,552,284	145,400,760	153,185,260
Prepaid Grant Expenditures	1,366,906	245,939	202,345	314,342	355,266
Accounts Receivable	47,875	47,875	47,875	47,875	47,875
SLEPA Receivable - Due from State of N.J.	103	103	103	103	103
Interfunds Receivable	24,554	295,800	3,251,387	121,469	482
Payroll Transfer Account					515,274
Unallocated Receipts			47,734	238,856	
	<u>129,275,343</u>	<u>132,419,785</u>	<u>125,881,503</u>	<u>172,362,888</u>	<u>178,135,861</u>
	<u>\$471,255,630</u>	<u>\$509,672,350</u>	<u>\$511,318,056</u>	<u>\$507,626,761</u>	<u>\$484,910,402</u>

## CITY OF NEWARK

## CURRENT FUND - COMPARATIVE BALANCE SHEET - REGULATORY BASIS

Sheet #2

LIABILITIES AND FUND BALANCE	Unaudited	Audited			
	Balance Dec. 31, 2017	Balance Dec. 31, 2016	Balance Dec. 31, 2015	Balance Dec. 31, 2014	Balance Dec. 31, 2013
<u>Regular Fund</u>					
Appropriation Reserves, Commitments and Encumbrances	\$ 52,641,580	\$ 48,340,344	\$ 41,971,487	\$ 33,372,283	\$ 35,485,386
Commitments Payable	6,685,930	848,135	3,943,839	838,121	513,985
Due to N.J. - Senior Citizens	264,343	240,487	199,175	189,591	152,535
Reserve for Void Checks Pending Distribution	84,654	84,630	84,630	84,630	84,630
Prepaid Taxes	3,833,815	4,227,259	2,469,227	1,651,446	1,839,390
Prepaid Tax Abatements	602,506	182,700	221,155	90,515	106,667
Due to Special Improvement District	128,625	739,528	360,928	1,432,540	812,497
Reserve for Judgments		1,954	1,954	1,954	1,954
Prepaid Special Improvement District Taxes	46,775	36,998	35,061	48,774	57,897
Due to Employee					86,228
Due to State of N.J. and Public Assistance Trust Fund	222,664	221,573	238,801	219,797	212,487
Interfunds Payable	12,026,293	11,887,616	32,068,008	14,182,405	808,377
County Taxes Payable	413,531	884,511	541,190	521,701	1,892,154
Reserve for Tax Appeals Pending	379,691		980,350		
Due to Redflex Traffic Systems	850	850	1,802	199,410	248,948
Due to Parking Authority for Municipal Court Fees			207,247	191,940	149,979
Due to State of New Jersey - Uniform Construction	355,682	445,289	365,847	328,497	571,799
Accounts Payable - State Aid Credits		720,975	720,974	720,974	
Reserve for Election Poll Workers		1,627	1,627	1,627	
Tax Overpayments	1,046,117	2,230,289	2,277,165	677,221	588,706
Reserve for Hurricane Sandy	562	562	562	143,562	1,736,121
Vouchers Payable		25,000	25,000	25,000	25,000
Reserve to Pay Emergency Note		25,000	25,000	25,000	25,000
Reserve for Salaries and Pension		10,000,000			
Payroll Transfer Account					
Police Overtime Reimbursement		390,648	227,067	217,722	185,375
Tax Anticipation Notes Payable		55,000,000	69,834,000	64,973,000	49,950,000
Reserve for Master Plan	231,782	231,782	231,782	232,079	275,657
	<u>78,965,400</u>	<u>136,767,757</u>	<u>157,033,878</u>	<u>120,369,789</u>	<u>95,810,772</u>
Emergency Notes Payable		1,193,000	3,766,000	6,348,000	9,814,000
Reserve for Other Receivables	204,943,955	199,009,533	194,982,460	208,546,084	201,149,769
Fund Balance	58,070,932	40,282,275	29,654,215		
	<u>341,980,287</u>	<u>377,252,565</u>	<u>385,436,553</u>	<u>335,263,873</u>	<u>306,774,541</u>
<u>Federal and State Grant Funds</u>					
Expenditure Reserves:					
SLEPA Administration Grant	179,709	179,709	227,444	227,444	227,444
Grants Appropriated	121,986,705	124,905,395	119,694,554	151,902,692	166,113,698
Reserve for Elderly Nutrition	2,366,623	2,339,817	2,343,839	2,340,572	2,350,788
Reserve for Safe Housing	576,295	574,964	1,290,446	579,833	1,579,833
Interfunds Payable	1,513		67,683	13,094,867	376,831
UEZ Loan Repayment	1,552,482	1,437,952	989,906	832,964	490,202
Due to Federal Government	724,718	724,718	724,718	724,718	724,718
Unappropriated Grants	1,847,823	2,257,130	542,913	2,659,798	5,989,941
Unallocated Receipts	39,475	100			282,406
	<u>129,275,343</u>	<u>132,419,785</u>	<u>125,881,503</u>	<u>172,362,888</u>	<u>178,135,861</u>
	<u>\$471,255,630</u>	<u>\$509,672,350</u>	<u>\$511,318,056</u>	<u>\$507,626,761</u>	<u>\$484,910,402</u>

See accompanying notes to financial statements.

CITY OF NEWARK  
CURRENT FUND - COMPARATIVE STATEMENT OF OPERATIONS  
AND CHANGES IN FUND BALANCE - REGULATORY BASIS

	Unaudited		Audited		
	2017	2016	2015	2014	2013
<b>Revenue and Other Income</b>					
Surplus Revenue (Fund Balance)	\$	\$	\$	\$	\$ 11,411,388
Miscellaneous Revenue Anticipated	449,737,404	432,300,870	441,979,943	390,551,863	413,041,814
Receipts from Delinquent Taxes	8,220,515	6,591,123	10,585,258	20,873,024	9,166,110
Receipts from Current Taxes	426,805,235	413,284,592	400,276,147	376,813,048	348,817,915
Nonbudget Revenue	216,703	3,672,647	1,762,348	1,732,082	2,236,479
Other Credits to Income:					
Reserve for Petty Cash Fund	2,605				
Appropriation Reserves and Accounts Payable Cancelled	5,992,499	4,244,919	3,458,738	521,321	3,857,622
Tax Overpayments Cancelled				1,856,137	1,913,462
Interfunds Payable Stale Dated Balance Sheet Items		2,185,274		335,104	
Interfunds Payable Adjustments				1,689,828	
Federal and State Grants Cancelled			1,621,084		
Reserve for Protested Checks Realized			1,295,676		
Miscellaneous			700		
Due from Payroll Transfer Account				267,888	
Reserve for Due to Election Workers	1,628				
Various Liabilities Cancelled	71,676				
	<u>891,048,265</u>	<u>862,279,425</u>	<u>860,979,894</u>	<u>794,640,295</u>	<u>790,444,790</u>
<b>Expenditures</b>					
Budget and Emergency Appropriations:					
Operations:					
Salaries and Wages	265,141,156	269,043,818	251,955,666	246,576,864	244,699,294
Other Expenses	274,390,598	265,655,770	269,191,398	237,502,206	263,469,903
Capital Improvements	100,000	450,000	100,000	100,000	100,000
Municipal Debt Service	60,169,480	45,248,537	41,357,388	47,781,815	40,428,150
Local District School Debt Service		9,064,478	10,654,818		11,631,618
Deferred Charges and Statutory Expenditures - Municipal	75,472,619	74,026,704	71,294,468	68,329,536	68,396,406
Judgments		450,000	201,632		450,000
Local District School Tax	125,678,692	118,306,118	113,404,558	111,170,927	108,957,124
County Taxes	71,423,204	71,034,431	70,376,489	67,813,075	76,799,189
County Share of Added and Omitted Taxes	413,531	884,509	541,190	521,701	
Special District Taxes	6,159,947	5,557,733	5,316,333	4,882,403	3,870,357
Interfund Reserve Established			1,447,664	18,538,945	231,772
Interfunds Receivable Adjustments				4,226,327	
Prior Year Senior Citizens Deduction Disallowed				33,750	1,803
Interfunds Payable Adjustments				701,343	
Interfunds Payable Stale Dated Balance Sheet Items				39,692	
Reserve for Tax Appeals Pending					259,583
Reserve for Protested Checks				981,263	810,761
Reserve for Petty Cash Fund		2,600		252	1,100
Prior Year Revenue Refunded	665,051	155,372	249,480	239,783	458,939
Applied to Operations		232,366			
Miscellaneous - Municipal Open Space	3,645,330	3,670,830	1,234,595		
Elimination of Invalid Prior Year Bank Reconciliation Items				7,167,529	
Cancellation of Protested Checks Receivable				452,682	
	<u>883,259,608</u>	<u>863,783,266</u>	<u>837,325,679</u>	<u>817,060,093</u>	<u>820,565,999</u>
Excess in Revenue	7,788,657		23,654,215		
Deficit in Revenue		(1,503,841)		\$ (22,419,798)	\$ (30,121,209)
Adjustments to Income:					
Expenditures Included Above Which Are By Statute					
Deferred Charges to Budget of Succeeding Year	10,000,000	12,131,901	6,000,000	\$ -	\$ -
Statutory Excess (Deficit) in Revenue	17,788,657	10,628,060	29,654,215	-	-
Fund Balance - January 1	40,282,275	29,654,215	-	-	11,411,388
	<u>58,070,932</u>	<u>40,282,275</u>	<u>29,654,215</u>	<u>-</u>	<u>11,411,388</u>
Decreased by:					
Utilized as Anticipated Revenue	-	-	-	-	11,411,388
Fund Balance - December 31	<u>\$ 58,070,932</u>	<u>\$ 40,282,275</u>	<u>\$ 29,654,215</u>	<u>\$ -</u>	<u>\$ -</u>

ANALYSIS OF FUND BALANCE

	Unaudited		Audited		
	2017	2016	2015	2014	2013
Cash	\$ 84,404,355	\$ 120,977,154	\$ 136,172,662	\$ 69,811,215	\$ 65,303,563
Total	84,404,355	120,977,154	136,172,662	69,811,215	65,303,563
Less: Liabilities	78,965,400	136,767,757	157,033,878	120,369,789	95,810,772
Cash Surplus (Deficit)	5,438,955	(15,790,603)	(20,861,216)	(50,558,574)	(30,507,209)
Add: Noncash Assets Pledged to Surplus:					
Deferred Charges	52,631,977	56,072,878	50,515,431	50,558,574	30,507,209
Fund Balance	<u>\$ 58,070,932</u>	<u>\$ 40,282,275</u>	<u>\$ 29,654,215</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

## CITY OF NEWARK

## CURRENT FUND - COMPARATIVE STATEMENT OF REALIZED REVENUE

	Unaudited	Audited			
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Taxes for Municipal Purposes	\$235,587,531	\$230,121,640	\$225,604,132	\$209,075,153	\$174,847,246
Less: Reserve for Uncollected Taxes	<u>16,103,000</u>	<u>16,290,669</u>	<u>16,201,150</u>	<u>16,650,211</u>	<u>15,656,000</u>
Taxes Collected for Municipal Purposes	219,484,531	213,830,971	209,402,982	192,424,942	159,191,246
<u>General Revenue</u>					
Municipal Court	10,585,941	10,508,222	11,393,774	11,869,556	13,565,141
Construction Fees	4,853,560	5,041,344	4,077,512	4,673,626	4,765,692
Host Fees	6,222,962	5,637,826	6,010,490	5,506,336	5,270,765
Interest on Investment and Deposits	891,629	315,925	237,969	101,218	90,325
Fox Lance Limited Dividend Receipts	24,891,500	19,331,735	18,577,051	17,619,324	15,172,226
Reimbursement for In-Kind, Administrative and Fringe Benefits	4,000,000	5,000,000	5,000,000	5,000,000	6,249,257
Revenue from New Taxes:					
Payroll Tax	51,067,559	48,288,447	48,768,086	34,034,645	41,892,052
Hotel Occupancy Tax	7,212,093	6,873,979	6,434,053	5,168,994	6,264,324
Parking Lot Receipts	24,887,059	23,627,017	22,454,387	15,271,393	20,669,184
Port Newark Lease - Port Authority of New York and New Jersey	97,719,399	84,744,312	84,744,312	84,744,312	84,744,312
Receipts from Delinquent Taxes	8,220,515	6,591,123	10,585,258	20,873,024	9,166,110
Interest and Costs on Taxes	3,056,456	2,432,678	3,743,949	5,608,065	4,080,692
Rents and Sale of Municipal Property	540,789	486,387	482,474	1,603,469	467,912
Other	53,216,873	38,918,982	42,590,033	36,767,142	34,570,828
Fund Balance Anticipated					11,411,388
Car Rental Tax	7,950,000	7,958,513	5,900,000		
<u>Other Revenue</u>					
State Aid Without Offsetting Appropriations	109,422,369	111,868,188	109,852,244	110,588,864	101,290,117
State Aid for School Debt	3,390,526	3,527,299	5,370,397	5,448,045	5,916,458
Revenues from Public and Private Sources with Offsetting Appropriations	<u>39,828,689</u>	<u>57,740,016</u>	<u>66,343,211</u>	<u>46,546,874</u>	<u>70,269,008</u>
	<u>\$677,442,450</u>	<u>\$652,722,964</u>	<u>\$661,968,182</u>	<u>\$603,849,829</u>	<u>\$595,047,037</u>

See accompanying notes to financial statements.



CITY OF NEWARK

CURRENT FUND - COMPARATIVE STATEMENT OF EXPENDITURES - REGULATORY BASIS

GENERAL APPROPRIATIONS - APPROPRIATIONS WITHIN "CAPS"	Unaudited	Audited			
	2017 Expended	2016 Expended	2015 Expended	2014 Expended	2013 Expended
Office of the Mayor and Agencies	\$ 14,510,310	\$ 14,895,182	\$ 14,479,516	\$ 14,669,372	\$ 14,917,417
City Clerk and Municipal Council	8,546,209	8,757,793	8,780,290	10,236,142	8,612,072
Department of Administration	14,655,348	15,006,239	16,164,169	16,902,758	17,145,911
Department of Law	5,583,496	5,286,400	5,068,094	5,200,603	5,267,545
Department of Finance	5,365,860	5,562,967	5,520,005	5,133,583	5,057,618
Department of Public Safety	213,442,771	214,882,813			
Department of Police			130,151,028	126,218,323	129,390,751
Department of Fire			69,001,261	69,028,914	65,728,118
Department of Public Works	58,273,366	7,955,085			
Department of Engineering	13,107,372	37,295,434	35,902,600	33,642,181	34,550,277
Department of Child and Family Well-Being			8,631,501	8,014,850	8,202,790
Department of Health and Community Wellness	8,380,945	9,307,430			
Department of Economic and Housing Development	2,391,245	2,694,183	2,476,137	1,991,884	2,391,436
Department of Recreation, Cultural Affairs and Senior Services	6,270,916	29,214,747	28,676,751	30,977,374	29,375,947
Unclassified Purposes	128,544,072	111,558,328	111,937,485	100,079,442	100,164,083
Deferred Charges	10,877,201	5,747,454	5,925,143	3,088,426	
Statutory Expenditures	60,338,718	64,379,250	62,669,325	61,741,110	64,498,762
Judgments		450,000	201,632		450,000
<b>Total Appropriations Within "CAPS"</b>	<b>550,287,829</b>	<b>532,993,305</b>	<b>505,584,937</b>	<b>486,924,962</b>	<b>485,752,727</b>
<b>GENERAL APPROPRIATIONS - APPROPRIATIONS EXCLUDED FROM "CAPS"</b>					
Other Operations	19,665,275	13,454,272	16,045,629	14,818,041	16,577,679
Public and Private Programs	40,794,570	58,828,714	68,312,597	47,438,813	71,185,197
Capital Improvements	100,000	450,000	100,000	100,000	100,000
Municipal Debt Service	51,224,225	45,248,537	41,357,389	37,017,935	40,428,150
Deferred Charges	4,256,700	3,900,000	2,700,000	3,500,000	3,500,000
Type I District School Debt Service	8,945,255	9,064,478	10,654,818	10,763,880	11,631,618
<b>Total Appropriations Excluded from "CAPS"</b>	<b>124,986,025</b>	<b>130,946,001</b>	<b>139,170,433</b>	<b>113,638,669</b>	<b>143,422,644</b>
<b>Total Appropriations</b>	<b>\$ 675,273,854</b>	<b>\$ 663,939,306</b>	<b>\$ 644,755,370</b>	<b>\$ 600,563,631</b>	<b>\$ 629,175,371</b>

See accompanying notes to financial statements.

