

2018

NJ TRANSIT  
ANNUAL REPORT

*New Leadership*

*New Direction*



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Letter from

*Phil Murphy*

**Governor, State of New Jersey**

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New Jersey's economy relies on a dependable transportation network to move goods and people across our state and region every day. Historically, that transportation network has been one of our greatest assets. Unfortunately, it has become one of our greatest challenges, in large part due to nearly a decade of disinvestment, deterioration and neglect. Before I became Governor, I was aware that insufficient funding and mismanagement had taken its toll on NJ TRANSIT, once considered a national treasure. Since becoming Governor, I have seen firsthand the extent of the damage, primarily caused by a failure to make necessary investments in our transportation infrastructure.

NJ TRANSIT customers need and deserve safe, dependable, on-time service, something I am committed to delivering. We began moving on that commitment early on with the hiring of an outstanding management

team, led by Transportation Commissioner and NJ TRANSIT Board Chair Diane Gutierrez-Scaccetti and Executive Director Kevin Corbett. These two transportation veterans both hit the ground running, beginning the rebuilding process with a laser focus on safety, reliability, affordability and improving the overall customer experience. They are also paying greater attention to the workforce to improve employee morale and give workers the tools and resources they need to be successful.

Both Diane and Kevin are following through on a top-to-bottom audit of NJ TRANSIT that I ordered in the early days of my administration. The audit, which is being used as a roadmap to make meaningful changes that will benefit customers, employees, and the agency as a whole, affirmed many of the concerns we had, particularly about funding shortages and leadership instability. It should be noted that, before the audit was

completed, we began working on several early-action items to start moving the company forward, such as hosting speed hiring events and open houses for bus operators and mechanics, increasing the number of locomotive engineer training classes, filling other key positions across the agency, improving customer communications and streamlining the procurement process.

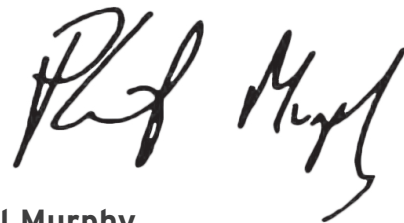
One of our biggest challenges this first year was meeting the Federal Railroad Administration's year-end Positive Train Control (PTC) requirements by December 31, 2018. After several years of limited progress, we revamped the project plan by applying for an alternative schedule, and, through the commitment of the leadership and project team, we met this important interim milestone. PTC will add another layer of safety to the NJ TRANSIT rail system. The entire PTC project will be completed by the end of 2020.

Other important work that continues to advance is NJ TRANSIT's resilience program, which will protect bus, rail and light rail vehicles, equipment and underlying field systems from future weather events by making our infrastructure stronger and more reliable, driving critical operations.

Due to fare increases totaling 36 percent over the past eight years, NJ TRANSIT customers should not bear the financial brunt of these changes. The FY2019 State Operating Appropriation increased by \$166.6 million from \$140.9 million to \$307.5 million. All state assistance combined increased by almost 40 percent from \$427 million to \$593.6 million, allowing us to hold fares stable in this year's operating budget. While a combination of state and federal funds are helping us advance capital projects, further assistance will be required.

Finally, we need to secure the future of rail travel in New Jersey with the Gateway Program, a series of projects that include new rail tunnels under the Hudson River and a new fixed-span Portal Bridge over the Hackensack River. The existing Hudson River tunnels and Portal Bridge were built by the Pennsylvania Railroad more than 100 years ago. New Jersey has committed to making a significant investment in the Gateway Project, including a \$600 million financing agreement approved in June 2018 by the NJ TRANSIT Board of Directors to be used for a new Portal Bridge. We need the federal government to come to the table to help make this happen.

In closing, I am confident that we will turn things around. The State Legislature and our Congressional delegation are doing their part to help make that happen, along with many other regional advocacy groups and supporters who believe that a quality public transportation network is essential to help our residents travel to good paying jobs, medical facilities, as well as educational and shopping opportunities, all of which allow us to grow our regional economy. We ask that you stand with us.



**Phil Murphy**  
Governor, State of New Jersey



Letter from

## *Diane Gutierrez-Scaccetti*

**Commissioner, New Jersey Department of Transportation  
Chair, NJ TRANSIT Board of Directors**

Since January 16, 2018, when Philip D. Murphy was sworn in as the 56th Governor of the State of New Jersey, the Governor has been clear in his mandate that NJ TRANSIT be restored to a position of national prominence in the TRANSIT industry. To that end, he appointed a leadership team that shares his vision for a customer-oriented TRANSIT system that maintains safety as its first priority, delivers excellent customer service, and is fiscally transparent.

Since that time, NJ TRANSIT has aggressively moved to fulfill the Governor's mandate and vision. In February 2018, the Governor announced a six-point commuter relief plan that quickly addressed some of NJ TRANSIT's most pressing issues. Not a panacea to all that has failed at the agency over the previous eight years, this plan represented a concrete demonstration of the administration's commitment to the agency and those it serves. Procurement of necessary equipment parts to expedite necessary vehicle repairs and return them to service, rental of train cars to help reduce overcrowded trains for our customers, and accelerated hiring of staff with critically-needed

skills are examples of how the six-point plan immediately began putting NJ TRANSIT on an upward trajectory.

Specific to safety, NJ TRANSIT successfully met its Positive Train Control (PTC) criteria for 2018 as established in collaboration with the Federal Railroad Administration. Often described as Herculean, the NJ TRANSIT team never took their eye off the goal and delivered 282 PTC-equipped vehicles, installed all necessary wayside equipment along hundreds of miles of railroad right-of-way, and completed full training requirements for NJ TRANSIT staff. As we continue towards the conclusion of the capital portion of the PTC project, staff has started to absorb PTC implementation activities into their daily operations.

Customers are at the heart of all we do at NJ TRANSIT. It is no secret that strong communications play a critical role in helping customers navigate their daily lives. To help, NJ TRANSIT launched a new mobile app feature that allows customers to register for, and customize, push notifications, so they can receive

custom-tailored, real-time information for their regular commutes and trips. Information is power; by providing this information as far in advance as possible, commuters can make informed decisions that benefit their work and family lives. There is no shortage of opportunities to strengthen our communications and the NJ TRANSIT team continues to be laser-focused on excellence and building a strong and trusted relationship with our customers.

No agency can be successful without the confidence of its constituents and that confidence is built with fiscal responsibility. Executive Order 5, signed by Governor Murphy on January 22, 2018, called for a comprehensive audit of NJ TRANSIT. The results of the audit were presented on October 5, 2018, and served to confirm that years of neglect had left an agency that was starved of funds, disorganized in management, and lacking effective leadership. The Governor tasked the agency with working quickly to take the necessary actions to implement the recommendations of the audit. I am pleased to report that those improvements are well underway, including revising the organizational structure, improving recruitment and training protocols, and modernizing procurement processes. Other recommendations will require more time, but, rest assured, all elements of the audit report will receive attention and response.

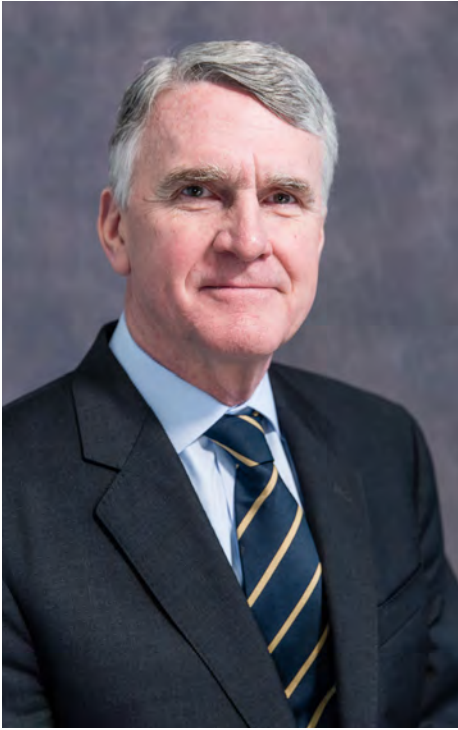
Critical infrastructure projects are on the construction horizon, delivering excellent customer service. NJ TRANSIT is committed to working to

build the Portal North Bridge and new Hudson River tunnels on the Northeast Corridor. Executive Director Kevin Corbett's membership on the Northeast Corridor Commission and collaboration with the Gateway Program Development Corporation will ensure that New Jersey's voice is heard and our customers' interests are addressed.

Creating a stronger, fairer New Jersey is the responsibility of every state agency. At NJ TRANSIT, we are keenly aware of our role in the Governor's mission. Whether through our Access Link paratransit service, or providing the daily rail, bus and light rail service that enables New Jersey's citizens to get to their work, recreation or other destinations, NJ TRANSIT is committed to serving all of its customers with a high level of service and respect. A special thanks to all of the NJ TRANSIT family of employees who have demonstrated exceptional commitment to our customers each and every day, and on whose continued commitment we - and New Jersey - depend.



**Diane Gutierrez-Scaccetti**  
Commissioner, New Jersey Department  
of Transportation  
Chair, NJ TRANSIT Board of Directors



Letter from

*Kevin S. Corbett*

**Executive Director**

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After 25 years of riding the system as a regular customer, I now have the honor and privilege to serve as the agency's Executive Director. Those 25 years of commuting, combined with my previous transportation, construction and government experience, have helped me quickly transition to this job, giving me the opportunity to make a difference in the day-to-day lives of my fellow commuters. I am grateful, humbled and appreciative for the opportunity and take the responsibility very seriously.

I am also very appreciative of having the full support of Governor Phil Murphy, NJDOT Commissioner & NJ TRANSIT Board Chair Diane Gutierrez-Scaccetti and the Board of Directors, as well as the men and women of NJ TRANSIT who have consistently displayed dedication and professionalism, even in the face of adversity. After nearly a decade of declines in service, we are all committed to a complete turnaround.

During the course of my first year, I have been meeting with customers and employees at stations, terminals, park & rides and work locations. I encourage each of them to freely share their observations, which has helped me learn more about the organization, our mission and what matters most to our customers and employees. There is a common theme in these discussions; bring back the NJ TRANSIT that we used to know, the one that was reliable, convenient and regularly met the transportation needs of the state and region. Within that context, customers tell us they are looking for consistent on-time service, clean equipment and facilities, and effective communication, while employees want to be treated respectfully, recognized for their hard work and given the tools and resources they need to carry out their jobs. We are actively working on all of these things and I am confident we will produce measurable results moving forward.

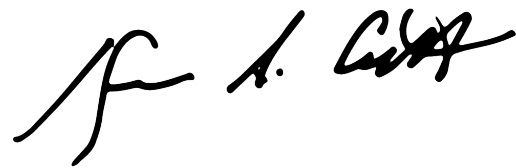


Safety has been one issue I have been dealing with since day one. Very little progress was made with the installation of Positive Train Control (PTC) before I arrived, a sizeable and complicated project with a critical milestone that needed to be completed by the end of 2018 per a federal mandate. We have aggressively advanced PTC to meet that deadline, and are now in the process of making the system fully operational by the end of 2020. PTC will add another layer of safety to our already safe rail system.

To help us identify shortfalls the Corporation experienced over the past decade, Governor Murphy ordered an assessment of NJ TRANSIT, with a focus on organizational structure, operating and capital funding sources, personnel recruitment, procurement and customer experience. The assessment revealed a number of deficiencies, many of which we already knew. Most glaring were significant staffing shortages that directly affect our customers, something that quickly became apparent to me when I arrived. As a result, Diane and I directed our Human Resources Department to redouble its efforts to fill key positions even before the assessment was completed, particularly for frontline employees such as locomotive engineers, bus operators, mechanics, electricians and cleaners. In some cases, we are offering financial incentives to qualified candidates and have increased the number of training classes. We've had particular success in recruiting bus operators and locomotive engineers, which are both critical to providing customers with predictable and reliable service.

Meanwhile, other recommendations that we are working on include streamlining our organizational structure, refining our recruitment practices, improving the procurement process, identifying more reliable funding sources and strengthening our infrastructure. None of this can be done overnight. It requires careful planning through the development of a strategic plan that will pave the way for our long-term success. We have a great team in place to help us implement these improvements, and I am looking forward to working alongside them to carry out these initiatives.

In closing, in addition to the support we are receiving from the Governor, the Board of Directors and our employees, I would also like to acknowledge the work of our State Legislature, the New Jersey Congressional delegation and many transit advocates who stand with us in helping NJ TRANSIT return to its place of national prominence. With such support, I also look forward to seeing NJ TRANSIT returning to its role of helping drive economic growth and improving the quality of life of residents across the state and region.



**Kevin S. Corbett**  
Executive Director

# New Leadership, New Direction

This year's annual report theme - New Leadership, New Direction - highlights the new leadership team and direction at NJ TRANSIT. New Jersey Governor Phil Murphy affirmed his commitment to significant changes at NJ TRANSIT by selecting Diane Gutierrez-Scaccetti as New Jersey Transportation Commissioner & NJ TRANSIT Board Chair, and Kevin Corbett as NJ TRANSIT's new Executive Director. Both are well-respected transportation professionals committed to propelling NJ TRANSIT

into a new direction, with an emphasis on safety, service reliability, proper staffing and innovation, with a laser focus on customer service.

Several key initiatives have already been implemented since the team arrived, including new action plans to retain and hire employees, accelerating the installation of Positive Train Control (PTC) and improving communications. The release of Governor Murphy's audit of NJ TRANSIT in October 2018 is driving many of the strategic decisions needed to move the agency in a new direction. They will be carried out with the continued support of Governor Murphy, the State Legislature, the New Jersey Congressional delegation and U.S. Senators Menendez and Booker.

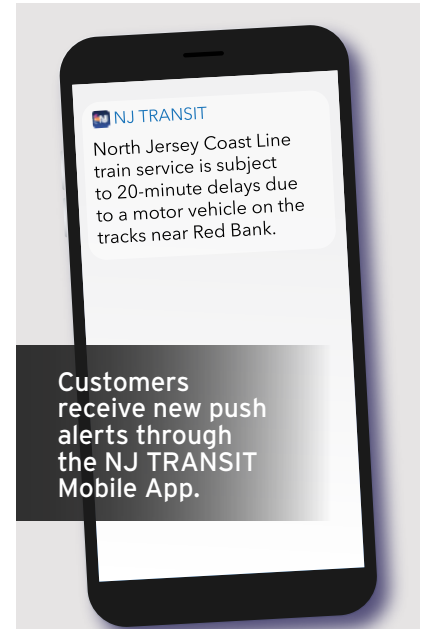
Among the highlights accomplished by NJ TRANSIT under the Governor's leadership in Calendar Year 2018:

- Successfully meeting a federal requirement for the installation of **Positive Train Control (PTC)** by December 31, 2018. Installation, training and testing of PTC will continue in FY2019 and FY2020, with full implementation by December 31, 2020.
- Delivering an FY2019 operating budget that **held fares steady** thanks to additional state operating assistance provided by Governor Murphy and the State Legislature.
- Creating and implementing a **commuter relief plan** to relieve overcrowding, expedite the procurement process for spare part inventory and accelerate equipment repairs.