## CITY OF NEWARK

## GENERAL TRUST FUND - COMPARATIVE BALANCE SHEET - REGULATORY BASIS

Sheet #1

ASSETS	Unaudited	Audited			
	Balance Dec. 31, 2017	Balance Dec. 31, 2016	Balance Dec. 31, 2015	Balance Dec. 31, 2014	Balance Dec. 31, 2013
<u>Assessment Fund</u>					
Cash	\$ 378,572	\$ 16,693	\$ 16,676	\$ 16,676	\$ 7,254
Assessments Receivable			95,854	95,854	95,854
Assessment Liens			710,569	710,569	710,569
Assessment Lien Interest and Cost			59,946	59,946	59,946
Interfunds Receivable		278,716	278,732	278,732	288,155
	<u>378,572</u>	<u>295,409</u>	<u>1,161,777</u>	<u>1,161,777</u>	<u>1,161,778</u>
<u>Animal Control Trust Fund</u>					
Cash	41,032	37,336	28,892	28,019	25,558
Interfunds Receivable			3,084		
	<u>41,032</u>	<u>37,336</u>	<u>31,976</u>	<u>28,019</u>	<u>25,558</u>
<u>Other Trust Funds</u>					
Cash/Investments		47,770,083	51,765,144	30,913,482	38,220,766
Interfunds Receivable		8,876,945	4,171,664	3,695,078	265,062
Overpayments Receivable					19,539
Deferred Charges					
Other Receivables					20,151
Protested Checks					427,139
Reserve for Salary Increase					
Overexpenditure - Trust Other		424,952			
		<u>57,071,980</u>	<u>55,936,808</u>	<u>34,608,560</u>	<u>38,952,657</u>
<u>Insurance Fund</u>					
Cash and Investments		13,146,962	11,408,526	14,284,278	13,268,350
Interfunds Receivable		1,363,425	1,400,608	350,354	678,495
Protested Checks					305
		<u>14,510,387</u>	<u>12,809,134</u>	<u>14,634,632</u>	<u>13,947,150</u>
<u>Grant Fund</u>					
Cash and Investments		8,352,936	8,823,056	11,420,560	12,472,945
Grants Receivable		10,074,715			
Interfunds Receivable			585,578	299,211	
Accounts Receivable		745,993	195,800	869,159	195,801
Protested Checks					25,238
		<u>19,173,644</u>	<u>9,604,434</u>	<u>12,588,930</u>	<u>12,693,984</u>
<u>Payroll Agency Fund</u>					
Cash		5,787,153		11,504,532	7,888,913
Interfunds Receivable		58,504	5,495,261	218,894	219,255
Protested Checks					7,920
		<u>5,845,657</u>	<u>5,495,261</u>	<u>11,723,426</u>	<u>8,116,088</u>
	<u>\$ 419,604</u>	<u>\$ 96,934,413</u>	<u>\$ 85,039,390</u>	<u>\$ 74,745,344</u>	<u>\$ 74,897,215</u>

## CITY OF NEWARK

## GENERAL TRUST FUND - COMPARATIVE BALANCE SHEET - REGULATORY BASIS

Sheet #2

LIABILITIES, RESERVES AND FUND BALANCES	Unaudited	Audited			
	Balance Dec. 31, 2017	Balance Dec. 31, 2016	Balance Dec. 31, 2015	Balance Dec. 31, 2014	Balance Dec. 31, 2013
<u>Assessment Fund</u>					
Overpayments	\$	\$	\$ 5,348	\$ 5,348	\$ 5,348
Prepaid Assessments			1,029	1,029	1,029
Reserves for Assessments and Liens			806,423	806,423	806,424
Reserves for Assessment Lien:					
Interest and Costs			59,946	59,946	59,946
Fund Balance	<u>378,572</u>	<u>295,409</u>	<u>289,031</u>	<u>289,031</u>	<u>289,031</u>
	<u>378,572</u>	<u>295,409</u>	<u>1,161,777</u>	<u>1,161,777</u>	<u>1,161,778</u>
<u>Animal Control Trust Fund</u>					
Interfunds Payable				1,921	4,671
Due to State of New Jersey	244	26	86	6,439	6,417
Reserve for Expenditures	<u>40,788</u>	<u>37,310</u>	<u>31,890</u>	<u>19,659</u>	<u>14,470</u>
	<u>41,032</u>	<u>37,336</u>	<u>31,976</u>	<u>28,019</u>	<u>25,558</u>
<u>Other Funds</u>					
Interfunds Payable		2,542,356	2,571,549	29,192	29,342
Reserve for Other Funds		42,396,596	40,831,304	34,555,413	38,899,359
Other Liabilities		23,955	23,955	23,955	23,955
Motor Vehicle Rental - Bonds Payable		12,109,073	12,510,000		
Fund Balance					1
		<u>57,071,980</u>	<u>55,936,808</u>	<u>34,608,560</u>	<u>38,952,657</u>
<u>Insurance Fund</u>					
Interfunds Payable		2,228,145	265,329	5,347	
Reserves for:					
Worker's Compensation		1,803,092	2,374,603	2,743,945	1,614,154
State Unemployment Fund		2,437,208	2,255,851	2,673,193	2,792,298
Liability Fund		<u>8,041,942</u>	<u>7,913,351</u>	<u>9,212,147</u>	<u>9,540,698</u>
		<u>14,510,387</u>	<u>12,809,134</u>	<u>14,634,632</u>	<u>13,947,150</u>
<u>Grant Fund</u>					
Reserves for:					
Municipal Tonnage Grant		96,249	724,467	3,150,060	3,142,203
Community Development Block Grant		10,884,659	728,583	728,464	1,104,289
Demolition Liens		502,632	502,632	502,632	502,632
Interfunds Payable				121,469	
Balanced Housing Grant		4,541,914	4,517,988	4,974,600	4,851,799
Urban Development		2,203,065	2,203,065	2,203,065	2,203,065
Community Economic Development Trust		198,369	180,943	161,884	143,240
Revolving Development Trust Fund		<u>746,756</u>	<u>746,756</u>	<u>746,756</u>	<u>746,756</u>
		<u>19,173,644</u>	<u>9,604,434</u>	<u>12,588,930</u>	<u>12,693,984</u>
<u>Payroll Agency Fund</u>					
Cash			3,148,192		
Payroll Deductions Payable		4,484,440	2,282,895	11,657,778	8,059,634
Reserve for Impress			3,538	2,802	
Vouchers Payable					147
Interfunds Payable		1,361,217	60,636	60,636	54,097
Reserve for Homestead Rebate				2,210	2,210
		<u>5,845,657</u>	<u>5,495,261</u>	<u>11,723,426</u>	<u>8,116,088</u>
	<u>\$ 419,604</u>	<u>\$ 96,934,413</u>	<u>\$ 85,039,390</u>	<u>\$ 74,745,344</u>	<u>\$ 74,897,215</u>

See accompanying notes to financial statements.

CITY OF NEWARK

GENERAL TRUST FUND - BALANCE SHEET - OTHER TRUST FUNDS

	<u>Unaudited</u> <u>Balance</u> <u>Dec. 31, 2017</u>
<u>ASSETS</u>	
<u>Other Trust Funds</u>	
Cash/Investments	\$76,858,406
Interfunds Receivable	15,352,022
Deferred Charges	29,979
Accounts Receivable	721,134
Vouchers Payable	944,997
	<hr/>
Total Other Trust Funds	<u><u>\$93,906,538</u></u>
<u>LIABILITIES, RESERVES AND FUND BALANCES</u>	
<u>Other Trust Funds</u>	
Interfunds Payable	\$10,934,690
Reserve for Other Funds	49,877,406
Other Liabilities	10,051
Motor Vehicle Rental - Bonds Payable	12,109,073
Reserves for:	
Worker's Compensation	589,960
State Unemployment Fund	2,121,009
Liability Fund	9,288,401
Municipal Tonnage Grant	202,823
Community Development Block Grant	161,123
Demolition Liens	502,632
Balanced Housing Grant	4,935,619
Urban Development	2,203,065
Community Economic Development Trust	223,930
Revolving Development Trust Fund	746,756
	<hr/>
Total Other Trust Funds	<u><u>\$93,906,538</u></u>

CITY OF NEWARK

GENERAL CAPITAL FUND - COMPARATIVE BALANCE SHEET - REGULATORY BASIS

	Unaudited	Audited			
	Balance Dec. 31, 2017	Balance Dec. 31, 2016	Balance Dec. 31, 2015	Balance Dec. 31, 2014	Balance Dec. 31, 2013
<b><u>ASSETS AND DEFERRED CHARGES</u></b>					
Cash	\$ 122,279,440	\$ 52,912,574	\$ 18,866,837	\$ 22,611,086	\$ 19,122,915
Investments and Certificate of Deposits					800,000
Accounts Receivable	16,550,000	16,550,000			
Deferred Charges to Future Taxation:					
Funded	321,685,035	352,000,035	317,875,035	284,347,035	306,872,035
Unfunded	144,962,470	68,750,489	78,965,489	116,862,489	110,623,380
Interfunds Receivable		3,739,172	104,877	1,428,537	104,877
Deferred Charge:					
Newark Housing Authority - Guarantee	58,215,000	59,675,000	60,680,000	62,020,000	63,340,000
Due from State of New Jersey			2,500,000	2,500,000	2,500,000
Due from Board of Education - Cost of Issue	377,167	377,167	300,380	254,184	237,838
Due from ECIA	4,477,880	4,477,881	22,134,637	22,134,637	24,608,176
	<u>\$ 668,546,992</u>	<u>\$ 558,482,318</u>	<u>\$ 501,427,255</u>	<u>\$ 512,157,968</u>	<u>\$ 528,209,221</u>
<b><u>LIABILITIES, RESERVES AND FUND BALANCE</u></b>					
General Serial Bonds	\$ 273,788,035	\$ 297,313,035	\$ 256,598,035	\$ 220,140,035	\$ 234,855,035
School Serial Bonds	46,397,000	53,062,000	59,527,000	62,332,000	70,017,000
Bond Anticipation Notes	86,542,596	10,548,000	13,833,000	67,989,000	58,764,000
Reserve for Refunds					335,104
Improvement Authorizations:					
Funded	83,753,103	83,503,103	19,669,890	23,101,190	15,423,528
Unfunded	112,596,521	45,524,400	52,700,049	41,654,483	47,558,241
Reserve for Encumbrances	559,394	559,394	8,344,403	9,656,967	9,934,439
Capital Improvement Fund	219,494	2,125,544	1,675,544	1,575,544	1,475,544
Reserve for Improvements Funded by ECIA	4,043,244	4,043,244	21,700,000	21,700,000	24,173,539
Guarantee - Newark Housing Authority	58,215,000	59,675,000	60,680,000	62,020,000	63,340,000
Interfunds Payable			4,094,545		24,000
State Trust Loan Payable	1,500,000	1,625,000	1,750,000	1,875,000	2,000,000
Accrued Interest	241,567	241,568			
Fund Balance	691,038	262,030	854,789	113,749	308,791
	<u>\$ 668,546,992</u>	<u>\$ 558,482,318</u>	<u>\$ 501,427,255</u>	<u>\$ 512,157,968</u>	<u>\$ 528,209,221</u>
Bonds and Notes Authorized and Issued:					
General	<u>\$ 58,419,874</u>	<u>\$ 58,202,489</u>	<u>\$ 48,873,489</u>	<u>\$ 48,873,489</u>	<u>\$ 51,859,380</u>

See accompanying notes to financial statements.

## CITY OF NEWARK

## WATER UTILITY FUND - COMPARATIVE BALANCE SHEETS - REGULATORY BASIS

Sheet #1

	Unaudited	Audited			
	Balance Dec. 31, 2017	Balance Dec. 31, 2016	Balance Dec. 31, 2015	Balance Dec. 31, 2014	Balance Dec. 31, 2013
<u>ASSETS AND DEFERRED CHARGES</u>					
<u>Operating Section</u>					
Cash	\$ 33,449,802	\$ 25,926,787	\$ 493,028	\$ 5,656,373	\$ 11,302,235
Consumer Accounts Receivable	14,181,008	12,380,139	12,472,851	11,482,089	11,320,303
Sundry Accounts Receivable	554,012	387,212	354,640	326,459	317,285
Delinquent Water Rents Receivable			3,667	3,667	11,612
Water Liens Receivable	698,100	698,908	438,820	1,785,538	1,492,361
Inventory	607,958	607,958	607,958	607,958	607,958
Protested Checks				73,649	83,289
Other Receivables	86,000	86,000	86,000	86,000	86,000
Interfunds Receivable	2,482,310	2,549,669	19,609,782	9,659,493	
Petty Cash		950	950	950	950
	<u>52,059,190</u>	<u>42,637,623</u>	<u>34,067,696</u>	<u>29,682,176</u>	<u>25,221,993</u>
<u>Capital Section</u>					
Cash	578,765	93,746	96,257	144,824	686,623
Due from State of New Jersey - EPA		6,821,208			
Due from State of New Jersey - Waste Water Trust Fund	4,151,984	922,942	922,942	922,942	922,942
Due from State of New Jersey - Waste Water Trust Fund - ARRA Principal Forgiveness	299,947	2,673,200	2,673,200	2,673,200	2,673,200
Interfunds Receivable			2,635	2,635	15,135
Cost of Bond Issue					57,363
Due from State of New Jersey	968,019	968,019	968,019	968,019	968,019
Deferred Charge - Capitalization of Interest	554,955	702,943	850,931	998,919	1,146,907
Fixed Capital	253,255,795	157,736,057	153,982,596	149,748,384	146,252,307
Fixed Capital Authorized and Uncompleted	100,139,883	187,023,436	173,873,436	173,873,436	173,873,436
	<u>359,949,348</u>	<u>356,941,551</u>	<u>333,370,016</u>	<u>329,332,359</u>	<u>326,595,932</u>
	<u>\$ 412,008,538</u>	<u>\$ 399,579,174</u>	<u>\$ 367,437,712</u>	<u>\$ 359,014,535</u>	<u>\$ 351,817,925</u>

## CITY OF NEWARK

## WATER UTILITY FUND - COMPARATIVE BALANCE SHEETS - REGULATORY BASIS

Sheet #2

LIABILITIES, RESERVES AND FUND BALANCE	Unaudited	Audited			
	Balance Dec. 31, 2017	Balance Dec. 31, 2016	Balance Dec. 31, 2015	Balance Dec. 31, 2014	Balance Dec. 31, 2013
<b>Operating Section</b>					
Appropriation Reserves and Encumbrances	\$ 14,735,184	\$ 15,798,055	\$ 5,330,614	\$ 6,146,021	\$ 5,156,704
Accounts Payable	3,839,084	5,149,161	4,470,512	4,629,191	2,901,810
Accrued Interest on Bonds and Notes	104,915	110,288	145,040	158,100	173,722
Belleville Flood Control	994	994	994	994	994
Reserve for Overpayments and Credits	499,629	262,781	285,157	85,081	61,439
Reserve for Water Easement	236,000	236,000	236,000	236,000	236,000
Interfunds Payable	666,128				37,378
Reserves for:					
Petty Cash		950	950	950	950
Consumer Accounts Receivable	14,181,008	12,380,139	12,472,851	11,482,089	11,320,303
Sundry Accounts	554,012	387,212	354,640	326,459	317,285
Inventory	607,958	607,958	607,958	607,958	607,958
Protested Checks		205,369		73,649	83,289
Water Liens	698,100	698,909	438,820	1,785,538	1,492,361
Delinquent Water Rents			3,667	3,667	11,612
Fund Balance	15,936,178	6,799,807	9,720,493	4,146,479	2,820,188
	<u>52,059,190</u>	<u>42,637,623</u>	<u>34,067,696</u>	<u>29,682,176</u>	<u>25,221,993</u>
<b>Capital Section</b>					
State Water Supply Loan Payable	39,977,979	21,759,826	23,319,013	24,856,187	26,359,068
State Infrastructure Loan Payable		11,881,188			
Serial Bonds	12,682,000	14,302,000	15,942,000	17,602,000	19,587,000
Improvement Authorizations:					
Funded	8,733,592	18,492,628	7,867,623	7,872,623	7,880,123
Unfunded	22,637,417	25,058,273	11,752,900	28,730,763	28,448,003
Encumbered	4,759,292	1,872,662	18,209,841	1,721,196	4,067,136
Interfunds Payable	2,482,310	2,528,310	2,036,635	1,590,983	46,000
Reserve for Refunds Not Applied					85,965
Capital Improvement Fund	2	2	2	2	2
Reserve for Deferred Amortization	1,530,193	30,576,667	30,576,667	32,079,549	30,576,668
Reserve for Amortization	260,344,829	223,668,261	216,863,601	208,077,322	202,744,233
Reserve for Due from State of New Jersey	968,019	968,019	968,019	968,019	968,019
Reserve for Amortization - Revaluation of Watershed	5,780,431	5,780,431	5,780,431	5,780,431	5,780,431
Fund Balance	53,284	53,284	53,284	53,284	53,284
	<u>359,949,348</u>	<u>356,941,551</u>	<u>333,370,016</u>	<u>329,332,359</u>	<u>326,595,932</u>
	<u>\$ 412,008,538</u>	<u>\$ 399,579,174</u>	<u>\$ 367,437,712</u>	<u>\$ 359,014,535</u>	<u>\$ 351,817,925</u>
Bonds and Notes Authorized But Not Issued	\$ 33,635,201	\$ 37,448,063	\$ 36,179,251	\$ 36,179,251	\$ 36,179,251

See accompanying notes to financial statements.

CITY OF NEWARK

WATER UTILITY OPERATING FUND - COMPARATIVE STATEMENT  
OF OPERATIONS AND CHANGES IN FUND BALANCE - REGULATORY BASIS

	Unaudited	Audited			
	Balance Dec. 31, 2017	Balance Dec. 31, 2016	Balance Dec. 31, 2015	Balance Dec. 31, 2014	Balance Dec. 31, 2013
<u>Revenue and Other Income</u>					
Surplus Anticipated	\$ 3,684,640	\$ 4,660,000	\$ 4,080,000	\$ 854,000	\$
Water Rents	56,995,420	56,657,219	51,031,251	47,218,766	45,890,706
Public and Private Funds					
Deficit - General Budget					
Other Credits to Income:					
Appropriation Reserves Lapsed	12,214,430	1,752,351	2,999,501	1,026,951	3,328,074
Accounts Payable Cancelled	1,139,579			132,405	
Nonbudgeted Revenue	1,316,513	27,823	59,680	1,053,701	740,939
Protested Checks Cancelled	205,369				
Miscellaneous		34,752	81,114	179	67,909
	<u>75,555,951</u>	<u>63,132,145</u>	<u>58,251,546</u>	<u>50,286,002</u>	<u>50,027,628</u>
<u>Expenditures</u>					
Operating	45,084,628	44,681,773	38,935,078	39,140,613	37,289,695
Debt Service	4,710,930	4,307,057	4,459,560	4,670,607	4,934,449
Deferred Changes and Statutory					
Expenditures	1,499,709	1,515,180	956,887	1,099,134	1,093,331
Capital Improvements	7,820,000	6,854,657	4,190,916	2,967,316	3,814,512
	<u>59,115,267</u>	<u>57,358,667</u>	<u>48,542,441</u>	<u>47,877,670</u>	<u>47,131,987</u>
Prior Year Revenue Refunded	227,953	34,164	55,091	120,466	75,453
Bank Reconciliation Items	391,720				
Cancellation of Assets and Payroll					
Transfer				107,575	
	<u>59,734,940</u>	<u>57,392,831</u>	<u>48,597,532</u>	<u>48,105,711</u>	<u>47,207,440</u>
Excess in Revenue	<u>15,821,011</u>	<u>5,739,314</u>	<u>9,654,014</u>	<u>2,180,291</u>	<u>2,820,188</u>
Statutory Excess to Operating Fund					
Balance	15,821,011	5,739,314	9,654,014	2,180,291	2,820,188
Fund Balance January 1	6,799,807	9,720,493	4,146,479	2,820,188	-
	<u>22,620,818</u>	<u>15,459,807</u>	<u>13,800,493</u>	<u>5,000,479</u>	<u>2,820,188</u>
Decreased by:					
Utilized as Anticipated Revenue	3,684,640	4,660,000	4,080,000	854,000	
Transfer to Current Fund as					
Anticipated Revenue	3,000,000	4,000,000			
	<u>6,684,640</u>	<u>8,660,000</u>	<u>4,080,000</u>	<u>854,000</u>	
Fund Balance December 31	<u>\$15,936,178</u>	<u>\$ 6,799,807</u>	<u>\$ 9,720,493</u>	<u>\$ 4,146,479</u>	<u>\$ 2,820,188</u>

See accompanying notes to financial statements.



CITY OF NEWARK

SEWER UTILITY FUND - COMPARATIVE BALANCE SHEET - REGULATORY BASIS

	Unaudited		Audited		
	Balance Dec. 31, 2017	Balance Dec. 31, 2016	Balance Dec. 31, 2015	Balance Dec. 31, 2014	Balance Dec. 31, 2013
<b><u>ASSETS AND DEFERRED CHARGES</u></b>					
<u>Operating Section</u>					
Cash	\$ 12,205,434	\$ 12,246,783	\$ 6,743,273	\$ 2,984,810	\$ 2,957,199
Consumer Accounts Receivable	13,260,945	12,606,327	13,033,195	10,939,466	9,527,231
Sewer Connection Arrears			4,940	4,940	4,940
Delinquent Sewer Receivable			11,909	11,909	11,909
Sewer Liens Receivable	2,095,804	2,127,521	1,783,752	3,595,180	3,167,456
Interfunds Receivable	2,210,229	2,728,209	2,728,209	1,617,498	145,972
Deferred Charges				1,594,779	
	<u>29,772,412</u>	<u>29,708,840</u>	<u>24,305,278</u>	<u>20,748,582</u>	<u>15,814,707</u>
<u>Capital Section</u>					
Cash		935,259	20,029	1,435,578	610,646
Interfunds Receivable			492,195		
Fixed Capital	4,774,662				
Fixed Capital Authorized and Uncompleted	196,747,206	177,234,774	169,299,976	169,109,293	168,556,868
State Grant Receivable	1,164,960	1,397,960	1,397,960	1,397,960	1,397,960
Waste Water Treatment Funds - Due from State	20,504,787	21,879,500	21,591,769	26,805,440	19,851,073
	<u>223,191,615</u>	<u>201,447,493</u>	<u>192,801,929</u>	<u>198,748,271</u>	<u>190,416,547</u>
	<u>\$252,964,027</u>	<u>\$231,156,333</u>	<u>\$217,107,207</u>	<u>\$219,496,853</u>	<u>\$206,231,254</u>
<b><u>LIABILITIES, RESERVES AND FUND BALANCE</u></b>					
<u>Operating Section</u>					
Appropriation Reserves	\$ 3,169,951	\$ 3,839,743	\$ 330,836	\$ 1,120,830	\$ 976,226
Appropriation Reserves - Encumbered	257,784	2,175,481	1,178,432	1,352,820	1,304,038
Interfunds Payable		66,352	1,277,465	2,901,883	8,032
Commitments Payable	905,961	912,978		651,782	620,478
Sewer Overpayments	373,677	659,000	552,369	169,772	154,947
Accrued Payroll					28,737
Due to Tax Collector					8
Reserve for:					
Consumers' Accounts Receivable	13,260,945	12,606,327	13,033,195	10,939,466	9,527,231
Delinquent Sewer Rents Receivable			11,909	11,909	11,909
Sewer Liens Receivable	2,095,804	2,127,521	1,783,752	3,595,180	3,167,456
Sewer Connection Arrears			4,940	4,940	4,940
Fund Balance	9,708,290	7,321,438	6,132,380		10,705
	<u>29,772,412</u>	<u>29,708,840</u>	<u>24,305,278</u>	<u>20,748,582</u>	<u>15,814,707</u>
<u>Capital Section</u>					
Cash Overdraft	705,461				
Due to Sewer Operating Fund				145,972	145,971
Waste Water Treatment Trust Loan Payable	16,733,337	22,915,000	24,105,000	26,065,000	25,227,026
Waste Water Treatment Fund Loan Payable	40,464,046	42,416,643	45,484,018	48,777,796	44,473,143
Improvement Authorizations:					
Funded	9,191,270	12,403,608	16,318,310	16,753,547	13,398,297
Unfunded	53,245,868	37,141,495	31,083,280	31,103,041	44,427,207
Encumbered	19,380,790	11,624,065	7,881,471	9,782,211	9,093,278
Vouchers Payable					1
Interfunds Payable	1,545,972	645,972	648,607	4,264,467	2,635
Deferred Reserve for Amortization	81,138,863	73,261,295	66,241,828	60,797,367	52,511,489
Reserve for Sewer Construction Grant	786,008	1,039,415	1,039,415	1,058,870	1,137,500
	<u>223,191,615</u>	<u>201,447,493</u>	<u>192,801,929</u>	<u>198,748,271</u>	<u>190,416,547</u>
	<u>\$252,964,027</u>	<u>\$231,156,333</u>	<u>\$217,107,207</u>	<u>\$219,496,853</u>	<u>\$206,231,254</u>
Bonds and Notes Authorized but Not Issued	<u>\$ 63,185,622</u>	<u>\$ 38,641,837</u>	<u>\$ 33,469,130</u>	<u>\$ 33,469,130</u>	<u>\$ 46,345,210</u>

See accompanying notes to financial statements.

CITY OF NEWARK

SEWER UTILITY OPERATING FUND - COMPARATIVE STATEMENT OF OPERATIONS  
AND CHANGES IN FUND BALANCE - REGULATORY BASIS

	Unaudited	Audited			
	Balance Dec. 31, 2017	Balance Dec. 31, 2016	Balance Dec. 31, 2015	Balance Dec. 31, 2014	Balance Dec. 31, 2013
<u>Revenue and Other Income</u>					
Surplus	\$	\$	\$	\$ 10,705	\$ 277,150
Sewer Rents	55,724,880	55,876,160	52,553,249	49,661,807	51,977,346
East Orange - Passaic Valley					
Sewer Commission	2,572,184	2,862,651	2,707,606	1,464,629	2,422,878
Nonbudget Revenue	934,234	420,984	106,845	108,840	52,471
Appropriation Reserves Lapsed	5,477,879	329,439	1,723,902	1,230,664	849,107
Commitments Payable Cancelled	5,017		651,783	28,745	
	<u>64,714,194</u>	<u>59,489,234</u>	<u>57,743,385</u>	<u>52,505,390</u>	<u>55,578,952</u>
<u>Expenditures</u>					
Operating	47,817,846	46,892,793	41,744,122	46,930,986	47,877,507
Capital Outlay	1,100,000	2,780,000	750,000	500,000	550,000
Debt Service	6,012,862	6,049,269	6,195,470	6,105,966	6,584,741
Deferred Charges and Statutory					
Expenditures	396,634	578,114	1,921,413	560,720	556,000
Cancellation of Payroll Transfer				2,497	
	<u>55,327,342</u>	<u>56,300,176</u>	<u>50,611,005</u>	<u>54,100,169</u>	<u>55,568,248</u>
Excess (Deficit) in Operations	9,386,852	3,189,058	7,132,380	<u>\$(1,594,779)</u>	10,704
<u>Fund Balance</u>					
Balance January 1	7,321,438	6,132,380	-	\$ 10,705	277,151
	<u>16,708,290</u>	<u>9,321,438</u>	<u>7,132,380</u>	<u>10,705</u>	<u>287,855</u>
Decreased by:					
Utilized as Anticipated Revenue	-	-	-	10,705	277,150
Transferred to Current Fund as					
Anticipated Revenue	7,000,000	2,000,000	1,000,000		
	<u>7,000,000</u>	<u>2,000,000</u>	<u>1,000,000</u>	<u>10,705</u>	<u>277,150</u>
Balance December 31	<u>\$ 9,708,290</u>	<u>\$ 7,321,438</u>	<u>\$ 6,132,380</u>	<u>\$ -</u>	<u>\$ 10,705</u>

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See accompanying notes to financial statements.

**NOTES TO FINANCIAL STATEMENTS**

## CITY OF NEWARK

### NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2016

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### A. Reporting Entity

The City of Newark is organized as a Mayor-Council form of government pursuant to the Optional Municipal Charter Law Plan C under the provisions of N.J.S. 40:69A-1 et seq., commonly known as the Faulkner Act. Under this system, the Mayor functions as the chief executive and the nine member Municipal Council functions as the legislative body. The Mayor and Council are elected at the regular municipal election for a term of four years. One council member is elected from each of the City's five wards and four council members are elected at large.

Governmental Accounting Standards Board (GASB) Statement 14 establishes certain standards for defining and reporting on the financial reporting entity. In accordance with these standards, the reporting entity should include the primary government and those component units which are fiscally accountable to the primary government. The financial statements of the City of Newark include every board, body, officer or commission supported and maintained wholly or in part by funds appropriated by the City, as required by the provisions of N.J.S. 40A:5-5. The financial statements, however, do not include the operations of the Newark Board of Education, Library, Museum, Technical Schools, Newark Housing Authority and Newark Parking Authority, which are separate entities subject to separate examinations.

##### B. Measurement Focus, Basis of Accounting and Basis of Presentation

###### Description of Funds

The Governmental Accounting Standards Board (GASB) is the recognized standard setting body for establishing governmental accounting and financial reporting principles. The GASB establishes seven fund types and two account groups to be used by governmental units when reporting financial position and results of operations in accordance with generally accepted accounting principles (GAAP).

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

Current Fund - Encompasses resources and expenditures for basic governmental operations. Fiscal activity of Federal and State grant programs are reflected in a segregated section of the Current Fund.

Trust Funds - The records of receipts, disbursements and custodianship of monies in accordance with the purpose for which each account was created are maintained in Trust Funds. These include the Assessment Trust Fund, Animal Control Trust Fund, Other Trust Funds, Insurance Trust Fund, Grant Fund and Payroll Agency Trust Fund.

General Capital Fund - The receipts and expenditure records for the acquisition of general infrastructure and other capital facilities, other than those acquired in the Current Fund, are maintained in this Fund, as well as, related long-term debt accounts.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### B. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

#### Description of Funds (Continued)

Utilities Funds – Water and Sewer Utilities are treated as separate entities. Each maintains its own Operating and Capital Funds which reflect revenue, expenditures, stewardship, acquisitions of utility infrastructure and other capital facilities, debt service, long-term debt and other related activity.

Capital Fixed Assets – These accounts reflect estimated valuations of land, buildings and certain movable fixed assets of the City as discussed under the caption of “Basis of Accounting”.

#### Basis of Accounting

The accounting principles and practices prescribed for municipalities by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, differ in certain respects from generally accepted accounting principles. The accounting system is maintained on the modified accrual basis with certain exceptions. Significant accounting policies in New Jersey are summarized as follows:

#### Property Taxes and Other Revenue

Property taxes and other revenue are realized when collected in cash or approved by regulation for accrual from certain sources of the State of New Jersey and the Federal Government. Accruals of taxes and other revenue are otherwise deferred as to realization by the establishment of offsetting reserve accounts. GAAP requires such revenue to be recognized in the accounting period when they become susceptible to accrual, reduced by an allowance for doubtful accounts.

#### Grant Revenue

Federal and State grants, entitlements or shared revenue received for purposes normally financed through the Current Fund are recognized when anticipated in the City of Newark. GAAP requires such revenue to be recognized in the accounting period when they become susceptible to accrual.

#### Expenditures

Expenditures for general and utility operations are generally recorded on the accrual basis. Unexpended appropriation balances, except for amounts which may have been cancelled by the governing body or by statutory regulation, are automatically recorded as liabilities at December 31<sup>st</sup> of each year, under the title of “Appropriation Reserves”. Amounts unexpended at the end of the second year are lapsed and are recorded as income.

Grant appropriations are charged upon budget adoption to create separate spending reserves.