Gov. Phil Murphy (center), NJDOT Commissioner & Board Chair Diane Gutierrez-Scaccetti (left) and NJ TRANSIT Executive Director Kevin Corbett (right).

Positive Train Control cable installation on the Atlantic City Rail Line.



- **Improving internal business operations** in key areas of the company dramatically from the previous year. In 2018, we released over \$264 million in construction and professional service-related contracts, compared to \$47 million in 2017. Overall in 2018, we awarded more than \$308 million in contracts compared to \$85 million in 2017. In Finance, we achieved a 90 percent reduction in past due invoices to vendors. Additionally, we have an approach in Human Resources to aggressively bring in new talent and to retain existing talent. This approach has yielded an impressive 400 new bus operators and 102 new locomotive engineer trainees hired in 2018.
    - In October 2018, NJ TRANSIT launched a pilot conductor-to-engineer training program leveraging the existing railroad knowledge of Assistant Conductors who are already familiar with complex rail rules and regulations as they seek to become Locomotive Engineers. This program helps fulfill our commitment to restoring the ranks of Locomotive Engineers and streamlining training. This class is one of four classes expected to graduate in 2019.
  - Launching a new **communications reorganization plan and strategy** - *Engage. Inform. Improve.*
    - which is designed to provide more timely information to customers at all customer touch points. NJ TRANSIT took a major first step in that effort by consolidating all key communications personnel into one central location. A larger reorganization effort is underway.
  - Advancing plans to **modernize the rail and bus fleet** with the next generation of equipment, including the purchase of 113 new Multilevel III railcars (including self-propelled railcars that do not need a locomotive), the purchase of 85 articulated buses, and receiving an ongoing delivery of new cruiser buses.
  - Making customer-focused **technology upgrades**, including the launch of push notifications of customized transit alerts on the NJ TRANSIT mobile app, providing information kiosks at key locations and developing plans to modernize fare collection.
  - Expanding **non-farebox revenue** opportunities, including the leasing of retail space and identifying new advertising opportunities.
- Moving forward, these and other initiatives will continue to enhance the customer experience, meet the needs of the workforce and strengthen the overall organization to position us as a national leader in public transportation.

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Improving the

# Customer Experience

One of NJ TRANSIT's highest priorities is **addressing staffing shortages**, particularly on the frontlines. The Corporation has accelerated its recruitment efforts for key positions that directly affect the customer experience, including locomotive engineers, bus operators, mechanics, electricians, foremen and project managers. Hiring and referral incentives are being offered for select positions. The recruitment efforts will continue in FY2019 thanks to additional funding provided by the Governor and State Legislature.



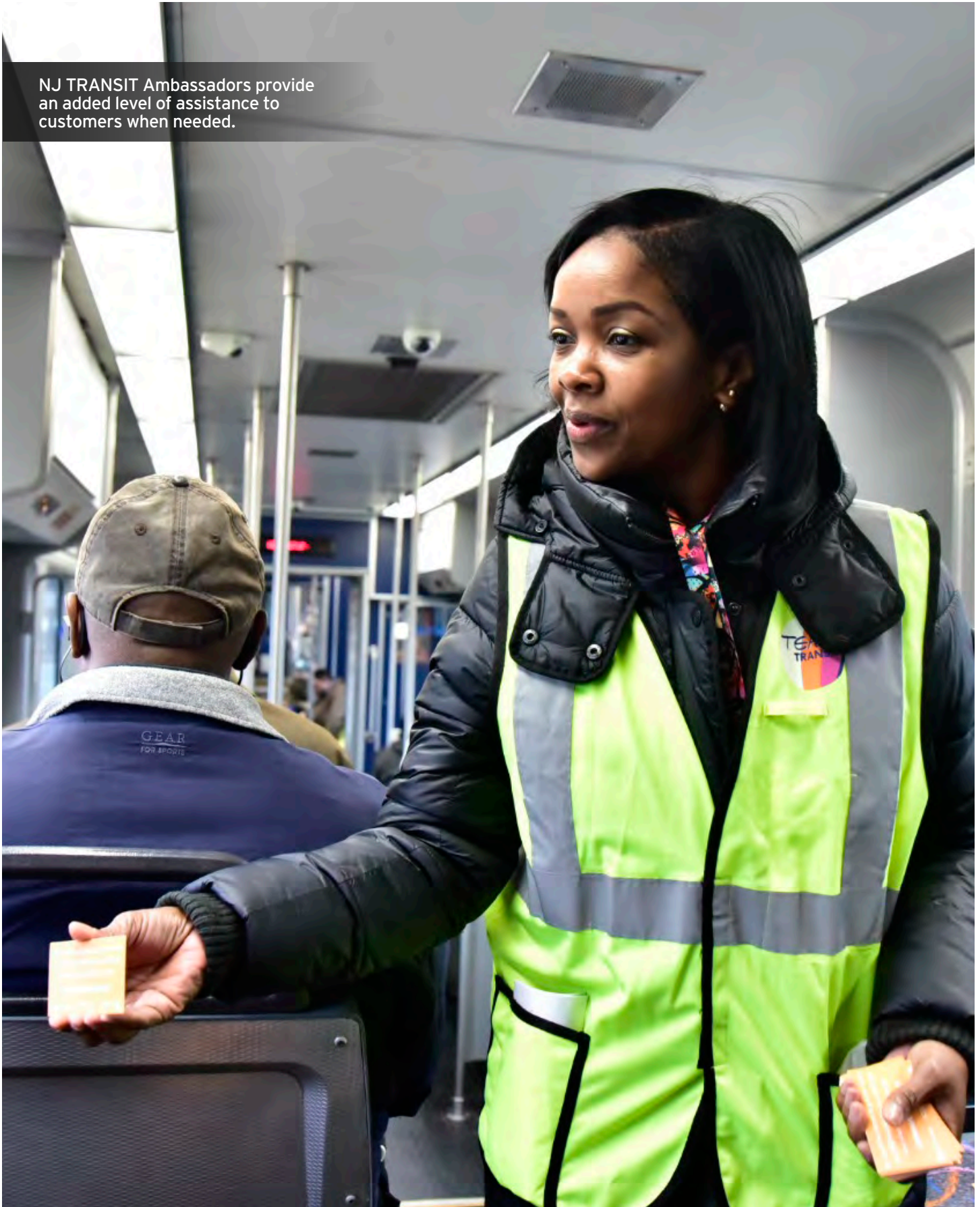
NJ TRANSIT is heavily recruiting Bus Operators, Locomotive Engineers and other frontline employees.

Safety remains the Corporation's highest priority. At the top of the safety list is installation of **Positive Train Control (PTC)**, an advanced technology designed to prevent certain types of rail collisions, provide added protection for rail workers, function as a Crash Hardened Event Recorder and offer interoperability capabilities with other railroads.

The new leadership team at NJ TRANSIT dramatically increased the Corporation's PTC installation schedule and successfully met a federal installation milestone of December 31, 2018, which allowed it to qualify for an "alternative schedule and sequence." A fully operational PTC system is on schedule to be delivered on or before December 31, 2020. Work during Calendar Year 2018 (CY2018) included:

- Receiving conditional approval from the Federal Railroad Administration (FRA) for a Request for Alternative Criterion, a major step in qualifying for an "alternative schedule and sequence."

NJ TRANSIT Ambassadors provide an added level of assistance to customers when needed.





Locomotive Engineers received Positive Train Control simulator training in FY2018.

- Testing on a six-mile section of demonstration track on the Morris & Essex Lines between Denville and Morristown, which was then expanded from Morristown to Summit.
- Providing PTC training to nearly 1,745 employees, reaching or exceeding goals for all required locomotive engineers, conductors and management employees.
- Completing PTC installation on more than 300 vehicles.
- Completing installation of 120 Wayside Interface Units.
- Completing installation of more than 218 miles of a new ground base network (GBN).
- Completing installation of 588 transponders.

NJ TRANSIT completed installation and employee training requirements by the end of calendar year 2018, and began conducting field testing of the PTC system to verify that it performs in accordance with its design. To learn more, visit [www.njtransit.com/ptc](http://www.njtransit.com/ptc).

At the direction of Governor Phil Murphy, a **“Commuter Relief Plan”** was implemented in FY2018 to accelerate train repair work and maximize the number of rail cars in revenue service. It also included leasing 10 rail cars from



Executive Director Kevin Corbett speaks with a customer at a We’re Listening Forum at Penn Station New York.

the Maryland Transit Administration for eight weeks to increase capacity for customers.

NJ TRANSIT hosted **“We’re Listening” customer forums** during FY2018 at Penn Station New York and Hoboken Terminal. Additionally, three “Commuter Chats” were held at Port Authority

Bus Terminal (PABT) in New York. Both venues allow customers to share their experiences with NJ TRANSIT senior management.

NJ TRANSIT continued to grow its **social media** presence in FY2018. In addition to providing critical service information to customers, social media platforms are used to promote NJ TRANSIT services, highlight company achievements and offer promotional discounts to customers. During FY2018, Twitter gained more than 41,800 followers during the year, now totaling 228,475 followers. Additionally, NJ TRANSIT Facebook “likes” increased to 70,614 followers, Instagram increased to nearly 6,200 followers and LinkedIn grew to 12,160 followers.

**Ridership campaigns** in FY2018 promoted bus or rail service to Newark Liberty International Airport, MetLife Stadium, the Vince Lombardi Park-Ride, Jersey Shore beaches, Monmouth Park Racetrack, Six Flags Great Adventure, Atlantic City, Philadelphia, Wildwood and Cape May. NJ TRANSIT also worked with Intersection, the Corporation’s advertising partner, and more than a dozen business partners to offer customer discounts to a variety of entertainment venues in New Jersey, Pennsylvania and New York.

NJ TRANSIT **ambassadors** supported 115 events in FY2018, providing customers with information and directional assistance during construction projects, sporting events, concerts and other

planned activities. Another 17 **Emergency Response Team** callouts helped customers during unplanned events.

Access Link launched real-time, estimated pick-up times for paratransit customers in FY2018 on a new web page called **Access Link Online**, available on handheld mobile devices or desktop computers with internet access. Access Link customers can also cancel rides, provide feedback and perform other common call transactions on the new web page. A reservation by email feature also was introduced in FY2018, enabling customers to request rides around the clock without speaking to an agent.

In response to Scorecard requests, **more cushioning and support springs** were added to seats on Access Link vehicles in FY2018, helping to smooth the ride for Access Link paratransit customers.

NJ TRANSIT made service adjustments to several bus routes in FY2018, including:

- Extending the No. 65 Newark-Somerville and No. 66 Newark-Mountainside bus routes to serve Newark Penn Station.
- Adding additional trips on weekdays to the No. 119 Bayonne-Jersey City-New York route to relieve crowding conditions.
- Adjusting bus stops and bus routes in Hackensack to accommodate a city streetscape project, affecting nine bus routes.

## ➔ BUS AND RAIL FLEET

NJ TRANSIT and private bus carriers continued to receive delivery of more than 1,100 new 45-foot **cruiser buses** in FY2018, replacing older and smaller buses that have reached the end of their useful lives. The new buses are equipped with 360-degree cameras and the Apollo camera system (see Safety and Security section).

Bid specifications were developed for eighty-five, 60-foot **articulated buses**, replacing buses that



@alexgabraham

**Great thanks! Train conductor from NBRLNDG very understanding easily bought tickets to Penn from Secaucus great customer service!**

8:15 AM - 20 July 2017

NJ TRANSIT ordered 85 new articulated buses in FY2018 for use on high-ridership routes.



are approaching the end of their useful lives. NJ TRANSIT plans to issue bid packages for the buses in FY2019, with the scheduled deployment of those buses between FY2019 and FY2021.

NJ TRANSIT advertised a Request for Proposals (RFP) in FY2018 for 113 self-propelled **Multilevel III Vehicles (MLV III)**, which will replace aging Arrow III railcars. A contract award to the most responsive bidder is expected in FY2019. The MLV

III fleet will be equipped with all of the popular customer amenities and comfort found in the existing MLV fleet, and can operate in trainsets without locomotives.

Request for Proposals (RFP) for the overhaul of 33 **PL42-AC Diesel Locomotives** were received in FY2018. NJ TRANSIT is preparing a 'Best and Final Offer' from the firms.

NJ TRANSIT amended an existing contract with Bombardier in FY2018 to purchase 17 **ALP45-A dual power locomotives** that will replace aging GP40 diesel locomotives. The locomotives are similar to the 35 ALP45-DP dual-power locomotives previously purchased by NJ TRANSIT, with some diesel engine modifications.

NJ TRANSIT is nearing completion on a project to **increase seating capacity** on Hudson-Bergen Light Rail and Newark Light Rail vehicles. Twenty-six vehicles were extended by the end of FY2018, with the remaining nine vehicles scheduled for completion in FY2019. The project increases the number of available seats on each car from 68 to 102.

Nearly 150 **Access Link minibuses** were purchased in FY2018, replacing vehicles that



The next generation of multilevel rail cars includes some self-propelled cars that do not need a locomotive.





NJ TRANSIT's new bus training simulator is used to hone the skills of Bus Operators.



This mobile diesel generator can help provide backup power during major power outages.

exceeded their useful life and meet growing customer demand. For added safety, the minibuses are equipped with LED stop lights and deceleration lights to warn approaching vehicles when the Access Link vehicles are slowing down or stopping.

NJ TRANSIT purchased new **bus training simulator equipment** in FY2018 for its training facilities in Newark and Camden. The simulators are used to train new bus operators and offer refresher training for existing operators. Two single-seat, computer-generated units are used for individual training while two, 10-seat, video-based units are used for group training. A fifth "mobile" unit can be transported to individual garages for on-site training.

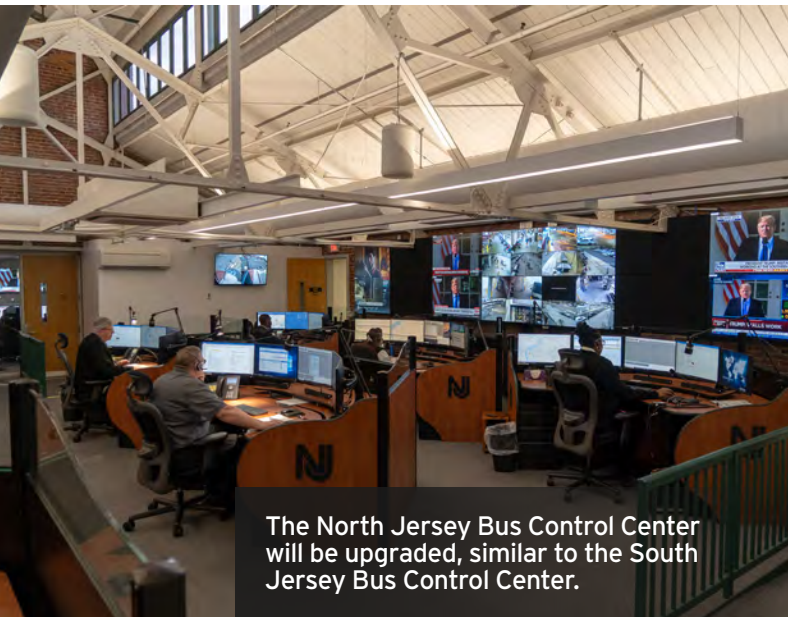
A large **diesel generator** mounted on a tractor trailer was purchased by Rail Operations to assist during major power outages. The two-megawatt mobile unit can be transported to any location to provide backup power at stations, for life-safety equipment or for other operations functions.