Budgeted transfers to the Capital Improvement Fund are recorded as expenditures to the extent permitted by law.

Expenditures from Trust and Capital Funds are recorded upon occurrence and charged to accounts statutorily established for specific purposes.

Budget Appropriations for interest on General Capital Long-Term Debt is raised on the cash basis and is not accrued on the records; interest on Utility Debt is raised on the accrual basis and so recorded.

GAAP requires expenditures to be recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which should be recognized when due.

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **B. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)**

#### **Basis of Accounting (Continued)**

##### **Encumbrances**

As of January 1, 1986 all local units were required by Technical Accounting Directive No. 85-1, as promulgated by the Division of Local Government Services, to maintain an encumbrance accounting system. The directive states that contractual orders outstanding at December 31<sup>st</sup> are reported as expenditures through the establishment of an encumbrance payable. Encumbrances do not constitute expenditures under GAAP.

##### **Appropriation Reserves**

Appropriation reserves are available, until lapsed at the close of the succeeding year, to meet specific claims, commitments or contracts incurred during the preceding year. Lapsed appropriation reserves are recorded as additions to income. Appropriation reserves do not exist under GAAP.

##### **Compensated Absences**

Expenditures relating to obligations for unused vested accumulated sick, vacation and compensatory pay are not recorded until paid. GAAP requires that the amount that would normally be liquidated with expendable available financial resources be recorded as an expenditure in the operating funds and the remaining obligations be recorded as a long-term obligation.

##### **Property Acquired for Taxes**

Property Acquired for Taxes (Foreclosed Property) should be recorded in the Current Fund at the assessed valuation during the year when such property was acquired by deed or foreclosure and is offset by a corresponding reserve account. GAAP requires such property to be recorded in the capital fixed assets at market value on the date of acquisition.

##### **Self-Insurance Contributions**

Contributions to self-insurance funds are charged to budget appropriations. GAAP requires that payments be accounted for as an operating transfer and not as an expenditure.

##### **Interfunds Receivable**

Interfunds Receivable in the Current Fund are generally recorded with offsetting reserves which are established by charges to operations. Collections are recognized as income in the year that the receivables are realized. Interfunds Receivable of all other funds are recorded as accrued and are not offset with reserve accounts. Interfunds Receivable of one fund are offset with Interfunds Payable of the corresponding fund. GAAP does not require the establishment of an offsetting reserve.

##### **Inventories of Supplies**

Materials and supplies purchased by all funds are recorded as expenditures.

An annual inventory of materials and supplies for the Water and Sewer Utility Funds are required, by regulation, to be prepared by City personnel for inclusion on the Water and Sewer Operating Fund balance sheets. Annual changes in valuations, offset with a Reserve Account, are not considered as affecting results of operations. Materials and supplies of other funds are not inventoried nor included on their respective balance sheets.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)**

**Basis of Accounting (Continued)**

**Capital Fixed Assets**

General:

In accordance with Technical Accounting Directive No. 85-2, Accounting for Governmental Capital Fixed Assets, as promulgated by the Division of Local Government Services, which differs in certain respects from generally accepted accounting principles, the City of Newark has developed a capital fixed asset accounting and reporting system.

GAAP requires that capital fixed assets be capitalized at historical or estimated historical cost if actual historical cost is not available. Depreciation on utility capital fixed assets should also be recorded.

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

Acquisitions of land, buildings, machinery, equipment and other capital assets are recorded on a perpetual fixed asset record.

Vehicles, furniture, equipment and other items are reflected at replacement values at time of inventory preparation. Additions to the established capital fixed assets are valued at cost.

Depreciation of assets is not recorded as an operating expense of the City.

Utilities:

Capital acquisitions, including utility infrastructure costs of the Water and Sewer Utility Funds, are recorded at cost upon purchase or project completion in the Fixed Capital Account of the utilities. The Fixed Capital Accounts are adjusted for dispositions or abandonments. The accounts include movable fixed assets of the Utilities but are not specifically identified and are considered as duplicated in the Capital Fixed Assets. The duplication is considered as insignificant on its effect on the financial statements taken as a whole.

Utility improvements that may have been constructed by developers are not recorded as additions to Fixed Capital.

Fixed Capital of the Utility is offset by accumulations in Amortization Reserve Accounts. The accumulations represent costs of fixed assets purchased with budgeted funds or acquired by gift as well as grants, developer contributions or liquidations of related bonded debt and other liabilities incurred upon capital fixed asset acquisition.

The Fixed Capital Accounts reflected herein are as recorded in the records of the municipality and do not necessarily reflect the true condition of such Fixed Capital. The records consist of a control account only. Detailed records are not maintained.

**C. Basic Financial Statements**

The GASB Codification also defines the financial statements of a governmental unit to be presented in the general purpose financial statements to be in accordance with GAAP. The City of Newark presents the financial statements listed in the table of contents which are required by the Division of Local Government Services and which differ from the financial statements required by GAAP. In addition, the Division requires the financial statements listed in the table of contents to be referenced to the supplementary schedules. This practice differs from GAAP.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### D. Recent Accounting Pronouncements

In June 2015, the Government Accounting Standards Board issued GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68. This Statement is effective for periods beginning after June 15, 2015 - except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for financial statements for periods beginning after June 15, 2016. The City is currently reviewing what effect, if any, this Statement might have on future financial statements.

In June 2015, the Government Accounting Standards Board issued GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. This Statement applies to OPEB plans and basically parallels GASB Statement 67 and replaces GASB Statement 43 and is effective for periods beginning after June 15, 2016. The City is currently reviewing what effect, if any, this Statement might have on future financial statements.

In June 2015, the Government Accounting Standards Board issued GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This Statement applies to government employers who provided OPEB plans to their employees and basically parallels GASB Statement 68 and replaces GASB Statement 45. The Statement is effective for periods beginning after June 15, 2017. The City is currently reviewing what effect, if any, this Statement might have on future financial statements.

In June 2015, the Government Accounting Standards Board issued GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, which reduces the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the American Institute of Certified Public Accountants that is cleared by the GASB. This Statement is effective for periods beginning after June 15, 2015. The City is currently reviewing what effect, if any, this Statement might have on future financial statements.

In August 2015, the Government Accounting Standards Board issued GASB Statement No. 77, Tax Abatement Disclosures, which improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition. The City is currently reviewing what effect, if any, this Statement might have on future financial statements.

In December 2015, the Government Accounting Standards Board issued GASB Statement No. 78, Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement is effective for reporting periods beginning after December 15, 2015. The City is currently reviewing what effects, if any, this Statement might have on future financial statements.



## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **D. Recent Accounting Pronouncements (Continued)**

In December 2015, the Government Accounting Standards Board issued GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it established criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement is effective for periods beginning after June 15, 2015, and for certain provisions, periods beginning after December 15, 2015. The City is currently reviewing what effects, if any, this Statement might have on future financial statements.

In January 2016, the Government Accounting Standards Board issued GASB Statement No. 80, *Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended and is effective for reporting periods beginning after June 15, 2016. The City is currently reviewing what effect, if any, this Statement might have on future financial statements.

In March 2016, the Government Accounting Standards Board issued GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement and is effective for reporting periods beginning after December 15, 2016. The City is currently reviewing what effect, if any, this Statement might have on future financial statements.

In March 2016, the Government Accounting Standards Board issued GASB Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68 and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pensions*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements and is effective for reporting periods beginning after June 15, 2017. The City is currently reviewing what effect, if any, this Statement might have on future financial statements.

In November 2016, the Government Accounting Standards Board issued GASB Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (ARO's). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement and is effective for reporting periods beginning after June 15, 2017. The City is currently reviewing what effect, if any, this Statement might have on future financial statements.

## **2. CASH, CASH EQUIVALENTS AND INVESTMENTS**

### **A. Cash and Cash Equivalents**

New Jersey statutes permit the deposit of public funds in institutions located in New Jersey, which are insured by the Federal Deposit Insurance Corporation (FDIC) or any other agencies of the United States that insures deposits or the State of New Jersey Cash Management Fund.

## 2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

### A. Cash and Cash Equivalents (Continued)

The State of New Jersey Cash Management Fund is authorized by statute and regulations of the State Investment Council to invest in fixed income and debt securities which mature or are redeemed within one year. Twenty-five percent of the Fund may be invested in eligible securities which mature within two years provided, however, the average maturity of all investments in the Fund shall not exceed one year. Collateralization of Fund investments is generally not required.

In addition, by regulation of the Division of Local Government Services, municipalities are allowed to deposit funds in the Municipal Bond Insurance Association (MBIA) through their investment management company, the Municipal Investors Service Corporation.

In accordance with the provisions of the Governmental Unit Deposit Protection Act of New Jersey, public depositories are required to maintain collateral for deposits of public funds that exceed insurance limits as follows:

The market value of the collateral must equal five percent of the average daily balance of public funds, or

If the public funds deposited exceed 75 percent of the capital funds of the depository, the depository must provide collateral having a market value equal to 100 percent of the amount exceeding 75 percent.

All collateral must be deposited with the Federal Reserve Bank, The Federal Home Loan Bank Board or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000.00.

As of December 31, 2016 and 2015, the City's cash, cash equivalents and investments consisted of:

	<u>2016</u>	<u>2015</u>
City National Bank - Checking Accounts	\$ 12,247,526.52	\$ 12,977,949.33
Wells Fargo - Checking Accounts	30,123,715.71	102,973,081.05
Investors Bank - Checking Accounts	647.79	647.00
TD Bank - Checking Accounts	134,336,291.70	12,743,708.90
Bank of America - Checking Accounts	15,837.62	15,828.07
PNC - Checking Accounts	12,549,644.69	14,421,338.01
PNC - Money Market Accounts	8,312,566.08	8,308,422.27
U.S. Bank - Checking Accounts	13,400,000.00	
Crown Bank - Checking Accounts	1,259.50	1,389.50
Garden State Community Bank - Checking Accounts	40,417,391.07	73,760,821.08
Popular Community Bank - Checking Accounts	2,597,904.34	594,960.74
Santander Bank - Checking Accounts	2,031,207.08	31,203.05
New York Community Bank - Checking Accounts	<u>34,015,941.21</u>	
Total Cash and Cash Equivalents	<u>\$ 290,049,933.31</u>	<u>\$ 225,829,349.00</u>

The carrying amount of the City's cash, cash equivalents and investments at December 31, 2016 was \$319,092,611.00. Of the bank balance \$11,971,941.60 was covered by Federal Depository Insurance and \$307,120,669.40 was covered by the Governmental Unit Deposit Protection Act (GUDPA), N.J.S.A. 17:9-41, et seq., for all New Jersey governmental units' deposits in excess of the Federal deposit maximums.

## **2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

### **A. Cash and Cash Equivalents (Continued)**

During the year, the City had none of its idle funds invested in repurchase agreements collateralized by eligible securities. At the close of 2016 and 2015, no such investments were held by the City.

As of December 31, 2016 and 2015, the City had no investments.

### **B. Investments**

New Jersey statutes permit the City to purchase the following types of securities:

- . Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America. This includes instruments such as Treasury bills, notes and bonds.
- . Government money market mutual funds.
- . Any federal agency or instrumentality obligation authorized by Congress that matures within 397 days from the date of purchase, and has a fixed rate of interest not dependent on any index or external factors.
- . Bonds or other obligations of the local unit or school districts of which the local unit is a part.
- . Any other obligations with maturities not exceeding 397 days, as permitted by the Division of Investments.
- . Local government investment pools, such as New Jersey CLASS, and the New Jersey Arbitrage Rebate Management Program.
- . New Jersey State Cash Management Fund.
- . Repurchase agreements of fully collateralized securities subject to special conditions.

In addition, a variety of State laws permit local governments to invest in a wide range of obligations issued by State Governments and its agencies.

As of December 31, 2016, the City had funds on deposit in checking accounts. These funds constitute "deposits with financial institutions" as defined by GASB Statement No. 3 and amended by GASB Statement No. 40. There were no securities categorized as investments as defined by GASB Statement No. 40.

## **3. TAXES AND TAX TITLE LIENS RECEIVABLE**

Property assessments are determined on true values and taxes are assessed based upon these values. The residential tax bill includes the levies for the City, County and School purposes. Certified adopted budgets are submitted to the County Board of Taxation by each taxing district. The tax rate is determined by the board upon the filing of these budgets.

The tax bills are mailed by the Tax Collector annually and are payable in four quarterly installments due the first of August and November of the current year and a preliminary billing due the first of February and May of the subsequent year. The August and November billings represent the third and fourth quarter installments and are calculated by taking the total year tax levy less the preliminary first and second quarter installments due February and May. The preliminary levy is based on one-half of the current year's total tax.

### 3. TAXES AND TAX TITLE LIENS RECEIVABLE (Continued)

The Tax Collector's balances include items which were not in the tax sale. The report includes taxes billed for added, omitted and added/omitted items in bankruptcy, installment agreements, appeals and other items which were not subject to be included in the tax sale.

Tax installments not paid by the above due dates are subject to interest penalties determined by a resolution of the governing body. The rate of interest in accordance with the aforementioned resolution is 8% per annum on the first \$1,500 of delinquency and 18% on any delinquency in excess of \$1,500. The resolution also sets a grace period of ten days before interest is calculated. In addition, any delinquency in excess of \$10,000 at the end of the calendar year is subject to a 6% penalty on the unpaid balance.

Taxes unpaid on the 11<sup>th</sup> day of the eleventh month in the fiscal year when the taxes became in arrears are subject to the tax sale provisions of the New Jersey statutes. The municipality may institute in rem foreclosure proceedings after six months from the date of the sale if the lien has not been redeemed.

The following is a five year comparison of certain statistical information relative to property taxes and property tax collections for the current and previous four years:

#### Comparative Tax Rate Information

Year	Assessed Valuation	Tax Rate	Apportionment of Tax Rate			
			Municipal*	County	Local School	Library
2016	\$ 12,236,101,176.00	\$3.440	\$1.811	\$0.581	\$1.012	\$0.036
2015	12,345,954,600.00	3.309	1.740	0.571	0.962	0.036
2014	12,435,612,111.00	3.101	1.581	0.545	0.937	0.038
2013	12,979,522,245.00	2.953	1.455	0.578	0.882	0.038
2012	10,871,953,866.00	3.452	1.649	0.709	1.044	0.050

\*Includes Open Space.

#### Comparison of Tax Levies

Year	Tax Levy	Cash Collections	Percentage of Collections
2016	\$ 428,980,343.81 *	\$ 413,284,592.60	96.34 %
2015	416,155,548.98 *	400,276,147.02	96.18
2014	392,064,911.06 *	376,813,047.93	96.11
2013	377,472,385.47 *	348,817,914.76	92.41
2012	378,379,362.53 *	364,231,244.43	96.26

\*Adjusted for reductions due to tax appeals in accordance with R.S. 54:3-21.

#### Delinquent Taxes and Tax Title Liens

Year	Tax Title Liens	Amount of Delinquent Taxes	Total Delinquent Taxes	Percentage of Tax Levy
2016	\$ 36,552,758.64	\$ 6,433,615.33	\$ 42,986,373.97	9.61 %
2015	36,331,138.89	4,759,691.04	41,090,829.93	9.87
2014	37,188,531.04	2,506,590.24	39,695,121.28	10.12
2013	29,045,983.50	22,454,342.05	51,500,325.55	13.64
2012	27,954,820.15	683,874.16	28,638,694.31	7.56

#### 4. PROPERTY ACQUIRED BY TAX TITLE LIEN LIQUIDATION

The value of property acquired by purchase, gift, deed and liquidation of tax title liens, on the basis of the last assessed valuation of such properties in the year of acquisition, was as follows:

<u>Year</u>	<u>Amount</u>
2016	\$ 132,388,937.35
2015	132,103,679.72
2014	131,612,758.28
2013	131,612,758.28
2012	131,224,637.97

#### 5. WATER RENTS ACCOUNTS RECEIVABLE

The City of Newark maintains a Utility Fund for the billing and collection of water rents. A comparison of water rent billings and collections for the past five years are as follows:

<u>Year</u>	<u>Billings</u>	<u>Collections</u>
2016	\$ 55,501,233.94	\$ 53,855,445.65
2015	52,074,418.45	51,083,656.98
2014	47,677,394.64	46,316,460.94
2013	45,325,966.90	45,890,706.01
2012	48,886,604.28	46,279,562.45

The sums of billings and collections include interest penalties. Realization of prior year unpaid balances are also included in the collections above.

#### 6. SEWER CHARGES ACCOUNTS RECEIVABLE

The City of Newark maintains a Utility Fund for the billing and collection of sewer rents. A comparison of sewer rent billings and collections for the past five years are as follows:

<u>Year</u>	<u>Billings</u>	<u>Collections</u>
2016	\$ 55,917,284.15	\$ 55,423,280.64
2015	52,858,905.04	50,741,821.11
2014	51,540,453.06	49,661,806.90
2013	52,508,092.14	51,977,345.95
2012	48,298,467.01	48,028,151.88

The sums of billings and collections include interest penalties. Realization of prior year unpaid balances are also included in the collections above.

## 7. FUND BALANCE APPROPRIATED

	<u>Year</u>	<u>Balance December 31</u>	<u>Utilized in Budget of Succeeding Year</u>	<u>Anticipated as Current Fund Revenue</u>
Current Fund:	2016	\$ 40,282,274.59	\$ -	\$ -
	2015	29,554,235.74	-	-
	2014	-	-	-
	2013	-	-	-
	2012	11,411,387.66	12,904,747.74	-
Water Utility Operating Fund:	2016	6,684,640.02	3,684,640.00	3,000,000.00
	2015	11,157,120.66	4,660,000.00	-
	2014	4,146,479.30	880,000.00	-
	2013	2,820,187.83	854,000.00	-
	2012	2,753,607.41	-	-
Sewer Utility Operating Fund:	2016	7,321,438.17	-	7,000,000.00
	2015	6,132,379.70	-	-
	2014	-	-	-
	2013	10,704.85	77,200.00	-
	2012	277,150.59	277,150.00	-

## 8. PENSION PLANS

### Description of Systems

Substantially all of the City's employees participate in one of the following contributory defined benefit public employee retirement systems which have been established by State statute: the Public Employees' Retirement System (PERS), the Police and Firemen's Retirement System (PFRS) or the Consolidated Police and Firemen's Pension Fund (CPFPPF). These systems are sponsored and administered by the New Jersey Division of Pensions and Benefits. The Public Employees' Retirement System and the Police and Firemen's Retirement System are considered a cost-sharing multiple-employer plan.

The amount of the City's contribution is certified each year by PERS, PFRS and CPFPPF on the recommendation of the actuary, who makes an annual actuarial valuation. The valuation is based on a determination of the financial condition of the retirement system. It includes the computation of the present dollar value of benefits payable to former and present members and the present dollar value of future employer and employee contributions, giving effect to mortality among active and retired members and also to the rates of disability, retirement, withdrawal, former service, salary and interest. In accordance with State statute, the long-term expected rate of return on plan investments is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. Specific information on actuarial assumptions and rates of return can be found at [www.state.nj.us/treasury/pensions/annrpts.shtml](http://www.state.nj.us/treasury/pensions/annrpts.shtml).

## 8. PENSION PLANS (Continued)

### Description of Systems (Continued)

The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits in the PERS, PFRS and CPFPPF. In the PERS, PFRS and CPFPPF the employer contribution includes funding for post-retirement medical premiums.

	PERS*		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Covered Employee Payroll	\$ 71,568,433	\$ 77,011,619	\$ 76,510,665
Actuarial Contribution			
Requirements	9,085,787	9,830,017	9,467,702
Total Contributions	14,188,657	15,109,435	14,733,722
Employer Share	9,085,787	9,830,017	9,467,702
% of Covered Payroll	12.70%	12.76%	12.37%
Employee's Share	5,102,870	5,279,418	5,266,020
% of Covered Payroll	7.13%	6.86%	6.88%

\*Includes Library.

	PFRS - Police		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Covered Employee Payroll	\$ 93,669,558	\$ 103,481,204	\$ 100,796,661
Actuarial Contribution			
Requirements	24,425,038	25,834,133	25,373,368
Total Contributions	33,791,994	36,153,051	35,481,494
Employer Share	24,425,038	25,834,133	25,373,368
% of Covered Payroll	26.08%	24.97%	25.17%
Employee's Share	9,366,956	10,318,918	10,108,126
% of Covered Payroll	10.00%	9.97%	10.03%

	PFRS - Fire		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Covered Employee Payroll	\$ 60,387,515	\$ 58,764,491	\$ 58,265,163
Actuarial Contribution			
Requirements	15,001,332	15,122,490	13,934,937
Total Contributions	21,040,084	21,020,092	19,784,411
Employer Share	15,001,332	15,122,490	13,934,937
% of Covered Payroll	24.84%	25.73%	23.92%
Employee's Share	6,038,752	5,897,602	5,849,474
% of Covered Payroll	10.00%	10.04%	10.04%

### **Assumptions**

The total PERS and PFRS pension liability for June 30, 2016 measurement date was determined by an actuarial valuation as of July 1, 2015 using an actuarial experience study for the period July 1, 2011 to June 30, 2014. The pension liability was rolled forward to June 30, 2016. The actuarial valuation used an inflation rate of 3.08% projected salary increases to 2026 of 1.65% to 4.15% for PERS and 2.10% to 8.98% for PFRS based on age and thereafter 2.65% to 5.15% for PERS and 3.10% to 9.98% for PFRS based on age and an investment rate of return of 7.65%.

## 8. PENSION PLANS (Continued)

### Description of Systems (Continued)

#### *Assumptions (Continued)*

The discount rate used to measure the total pension liability was 3.98% for PERS and 5.55% for PFRS as of June 30, 2016. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 30% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2034 for PERS and 2050 for PFRS. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2034 for PERS and 2050 for PFRS and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability. More information on mortality rates and other assumptions, and investment policies, can be found at [www.state.nj.us/treasury/pensions/annrpts.shtml](http://www.state.nj.us/treasury/pensions/annrpts.shtml).

#### *Public Employees' Retirement System:*

The Public Employees' Retirement System (PERS) was established as of January 1, 1955 under the provisions of N.J.S.A. 43:15A to provide retirement, death, disability and medical benefits to certain qualified members. The Public Employees' Retirement System is a cost-sharing, multiple-employer plan. Membership is mandatory for substantially all full-time employees of the State of New Jersey or any county, municipality, school district or public agency, provided the employee is not required to be a member of another State-administered retirement system or other state of local jurisdiction.

#### Significant Legislation

P.L. 2011, c. 78, effective June 28, 2011, made various changes to the manner in which PERS operates and to the benefit provisions of that system. Provisions impacting employee pension and health benefits include:

- New members of PERS hired on or after June 28, 2011 (Tier 5 members), will need 30 years of creditable service and age 65 for receipt of the early retirement benefit without a reduction of  $\frac{1}{4}$  to 1 percent for each month that the member is under age 65.
- The eligibility to qualify for a service retirement in the PERS is increased from age 62 to 65 for Tier 5 members.
- Active member contribution rates will increase. PERS active member rates increase from 5.5 percent of annual compensation to 6.5 percent plus an additional 1 percent phased-in over 7 years. For Fiscal Year 2013, the member contribution rates increased in July 2013. The phase-in of the additional incremental member contributions for PERS members will take place in July of each subsequent fiscal year.
- The payment of automatic cost-of-living adjustment (COLA) additional increases to current and future retirees and beneficiaries is suspended until reactivated as permitted by this law.

In addition, the method for amortizing the pension systems' unfunded accrued liability changed (from a level percent of pay method to a level dollar of pay).



**8. PENSION PLANS (Continued)**

**Significant Legislation (Continued)**

The following presents the City's proportionate share of the PERS net pension liability calculated using the discount rate of 3.98% and 4.90% as of June 30, 2016 and 2015, respectively, as well as what the PERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the assumed rate.

**Sensitivity of the City's Proportionate Share of the PERS Local Share  
Net Pension Liability to Changes in the Discount Rate**

	At 1% Decrease <u>(2.98%)</u>	At Current Discount Rate <u>(3.98%)</u>	At 1% Increase <u>(4.98%)</u>
2016	<u>\$ 371,172,619</u>	<u>\$ 302,903,284</u>	<u>\$ 246,541,028</u>
	At 1% Decrease <u>(3.90%)</u>	At Current Discount Rate <u>(4.90%)</u>	At 1% Increase <u>(5.90%)</u>
2015	<u>\$ 319,004,810</u>	<u>\$ 256,666,303</u>	<u>\$ 204,402,149</u>

**Description of Systems**

**Police and Firemen's Retirement System:**

The Police and Firemen's Retirement System (PFRS) was established in July, 1944 under the provisions of N.J.S.A. 43:16A to provide coverage to substantially all full-time county and municipal police and firemen and State firemen appointed after June 30, 1944. Membership is mandatory for such employees. Members may opt for Service Retirement if over age 55 or Special Retirement at any age if they have a minimum of 25 years of service or 20 years of service if enrolled in the PFRS as of January 18, 2000. Retirement benefits vary depending on age and years of service.

Chapter 428, Public Law of 1999, effective January 18, 2000, allows a member, age 55 and older with 20 or more years of service, to retire with a benefit equaling 50% of final compensation, in lieu of the regular retirement allowance available to the member. Final compensation means the compensation received by the member in the last twelve months of creditable service preceding retirement.

In addition, a member of the system as of the effective date of this law may retire with 20 or more years of service with a retirement allowance of 50% of final compensation, regardless of age, and, if required to retire because of attaining the mandatory retirement age of 65, an additional 3% of final compensation for every additional year of creditable service up to 25 years.

P.L. 2011, c. 78, effective June 28, 2011, made various changes to the manner in which PFRS operates and to the benefit provisions of that system.

This new legislation's provisions impacting employee pension and health benefits include:

- The annual benefit under special retirement for new PFRS members enrolled after June 28, 2011 (Tier 3 members), will be 60 percent instead of 65 percent of the member's final compensation plus 1 percent for each year of creditable service over 25 years but not to exceed 30 years.

**8. PENSION PLANS (Continued)**

**Description of Systems (Continued)**

***Police and Firemen's Retirement System: (Continued)***

Consolidated Police and Firemen's Retirement System:

The Consolidated Police and Firemen's Pension Fund (CPFPPF) is a closed system with no active members and was established in January 1952 to provide coverage to municipal police and firemen who were appointed prior to July 1, 1944.

The following presents the City's proportionate share of the PFRS net pension liability calculated using the discount rate of 5.55% and 5.79% as of June 30, 2016 and 2015, respectively, as well as what the PFRS net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the assumed rate.

***Sensitivity of the City's Proportionate Share of the PFRS Local Share - Police  
Net Pension Liability to Changes in the Discount Rate***

	At 1% Decrease (4.55%)	At Current Discount Rate (5.55%)	At 1% Increase (6.55%)
2016	<u>\$ 762,725,091</u>	<u>\$ 572,752,514</u>	<u>\$ 416,933,585</u>
	At 1% Decrease (4.79%)	At Current Discount Rate (5.79%)	At 1% Increase (6.79%)
2015	<u>\$ 759,092,931</u>	<u>\$ 529,379,542</u>	<u>\$ 426,348,881</u>

***Sensitivity of the City's Proportionate Share of the PFRS Local Share - Fire  
Net Pension Liability to Changes in the Discount Rate***

	At 1% Decrease (4.55%)	At Current Discount Rate (5.55%)	At 1% Increase (6.55%)
2016	<u>\$ 462,962,096</u>	<u>\$ 351,465,163</u>	<u>\$ 260,546,340</u>
	At 1% Decrease (4.79%)	At Current Discount Rate (5.79%)	At 1% Increase (6.79%)
2015	<u>\$ 444,349,158</u>	<u>\$ 309,882,153</u>	<u>\$ 249,571,243</u>

## 8. PENSION PLANS (Continued)

### ***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension***

Although the Division administers one cost-sharing multiple-employer defined benefit pension plan, separate (sub) actuarial valuations are prepared to determine the actuarially determined contribution rate by group. Following this method, the measurement of the collective net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense excluding that attributable to employer-paid member contributions are determined separately for each individual employer of the State and local groups.

To facilitate the separate (sub) actuarial valuations, the Division maintains separate accounts to identify additions, deductions, and fiduciary net position applicable to each group. The allocation percentages presented for each group in the schedule of employer allocations are applied to amounts presented in the schedules of pension amount by employer. The allocation percentages for each group as of June 30, 2016 and 2015 are based on the ratio of each employer's contributions to total employer contributions of the group for the fiscal years ended June 30, 2016 and 2015, respectively.

Following is the total of the City's portion of the PERS and PFRS net pension liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and the pension expense and expenditures for the fiscal year ended June 30, 2016:

	<u>PERS</u>	<u>PFRS - Police</u>	<u>PFRS - Fire</u>
Net Pension Liabilities	\$ 302,903,284	\$ 572,252,514	\$ 351,465,163
Deferred Outflow of Resources	79,928,442	119,358,245	77,251,520
Deferred Inflow of Resources	22,309,602	52,978,415	8,144,537
Pension Expense	15,202,781	23,707,544	22,292,946
Contributions Made After Measurement Date	9,085,787	24,425,038	15,001,332

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, requires participating employers in PERS to recognize their proportionate share of the collective net pension liability, collected deferred outflows of resources, collective deferred inflows of resources and collective pension expense excluding that attributable to employer-paid member contributions. The employer allocation percentages presented in the PERS schedule of employer allocations and applied to amounts presented in the PERS schedule of pension amounts by employer are based on the ratio of the contributions as an individual employer to total contributions to the PERS and PFRS during the years ended June 30, 2015 and 2014. The City's proportionate share of the collective net pension liability as of June 30, 2016 and 2015 was 1.0227299726% and 1.1433818028% for PERS, 2.9956852650% and 3.1782132220% for PFRS - Police and 1.8398853349% and 1.8604261915% for PFRS - Fire, respectively.

It is important to note that New Jersey's municipalities and counties do not follow GAAP accounting principles and, as such, do not follow GASB requirements with respect to recording the net pension liability as a liability on their balance sheets. However, N.J.A.C. 5:30-6.1(c)(2) requires municipalities and counties to disclose GASB 68 information in the Notes to the Financial Statements.

## 8. PENSION PLANS (Continued)

### *Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)*

At June 30, 2016, the amount determined as the City's proportionate share of the PERS net pension liability was \$302,903,284. For the year ended June 30, 2016, the City would have recognized PERS pension expense of \$15,202,781. At June 30, 2016, deferred outflows of resources and deferred inflows of resources related to the PERS pension are as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Expected and Actual Experience	\$ 5,633,083	\$
Change of Assumptions	62,745,381	
Net Change in Proportions	11,549,978	22,309,602
Total Contributions and Proportionate Share of Contributions After the Measurement Date	<u>9,085,787</u>	<u>                    </u>
	<u>\$ 89,014,229</u>	<u>\$ 22,309,602</u>

At June 30, 2016, the amount determined as the City's proportionate share of the PFRS - Police net pension liability was \$572,752,514. For the year ended June 30, 2016, the City would have recognized PFRS - Police pension expense of \$23,707,544. At June 30, 2016, deferred outflows of resources and deferred inflows of resources related to the PFRS pension are as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Expected and Actual Experience	\$	\$ 3,751,197
Change of Assumptions	79,261,671	
Net Difference Between Projected and Actual Investment Earnings	40,096,574	
Net Change in Proportions		49,227,218
Total Contributions and Proportionate Share of Contributions After the Measurement Date	<u>24,425,038</u>	<u>                    </u>
	<u>\$ 143,783,283</u>	<u>\$ 52,978,415</u>

## 8. PENSION PLANS (Continued)

### *Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)*

At June 30, 2016, the amount determined as the City's proportionate share of the PFRS - Fire net pension liability was \$351,465,163. For the year ended June 30, 2016, the City would have recognized PFRS - Fire pension expense of \$22,292,946. At June 30, 2016, deferred outflows of resources and deferred inflows of resources related to the PFRS pension are as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Expected and Actual Experience	\$	\$ 2,303,906
Change of Assumptions	48,680,813	
Net Difference Between Projected and Actual Investment Earnings	24,626,456	
Net Change in Proportions	3,944,251	5,840,631
Total Contributions and Proportionate Share of Contributions After the Measurement Date	<u>15,001,332</u>	
	<u>\$ 92,252,852</u>	<u>\$ 8,144,537</u>

### *Long-Term Expected Rate of Return*

The arithmetic mean return on the portfolio was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.00%	0.87%
U.S. Treasuries	1.50%	1.74%
Investment Grade Credit	8.00%	1.79%
Mortgages	2.00%	1.67%
High Yield Bonds	2.00%	4.56%
Inflation-Indexed Bonds	1.50%	3.44%
Broad U.S. Equities	26.00%	8.53%
Developed Foreign Equities	13.25%	6.83%
Emerging Market Equities	6.50%	9.95%
Private Equity	9.00%	12.40%
Hedge Funds/Absolute Return	12.50%	4.68%
Real Estate (Property)	2.00%	6.91%
Commodities	0.50%	5.45%
Global Debt ex U.S.	5.00%	-0.25%
REIT	5.25%	5.63%

## 8. PENSION PLANS (Continued)

### *Long-Term Expected Rate of Return (Continued)*

Employees' Retirement System:

The Employees' Retirement System was created in November 1954 by Ch. 218, P.L. 1954 by the merger of the former Newark Municipal Employees' Pension Fund, Newark Board of Health Pension Fund and Newark Board of Workers' Pension Fund as at January 1, 1955.