**→ FACILITIES**

NJ TRANSIT, after years of delays, demonstrated action by awarding a design-build contract in FY2018 to replace **Elizabeth Station** on the Northeast Corridor. The project includes reconstructing and extending existing high-level platforms, and equipping them with canopies and climate-controlled shelters. Additional



Elizabeth Station on the Northeast Corridor will get a complete makeover.



The North Jersey Bus Control Center will be upgraded, similar to the South Jersey Bus Control Center.

improvements include installation of new elevators, replacing existing elevators and accessible ramps, constructing new and expanded station buildings



The upgraded control center will include improved communications and bus tracking capabilities, an expanded floor plan, new operating consoles, new computer workstations and conference space.

and waiting areas, restoring a pedestrian tunnel, installing a state-of-the-art communications system, restoring the existing plazas and installing Transit Arts. When completed, the station will fully comply with the Americans with Disabilities Act (ADA).

Plans to upgrade **Perth Amboy Station** on the North Jersey Coast Line advanced in FY2018. The State Historic Preservation Office approved design and environmental work while the Federal Transit Administration began an environmental documentation evaluation to help advance the project to final design. The project – which is scheduled to begin in FY2020 – includes two high-

level platforms with waiting areas, upgrades to elevators and the pedestrian overpass, and a state-of-the-art communications system.

Design work to modernize and upgrade **Lyndhurst Station** on the Main Line continued in FY2018. The project will include two new high-level platforms located closer to the existing parking area.

NJ TRANSIT awarded a construction contract in FY2018 for improvements at **Avandale Bus Park & Ride**, adjacent to the Atlantic City Expressway in Camden County. The current 30-year-old park & ride with 330 parking spaces is served by five bus routes. The project will increase the number of spaces to 461 spaces, provide upgraded lighting and customer waiting areas, improve bus circulation and accommodate future use of the South Jersey Bus Rapid Transit System (see Studies section of report).

NJ TRANSIT received a federal grant to advance the **Passaic Bus Terminal** Improvements project in FY2018, which will significantly improve the physical and operational presence of bus service along Main Street in the City of Passaic. NJ TRANSIT worked with the city and Passaic County to identify the footprint of the improvements.

**Walter Rand Transportation Center (WRTC)** in Camden serves NJ TRANSIT Bus, River

LINE and PATCO customers. Plans to repair the WRTC parking deck advanced in FY2018, which include concrete patching, spalling repairs and new lighting. Construction is scheduled to begin in FY2019.

Meanwhile, NJ TRANSIT began to partner with the County of Camden in FY2018 to advance design concepts for a modernized **Walter Rand Transportation Center**. The work will consider transportation needs, circulation and access issues, and the connection between the Transportation Center and the surrounding environment.

Design work was completed in FY2018 for the modernization of the NJ TRANSIT **Bus Control Center** in Maplewood. The upgraded control center will include improved communications and bus tracking capabilities, an expanded floor plan, new operating consoles, new computer workstations and conference space. The project is scheduled to be advertised in FY2019.

**→ STATE-OF-GOOD-REPAIR**

Construction began in FY2018 on a project at **New Brunswick Station** on the Northeast Corridor. Planned improvements include rehabilitation of waiting room windows, optimization of lighting, heating and air conditioning systems, exterior façade work, downspout and gutter repairs, and exterior painting. Other upcoming projects include replacement of two elevators, rehabilitation of the escalator and an inbound platform extension project.

Rail Operations completed final pier repairs in FY2018 on the existing **Raritan River Bridge** on the North Jersey Coast Line, which spans the Raritan River between Perth Amboy and South Amboy. The



A screenshot of a Twitter post. The user is @Rob\_Cook87. The text of the tweet reads: "@NJTRANSIT another cool day on 34B with ID 32091 A very HOT day & she always have the AC on great job 32091 😊". The timestamp is 6:41 AM - 20 July 2017. The Twitter bird logo is visible in the top right corner of the tweet frame.

bridge was extensively damaged during Superstorm Sandy. A long-term plan to replace the bridge is underway (see Resiliency section).

Construction work was completed on platform improvements at **Cranford Station** on the Raritan Valley Line in FY2018. Meanwhile, plans for improvements at nearby **Roselle Park Station** advanced in FY2018, which will include replacement of deteriorated sections of existing platforms,



Repair work was completed on the Raritan River Bridge in FY2018, while long-range plans to replace it advanced.

installing new tactile-edge protections, construction of a new elevator to comply with the Americans with Disabilities Act (ADA) and other repairs.

Renovation work began in FY2018 on the station plaza and lighting project **at Rutherford Station** on the Bergen County Line, work that will continue in FY2019.

NJ TRANSIT advanced plans in FY2018 to replace equipment for the **Compressed Natural Gas (CNG)** facility at Howell Garage in Monmouth County. The design-build contractor was authorized to complete design work and begin construction, which is scheduled for completion in FY2019.

Rail Operations completed extensive state-of-good-repair work across the rail system in FY2018. The work included the installation of more than 46,500 **wood railroad ties** on the Montclair-Boonton, Main, Morristown, North Jersey Coast and Port Jervis lines and 5,800 **composite cross ties** on the North Jersey Coast, Main and Morristown lines. More than 9,500 feet of **continuous welded rail** was installed on the Main and Port Jervis lines, and 166 miles of **track was resurfaced** on the Atlantic City, Gladstone, Main/Bergen County,

Montclair-Boonton, Morristown, North Jersey Coast, Princeton, Pascack Valley, Raritan Valley, Meadowlands and Port Jervis lines. Several new switches and turnouts also were installed at Hoboken Terminal and on the Port Jervis Line to improve service reliability. Additionally, 12 **grade crossing renewal projects** were completed on the North Jersey Coast, Main and Pascack Valley lines.

**Waiting room, shelter and/or bathroom upgrades** were performed in FY2018 at Metuchen, Suffern, Aberdeen-Matawan, Long Branch, Hamilton, Elizabeth, Edison and Basking Ridge stations. Meanwhile, **platform and/or sidewalk upgrades** were completed at Elizabeth, Somerville, Union, Boonton, Avenel, Edison, Aberdeen-Matawan and Gladstone stations. **Heating and air-conditioning upgrades** were completed at Metuchen, Murray Hill, Metropark, New Providence and Emerson stations. Painting was completed at Hamilton and Point Pleasant Beach stations. **Lighting upgrades** were performed at North Elizabeth, Linden, Metropark, Plainfield, Rahway, Woodbridge, Elizabeth, Edison, Linden and North Elizabeth stations. **Elevator upgrades** were also completed at Paterson, Edison, Westfield, Woodbridge and Elizabeth stations.



Keeping tracks and related infrastructure in a state-of-good-repair enhances service reliability.



Portal Bridge on the Northeast Corridor will be replaced with a fixed-span bridge, benefiting NJ TRANSIT and Amtrak trains.

Bus Operations completed state-of-good-repair projects at customer and employee facilities in FY2018. Work included new **LED lighting** at the Mothers and North Bergen park & rides, and upgrades to **bus lifts, bathrooms, office space, lighting, rest areas** and **HVAC systems** at several bus maintenance facilities.

### → MAJOR PROJECTS

The **Portal North Bridge Project**, a vital part of the Gateway Program, will replace Amtrak's existing, century-old swing-span bridge on the Northeast Corridor with a fixed-span bridge over the Hackensack River. Final design was completed in FY2018 and early-action work is being advanced through a U.S. Department of Transportation TIGER grant. The remainder of work on the project is being prepared for advertisement for construction. When completed, the new bridge will not need to open for maritime traffic, greatly improving service reliability between Newark and New York.

The new Hudson River Tunnel, rehabilitation of the existing North River Tunnel and the Hudson Yards Concrete Casing Section 3, collectively referred to as the "Hudson Tunnel Project," are also part of the first phase of the **Gateway Program**. The North River Tunnel, which is more than 100 years old, was severely damaged during Superstorm Sandy. Section

3 of the Hudson Yards Concrete Casing will preserve the right-of-way for trains to access Penn Station New York. Design of the new Hudson River Tunnel has advanced to 30 percent and is awaiting a Record of Decision by the Federal Railroad Administration. Early construction work is underway on the Hudson Yards Concrete Casing project.

The Hudson-Bergen Light Rail (HBLR) **Northern Branch Extension** will extend HBLR service from North Bergen to Englewood, improving regional mobility, mitigating traffic congestion and



@mn\_klein

I have to give props to @NJTRANSIT Customer Service. I left something on the train yesterday and within 24hrs it's back in my possession. Thank you – especially to the guy who called at 10pm last night to tell me it was found!

8:49 AM - 19 Apr 2018

fostering economic investment. The Supplemental Draft Environmental Impact Statement was published by NJ TRANSIT and the Federal Transit Administration, followed by public hearings and an open comment period. A Final Environmental Impact Statement is underway and expected to be completed in Fiscal Year 2019.

The **Route 440 Extension** will expand HBLR service in Jersey City from West Side Avenue Station to the west side of Route 440. The Federal Transit Administration has issued a Finding of No Significant Impact. Preliminary engineering is scheduled to begin in FY2019 and is anticipated to be completed in FY2020.

The **Glassboro-Camden Line** will provide light rail service from Camden to Glassboro, improving regional mobility, mitigating traffic congestion and fostering economic investment. A State of New Jersey Level 2 Environmental Assessment is anticipated to be published in 2019. The project is being managed by the Delaware River Port Authority with funding and technical support from NJ TRANSIT.

NJ TRANSIT advanced work on the **Lackawanna Cutoff** project in FY2018, including the purchase of wetland mitigation credits, completing the review of pre-qualification packages for reconstruction of the Roseville Tunnel, ongoing bid package development for construction of Andover Station, and continued development of a Request for Proposals to purchase riparian zone mitigation credits. The Lackawanna Cutoff will initially extend NJ TRANSIT rail service into Sussex County, with the potential for a future extension into the State of Pennsylvania if Pennsylvania were to choose and provide funding to do so.

## → STUDIES

Design and environmental work advanced on the **South Jersey Bus Rapid Transit (SJBRT) Project** in FY2018, with proposed improvements along the Atlantic City Expressway, Routes 42 and 55, Interstates 76 and 676, and in Philadelphia. Priority treatments and new technology are designed to make BRT faster and more reliable

than traditional bus service. A construction contract for an initial component of this project, the **Avandale Park & Ride** (see Facilities section), was awarded in FY2018. NJ TRANSIT expects to complete the environmental review process for the full SJBRT project in FY2019.

NJ TRANSIT, in partnership with Bergen County, completed the **Bergen County Bus Rapid Transit Study (BRT)** in FY2018. The study identified a number of potential BRT routes that could improve intra- and inter-county mobility in Bergen and Passaic counties. Funding has not been identified to implement the proposed services.

## → RESILIENCY

NJ TRANSIT's Resilience Program received approximately \$1.3 billion from the **Federal Transit Administration's (FTA) Emergency Relief Program** by the end of FY2018 - including all work to repair and/or rebuild assets damaged by



The first phase of work to replace wood catenary poles on the Gladstone Branch was completed in FY2018.

Superstorm Sandy. In FY2018 alone, more than \$431 million of FTA funding was obligated.

Work was completed in FY2018 on the first phase of **Gladstone Catenary Pole Resiliency** project, which replaced wooden catenary poles with resilient steel poles on the Gladstone Line.

NJ TRANSIT completed cable testing and began replacing **Hudson-Bergen Light Rail Traction Power, Auxiliary Power and Signal and Communication cables** in FY2018 that were damaged by Superstorm Sandy.

A new **raised platform and electrical service** that support operation of HX Bridge on the Bergen County Line were installed in FY2018 to protect it from water damage. A study to replace HX Bridge over the Hackensack River was also completed in FY2018.

A construction contract was awarded in FY2018 for repairs to **Hoboken Terminal**, including a new hot water heating system, a new ferry operations suite, new employee facilities and modifications to the Terminal Power Distribution System. Most modifications involve moving critical components above flood elevation. This project is advancing through construction and is anticipated to be completed in FY2020.

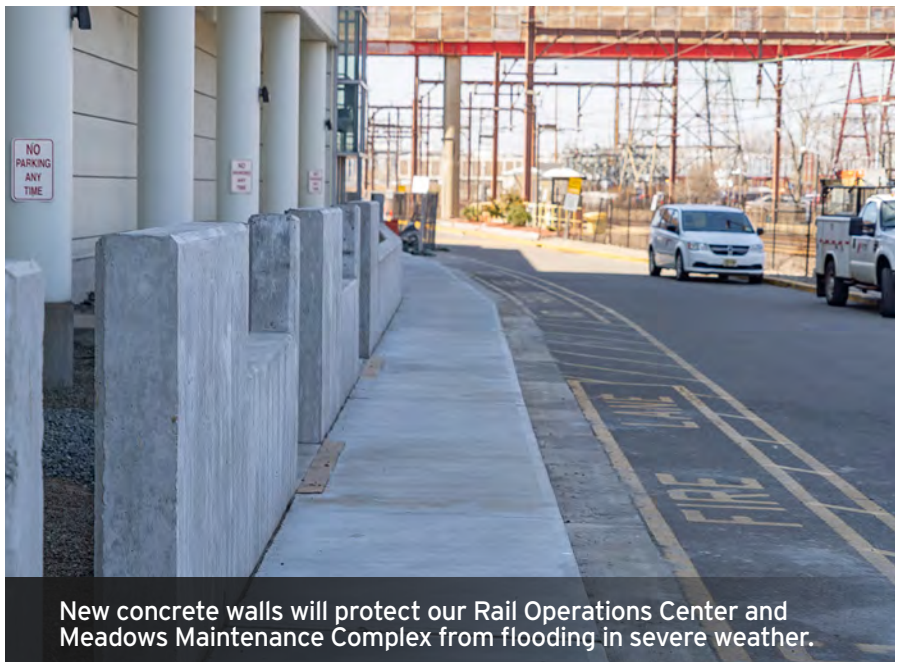
The **Newark Light Rail storm protection project** advanced to 90-percent design in FY2018. It is anticipated that 100-percent design will be completed in FY2019, with construction scheduled to begin in FY2020.