Additional legislation effective August 26, 1966 provides that in the fiscal year 1979, "the City shall increase its contributions by 13% of the amount of the salaries paid to all members of the Pension Fund in 1978 and in each fiscal year thereafter the contribution of the City shall be increased over the previous percentage by an additional 1% of the salaries paid to all members of the Pension Fund in the immediate preceding year until the actuary shall certify to the City that the total of the contributions made by the City, together with the contributions of the members and all earnings, is sufficient to meet the liabilities of the fund on a fully funded, reserve basis".

The plan provides a method for a permanent employee of the City to receive credit for all or part of the time served prior to joining the Retirement System by payment into the fund of an amount computed in the manner prescribed by the statute. The payment may be made in one lump sum or payroll deductions over a maximum of ten years. In accordance with Senate Bill 332 effective February 21, 1969, the employer is required to match the employee's total prior service time purchase, without interest, as soon as the employee enters into the contract.

Effective January 1, 1972 (P.L. 1971, Ch. 277) a "cost of living" increase was granted to all retirees who were receiving a pension for at least three calendar years. The "ratio of increase", which will apply to the pension originally granted, is based on the Consumer Price Index for Urban Wage Earners and Clerical Workers of the United States Department of Labor. The "ratio of increase" will be reviewed annually by the Director of the Division of Pensions of the State Department of the Treasury to determine if there will be any changes to the "cost of living" increase originally granted. The employer shall bear the cost of the increase in the pensions payable to retirees who retired from the employ of such employer.

Additional legislation (P.L. 1981, Ch. 565), effective May 30, 1982, provided for the creation of a special account in the Pension Fund for all elected officials of the City of Newark. Elected officials must contribute at a rate of 5% of their salaries with the City contributing at a rate of 20% of their salaries.

The allocation of members' contributions between current and prior years' service payments is reflected on the basis of the allocations made by Administrators of the Fund.

The membership voted to join the State Pension Fund. The Commissioner approved the Social Security Referendum Certification number of 974 members who opted to go into the State Pension Fund on September 6, 1990.

To fund the future retirees we hereby quote N.J. Statute Section E of 43:13-22.29:

(E) All moneys required to meet the City contributions provided for under this and all other sections of this act shall be appropriated annually in the City budget of the Governing Body. If at any time there is not sufficient money to meet the requirements of this system and pay the pensions or other benefits provided for herein, the Governing Body shall, from time to time, include in any tax levy a sum sufficient to meet the said requirements and payments of the retirement system, provided, however that no insufficiency of funds shall be made up by the City unless and until the commission shall have required deductions from employees at the maximum rates set forth in subsection (A) of this section L. 1954, c. 218, p. 824,27.

## 8. PENSION PLANS (Continued)

### Contributions Required and Made

Contributions made by the employees for PERS was 7.06% from January 1, 2016 to June 30, 2016 and 7.20% from July 1, 2016 to December 31, 2016. PFRS is 10.0% of their base wages. Employer contributions are actuarially determined on an annual basis by the Division of Pensions.

Employee Contributions for PERS employees will be increased from 6.5% to 7.5% to be phased in equally over a 7 year period beginning July 2012. The contribution rate will increase by 0.14% each year with the first payroll of July until the 7.5% contribution rate is reached in July 2018. Employer contributions are actuarially determined on an annual basis by the Division of Pensions. All other employees are enrolled in the Newark Municipal Employees' Pension Fund. Contributions to the plan for the past three (3) years are as follows:

<u>Year</u>	<u>PERS</u>		<u>PFRS</u>	
	<u>City</u>	<u>Employees</u>	<u>City</u>	<u>Employees</u>
2016	\$ 10,478,344.68	\$ *	\$ 43,665,241.46	\$ *
2015	9,651,849.12	*	43,493,100.76	*
2014	6,855,428.04	*	44,392,706.85	*
			Newark Municipal <u>Employees</u>	
	<u>CPFRS</u>		<u>City</u>	
<u>Year</u>	<u>City</u>			
2016	\$ 154,605.73		\$ 400,000.00	
2015	135,063.54		400,000.00	
2014	67,457.86		268,333.00	

\*Not Available - See Notes and Comments.

## 9. DEFINED CONTRIBUTION RETIREMENT PROGRAM

### Description of System

The Defined Contribution Retirement Program (DCRP) was established on July 1, 2007 for certain public employees under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007. The program provides eligible members, with a minimum base salary of \$1,500.00 or more, with a tax-sheltered, defined contribution retirement benefit, in addition to life insurance and disability coverage. As of May 21, 2010, the municipal base salary required for eligibility in the DCRP was increased to \$5,000.00. The DCRP is jointly administered by the Division of Pensions and Benefits and Prudential Financial.

If the eligible elected or appointed official will earn less than \$5,000.00 annually, the official may choose to waive participation in the DCRP for that office or position. This waiver is irrevocable.

This retirement program is a new pension system where the value of the pension is based on the amount of the contribution made by the employee and employer and through investment earnings. It is similar to a Deferred Compensation Program where the employee has a portion of tax deferred salary placed into an account that the employee manages through investment options provided by the employer.

The law requires that three classes of employees enroll in the DCRP, detailed as follows:

- All elected officials taking office on or after July 1, 2007, except that a person who is reelected to an elected office held prior to that date without a break in service may remain in the Public Employees' Retirement System (PERS).

## 9. DEFINED CONTRIBUTION RETIREMENT PROGRAM (Continued)

### Description of System (Continued)

- A Governor appointee with the advice and consent of the Legislature or who serves at the pleasure of the Governor only during that Governor's term of office.
- Employees enrolled in the PERS on or after July 1, 2007 or employees enrolled in the PFRS after May 21, 2010 who earn salary in excess of established "maximum compensation" limits.
- Employees otherwise eligible to enroll in the PERS on or after November 2, 2008 who do not earn the minimum salary for PERS Tier 3, but who earn salary of at least \$5,000.00.
- Employees otherwise eligible to enroll in the PERS after May 21, 2010, who do not work the minimum number of hours per week required for PERS Tier 4 or Tier 5 enrollment (32 hours per week) but who earn salary of at least \$5,000.00 annually.

Notwithstanding the foregoing requirements other employees who hold a professional license or certificate or meet other exceptions are permitted to remain to join or remain in PERS.

### Contributions Required and Made

Contributions made by employees for DCRP are currently at 5.5% of their base wages. Member contributions are matched by a 3.0% employer contribution.

During the year 2016, there were no officials or employees enrolled in the DCRP.

## 10. MUNICIPAL DEBT

The Local Bond Law governs the issuance of bonds and notes to finance general capital expenditures. All bonds are retired in serial installments within the statutory period of usefulness. Bonds issued by the City are general obligation bonds, backed by the full faith and credit of the City. Pursuant to N.J.S.A. 40A:2-8, bond anticipation notes, which are issued to temporarily finance capital projects, cannot be renewed past the third anniversary unless an amount equal to at least the first legal requirement is paid prior to each anniversary and must be paid off within ten years and five months or retired by the issuance of bonds. Bond anticipation notes, which are issued to temporarily finance capital projects, must be paid off within ten years and five months or retired by the issuance of bonds.



## 10. MUNICIPAL DEBT (Continued)

### Summary of Municipal Debt (Excluding Current and Operating Debt) (and School if Applicable)

	<u>Year 2016</u>	<u>Year 2015</u>	<u>Year 2014</u>
<u>Issued</u>			
General:			
Bonds and Notes	\$ 307,861,035.25	\$ 270,431,035.25	\$ 283,009,035.25
Guaranteed Bonds	66,995,000.00	60,680,000.00	62,020,000.00
State Loan	1,625,000.00	1,750,000.00	1,875,000.00
Water Utility:			
Bonds and Notes	14,302,000.00	15,942,000.00	17,602,000.00
State Water Loan	33,641,013.66	23,319,013.13	24,856,186.85
Sewer Utility:			
State Sewer Loan	<u>65,331,642.51</u>	<u>69,589,018.23</u>	<u>74,842,796.30</u>
Total Issued	<u>489,755,691.42</u>	<u>441,711,066.61</u>	<u>464,205,018.40</u>
<u>Authorized but Not Issued</u>			
General:			
Bonds and Notes	58,202,488.89	51,406,488.89	35,147,488.89
Water Utility:			
Bonds and Notes	37,488,062.74	36,179,250.74	36,179,250.74
Sewer Utility:			
Bonds and Notes	<u>38,641,837.00</u>	<u>33,469,130.00</u>	<u>33,469,130.00</u>
Total Unauthorized but Not Issued	<u>134,332,388.63</u>	<u>121,054,869.63</u>	<u>104,795,869.63</u>
	<u>\$ 624,088,080.05</u>	<u>\$ 562,765,936.24</u>	<u>\$ 569,000,888.03</u>

### Summary of Statutory Debt Condition (Annual Debt Statement)

The summarized statement of debt condition which follows is prepared in accordance with the required method of setting up the Annual Debt Statement and indicates a statutory net debt of 2.082%.

	<u>Gross Debt</u>	<u>Deductions</u>	<u>Net Debt</u>
Local School District Debt	\$ 66,788,000.00	\$ 66,788,000.00	\$
Water Utility Debt	85,431,076.40	85,431,076.40	
Sewer Utility Debt	103,973,479.51	103,973,479.51	
General Debt	<u>433,058,524.14</u>	<u>131,772,035.00</u>	<u>301,286,489.14</u>
	<u>\$ 689,251,080.05</u>	<u>\$ 387,964,590.91</u>	<u>\$ 301,286,489.14</u>

Net Debt, \$301,286,489.14 divided by Equalized Valuation Basis \$13,430,396,163.00 per N.J.S. 40A:2-2, as amended, equals 2.082%.

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

3 1/2% of Equalized Valuation of Real Property	\$ 470,063,865.00
Net Debt	<u>301,286,489.14</u>
Remaining Borrowing Power	<u>\$ 168,777,375.86</u>

**10. MUNICIPAL DEBT (Continued)**

**Calculation of "Self-Liquidating Purpose" Water Utility per N.J.S.A. 40A:2-4**

Fund Balance and Cash Receipts from Fees, Rents or Other Charges for Year Including Surplus and Interest on Investments (Per P.L. 1991, Ch. 196)		\$ 61,345,042.19
Deductions:		
Operating and Maintenance Costs	\$ 46,181,482.00	
Debt Service per Water Accounts	<u>4,307,056.53</u>	
		<u>50,488,538.53</u>
Excess in Revenue		<u>\$ 10,856,503.66</u>

There being an excess in revenue, all Water Utility Debt is deductible for debt statement purposes.

**Calculation of "Self-Liquidating Purpose" Sewer Utility per N.J.S.A. 40A:2-4**

Fund Balance and Cash Receipts from Fees, Rents or Other Charges for Year Including Surplus and Interest on Investments (Per P.L. 1991, Ch. 196)		\$ 59,159,795.60
Deductions:		
Operating and Maintenance Costs	\$ 47,289,427.00	
Debt Service per Sewer Accounts	<u>6,049,268.40</u>	
		<u>53,338,695.40</u>
Excess in Revenue		<u>\$ 5,821,100.20</u>

There being an excess in revenue, all Sewer Utility Debt is deductible for debt statement purposes.

The foregoing debt information is in agreement with the amended Annual Debt Statement as filed by the Chief Financial Officer.

## 10. MUNICIPAL DEBT (Continued)

As of December 31, 2016, the City's long-term debt is as follows:

### General Obligation Bonds

\$40,747,035.25, 2003 Pension Refunding Bonds due in annual installments of \$890,704 to \$988,217.30 through April 2033. These bonds are Capital Appreciation Bonds.	\$ 11,227,035.25
\$22,660,000, 2008 Pension Refunding Bonds due in annual installments of \$1,840,000 to \$2,575,000 through April 2022, interest at 5.603% to 5.853%.	12,965,000.00
\$120,670,000, 2010 General Improvement Bonds due in annual installments of \$2,500,000 to \$14,500,000 through June 2028, interest at 3.50% to 5.00%.	116,170,000.00
\$5,283,000, 2010 Taxable General Improvement Bonds due in annual installments of \$2,560,000 to \$2,723,000 through June 2030, interest at 6.20% to 6.30%.	5,283,000.00
\$24,890,000, 2010 General Refunding Bonds due in annual installments of \$3,860,000 to \$3,990,000 through October 2018, interest at 3.38% to 4.00%.	7,850,000.00
\$36,235,000, 2013 General Improvement Refunding Bonds due in annual installments of \$6,895,000 to \$7,130,000 through July 2018, interest at 5.00%.	14,025,000.00
\$4,550,000, 2013 General Taxable Improvement Refunding Bonds due in annual installments of \$835,000 through July 2018, interest at 2.000% to 2.340%.	1,675,000.00
\$20,505,000, 2013 Pension Taxable Refunding Bonds due in annual installments of \$2,775,000 to \$4,060,000 through April 2021, interest at 2.000% to 3.305%.	16,900,000.00
\$51,553,000 Qualified General Improvement Bonds due in annual installments of \$500,000 to \$7,355,000 through July 2029, interest at 5.00% to 5.50%.	51,553,000.00
\$15,585,000 GO Energy Savings Refunding Bonds due in annual installments of \$385,000 to \$1,475,000 through May 2036, interest at 4.500%.	15,585,000.00
\$25,000,000 Qualified Improvement Bonds for Riverfront Expansion due in annual installments of \$1,000,000 to \$1,900,000 through September 2035, interest at 2.50% to 3.00%.	25,000,000.00
\$16,820,000 Horizon Private Placement Bonds due in annual installments of \$1,535,000 to \$1,855,000 through September 2026, interest at 2.240%.	16,820,000.00
\$2,260,000 Redevelopment Refunding Bonds due in annual installments of \$310,000 to \$450,000 through October 2022, interest at 5.000%.	2,260,000.00
	<u>\$ 297,313,035.25</u>

## 10. MUNICIPAL DEBT (Continued)

### State Trust Loan

The City of Newark entered into a loan agreement for \$2,500,000 for a Demolition Loan with the State of New Jersey. The loan is repayable in 20 annual installments from 2009 to 2029.

\$1,625,000.00

A schedule of annual debt service for the repayment of the State Trust Loan is as follows:

<u>Year</u>	<u>Total</u>	<u>Demolition Bond</u>
2017	\$ 125,000.00	\$ 125,000.00
2018	125,000.00	125,000.00
2019	125,000.00	125,000.00
2020	125,000.00	125,000.00
2021	125,000.00	125,000.00
2022	125,000.00	125,000.00
2023	125,000.00	125,000.00
2024	125,000.00	125,000.00
2025	125,000.00	125,000.00
2026	125,000.00	125,000.00
2027	125,000.00	125,000.00
2028	125,000.00	125,000.00
2029	125,000.00	125,000.00
	<u>\$1,625,000.00</u>	<u>\$1,625,000.00</u>

### Water Utility Bonds

\$23,160,000, 2005 Water Refunding Bonds due in annual installments of \$635,000 to \$1,225,000 through October 2021, interest at 3.625% to 4.070%.

\$ 4,745,000.00

\$7,737,000, 2005 General Water Bonds due in annual installments of \$325,000 to \$360,000 through December 2019, interest at 4.10% to 4.50%.

4,625,000.00

\$5,487,000, 2010 General Water Bonds due in annual installments of \$120,000 to \$363,000 through June 2039, interest at 4.25% to 5.00%.

4,932,000.00

\$ 14,302,000.00

### Waste Water Treatment Loan Payable - Water Utility Fund

Loan agreements were entered into by the City of Newark with the Department of Environmental Protection for the purpose of improvements to the Water Treatment Plant. Loans outstanding at December 31, 2016 are detailed as follows:

*Trust Loan	\$ 9,425,000.00
**Trust Loan	11,881,188.00
Fund Loan	17,394,806.27

\* It is noted that the Fund Loan was issued interest-free.

\*\* Interim Loan Disbursements have been made to the City. No payments are made until the loan is fully disbursed.

## 10. MUNICIPAL DEBT (Continued)

### General Capital and Water Utility Bonds

A schedule of annual debt service for principal and interest for bonded debt is as follows:

Year	General Capital Fund*		Water Utility	
	Principal	Interest	Principal	Interest
2017	\$ 23,525,000.00	\$ 11,915,974.69	\$ 1,620,000.00	\$ 652,683.75
2018	24,435,000.00	11,034,949.10	1,615,000.00	591,665.00
2019	23,840,000.00	10,045,851.70	1,630,000.00	514,912.50
2020	22,995,000.00	8,964,720.03	1,140,000.00	437,627.50
2021	22,200,000.00	7,921,099.88	1,135,000.00	384,880.00
2022	19,893,217.30	9,421,682.20	510,000.00	332,420.00
2023	20,261,810.65	8,893,303.35	515,000.00	311,195.00
2024	20,707,831.35	8,309,906.15	525,000.00	289,487.50
2025	21,157,922.20	7,728,680.30	530,000.00	267,175.00
2026	21,612,049.60	7,133,983.90	540,000.00	244,470.00
2027	20,187,321.65	6,535,997.35	550,000.00	220,890.00
2028	20,648,532.85	5,947,311.15	560,000.00	195,640.00
2029	12,233,525.55	5,359,768.45	570,000.00	169,800.00
2030	5,935,112.00	5,097,612.00	220,000.00	143,100.00
2031	3,338,130.80	5,162,431.70	235,000.00	132,100.00
2032	3,476,877.30	5,410,935.20	245,000.00	120,350.00
2033	3,630,704.00	5,673,846.00	260,000.00	108,100.00
2034	2,900,000.00	245,362.50	275,000.00	95,100.00
2035	3,075,000.00	140,137.50	290,000.00	81,350.00
2036	1,260,000.00	28,350.00	307,000.00	66,850.00
2037			324,000.00	51,500.00
2038			343,000.00	35,300.00
2039			363,000.00	18,150.00
	<u>\$ 297,313,035.25</u>	<u>\$ 130,971,903.15</u>	<u>\$ 14,302,000.00</u>	<u>\$ 5,464,746.25</u>

\*Includes Capital Appreciation Bonds.

The above schedule does not include interest on the Essex County Improvement Authority Pool Loan Program Bonds which is calculated by the Authority on a monthly basis.

**10. MUNICIPAL DEBT (Continued)**

**General Capital and Water Utility Bonds (Continued)**

Certain maturities of the \$40,747,035.25 General Obligation Refunding Bonds (Pension Refunding) were sold as Capital Appreciation Bonds which are not subject to optional redemption. Interest is paid upon maturity. Below is the debt service schedule:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 988,217.30	\$ 2,301,782.70	\$ 3,290,000.00
2023	976,810.65	2,508,189.35	3,485,000.00
2024	967,831.35	2,727,168.65	3,695,000.00
2025	957,922.20	2,957,077.80	3,915,000.00
2026	947,049.60	3,197,950.40	4,145,000.00
2027	937,321.65	3,457,678.35	4,395,000.00
2028	928,532.85	3,726,467.15	4,655,000.00
2029	920,525.55	4,014,474.45	4,935,000.00
2030	912,112.00	4,317,888.00	5,230,000.00
2031	903,130.80	4,636,869.20	5,540,000.00
2032	896,877.30	4,973,122.70	5,870,000.00
2033	890,704.00	5,329,296.00	6,220,000.00
	<u>\$ 11,227,035.25</u>	<u>\$ 44,147,964.75</u>	<u>\$ 55,375,000.00</u>

**New Jersey Environmental Infrastructure Trust Loan Payable - Sewer Utility Fund**

Loan agreements were entered into by the City of Newark with the Department of Environmental Protection for the purpose of improvements to the Waste Water Treatment Plant. Loans outstanding at December 31, 2016 are detailed as follows:

Trust Loan	\$22,915,000.00
Fund Loan	<u>42,416,642.51</u>
	<u>\$65,331,642.51</u>

It is noted that the fund loan was issued interest-free.

**10. MUNICIPAL DEBT (Continued)**

**New Jersey Environmental Infrastructure Trust Loan Payable - Sewer Utility Fund (Continued)**

A schedule of principal and interest on the loans is as follows:

<u>Year</u>	<u>Total</u>	<u>Cash Basis</u>		<u>Fund Loan Principal</u>
		<u>Principal</u>	<u>Interest</u>	
2017	\$ 6,215,964.68	\$ 1,530,000.00	\$ 1,012,918.76	\$ 3,673,045.92
2018	6,199,029.39	1,595,000.00	939,906.26	3,664,123.13
2019	6,170,370.11	1,670,000.00	862,868.76	3,637,501.35
2020	6,175,925.63	1,745,000.00	790,143.76	3,640,781.87
2021	6,125,448.78	1,765,000.00	712,856.26	3,647,592.52
2022	6,144,533.57	1,860,000.00	630,381.25	3,654,152.32
2023	6,088,587.86	1,910,000.00	544,656.26	3,633,931.60
2024	6,088,991.97	2,000,000.00	459,962.50	3,629,029.47
2025	6,027,639.94	2,065,000.00	369,446.26	3,593,193.68
2026	4,530,581.96	1,640,000.00	280,525.00	2,610,056.96
2027	4,495,591.79	1,700,000.00	209,487.50	2,586,104.29
2028	2,278,277.62	970,000.00	137,737.50	1,170,540.12
2029	2,282,477.91	1,015,000.00	96,937.50	1,170,540.41
2030	1,426,384.09	675,000.00	54,237.50	697,146.59
2031	719,991.57	245,000.00	24,937.50	450,054.07
2032	717,441.57	250,000.00	17,387.50	450,054.07
2033	746,158.25	260,000.00	9,400.00	476,758.25
2034	52,835.89	20,000.00	800.00	32,035.89
	<u>\$ 72,486,232.58</u>	<u>\$ 22,915,000.00</u>	<u>\$ 7,154,590.07</u>	<u>\$ 42,416,642.51</u>

**Capital Lease Program**

The City has entered into various agreements with the Essex County Improvement Authority to be a participant in the Capital Equipment Lease Program and the Sportsplex Program. Funds were allocated to the City which are detailed as follows:

<u>Date</u>	<u>Description</u>	<u>Amount</u>
2010	Building Capital Lease Program	<u>\$74,080,000.00</u>

**10. MUNICIPAL DEBT (Continued)**

**Capital Lease Program (Continued)**

A schedule of principal and interest payments for the leases as of December 31, 2016 are as follows:

<u>Year</u>	<u>Total Debt Service</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 1,555,760.63	\$ 885,000.00	\$ 670,760.63
2018	1,554,285.63	930,000.00	624,285.63
2019	1,550,460.63	975,000.00	575,460.63
2020	1,549,285.63	1,025,000.00	524,285.63
2021	1,260,498.13	790,000.00	470,498.13
2022	1,238,377.50	810,000.00	428,377.50
2023	1,244,629.38	860,000.00	384,629.38
2024	1,238,326.88	900,000.00	338,326.88
2025	1,554,737.50	1,265,000.00	289,737.50
2026	1,599,686.88	1,375,000.00	224,686.88
2027	1,599,195.63	1,445,000.00	154,195.63
2028	895,043.75	815,000.00	80,043.75
2029	891,346.88	855,000.00	36,346.88
	<u>\$ 17,731,635.05</u>	<u>\$ 12,930,000.00</u>	<u>\$ 4,801,635.05</u>

The above-mentioned leases are not reflected on the financial statements herein.

**Bond Anticipation Notes**

Outstanding Bond Anticipation Notes in the General Capital Fund were issued at various rates and are summarized as follows:

	<u>Original Issue</u>	<u>Amount</u>
General Capital Fund:		
Tax Appeal Refunding Bond	12-29-11	\$ 973,000.00
Tax Appeal Refunding Bonds	12-08-14	4,803,000.00
Tax Appeal Refunding Bonds	12-07-15	<u>4,772,000.00</u>
		<u>\$ 10,548,000.00</u>

Statutory requirements for providing sums equivalent to legally payable installments for the redemption of notes (Budget Appropriations) and permanent funding (Bond Issues) are summarized as follows:

<u>Original Note Issued</u>	<u>Legal Installment Due</u>	<u>Permanent Funding Required as of May 1</u>
2011	2014 - 2022	2023
2014	2017 - 2025	2026
2015	2018 - 2026	2027



## 10. MUNICIPAL DEBT (Continued)

### Bonds and Notes Authorized but Not Issued

There were Bonds and Notes Authorized but Not Issued in the following amounts:

	Balance <u>Dec. 31, 2016</u>
General Capital Fund: General Improvements	<u>\$ 58,202,488.89</u>
Water Utility Capital Fund: General Improvements	<u>\$ 37,488,062.74</u>
Sewer Utility Capital Fund: General Improvements	<u>\$ 38,641,837.00</u>

## 11. SCHOOL DEBT

The Board of Education of the City of Newark was a Type I School District and the school debt, authorized by the Board of School Estimate, are obligations of the City and school debt service is raised as part of the school tax levy. School debt is reported on the balance sheet of the General Capital Fund and is detailed as follows:

\$20,390,000, 2008 Refunding School Bonds due in annual installments of \$5,340,000 through September 2017, interest at 5.00%.	\$ 5,340,000.00
\$43,917,000, 2010 General School Bonds due in annual installments of \$1,000,000 to \$6,095,000 through June 2025, interest at 3.00% to 5.00%.	42,917,000.00
\$5,120,000, 2015 General School Bonds due in annual installments of \$325,000 to \$430,000 through July 2029, interest at 5.00% to 5.25%.	<u>4,805,000.00</u>
	<u>\$ 53,062,000.00</u>

The Board of Education of the City of Newark is presently a Type II School District. The members of the Board of Education are elected by the voters of the school district on the third Tuesday in April. At each annual school election the Board of Education shall submit to the voters of the district the amount of money fixed and determined in its budget, excluding interest and debt redemption charges, to be voted upon for use of the public schools of the district for the ensuing school year.

School debt is deductible up to the extent of 8.0% of the Average Equalized Assessed Valuations of real property for the Local School Debt.

### Bonds and Notes Authorized but Not Issued

There were Bonds and Notes Authorized but Not issued in the following amount:

	Balance <u>Dec. 31, 2016</u>
School	<u>\$13,726,000.00</u>

### Bond Anticipation Notes

There were no outstanding Bond Anticipation Notes as of December 31, 2016.

## 12. INTERFUND RECEIVABLES AND PAYABLES

As of December 31, 2016, interfund receivables and payables that resulted from various interfund transactions were as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Current Fund	\$	\$ 11,887,615.85
Federal and State Grant Fund	295,799.31	
Assessment Trust Fund	278,715.59	
Animal Control Trust Fund		
Other Funds	8,876,945.41	2,542,356.21
Insurance Fund	1,363,424.64	2,228,144.93
Grant Trust Fund		
Payroll Agency Fund	58,503.95	1,361,216.56
General Capital Fund	3,739,172.00	
Water Operating Fund	2,549,669.25	
Water Capital Fund		2,482,310.02
Sewer Operating Fund	2,728,209.11	66,352.01
Sewer Capital Fund		645,972.17
	<u>\$ 19,890,439.26</u>	<u>\$ 21,213,967.75</u>

## 13. DEFERRED CHARGES TO BE RAISED IN SUCCEEDING YEARS BUDGETS

Certain expenditures are required to be deferred to budgets of succeeding years. The deferred charges as of December 31, 2016 are as follows:

	<u>Balance Dec. 31, 2016</u>	<u>Required for 2017 Budget</u>
Current Fund:		
Police:		
Salaries and Wages	\$ 6,691,316.00	\$ 6,691,316.00
Sanitation:		
Other Expenses	<u>5,440,585.00</u>	<u>5,440,585.00</u>
	<u>\$ 12,131,901.00</u>	<u>\$ 12,131,901.00</u>
Deficit in Operations - 2013	<u>\$ 21,084,845.59</u>	<u>\$ 3,012,121.00</u> *, **
Deficit in Operations - 2014	<u>\$ 17,949,131.19</u>	<u>\$ 2,235,333.00</u> *, **

\*The City received approval from the State Local Finance Board for a ten (10) year amortization.

\*\*The State has allowed an eleven (11) year repayment schedule with no amounts being raised in 2017.

## 14. DEFERRED COMPENSATION PLAN

The City of Newark offers its employees a Deferred Compensation Plan created in accordance with the provisions of N.J.S. 43:15B-1 et seq., and the Internal Revenue Code, Section 457. The plan, available to all municipal employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

#### 14. DEFERRED COMPENSATION PLAN (Continued)

Statutory and regulatory requirements governing the establishment and operation of Deferred Compensation Plans have been codified in the New Jersey Administrative Code under the reference N.J.A.C. 5:37.

The "Small Business Job Protective Act of 1996" revised several provisions of Section 457 of the Internal Revenue Code. A provision of the act required that all existing plans be modified to provide that the funds be held for the exclusive benefit of the participating employees and their beneficiaries. The City of Newark authorized such modifications to their plan by resolution of the City Council.

The Administrators for the City of Newark Deferred Compensation Plan is the Great-West Life Assurance Company and the MetLife Companies.

#### 15. RISK MANAGEMENT

The City of Newark maintains self-insurance programs for General Liability, Automobile and Worker's Compensation. These programs are funded through budget appropriations from the Current, Water and Sewer Utility Funds.

In addition, the City is self-insured with respect to State Unemployment Compensation. A summary of activity is detailed as follows:

	Balance <u>Dec. 31, 2015</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>Dec. 31, 2016</u>
Worker's Compensation	\$ 2,374,602.93	\$ 11,215,701.63	\$ 11,787,212.33	\$ 1,803,092.23
Liability Fund	7,913,351.33	4,089,303.34	3,960,712.75	8,041,941.92
State Unemployment	2,255,851.35	860,887.81	679,531.72	2,437,207.44

#### 16. CONTINGENT LIABILITIES

##### A. Arbitrage Rebate Calculation

In 1986, under the Tax Reform Act, the arbitrage rebate law went into effect requiring issuers of tax exempt debt obligations to rebate to the Federal Government all of the earnings in excess of the yield on investments of proceeds of such debt issuances (the "rebate arbitrage"). During 1989 the City issued tax exempt debt obligations subject to arbitrage rebate. The Rebate Regulations require the calculation of rebatable arbitrage by analyzing the cash flows of the proceeds of an issue and "future valuing" the investment cash flows at an interest rate equal to the yield on the issue. The Rebate Regulations apply to obligations issued after August 31, 1986. The arbitrage rebate liability must be calculated every installment computation date (last day of the fifth bond year) or earlier if the bonds are retired, defeased or refunded and pay at least 90% of the rebatable arbitrage (plus any earnings thereon) within 60 days after such date. The City does not calculate their arbitrage rebate liability each year. During 2008, the City authorized a contract with an outside consultant to perform arbitrage calculations, however, as of the date of this audit a copy of this report has not been provided.

##### B. Compensated Absences

The City of Newark has various labor contracts with their employee unions. Payment of accrued sick time varies with each labor agreement and date of employment.