Final design also advanced in FY2018 for **resiliency modifications to Hoboken Terminal and Yard power distribution systems** for both signal and yard power. The work will include aerial cabling that connects power substations to signal equipment and major yard facilities. The design of repairs for **Wayside Power Systems** in Yard B and Days Yard are also

nearing completion, which will raise equipment above flood elevation and add power outlets and control stations for up to 20 tracks. In addition to resiliency benefits, these systems will provide stand-by power for stored trains. Advertisements for these contracts are planned for FY2019, with field work expected to begin the following year.

The **Mason Substation** project advanced in FY2018 with an agreement between NJ TRANSIT and PSEG to construct a new, resilient substation, replacing an existing substation damaged during Superstorm Sandy. This project advanced to 10-percent design.

The Federal Transit Administration has awarded NJ TRANSIT a federal grant for a **Coastal Storm Surge Emergency Warning System**, declaring it a national demonstration project. In FY2018, a system dashboard was successfully integrated to process storm surge forecast data from the National Oceanic and Atmospheric Administration. The new system will help NJ TRANSIT monitor approaching extreme weather events and related storm surges that could impact Hoboken Terminal, the Meadows Maintenance Complex and the Rail Operations Center, and produce automated storm surge forecast alerts for NJ TRANSIT.



New concrete walls will protect our Rail Operations Center and Meadows Maintenance Complex from flooding in severe weather.

A construction contract was awarded in FY2018 for flood protection work at the **Meadows Maintenance Complex (MMC) and Rail Operations Center** in Kearny. The project includes sealing perimeter openings, installing deployable sluice gates, swing gates and stop-log doors, utilizing permanent and deployable pumps and installing emergency backup generators.

The **Rail Operations Center (ROC) Unit Substation** project will replace and elevate the ROC Unit Substation facility above future flood elevation levels, and harden it against commercial power interruptions by connecting the facility to the future NJ TRANSITGRID (see later in this section). A construction contract was awarded for this project in FY2018; construction is expected to begin in FY2019.

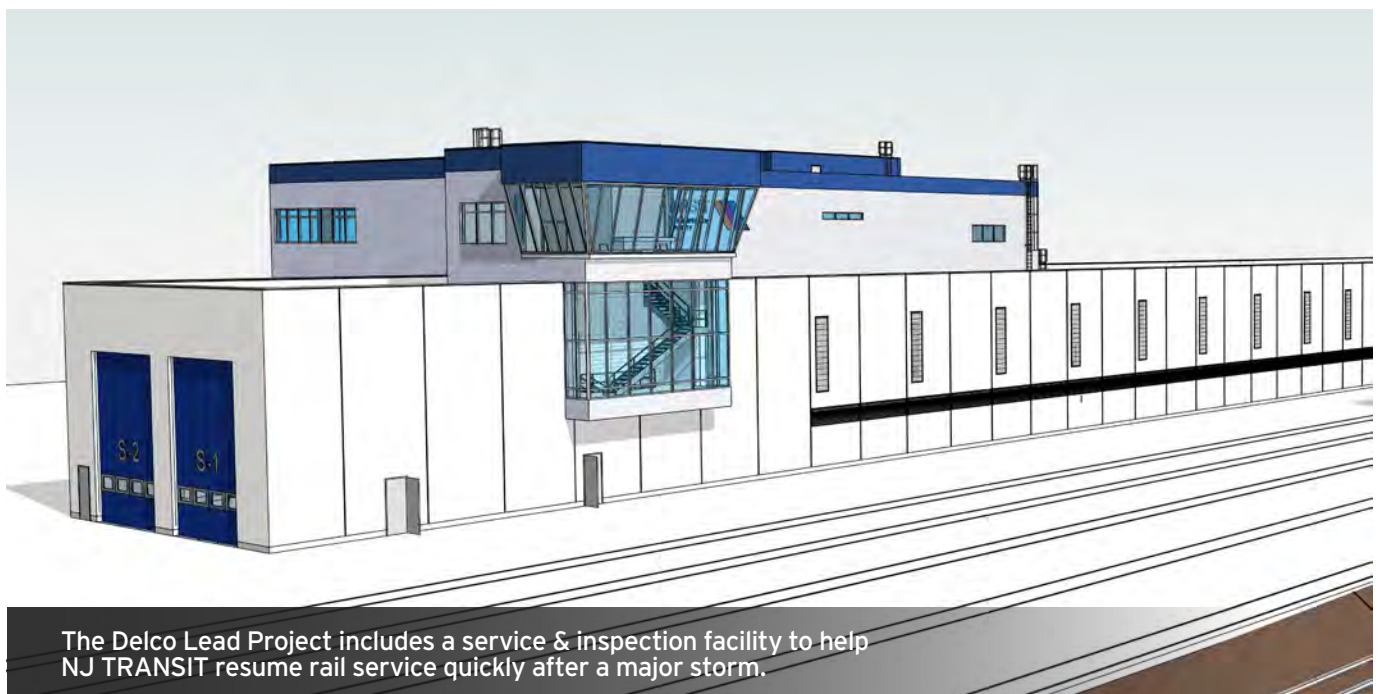
A construction contract was awarded in FY2018 for a new **Henderson Street Substation** project, which will replace an existing substation that provides power to most Hoboken Yard facilities. The new substation and supporting infrastructure will be located above flood elevations, providing reliable and resilient electric power to both the rail and ferry terminals and supporting infrastructure. The project also includes a connection to the

future NJ TRANSITGRID (see later in this section), allowing Hoboken Yard complex to continue operations in the event of a long-term power interruption.

Construction and construction management contracts were advertised in FY2018 for the **Bay Head Substation** repair project on the North Jersey Coast Line, which includes transformers, power cables, devices and controls. Additionally, construction of the **Observer Highway Switching Station** in Hoboken began in FY2018, which will replace an existing switching station and related catenary power switching controls that were damaged during Superstorm Sandy.

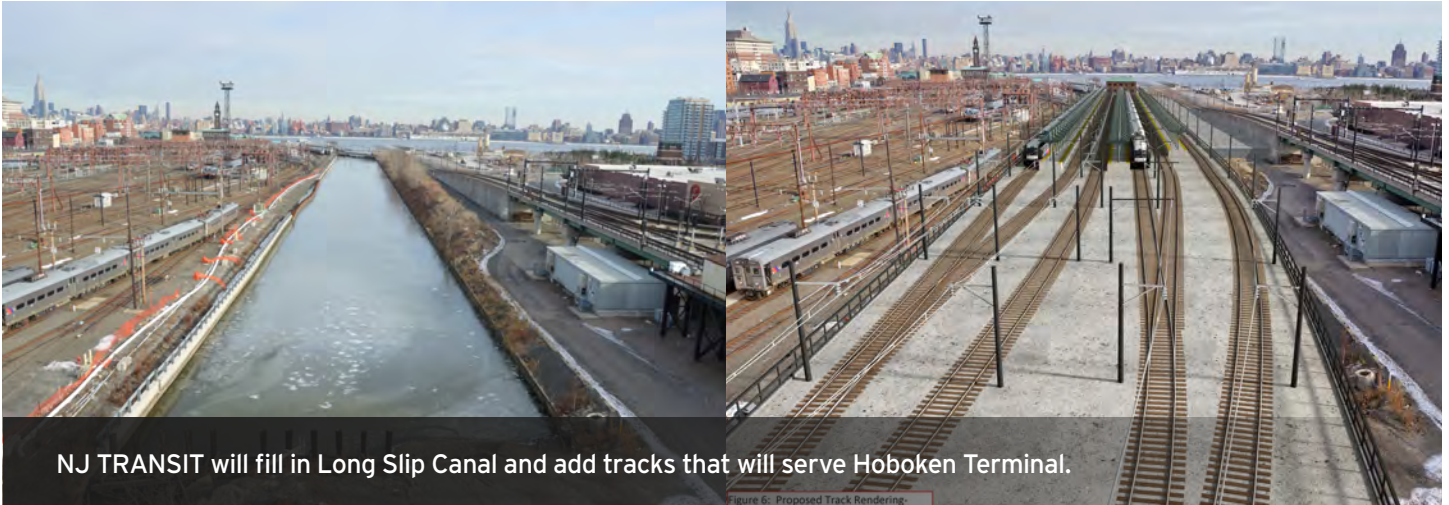
A construction contract for **Hoboken Terminal House Power** was awarded in FY2018 to build a resilient substation, replacing one that was damaged during Superstorm Sandy. The new substation and supporting infrastructure will be installed above flood elevation levels. Construction is expected to begin in FY2019.

Plans to build the new **Delco Lead Storage and Inspection Facility** on the Northeast Corridor (NEC) continued to advance through final design in FY2018. The project, which is funded by a federal



The Delco Lead Project includes a service & inspection facility to help NJ TRANSIT resume rail service quickly after a major storm.





NJ TRANSIT will fill in Long Slip Canal and add tracks that will serve Hoboken Terminal.

resilience grant, includes construction of electrified storage tracks, passing sidings and a service and inspection facility on the NEC in Middlesex County. The construction contract is anticipated to be advertised in FY2019.

The **Long Slip Fill and Rail Enhancement Project** continued to advance in FY2018 through a federal resilience grant. The project involves the filling of Long Slip waterway adjacent to Hoboken Terminal and the construction of new tracks and high-level platforms on the filled area. NJ TRANSIT completed design work for Phases 1 and 2 of the project and advanced construction procurement work for Phase 1.

The 110-year-old **Raritan River Bridge** on the North Jersey Coast Line will be replaced with a new bridge through a federal resilience grant. The existing swing-span bridge, which crosses the Raritan River between Perth Amboy and South Amboy, will be replaced by a new lift bridge constructed with more durable materials and built at a higher elevation than the existing bridge. Final design of the bridge advanced in FY2018

to 60 percent; with 100 percent design scheduled to be completed in FY2019. General construction is anticipated to begin in FY2020.

Plans for **NJ TRANSITGRID**, a first-of-its-kind microgrid, reached the 20 percent design level in FY2018. A federal resilience grant supports the design and construction of the project, as well as operation of a natural gas-fired power plant that

”  
**The 110-year-old Raritan River Bridge on the North Jersey Coast Line will be replaced with a new bridge through a federal resiliency grant.**



The new Raritan River lift bridge will improve service reliability on the North Jersey Coast Line.



New interactive kiosks at key locations help guide customers around the NJ TRANSIT system.



New electronic pay stations expand parking payment options at Roselle Park.

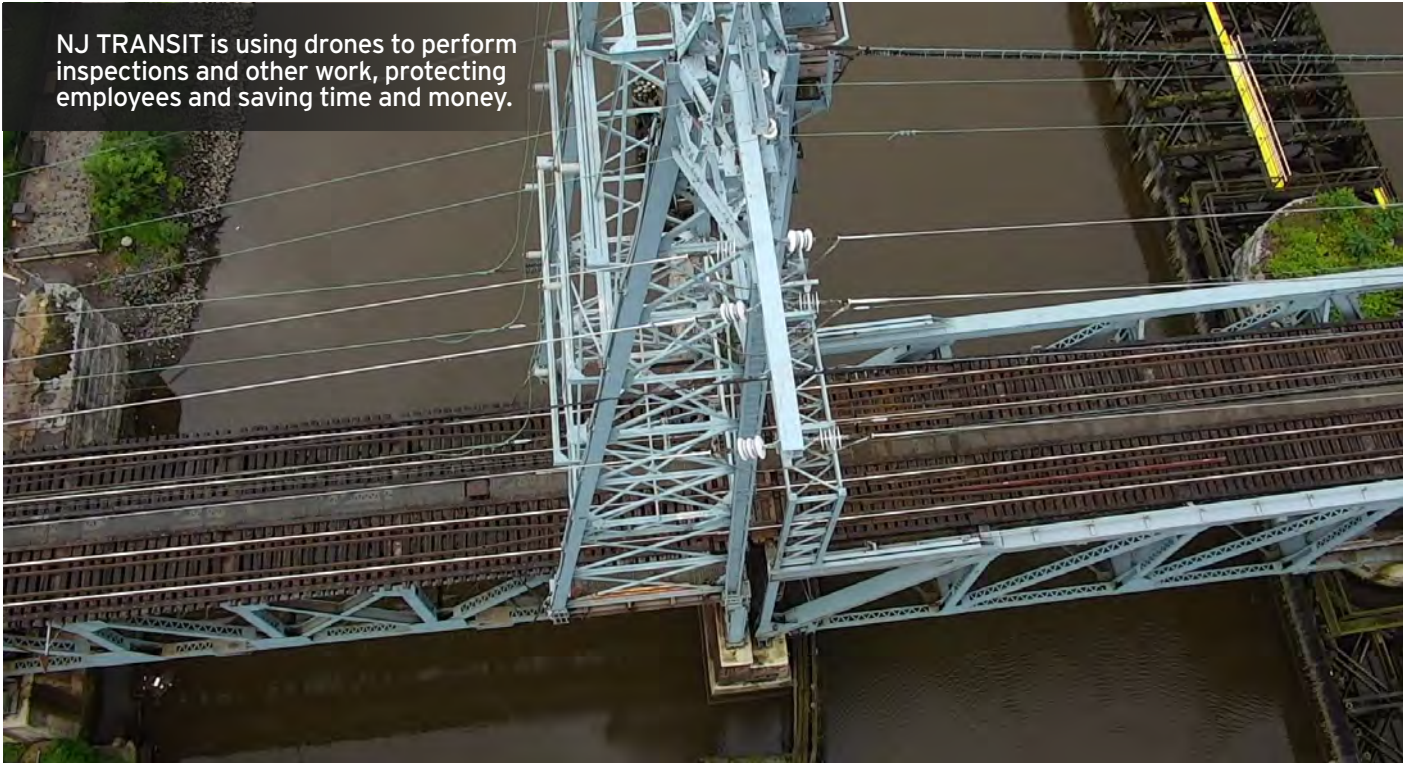
will provide reliable power to a core segment of NJ TRANSIT's rail and light rail systems during a commercial power outage. The project also includes a power distribution network and installation of several smaller generation facilities, capable of generating power that can be sold back to the commercial grid. Partners on this project include the State of New Jersey's Office of Recovery and Rebuilding, the Federal Transit Administration, the U.S. Department of Energy, the New Jersey Board of Public Utilities, the New Jersey Department of Environmental Protection, the New Jersey Office of Homeland Security & Preparedness and other public and private stakeholders.

A federally required Environmental Impact Statement (EIS) for **NJ TRANSITGRID** also advanced in FY2018. Completion of the EIS and a Record of Decision by the Federal Transit Administration (FTA) are expected in FY2019. Final design for the central power plant and distributed generation system will begin after the Record of Decision is issued. NJ TRANSIT also conducted an outreach event in FY2018 to engage industry partners on equipment procurements and the Design, Build, Operate and Maintain portion of the project.

A federal **Signals and Communications Resilience** project also advanced in FY2018. The project will make critical system components in designated areas more resilient in future storm events by elevating the components along sections of the Morris & Essex, Main/Bergen County, Pascack Valley and Raritan Valley lines, as well as along Hudson-Bergen Light Rail. Design work for the project advanced and a construction grant was approved by the Federal Transit Administration in FY2018. Construction on all lines is anticipated to begin in FY2019.