## **16. CONTINGENT LIABILITIES (Continued)**

### **B. Compensated Absences (Continued)**

Generally, the City requires employees with accumulated vacation, holiday, personal and compensatory leave credits to extend their separation dates beyond their last working day in order to exhaust all such accumulated time. Replacement personnel are hired only after position is no longer encumbered. Where circumstances warrant lump sum payment (for such accumulated credits) at time of separation, position remains unavailable for hiring until such time as that expenditure is amortized over the period had the employee remained on the payroll beyond his last working day as above. Sole general exception is payment for unused sick leave which is distributed to eligible non-uniformed employees only upon retirement.

City officials have determined that the sum of \$52,531,538.06 has accumulated for unused sick and vacation pay and would be due to employees upon their retirements. This amount has not been verified by audit.

The sum, considered as a contingent liability, is not carried on the Financial Statements of the City.

### **C. Tax Appeals**

As at December 31, 2016, there are Property Tax Appeals in the Tax Court of New Jersey against the City involving commercial, industrial and residential properties. It is impracticable for the City to describe each of the appeals that are currently pending against the City. The City vigorously defends each of these appeals through extensive discovery, settlement negotiations and, if necessary, trial. At this point it is impossible to specifically quantify the extent of any potential exposure to the City relating to these appeals. There should be no substantial additional impact upon the financial status of the City.

Judgments, adverse to the City, would apply to the year of appeal plus at least two subsequent years. Refunds or tax credits, including statutory interest thereon, would be chargeable to operations or future budget appropriations.

County taxes paid on the reductions in assessed valuations are subject to credits against the County Tax Levy of the year subsequent to the year in which appeals were adjudicated.

The City has established a Reserve for Tax Appeals of \$368,303.90 (Exhibit B-21).

### **D. Federal and State Awards**

The City participates in several federal and state grant programs which are governed by various rules and regulations of the grantor agencies; therefore to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at December 31, 2016 may be impaired.

### **E. Litigation**

The following is based on the opinion of the City's legal counsel issued November 2, 2017 (Corporate Counsel):

The City, and in some instances, its officers or employees in their official capacities are defendants in a number of lawsuits which may be categorized as follows:

- Negligence Actions
- Contract Actions/Public Bidding
- Prerogative Writ Cases
- Water and Sewer Utility
- Constitutional Rights Violations and Tax Appeals
- Labor and Employment Matters

## 16. CONTINGENT LIABILITIES (Continued)

### E. Litigation (Continued)

The City is self-insured and there are appropriate reserves sufficient to cover losses based on experience. To the best knowledge of the Acting Corporation Counsel, there is no threat of exposure outside of the self-insurance program.

The Office of Corporation Counsel is currently unaware of any litigation presently pending or threatened in any manner questioning the authority or the proceedings for the levy or the collection of taxes, and neither the corporate existence, nor the boundaries of the City, nor the title of any of the present officers thereof to their respective offices is being contested.

## 17. POTENTIAL LIABILITY

In the City's Memorandum of Understanding (MOU) with the State of New Jersey, under the caption "**Required to Reimburse the State Under Certain Conditions**", it states "that to ensure that aid provided in 2012 is not again in excess of the Municipality's needs and the Municipality shall be required to appropriate as a repayment to the State in its 2013 Budget all funds above \$10,000,000.00 that are available to be used as revenue in support of the 2013 Budget according to the 2012 Annual Unaudited Financial Statement". The City's 2012 Annual Unaudited Financial Statement indicated a Fund Balance of \$12,959,747.74 and the City anticipated the sum of \$12,904,747.74 in the 2013 Budget as revenue. We did not see the amount of \$2,959,747.74 set up in the 2012 Annual Unaudited Financial Statement as a liability or in the 2013 Budget as an appropriation in accordance with MOU.

The 2012 Audit reflects a Fund Balance of \$11,411,387.66. The sum of \$1,411,387.66 has not been set up as a liability as of December 31, 2012 since the State approved the 2013 Budget without an appropriation or a liability for the amount in excess of \$10,000,000.00. No provision has been made in the 2013, 2014, 2015 nor the 2016 audits for the above amount.

## 18. MOTOR VEHICLE RENTAL TAX REVENUE BONDS

On February 5, 2015, the City approved an ordinance authorizing the issuance of up to \$16,000,000.00 aggregate principal amount of Motor Vehicle Rental Tax Revenue Bonds and the assignment of all or a portion of the proceeds of the City's Motor Vehicle Rental Tax to the payment of such bond's principal and interest.

During March 2015 a bond sale was held in the amount of \$13,490,000.00 at an interest rate of 3.14% dated March 31, 2015 with a principal payment on December 15<sup>th</sup> of each year and interest payments on June 15<sup>th</sup> and December 15<sup>th</sup> of each year. In addition, a Trust Indenture between the City and the U.S. Bank National Association for the Motor Vehicle Rental Tax Revenue Bonds, Series 2015 that included, but not limited, to the following:

- A. The making of capital grants by the City in support of four (4) redevelopment projects authorized.
- B. Annual Report with respect to revenues by April 1<sup>st</sup> of each year.
- C. The City shall not amend the Tax Ordinance or its Zoning Ordinances in any manner that may result in a reduction of the Motor Vehicle Rental Taxes received by the City.

**18. MOTOR VEHICLE RENTAL TAX REVENUE BONDS (Continued)**

A schedule of Annual Debt Service for principal and interest for bond debt is as follows:

<u>Year</u>	<u>Motor Vehicle Rental Tax Revenue Bonds, Series 2015</u>	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 1,260,000.00	\$ 354,506.00
2018	1,300,000.00	314,942.00
2019	1,345,000.00	274,122.00
2020	1,385,000.00	231,889.00
2021	1,430,000.00	188,400.00
2022	1,475,000.00	143,498.00
2023	1,525,000.00	97,183.00
2024	1,570,000.00	49,298.00
	<u>\$ 11,290,000.00</u>	<u>\$ 1,653,838.00</u>

**19. SUBSEQUENT EVENTS**

The City of Newark has evaluated subsequent events that occurred after the balance sheet date, but before September 29, 2017 and it was determined that there were no items which required to be disclosed.

**APPENDIX C**  
**FORM OF LEGAL OPINION**

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**APPENDIX C**

*An opinion in substantially the following form  
will be delivered at Closing, assuming no  
material changes in facts or law*

\_\_\_\_\_, 2018

Mayor and Municipal Council of the City of Newark,  
In the County of Essex, New Jersey

Re: City of Newark, in the County of Essex, New Jersey  
\$10,100,000 Tax Appeal Refunding Notes, Series 2018D

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance by the City of Newark, in the County of Essex, New Jersey (the “City”), of its \$10,100,000 Tax Appeal Refunding Notes, Series 2018D (the “Notes”). The Notes are general obligations of the City and the full faith, credit and taxing power of the City are available to pay the principal of and the interest on the Notes. The Notes are issued in registered form, are dated December 21, 2018 and mature on December 20, 2019. The Notes are not subject to redemption prior to maturity. The Notes bear interest at a rate of \_\_\_\_\_ per centum (\_\_\_%) per annum payable at maturity pursuant to a Note Purchase Contract dated December 11, 2018 by and between the City and TD Securities (USA) LLC, as Underwriter (the “Note Purchase Contract”). The Notes were purchased by TD Securities (USA) LLC pursuant to such Note Purchase Contract.

The Notes will be initially issued in fully registered book-entry-only form in the form of one certificate in the aggregate principal amount of the Notes, registered in the name of and held by Cede & Co., as nominee of The Depository Trust Company (“DTC”), which will act as securities depository for the Notes. DTC will be responsible for maintaining the book-entry system for recording the interests of its participants and transfers of such interests among such participants. Such participants shall be responsible of maintaining records regarding the beneficial ownership interests in the Notes on behalf of individual purchasers. Individual purchases of the Notes of each series may be made in the principal amount of \$5,000 or any integral multiple of \$1,000 in excess thereof, through book-entries on the books and records of DTC and its participants.

The Notes are issued under the provisions of the Local Bond Law Chapter 169 of the Laws of 1960 of the State of New Jersey, effective January 1, 1962 and the acts amendatory thereof and supplemental thereto (the “Local Bond Law”), and Refunding Bond Ordinance No. 6PSF-c finally adopted by the Municipal Council of the City on November 8, 2018 (the “Ordinance”), approved and

published in accordance with the Local Bond Law. The sale of the Notes was authorized by a resolution duly adopted by the Municipal Council of the City on November 27, 2018 (the “Authorizing Resolution”). The Notes are issued for the purpose of financing the payment of real property tax appeal refunds owing to others for taxes levied in and by the City and paying the costs of issuance as described in the Ordinance (the “Project”). The Project was authorized by the Ordinance.

In our capacity as Bond Counsel and as a basis for the opinions set forth below, we have examined the proceedings relating to the authorization and issuance of the Notes, including: (a) certified copies of the Ordinance and the Authorizing Resolution; (b) such matters of law, including *inter alia*, the Local Bond Law and the Internal Revenue Code of 1986, as amended (the “Code”); and (c) such other agreements, proceedings, certificates, records, approvals, resolutions and documents as to various matters with respect to the issuance of the Notes as we have deemed necessary. We have further assumed and relied upon the genuineness, accuracy and completeness of all of the documents and other instruments which we have examined. As to questions of fact material to our opinion, we have relied upon the proceedings and other certifications of public officials executed and furnished to us without undertaking to verify the same by independent investigation.

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

1. The Notes have been duly authorized, issued, executed, sold and delivered by the City; the Ordinance and the Authorizing Resolution each have been duly authorized and adopted by the City; and the Notes, the Authorizing Resolution and the Ordinance are legal, valid and binding obligations of the City enforceable in accordance with their respective terms.
2. The power and obligation of the City to pay the Notes is unlimited, unless paid from other sources, the City shall be obligated to levy *ad valorem* taxes upon all the taxable property within the City for the payment of the principal of and interest on the Notes, without limitation as to rate or amount.
3. The City has covenanted to comply with any continuing requirements that may be necessary to preserve the exclusion from gross income for purposes of federal income taxation of interest on the Notes under the Code. Failure to comply with certain requirements of the Code could cause interest on the Notes to be includable in gross income for federal income tax purposes retroactive to the date of issuance of the Notes. In our opinion, assuming continuing compliance by the City with its covenants, under current law, interest on the Notes is not includable in gross income for federal income purposes and is not an item of tax preference under Section 57 of the Code for purposes of computing the alternative minimum tax.

We note, however, that notwithstanding our opinion that interest on the Notes is not an item of tax preference for purposes of the federal alternative minimum tax, for taxable years beginning before January 1, 2018, such interest will be included in adjusted current earnings of certain corporations, and such corporations are required to include in the calculation of alternative minimum taxable income 75 percent of the excess of such corporation’s adjusted current earnings over the alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses). The alternative minimum tax on corporations has been repealed for taxable years beginning after December 31, 2017.

4. Under current law, interest on the Notes and any gain on the sale thereof are not includable as gross income under the New Jersey Gross Income Tax Act.

Other than as set forth in Paragraphs 3 and 4 hereof, we express no opinion regarding other federal and state tax consequences arising with respect to the Notes.

For purposes of this opinion, the enforceability (but not the validity) of the documents mentioned herein may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws now or hereafter enacted by any state or by the federal government affecting the enforcement of creditors' rights generally, and by equitable principles, and the phrase "enforceable in accordance with their respective terms" shall not mean that specific performance would necessarily be available as a remedy in every situation.

The opinions expressed herein are limited to and based upon the laws and judicial decisions of the State of New Jersey and the federal laws and judicial decisions of the United States of America as of the date hereof, and are subject to any amendment, repeal or other modification of the applicable laws or judicial decisions that served as the basis for our opinions or to any laws or judicial decisions hereafter enacted or rendered.

We express no opinion herein as to the adequacy or accuracy of any official statement or other offering materials pertaining to the offering of the Notes.

DECOTIIS, FITZPATRICK, COLE & GIBLIN, LLP

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**APPENDIX D**

**FORM OF CONTINUING DISCLOSURE CERTIFICATE**

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## APPENDIX D

### CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City of Newark, in the County of Essex, New Jersey (the “Issuer”) in connection with the issuance by the Issuer of its \$10,100,000 Tax Appeal Refunding Notes, Series 2018D (the “Notes”). The Notes are being issued pursuant to refunding bond ordinance number 6PSF-c duly adopted November 8, 2018, duly approved and published as required by law and a resolution duly adopted by the Municipal Council of the City on November 27, 2018 (the “Resolution”). The Issuer covenants and agrees as follows:

*Section 1.*     Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the Noteholders and Beneficial Owners of the Notes and in order to assist the Participating Underwriter(s) in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission.

*Section 2.*     Definitions. The following capitalized terms shall have the following meanings:

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Notes (including persons holding Notes through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Notes for federal income tax purposes.

“Dissemination Agent” shall mean the Issuer, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the Issuer a written acceptance of such designation.

“EMMA” shall mean the MSRB’s (as defined below) Electronic Municipal Markets Access System.

“Listed Events” shall mean any of the events listed in Section 3(a) of this Disclosure Certificate.

“MSRB” means the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to Rule 15c2-12. Effective July 1, 2009 and until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the EMMA website of the MSRB, currently located at <http://emma.msrb.org>.

“Noteholder” shall mean any person who is the registered owner of any Notes, including holders of beneficial interests in the Notes.

“Participating Underwriter(s)” shall mean any of the original underwriter(s) of the Notes required to comply with the Rule in connection with offering of the Notes.

“Rule” shall mean Rule 15c2-12(b) (5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of New Jersey.

*Section 3.      Reporting of Significant Events.*

(a) Pursuant to the provisions of this Section 3, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Notes (each a “Listed Event”):

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults, if material;
- (iii) Unscheduled draws on debt service reserves, reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements, reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) 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 of determinations with respect to the tax status of the Notes, or other material events affecting the tax status of the Notes;
- (vii) Modifications to rights of the holder of the Notes;
- (viii) Note calls, if material, and tender offers;
- (ix) Defeasances;
- (x) Release, substitution, or sale of property securing repayment of the Notes, if material;
- (xi) Rating changes;
- (xii) Bankruptcy, insolvency, receivership or similar events of the Issuer;
- (xiii) The consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the



termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, the Issuer shall file, or cause to be filed, a notice of such occurrence with the MSRB through EMMA in a timely manner not in excess of ten (10) business days after the occurrence of such event. The notice shall be filed in an electronic format as prescribed by the MSRB and shall be accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of Listed Events described in subsections (a) (viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of the affected Notes.

*Section 4. Termination of Reporting Obligation.* The Issuer's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Notes. If such termination occurs prior to the final maturity of the Notes, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 3(b).

*Section 5. Dissemination Agent.* The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Issuer pursuant to this Disclosure Certificate. The initial Dissemination Agent shall be the Issuer.

*Section 6. Amendment; Waiver.* Notwithstanding any other provision of this Disclosure Certificate, the Issuer may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Section 3, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Notes, or the type of business conducted; and

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Notes, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Noteholders or Beneficial Owners of the Notes.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Issuer shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, notice of such change shall be given in the same manner as for a Listed Event under Section 3(b).

*Section 7.* Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Issuer chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Issuer shall have no obligation under this Disclosure Certificate to update such information or include it in any notice of occurrence of a Listed Event.

*Section 8.* Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate any Noteholder or Beneficial Owner of the Notes may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default on the Notes, and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with this Disclosure Certificate shall be an action to compel performance.

*Section 9.* Duties, Immunities and Liabilities of Dissemination Agent. If a Dissemination Agent other than the Issuer has been appointed, the Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and, to the extent permitted by law, the Issuer agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including reasonable attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross negligence or willful misconduct. The obligations of the Issuer under this Section 9 shall survive resignation or removal of the Dissemination Agent and payment of the Notes.

*Section 10.* Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriter(s) and the Noteholders and Beneficial Owners from time to time of the Notes, and shall create no rights in any other person or entity.

Dated: \_\_\_\_\_, 2018

CITY OF NEWARK, IN THE COUNTY OF  
ESSEX, STATE OF NEW JERSEY

By: \_\_\_\_\_  
Name: Danielle A. Smith  
Title: Director of Finance/Chief Financial Officer

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