## → TECHNOLOGY

A pilot program was launched in FY2018, providing select train crewmembers with **handheld mobile devices** to scan and validate tickets and passes. Once a ticket or pass is scanned, a crew member can instantly determine if the ticket is valid. The new devices are also capable of giving train crews real time information to enhance customer communication.



NJ TRANSIT is using drones to perform inspections and other work, protecting employees and saving time and money.

Another pilot program in FY2018 involved the rollout of new **interactive touchscreen kiosks** to enhance customer communication. The digital displays at Newark Penn Station, Hoboken Terminal and at Harborside and Pavonia stations on Hudson-Bergen Light Rail allow customers to access service information, maps and alerts to stay informed of travel options.

NJ TRANSIT installed new **digital, multi-space pay stations** in FY2018 for parking at Union and Roselle Park stations on the Raritan Valley Line. As an added convenience, the system offers an Extend-by-Phone option that provides expiration reminders and the ability to extend time remotely via text messaging, and a range of convenient payment options for customers, such as pay-by-cash, credit card or pay-by-phone.

A new 200-mile fiber-optic **digital cable network** was installed on the rail system in FY2018. The new network will provide high resolution data transfer for Positive Train Control (PTC), communications, security cameras, electrical primary protection and increased bandwidth for future use.

A new **Primary Relay Protection** system was installed in FY2018, which uses fiber-optic wire to isolate and identify electrical problems on the traction power system. It also pinpoints the location of a power fault with a high degree of accuracy to enable a more rapid response.

NJ TRANSIT began deploying **advanced aerial technology** in FY2018 for aerial inspections, saving time and money, and enhancing safety. The Small Unmanned Aerial Systems, which can capture both photos and videos, have been used to inspect catenary overhead wire systems, communications towers, antennas and more, while significantly reducing the risk of injury to employees.

NJ TRANSIT enhanced its **cyber-security** in FY2018 by implementing an advanced threat protection system and performing additional third-party risk assessments. NJ TRANSIT employees also will complete a cyber-security awareness-training program in FY2019, and multiple NJ TRANSIT systems will obtain a security certification and accreditation.



New Jersey Transit Police, civilian employees and regional first responders received specialized emergency response training in Texas.

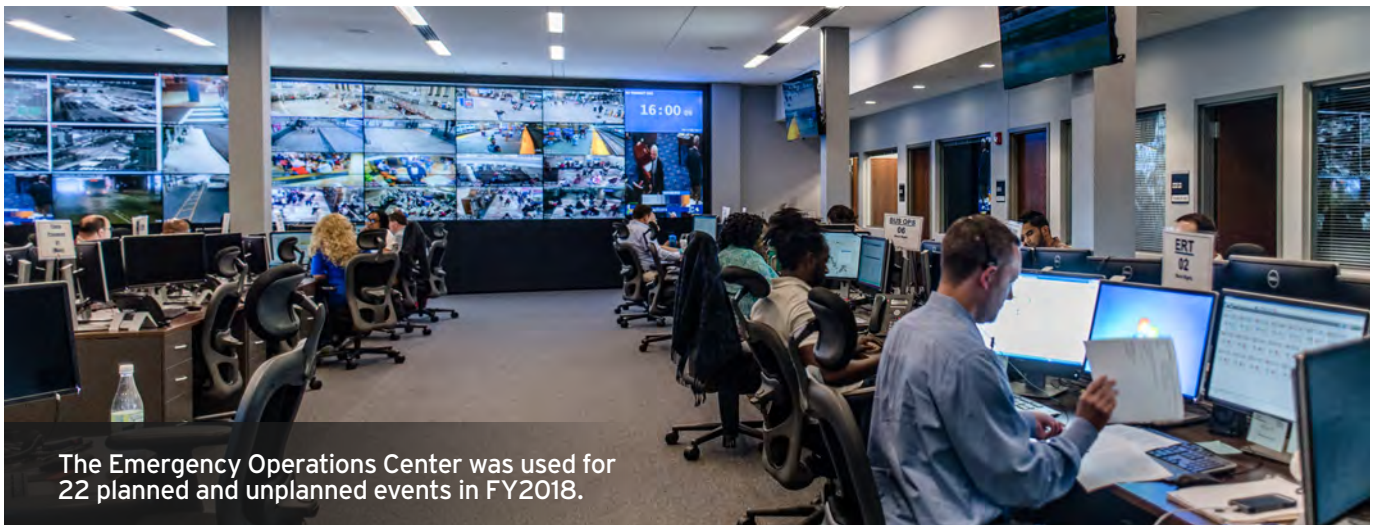
# Safety & Security

The safety of customers, employees and the communities served by NJ TRANSIT are core responsibilities of NJ TRANSIT. The installation of **Positive Train Control (PTC)** was among those priorities in FY2018. To learn more about this technology and the status of its installation, see the Improving the Customer Experience section of this report, or visit [www.njtransit.com/ptc](http://www.njtransit.com/ptc).

The New Jersey Transit Police Department opened its new **Emergency Operations Center (EOC)** in FY2018. The EOC is a central command and control facility focused on emergency preparedness, emergency management or disaster management functions, and ensuring continuity of operations. The EOC is the hub for operations and communications during both planned and unplanned events, and staffed by varying levels of NJ TRANSIT business lines as needed. The EOC was activated for 22 planned and unplanned events for a total of 89 days in FY2018.

Rail Operations completed installation of **inward- and outward-facing cameras** on cab cars and locomotives in FY2018. The camera recordings assist with post-incident investigations and ultimately improve safety by identifying root causes of incidents, including vehicular and pedestrian trespasser incidents.

NJ TRANSIT began installing **360-degree cameras** on 2,500 buses in FY2018. The new cameras provide operators with a wider field of vision, helping to eliminate blind spots and enhance



The Emergency Operations Center was used for 22 planned and unplanned events in FY2018.



NJ TRANSIT's Rail Safety Department provided safety training for the Jersey City Police Department and other first responders.

pedestrian safety. Views from four external cameras mounted on the front, rear and sides of the buses are blended together and displayed on a monitor to give operators a real-time, “bird’s eye view” around the entire bus.

NJ TRANSIT is also equipping the interior of its cruiser buses with **inward-facing cameras** with a constant-record capability. The system will enhance safety and security for both operators and customers.

New Jersey Transit Police teamed up with federal, state and local law enforcement agencies and emergency responders in FY2018, sponsoring **emergency response training exercises** on the Newark Light Rail and several of our commuter rail lines. The exercises included training for derailments, explosive devices, active shooters, fires and other mass casualty incidents.

NJ TRANSIT Rail Operations also offered **emergency response training** in FY2018. More

than 2,100 first responders, student engineers, conductor trainees, power dispatchers, bus supervisors and NJ TRANSIT probationary police officers completed emergency response procedures training and passenger train emergency preparedness training during the fiscal year. Additionally, more than 500 Jersey City firefighters received specialized training to become more familiar with safety features on rail equipment.

NJ TRANSIT Bus Operations **emergency response training** in FY2018 included two full-scale emergency exercises with the New Jersey Transit Police Department. Additional training was offered to first responders to familiarize them with bus equipment, including fire departments in Englewood, Orange, Irvington and Maplewood, as well as New Jersey Transit police recruits.

Eighty New Jersey Transit Police Personnel attended **Critical Decision Making for Complex Coordinated Attacks** training in FY2018, providing

them with skills to manage the initial response to a large-scale coordinated attack. Participants learn to gather and disseminate critical information to facilitate a rapid response and analysis.

More than 125 first responders and support personnel attended three Texas A&M Engineering Extension Service (**TEEX**) training courses in FY2018. Training includes development of incident management skills, staff responsibilities, situational awareness and decision-making skills during expanding, complex incidents.

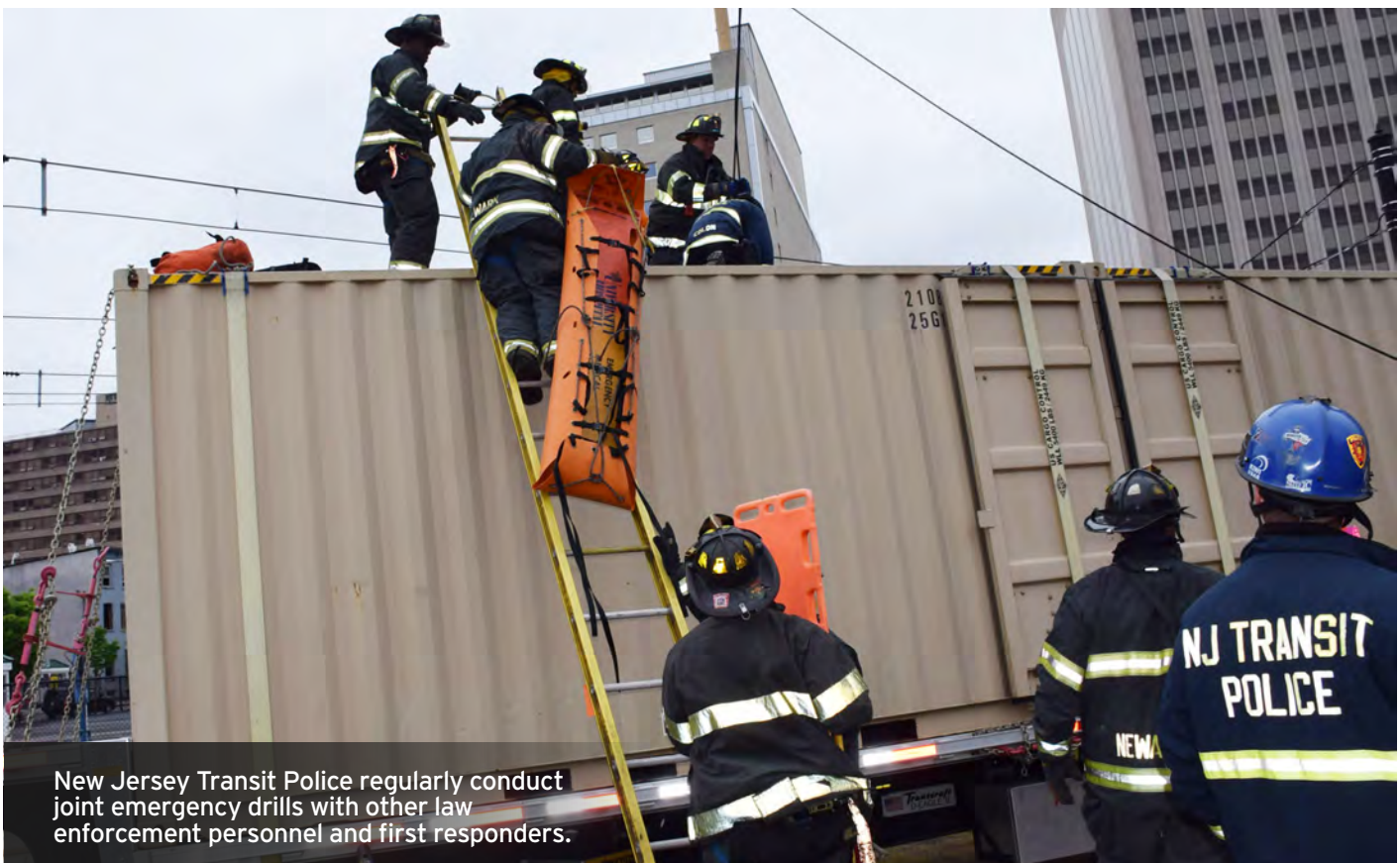
NJ TRANSIT continued to promote its **"Text Against Terror"** public awareness campaign in FY2018. During the fiscal year, more than 1,240 text messages were received from customers reporting suspicious activity around the NJ TRANSIT system.

NJ TRANSIT conducted nearly 25 **safety blitzes** at grade crossings in FY2018, using a combination of education and law enforcement to raise awareness about grade crossing safety. An additional 24

blitzes were organized at train stations and select "high-risk" grade crossings during peak hours, with an emphasis on education.

The Office of System Safety (OSS) also performed nearly 500 **rail station inspections**, more than 200 **employee rail facility inspections** more than 200 **bus garage inspections and facility audits**, more than 100 **bus stop inspections**, 16 **light rail station inspections** and 11 **light rail facility inspections** in FY2018. The inspections focused on walking surfaces, fire and electrical safety, and regulatory compliance to ensure a safe environment for employees, customers and the general public. Other OSS inspections included 800 **performance rides** and nearly 400 **field observations** to ensure best safety practices.

Nearly 70 **school safety presentations** were held in FY2018 to educate and promote safety around our rail and light rail systems. An additional 36 **safety outreach activities** took place at festivals, health & safety fairs and other community events.

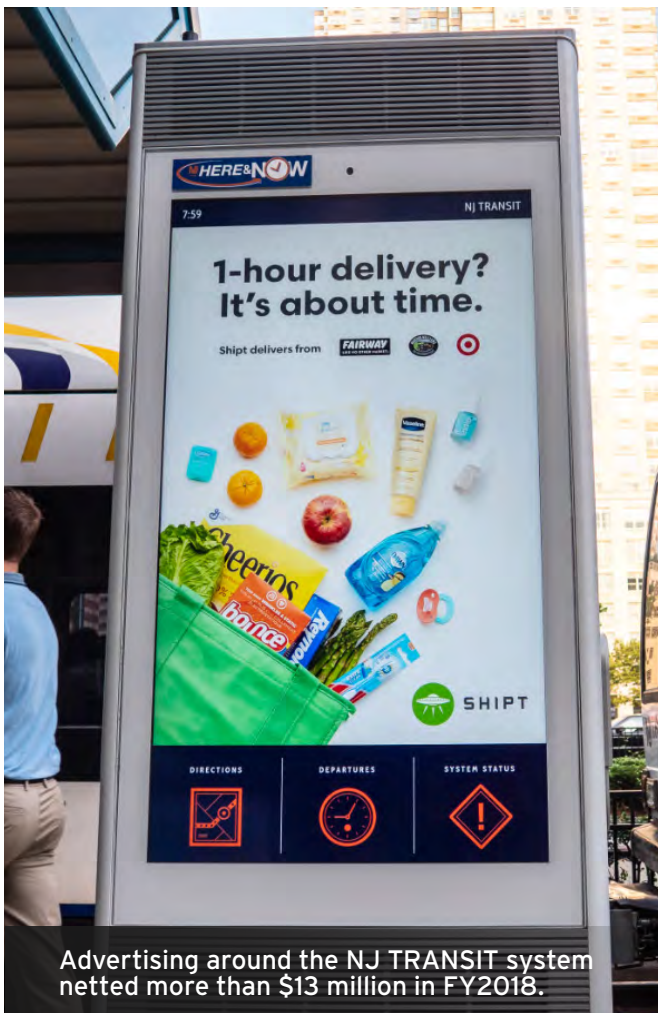


New Jersey Transit Police regularly conduct joint emergency drills with other law enforcement personnel and first responders.

# Financial Performance

NJ TRANSIT **fares remained stable** in FY2018, and continue to hold steady for FY2019. Meanwhile, NJ TRANSIT generated **non-farebox revenue** and increased **customer amenities** in FY2018 through advertising, property leases, sales and parking.

**Advertising** expanded on the NJ TRANSIT system in FY2018, with static and dynamic signage opportunities generating more than \$13 million on bus, rail and light rail equipment, and at stations and terminals.



Advertising around the NJ TRANSIT system netted more than \$13 million in FY2018.

**Retail leasing** opportunities also expanded in FY2018, increasing annual revenue by over \$800,000. They included leases at **Metropark Station** and **Secaucus Junction**, increasing annual revenues by nearly \$430,000, with the tenants performing significant capital improvements at both locations. The news and convenience stores provide popular amenities for NJ TRANSIT customers.

Hoboken Terminal also benefited from \$200,000 in capital improvements in FY2018 thanks to a retail lease with a **coffee shop** featuring fresh baked goods and juices. The new agreement is expected to generate \$18,000 in new revenues with annual escalations of 2.5 percent.



@Shakeenz

Shout out to @NJTRANSIT app makers! I saw the bus coming and was able to buy ticket while in conversation, with the bus only a block away.

11:54 AM - 25 Sept 2017





Joboken Cafe is a new customer favorite at Hoboken Terminal.

Eleven new **ATM machines** were installed at Penn Station New York, Newark Penn Station, and the Newport and Hoboken Terminal light rail stations. The ATM's are anticipated to increase revenues by approximately \$240,000 annually.

NJ TRANSIT generated more than \$550,000 in revenue in FY2018 through **external partnerships, website and mobile app advertising sales, and licensing agreements.**

NJ TRANSIT's **University Partnership Program** provides full-time college students at 87 participating schools with a 25 percent discount on monthly rail, light rail and bus passes. NJ TRANSIT sold 37,667 student passes in FY2018, generating more than \$4.4 million. **Group Sales** also continued to be a popular option for customers traveling in groups of 10 or more. In FY2018, 114 group trips were booked, generating more than \$50,000 in revenue for NJ TRANSIT.



More than 85 colleges partner with NJ TRANSIT to offer travel discounts to full-time college students.

This development project is being built near Hudson-Bergen Light Rail's Liberty State Park Station.



# Corporate Accountability

The **Transit Village Initiative** recognizes New Jersey communities that zone for and encourage the construction of mixed-use, Transit-Oriented Development (TOD) within a half-mile of a transit facility. Participants receive benefits like priority funding, technical assistance, and enhanced eligibility for grants via select state agencies. To date, 34 New Jersey communities have been designated as Transit Villages. Asbury Park was named the most recent Transit Village in FY2018 by the New Jersey Department of Transportation and the Governor's Office. Additionally, in May 2018, the administration announced local aid totaling \$1 million to four municipalities advancing Transit Village projects to improve the quality of life without burdening local property taxpayers.

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NJ TRANSIT supported development partner Somerset Development in its effort to **expand TOD near Somerville Station** on the Raritan Valley Line. Somerset Development received approval from the Somerville Planning Board in FY2018 for a project consisting of approximately 371 apartments, 156 townhomes, parking facilities, 4,000-square-foot of retail space and a 2,600-square-foot community meeting space located at a public plaza just south of the train station. The development is expected to generate recurring revenue for the community and NJ TRANSIT.

NJ TRANSIT continues to retrofit old lighting systems with more efficient **"intelligent" lighting systems**. The systems control the proper amount of lighting and when and where it is needed, measure and report energy use, automatically adjust light levels and enable on-demand control from anywhere. Installations at the Headquarters building in Newark, the General Office Building in Maplewood, the Meadows Maintenance Complex in Kearny and along the Newark Light Rail system resulted in energy savings of 3.3 million kilowatt hours per year, or a reduction of 79 percent compared to previous levels. NJ TRANSIT is



The LINK at Aberdeen-Matawan Station is a Transit-Oriented Development project that opened its doors in FY2018.

exploring the use of LED technology at other NJ TRANSIT sites.

NJ TRANSIT participated in a three-year **demand response pilot program** in FY2018 to save energy and help maintain power during peak summer days. The program also reduces the risk of power outages, reduces greenhouse gas emissions and other harmful pollutants, and helps to delay the replacement of power plants and transmission lines. The program will be expanded in FY2019.

NJ TRANSIT has partnered with Montclair Township on a New Jersey Board of Public Utilities-sponsored microgrid initiative called the **Town Center Distributed Energy Resource Microgrid Feasibility Study Program**. The study will evaluate approximately 2.3 megawatts of new power capacity, which may include solar and “dispatchable generation” to power critical facilities during normal and emergency conditions. Bay Street Station on the Montclair-Boonton Line is among the identified critical facilities in the project.

The study will evaluate approximately 2.3 megawatts of new power capacity, which may include solar and “dispatchable generation” to power critical facilities during normal and emergency conditions.

NJ TRANSIT also partnered with Montclair State University’s (MSU) PSEG Institute for Sustainability Studies to pilot a new educational program called **“Work to Succeed.”** MSU senior physics major Samuel Hall, an intern at NJ TRANSIT, focused on advanced building management techniques and statistical tools to optimize controls and recommend strategies to reduce energy consumption. The effort led to a projected annual energy savings of more than \$16,000 at the NJ TRANSIT Headquarters building.

NJ TRANSIT, Montclair and the NJ Board of Public Utilities are working on a microgrid project to power Bay Street Station and other sites in Montclair.



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# *Senior Citizen & Disabled Resident Transportation Assistance Program*

NJ TRANSIT supports local **community transportation services** operated by counties, municipalities and non-profit organizations in New Jersey. On an annual basis, NJ TRANSIT passes through approximately \$43 million in federal and state grant funds for senior citizens, people with disabilities, and rural and low income residents transportation. These transportation services include trips for non-emergency medical appointments, veterans' services, nutrition programs, shopping, employment and job training in all 21 counties. A number of the local community transportation services provide connections to NJ TRANSIT's bus and rail service. NJ TRANSIT is delivering more than 200 **new minibuses, minivans and medium transit-style, grant-awarded vehicles** to community transportation providers throughout New Jersey. Additionally, NJ TRANSIT partners with the state's Transportation Management Associations to coordinate nearly 170 **commuter vanpools** and provide oversight of **bike lockers** at NJ TRANSIT rail stations.

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NJ TRANSIT administers the State's **Senior Citizen & Disabled Resident Transportation Assistance Program (SCDRTAP)** in accordance with the "Senior Citizen and Disabled Resident Transportation Assistance Act" of 1984. SCDRTAP

is funded through an annual allocation of 8.5 percent of casino revenue taxes. Eighty-five percent of the funds are provided to all 21 counties, providing transportation to senior citizens and people with disabilities. The remaining 15 percent



NJ TRANSIT helps counties, municipalities, nonprofit organizations and others with the purchase of special transportation vehicles.



Essex County provides medical and non-medical transportation services with the help of SCDRTAP funds.

is allocated to NJ TRANSIT, with 10 percent used to administer the SCDRTAP program and five percent used for NJ TRANSIT accessibility improvements.

In FY2018, \$15 million was allocated through SCDRTAP to New Jersey's 21 counties, with a majority of the SCDRTAP trips provided through demand-response transportation for non-emergency medical trips. NJ TRANSIT's FY2018 SCDRTAP allocation was \$2.6 million. Ten percent was used to administer the SCDRTAP program, including program compliance and oversight, as well as technical assistance to the counties. The remaining five percent, or \$890,050, was used to improve NJ TRANSIT accessible services. This includes funding for the New Jersey Travel Independence Program (NJ TIP), which helps people with disabilities to independently utilize NJ TRANSIT services.

SCDRTAP funds have declined more than 50 percent since 2008. In response, NJ TRANSIT has worked with the 21 counties to better coordinate services with other providers and counties, as well as encourage counties to identify alternative funding sources, such as obtaining additional federal funds, installing on-vehicle advertising or implementing mandatory fare policies in place of suggested donation programs.

In 2018 NJ TRANSIT began developing a Transit Network Company (TNC) pilot project, allocating a small portion of county SCDRTAP funds to supplement county services with TNC services (Uber, Lyft or other app-based, ride-hailing providers). Counties have an opportunity to expand their services for seniors and people with disabilities through the use of TNCs. By providing more individual trips with TNCs, additional fleet-



based trips can be made for dialysis, shopping, nutrition groups and other purposes. Essex and Sussex counties have been identified for this TNC pilot project. Having urban and rural pilot projects will be helpful in determining additional TNC partnerships for other county providers. Both counties are expected to begin offering

TNC services in mid-2019. NJ TRANSIT will evaluate this program after a full year of service.

The following charts show the FY2018 SCDRTAP passenger trip information for FY2018 for the state's 21 counties.

### NORTHERN

|              |                |
|--------------|----------------|
| BERGEN       | 140,840        |
| ESSEX        | 39,899         |
| HUDSON       | 27,237         |
| MORRIS       | 27,759         |
| PASSAIC      | 73,664         |
| **SUSSEX     | 12,028         |
| WARREN       | 19,683         |
| <b>TOTAL</b> | <b>341,110</b> |

### CENTRAL

|              |                |
|--------------|----------------|
| HUNTERDON    | 24,338         |
| MERCER       | 93,688         |
| MIDDLESEX    | 48,466         |
| MONMOUTH     | 43,346         |
| OCEAN        | 22,902         |
| SOMERSET     | 29,462         |
| UNION        | 56,089         |
| <b>TOTAL</b> | <b>318,291</b> |

### SOUTHERN

|              |                |
|--------------|----------------|
| ATLANTIC     | 24,129         |
| BURLINGTON   | 18,327         |
| CAMDEN       | 24,452         |
| CAPE MAY     | 89,510         |
| **CUMBERLAND | 2,204          |
| GLOUCESTER   | 21,058         |
| SALEM        | 12,060         |
| <b>TOTAL</b> | <b>191,740</b> |

\*\* SCDRTAP funds used as match for other programs.



NJ TRANSIT

# On-time Performance

by Mode FY2018

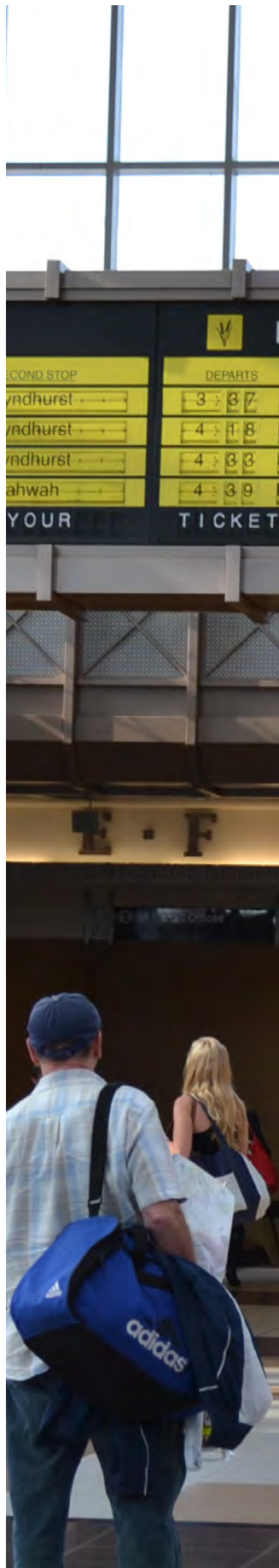
*Rail*



*Light Rail*



*Bus*





**Bergen Line** Includes Port Jervis Trains

333

To Hoboken

| TO          | TRACK | STATUS | TRAIN | FIRST STOP | SECOND STOP |
|-------------|-------|--------|-------|------------|-------------|
| Waldwick    | H     |        | 1265  | Rutherford | Garfield    |
| Port Jervis | H     |        | 0051  | Suffern    | Sloatsburg  |
| Suffern     | G     |        | 1163  | Ridgewood  | Hohokus     |
| Ridgewood   | G     |        | 1355  | Rutherford | Garfield    |

| DEPARTS | TRACK |
|---------|-------|
| 3:52    | G     |
| 3:53    | E     |
| 3:59    | G     |
| 4:16    | F     |
| 4:49    | F     |

AVAILABLE FOR INSPECTION

TRACKS G · H

EXIT

Trains to Meadowlands

---

## Rail

# Methodology

NJ TRANSIT considers a train to be on time if it arrives at its final destination within five minutes and 59 seconds of its scheduled time. Trains that fail to depart from their originating station or are canceled en route are considered late for recording purposes. This standard is used by all commuter railroads in the Northeast.

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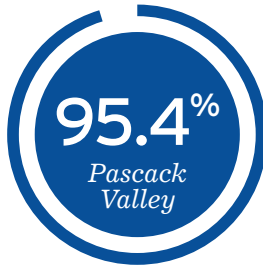
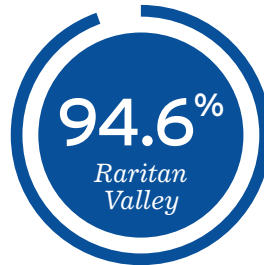


To accurately record on-time performance and maintain a database from which reports can be generated, NJ TRANSIT developed a mainframe-based computer system that calculates on-time performance and provides reports and analyses. It also provides input to other NJ TRANSIT systems.

NJ TRANSIT also uses a computer-based train dispatching system called Train Management and Control (TMAC) at its Rail Operations Center, which is synchronized with the atomic clock located at the Naval Observatory in Colorado. TMAC provides NJ TRANSIT with the ability to accurately record a train's arrival at its final destination.

Arrival times of trains operating on Amtrak's Northeast Corridor are recorded by the Amtrak delay clerk and forwarded to the supervisor at the Rail Operations Center at prescribed times during the day. An NJ TRANSIT supervisor, located at the Amtrak dispatching center in New York, reviews delays to ensure they are accurate before they are transmitted. Amtrak also uses a computerized software system to dispatch trains and record timing locations.

## NJ TRANSIT On-time Performance *by Rail Line FY2018*



## Light Rail

# Methodology

NJ TRANSIT monitors on-time performance using information management systems in its control centers. Train departure and arrival times are automatically tracked by computer systems that compare terminal departure and arrival times to the times posted in the public timetable.

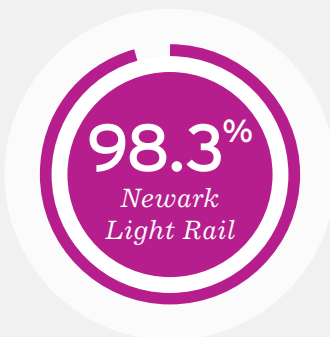
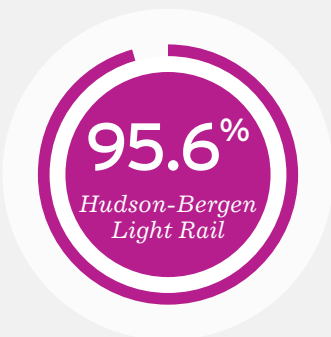
A Hudson-Bergen Light Rail train is counted as late if it leaves its origin terminal ahead of schedule or arrives at its final destination terminal more than four minutes and 59 seconds late. A River LINE train is late if it arrives at its final destination terminal more than five minutes and 59 seconds late.

On Newark Light Rail, a train operated as a separate segment between Newark Penn Station and Broad Street Station is considered late if it leaves its origin terminal ahead of

schedule or arrives at its final destination after three minutes. On the segment between Grove Street Station and Newark Penn Station and on through service from Grove Street Station to Broad Street Station, a train is considered late if it leaves its origin terminal ahead of schedule or arrives at its final destination after five minutes.

NJ TRANSIT conducts audits of the information management and reporting systems to ensure the accuracy of the data.

## NJ TRANSIT On-time Performance *by Light Rail FY2018*





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# Bus *Methodology*

## **NJ TRANSIT records on-time performance at the following bus terminals:**

- Atlantic City Bus Terminal - seven days a week, 24 hours a day
- Hoboken Terminal - weekdays from 2:30 p.m. to 6:30 p.m.
- Newark Penn Station - weekdays from 2:30 p.m. to 6:30 p.m.
- Port Authority Bus Terminal - weekdays from 3:30 p.m. to 7 p.m.
- Walter Rand Transportation Center - weekdays from 6 a.m. to 9 p.m.

Any bus that departs the terminal within five minutes and 59 seconds of its scheduled departure is considered on time. Station Starters at these locations are responsible for logging passenger counts, delays, and their causes.

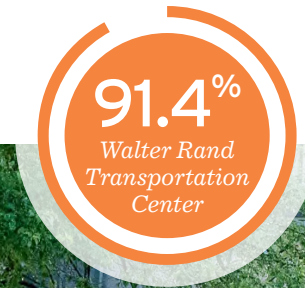
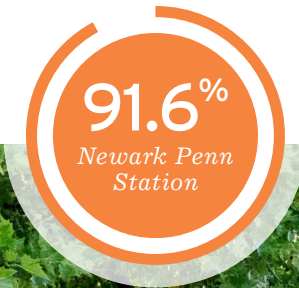
In addition to terminal-based on-time performance monitoring, NJ TRANSIT uses Automatic Passenger Counting software to assess Timepoint Schedule Adherence for every scheduled timepoint on all bus routes throughout the system, on a quarterly basis. Using this data, staff can make incremental adjustments to scheduled running times by time of day to reflect current operating conditions. These adjustments improve the reliability of schedules at timepoints along bus routes, improving the customer experience at little or no cost.



”  
**Any bus that departs the terminal within five minutes and 59 seconds of its scheduled departure is considered on time.**



## NJ TRANSIT On-time Performance by Bus Terminal FY2018



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# *Board of Directors*

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# Diane Gutierrez-Scaccetti

## Board Chair

Diane Gutierrez-Scaccetti was confirmed as the 19th Commissioner of the New Jersey Department of Transportation on June 7, 2018. She was appointed Acting Commissioner December 19, 2017, and began serving on January 16, 2018.

A native New Jerseyan, Ms. Gutierrez-Scaccetti is a transportation professional with more than 28 years in the industry, and 34 years in government service. She possesses extensive executive, operational, and planning knowledge.

**A native New Jerseyan, Ms. Gutierrez-Scaccetti is a transportation professional with more than 28 years in the industry, and 34 years in government service.**

Most recently, the Commissioner served as the Executive Director and CEO at Florida's Turnpike Enterprise, a part of the Florida Department of Transportation. Under her leadership, Florida's Turnpike Enterprise managed more than 460 centerline miles and a 5-year capital program in excess of \$6 billion, supported by \$1 billion in revenues.

As Executive Director and CEO, Gutierrez-Scaccetti was a member of the Executive Committee of the Florida Department of Transportation, a policy setting body that reports to the Secretary of Transportation.

Prior to her Florida experience, she spent 21 years at the New Jersey Turnpike Authority, working her way up from a Contract Administrator to the post of Executive Director, a position she held from 2008 to 2010. During her tenure, she managed the day-to-day administrative operations and was chief negotiator for the agency's several collective bargaining units.

Ms. Gutierrez-Scaccetti participated in several major agency initiatives, including the remediation of the E-ZPass System, the financial and operational consolidation of the New Jersey Turnpike Authority and New Jersey Highway Authority, bringing the New Jersey Turnpike and Garden State Parkway under a single organization. A major undertaking was the development and financing of a 10-year, \$7 billion capital program that kicked off the widening of the New Jersey Turnpike from Interchanges 6 to 9, providing significant congestion relief to a major portion of the I-95 Corridor.

The Commissioner's accomplishments and leadership have been recognized by the Executive Women of New Jersey, WTS Central Florida Woman of the Year, and Orlando Business Journal's 2015 CEO of the Year for the Public Sector.

Commissioner Gutierrez-Scaccetti holds degrees from the University of Connecticut (BS) and Rutgers, The State University of New Jersey (MS).



# Elizabeth Maher Muoio

## State Treasurer

Elizabeth Maher Muoio was officially sworn in as State Treasurer on April 17, 2018, after being confirmed by the State Senate. She had been serving as Acting State Treasurer since Gov. Murphy assumed office on January 16, 2018.

Prior to joining the administration of Gov. Murphy, she had served as a member of the New Jersey General Assembly, representing the 15th Legislative District in Mercer and Hunterdon counties since February of 2015.

During her time in the General Assembly, Ms. Muoio served on the Assembly Budget, Judiciary, and Commerce and Economic Development committees where her signature legislative initiatives focused on improving access for women's healthcare, closing the gender pay equity gap, protecting the environment, reducing exposure to hazardous lead, improving prison re-entry services, increasing literacy rates, fighting against concentrated poverty and expanding economic opportunities for all New Jerseyans.

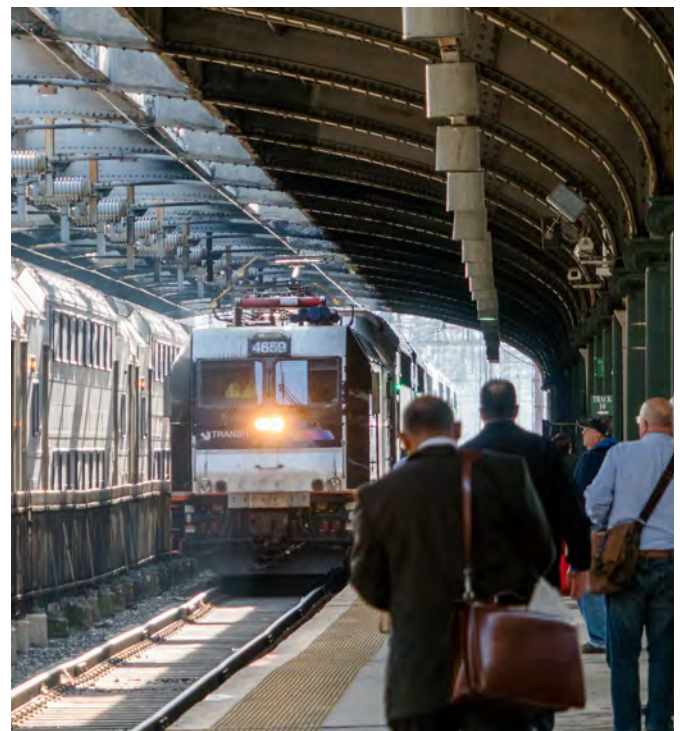
As a result of her legislative efforts, she was honored for her work in the Assembly by the Sierra Club of NJ, the Trenton Chapter of the NAACP, the New Jersey Association of the Deaf, Inc., the Constitutional Officers Association of New Jersey (COANJ), the National Congress of Black Women - Trenton/Mercer Chapter, and the Trenton Public School system for her efforts to help improve literacy.

Ms. Muoio also served as Director of the Mercer County Office of Economic Development and Sustainability from 2008 to January 2018. Prior to assuming that position, she served as a member of

the Mercer County Board of Chosen Freeholders from 2000-2008, serving as Chair in 2004 and Vice Chair in 2003 and 2008.

She began her career as an elected official serving as a member of the Pennington Borough Council from 1997 to 2002.

An attorney, Ms. Muoio received her JD from Georgetown University in Washington, DC, and her BA from Wesleyan University in Middletown, CT.





## Brian T. Wilton

### **Governor's Representative**

Brian T. Wilton serves as Deputy Chief Counsel of the Authorities Unit, which provides oversight of the governance and operations of more than 50 independent State and bi-state agencies on behalf of the Governor.

Prior to joining state government, Brian was a practicing civil litigation attorney and municipal prosecutor. In addition to legal practice, he served as a councilman and Mayor in the Borough of Lake Como from 2005 until 2018. In conjunction with his municipal service, Wilton was an active member of the New Jersey League of Municipalities legislative committee.

He holds a B.A. in History with a minor in Political Science from the University of Scranton and a J.D. from Seton Hall University School of Law.

## Flora M. Castillo

### **Certified Health Insurance Executive**

Ms. Castillo is a nationally recognized health care, non-emergency medical transportation, public transit thought leader dedicated to improving individual's quality of life and building leaders at all levels through her service. A member of the NJ TRANSIT board since 1999, she was appointed by Governor Christine T. Whitman – making her the first Latina and is now the longest serving director. She chairs the Operations & Customer Service Committee and serves on the Safety and Administration Committees.

Flora is President of Pivot Strategies, LLC, a health care, logistics and infrastructure consulting firm providing advisory services on strategic communications, advocacy, customer engagement, person-centered mobility, business and workforce development.

A native from El Salvador, Flora serves on the board of United Way of Philadelphia and Southern NJ, National Urban Fellows and LUPE PAC. She is on The National Transit Institute and The Alan Voorhees Transportation Center advisory boards; past chair and honorary member of the American Public Transportation Association; and a member of the Leadership APTA and Emerging Leaders Program committees.

Flora's received numerous awards, including WTS GNY's Rosa Parks Diversity Leadership; Conference of Minority Transportation Officials' Women Who Move The Nation; and the Statewide Hispanic Chamber of Commerce of NJ's Latina Trailblazer.





## *James C. Finkle*

James C. "Jamie" Finkle is a New Jersey attorney, currently serving as General Counsel for several New Jersey corporations. Jamie clerked for the Honorable Richard M. Freid J.S.C. in both Essex County and Passaic County, New Jersey. After completing his clerkship, Jamie joined CBF Trucking Inc., in Ocean, New Jersey, as General Counsel. He has handled a variety of logistics-related matters for CBF Trucking Inc., including, but not limited to, government contracts, compliance with State and Federal regulations and all employee-related matters.

Jamie also serves as General Counsel for Jamie's Cigar Bar, Allwood Realty and Transport Leasing. Mr. Finkle graduated from Gettysburg College with a B.A. in Political Science, and obtained his juris doctor degree from Seton Hall University School of Law.

## *Raymond W. Greaves*

Raymond W. Greaves was appointed to the NJ TRANSIT Board of Directors in March 2013. He is a labor leader, Bayonne's former Third Ward Council Member and a former Trustee on the Bayonne Board of Education. He serves as State Business Agent and Chairman of the New Jersey State Council of the Amalgamated Transit Union, Vice President to the New Jersey State AFL-CIO's Executive Board and an affiliate to the Essex West-Hudson Labor Council. His previous leadership positions with the union included Recording Secretary, Legislative Director, Treasurer/Executive Officer of Division 819 Transit Employees Credit Union and Shop Steward.

Ray received steward leadership and grievance procedure training at Rutgers University, and studied contract negotiations at the George Meany Labor College. In 2013, Greaves was named the Sicilian Citizens Club Man of the Year and became a Humanitarian Award recipient of the Simpson Baber Foundation for the Autistic. He has served several years as a committeeman for the Hudson County Democratic Organization.



# Advisory Committees

To assure citizen representation, two transit advisory committees - one serving North Jersey and another South Jersey - regularly advise the Board of Directors on customers' opinions. Committee members are appointed by the Governor with the approval of the State Senate.



## North Jersey Transit Advisory Committee

Suzanne T. Mack, Chair  
Ronald Monaco, Vice Chair  
Michael DeCicco  
Kathy Edmond  
Timothy O'Reilly  
Ralph White

## South Jersey Transit Advisory Committee

Anna Marie Gonnella-Rosato, Chair  
Ruth Byard, Vice Chair  
Robert Dazlich, Secretary  
Richard D. Gaughan  
Daniel Kelly  
Jeffrey Marinoff

The Local Programs Citizens Advisory Committee advises NJ TRANSIT on public transit decisions regarding accessibility issues.

## Local Programs Citizens Advisory Committee

MaryAnn Mason, Chair  
Basil Giletto, 1st Vice Chair  
Stephen Thorpe, 2nd Vice Chair  
David Peter Alan  
Don Brauckmann Sr.  
Robert Dazlich  
Marty DeNero  
Tony Hall  
Philip Harrison  
Gary Johnson  
John McGill  
Linda Melendez  
Gloria Mills  
Sam Podietz  
Michael Vieira  
Linda Washington

The Private Carrier Advisory Committee was created in 1986 to monitor the concerns of New Jersey's private bus carriers.

## Private Carrier Advisory Committee

Francis A. Tedesco, Chair  
Jonathan DeCamp  
Donald Mazzarisi  
Scott Sprengel





# *Executive Management Team*

---

**Christine Baker** – Chief Compliance Officer

**Eric Daleo** – Assistant Executive Director, Capital Planning & Programming

**Justin Davis** – Chief of Staff

**Jignasa Desai-McCleary** – Chief of Procurement

**Anthony Grieco** – Assistant Executive Director, Communications & Customer Service

**Raymond Kenny** – Sr. Vice President/General Manager, Rail Operations

**Michael Kilcoyne** – Vice President/General Manager, Bus Operations

**Jeannie Kwon** – Assistant Executive Director, Project and Strategic Investment

**Brian Lapp** – Chief, Office of System Safety

**Christopher Montgomery** – Acting Chief Information Officer

**Ron Nichols** – Acting Chief, Light Rail and Contract Services

**John O’Hern** – Auditor General

**Jonathan Peitz** – Deputy Attorney General

**Leotis Sanders** – Chief of Civil Rights & Diversity Officer

**Christopher Trucillo** – Chief of Police

**Jeanne Victor** – Chief, Human Resources

**William Viqueira** – Chief Financial Officer/Treasurer

**Joyce Zuczek** – Board Secretary/OPRA Officer



One Penn Plaza East  
Newark, New Jersey 07105-2246  
[NJTRANSIT.com](http://NJTRANSIT.com)



# NJ TRANSIT FISCAL YEAR 2018



## CONSOLIDATED FINANCIAL STATEMENTS

**Philip D. Murphy**, Governor  
**Sheila Y. Oliver**, Lieutenant Governor  
**Diane Gutierrez-Scaccetti**, Commissioner  
**Kevin S. Corbett**, Executive Director



One Penn Plaza East  
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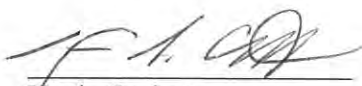
## REPORT OF MANAGEMENT


The Consolidated Financial Statements of New Jersey Transit Corporation (the Corporation), for the fiscal year ended June 30, 2018, have been audited by Ernst & Young LLP, an independent accounting firm. In performing their audit, Ernst & Young considered the company's internal control structure in determining the extent of audit procedures to be applied. In addition, Ernst & Young was given unrestricted access to all financial records and related data of the Corporation, including minutes of all Board and Audit Committee meetings. The auditor's unmodified opinion, dated April 29, 2019, is presented on page 1-2 of the 2018 consolidated financial statements.

Management of New Jersey Transit Corporation is responsible for both the accuracy of the financial data and completeness and fairness of its presentation, including all disclosures. Management is also responsible for establishing and maintaining adequate internal control over financial reporting of the Corporation. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. Additionally, New Jersey Transit has an internal audit department that performs various audits throughout the year. This department reports to the Audit Committee of the Board of Directors.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Accordingly, even an effective internal control system can provide only reasonable assurance that its goals are achieved.

We certify that, to the best of our knowledge, during the fiscal year 2018 New Jersey Transit Corporation has followed all of the Corporation's standards, procedures and internal controls. The financial information provided to the independent auditors in connection with their audit of the 2018 financial statements is accurate, and that such information fairly presents the financial condition and operational results of the Corporation as of June 30, 2018 and for the year then ended.

  
Kevin Corbett  
Executive Director

  
William Viqueira  
CFO and Treasurer

April 29, 2019

**1 REPORT OF INDEPENDENT AUDITORS****3 MANAGEMENT'S DISCUSSION AND ANALYSIS****FINANCIAL STATEMENTS:**

**13** Consolidated Statements of Net Position as of June 30, 2018 and 2017

**14** Consolidated Statements of Revenues, Expenses and Changes in Net Position for the Years Ended June 30, 2018 and 2017

**15** Consolidated Statements of Cash Flows for the Years Ended June 30, 2018 and 2017

**17** Notes to Consolidated Financial Statements

**53 REQUIRED SUPPLEMENTARY INFORMATION**

**54** Schedules of Changes in Net Pension Liability for NJ TRANSIT Sponsored Single-Employer Defined Benefit Plans

**58** Schedule of Pension Contributions for NJ TRANSIT Sponsored Single-Employer Defined Benefit Plans

**60** Schedule of NJ TRANSIT's Proportionate Share of the Net Pension Liability for Cost-Sharing Multiple-Employer Defined Benefit Plans

**61** Schedule of Contributions for Cost-Sharing Multiple-Employer Defined Benefit Plans

**62** Schedule of Changes in Total OPEB Liability and Related Ratios for NJ TRANSIT's Sponsored Single-Employer Plan

**63** Schedule of NJ TRANSIT's Proportionate Share of Net OPEB Liability For Cost-sharing New Jersey Health Benefit Program



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## Report of Independent Auditors

Management and Board of Directors  
New Jersey Transit Corporation

We have audited the accompanying consolidated financial statements of the New Jersey Transit Corporation and subsidiaries (the “Corporation”), a component unit of the State of New Jersey, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Corporation’s basic financial statements as listed in the table of contents.

### **Management’s Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

### **Auditor’s Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Corporation and subsidiaries as of June 30, 2018 and 2017, and the consolidated changes in their financial position and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.



### **Adoption of New Accounting Pronouncement**

As discussed in Note 1 to the financial statements, as of July 1, 2017, NJ TRANSIT adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Plans Other Than Pension Plans*. Our opinion is not modified with respect to this matter.

### **Required Supplementary Information**

U.S. generally accepted accounting principles require that management's discussion and analysis, the schedule of changes in net pension liability for NJ TRANSIT sponsored single-employer defined benefit plans, the schedule of pension contributions for NJ TRANSIT sponsored single-employer defined benefit plans, the schedule of NJ TRANSIT's proportionate share of the net pension liability for cost-sharing multiple-employer defined benefit plans, the schedule of contributions for cost-sharing multiple-employer defined benefit plans, the schedule of changes in NJ TRANSIT's total OPEB liability and related ratios, and schedule of NJ TRANSIT's proportionate share of the net OPEB liability for the cost-sharing multiple-employer New Jersey Health Benefit Program as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Ernst + Young LLP*

April 29, 2019

This section of New Jersey Transit Corporation's (NJ TRANSIT) annual financial report presents a narrative overview and analysis of the financial position and changes in financial position of NJ TRANSIT as of and for the fiscal years ended June 30, 2018 and 2017 with selected comparative information for the fiscal year ended June 30, 2016. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of NJ TRANSIT and to identify any significant changes in financial position and performance. NJ TRANSIT encourages readers to consider the information presented in conjunction with the financial statements as a whole.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to NJ TRANSIT's consolidated financial statements and the notes thereto. Since NJ TRANSIT comprises a single enterprise fund, no fund-level financial statements are presented.

NJ TRANSIT's consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States (GAAP) as applied to government units.

The consolidated financial statements provide both long-term and short-term information about NJ TRANSIT's overall financial status. The consolidated financial statements also include footnotes that provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

The **Consolidated Statement of Net Position** reports NJ TRANSIT's net position and the changes thereto. Net position, the difference between NJ TRANSIT's assets, deferred outflows or inflows of resources and liabilities, over time, may serve as a useful indicator of NJ TRANSIT's financial position.

The **Consolidated Statement of Revenues, Expenses and Changes in Net Position** shows NJ TRANSIT's operating results and how its net position changed during the fiscal year. All revenues, expenses and changes in net position are reported on the *accrual basis* of accounting, which

reports the event as it occurs, rather than when cash changes hands.

The **Consolidated Statement of Cash Flows** reports how NJ TRANSIT's cash and cash equivalents increased or decreased during the year. The statements show how cash and cash equivalents were provided by and used in NJ TRANSIT's operating, non-capital financing, capital and related financing, and investing activities. The net increase or decrease in NJ TRANSIT's cash and cash equivalents is added to or subtracted from the balance at the beginning of the year to arrive at the cash and cash equivalents balance at the end of the year. NJ TRANSIT uses the direct method of presenting cash flows, which includes a reconciliation of operating income or loss to operating activities.

The **Notes to the Financial Statements** are an integral part of the financial statements and provide information that is essential to a full understanding of the statements.

The **Required Supplementary Information** presents the information regarding NJ TRANSIT's progress in funding its obligation to provide postemployment benefits other than pensions to its employees, changes in total OPEB and pension liabilities and actuarial determined contributions for the single-employer plans, the proportionate share of the total OPEB and net pension liabilities for the multiple-employer cost-sharing plans and the contractually required contributions for the multiple-employer cost-sharing plans.



## FINANCIAL HIGHLIGHTS – FISCAL YEAR 2018

Total operating revenues for NJ TRANSIT were \$1,056.3 million in fiscal year 2018, a decrease of \$23.7 million, or 2.2 percent compared to the prior fiscal year. Passenger revenue decreased by \$19.6 million, or 2.0 percent. Other operating revenues, net, decreased by \$4.1 million, or 4.7 percent.

Total operating expenses before depreciation and other expenses were \$2,315.5 million in fiscal year 2018, an increase of \$55.4 million or 2.5 percent, from the prior fiscal year. Additional details are presented beginning on page 7.

Total net position at June 30, 2018 was \$3,577.7 million, a decrease of \$634.9 million, or 15.1 percent from the net position at June 30, 2017.

Total capital assets (net of depreciation) were \$6,228.9 million at June 30, 2018, a net decrease of \$117.1 million, or 1.8 percent, below the previous fiscal year. This is a result of depreciation outpacing the overall increase in assets, as well as an increase in asset disposals.

NJ TRANSIT has reported the fair value of the fuel commodity swaps in the amount of \$38.5 million at June 30, 2018, an increase of \$31.2 million, or 427.4 percent from the prior fiscal year, as a result of an increase in fuel price. The "Swaps" are all presented as a "Derivative Instrument Asset" and a corresponding "Deferred Inflow of Resources; Commodity Swap" in the Consolidated Statement of Net Position (See Note 18). During the year, approximately \$25.2 million of derivatives matured.

As of July 1, 2017, NJ TRANSIT implemented Governmental Accounting Standard Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement had a significant impact on the recording and presentation of NJ TRANSIT's total OPEB liability and OPEB expense during the year. As a result, NJ TRANSIT has reported a total OPEB liability and deferred inflow of resources related to OPEB in the amounts of \$1,098.5 and \$41.3 million, respectively, as of June 30, 2018. In addition, NJ TRANSIT had \$567.3 million reduction to beginning net position as the cumulative effect of accounting change.

## FINANCIAL HIGHLIGHTS – FISCAL YEAR 2017

Total operating revenues for NJ TRANSIT were \$1,080.0 million in fiscal year 2017, an increase of \$3.2 million, or 0.3 percent compared to the prior fiscal year. Passenger revenue decreased by \$2.8 million, or 0.3 percent. Other operating revenues, net, increased by \$6.0 million, or 7.3 percent.

Total operating expenses before depreciation and other expenses were \$2,260.1 million in fiscal year 2017, a decrease of \$96.1 million or 4.1 percent, from the prior fiscal year. Additional details are presented beginning on page 7.

Total net position at June 30, 2017 was \$4,212.6 million, a decrease of \$345.8 million, or 7.6 percent from the net position at June 30, 2016.

Total capital assets (net of depreciation) were \$6,346.0 million at June 30, 2017, a net decrease of \$296.4 million, or 4.5 percent, below the previous fiscal year. This is a result of depreciation outpacing the overall increase in assets, as well as an increase in asset disposals.

## FINANCIAL ANALYSIS

### NET POSITION

NJ TRANSIT's total net position at June 30, 2018, was \$3,577.7 million, a decrease of \$634.9 million, or 15.1 percent, from June 30, 2017 (Table A-1). Total assets increased \$182.7 million, or 2.5 percent, and deferred outflows of resources from unamortized debt refunding and items related to pensions decreased by \$40.9 million, or 12.1 percent. Total liabilities increased \$651.9 million, or 19.1 percent.

NJ TRANSIT's total net position at June 30, 2017, was \$4,212.6 million, a decrease of \$345.8 million, or 7.6 percent, from June 30, 2016 (Table A-1). Total assets decreased \$656.0 million, or 8.2 percent, and deferred outflows of resources from unamortized debt refunding and items related to pensions increased by \$159.4 million, or 89.1 percent. Total liabilities decreased \$127.3 million, or 3.6 percent.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

**TABLE A-1**  
**NJ TRANSIT NET POSITION** (\$ in millions)

|   | 2018             | AS OF JUNE 30,<br>2017 | 2016             | % INC/(DEC)   |               |
|---|------------------|------------------------|------------------|---------------|---------------|
|   |                  |                        |                  | 2018/2017     | 2017/2016     |
| Current assets  | \$863.6          | \$547.9                | \$723.5          | 57.6          | (24.3)        |
| Restricted non-current assets                               | 386.1            | 414.5                  | 584.7            | (6.9)         | (29.1)        |
| Capital assets, net   | 6,228.9          | 6,346.0                | 6,642.4          | (1.8)         | (4.5)         |
| Other assets  | 14.4             | 1.9                    | 15.7             | 657.9         | (87.9)        |
| <b>TOTAL ASSETS</b>   | <b>\$7,493.0</b> | <b>\$7,310.3</b>       | <b>\$7,966.3</b> | <b>2.5</b>    | <b>(8.2)</b>  |
| Refunding of debt   | 31.1             | 38.2                   | 8.6              | (18.6)        | 344.2         |
| Deferred outflows related to pensions                       | 266.2            | 300.0                  | 170.2            | (11.3)        | 76.3          |
| <b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>                 | <b>297.3</b>     | <b>338.2</b>           | <b>178.8</b>     | <b>(12.1)</b> | <b>89.1</b>   |
| Current liabilities   | 929.3            | 622.7                  | 896.7            | 49.2          | (30.6)        |
| Notes payable   | 852.1            | 981.2                  | 948.1            | (13.2)        | 3.5           |
| Net Pension liability                                       | 728.2            | 765.3                  | 549.3            | (4.8)         | 39.3          |
| Net OPEB obligation   | 1,098.5          | 541.6                  | 483.9            | 102.8         | 11.9          |
| Obligations under capital leases                            | 227.1            | 280.7                  | 481.0            | (19.1)        | (41.6)        |
| Unearned revenue and other non-current liabilities          | 235.2            | 227.0                  | 186.8            | 3.6           | 21.5          |
| <b>TOTAL LIABILITIES</b>                                    | <b>4,070.4</b>   | <b>3,418.5</b>         | <b>3,545.8</b>   | <b>19.1</b>   | <b>(3.6)</b>  |
| Deferred inflows related to pensions                        | 62.3             | 10.1                   | 12.4             | 516.8         | (18.5)        |
| Deferred inflows related to derivative instrument liability | 38.5             | 7.3                    | 28.5             | 427.4         | (74.4)        |
| Deferred inflows related to total OPEB liability            | 41.3             | —                      | —                | 100.0         | —             |
| <b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>                  | <b>142.1</b>     | <b>17.4</b>            | <b>40.9</b>      | <b>716.7</b>  | <b>(57.5)</b> |
| Net investment in capital assets                            | 5,305.1          | 5,318.6                | 5,369.8          | (0.3)         | (1.0)         |
| Restricted for capital projects                             | 2.4              | 1.2                    | 7.5              | 100.0         | (84.0)        |
| Unrestricted (deficit)                                      | (1,729.8)        | (1,107.2)              | (818.9)          | 56.2          | 35.2          |
| <b>TOTAL NET POSITION</b>                                   | <b>\$3,577.7</b> | <b>\$4,212.6</b>       | <b>\$4,558.4</b> | <b>(15.1)</b> | <b>(7.6)</b>  |

## FISCAL YEAR 2018

The 57.6 percent increase in current assets in fiscal year 2018 is primarily due to an increase in Federal grant receivables. Fuel commodity swaps presented as a derivative instrument asset increased by \$18.8 million or 351.2 percent as a result of increased fuel price, and have been reported as a current asset. Restricted non-current assets decreased 6.9 percent as a result of payments for the acquisition of rolling stock and assets relating to service improvements and expansion, as well as the payments made for capital leases, including leveraged leases. Of the \$6,228.9 million in capital assets, net, \$880.7 million represents construction in progress; \$4,937.7 million represents NJ TRANSIT's investment in buildings, structures, track, equipment, locomotives, railcars and buses, net of depreciation; and \$410.5 million represents land and other capital assets.

The 18.6 percent decrease in deferred outflows of resources – refunding of debt was due to the amortization of the deferred loss on refunding associated with the New Jersey Economic Development Authority Transportation Project Sublease Revenue and Revenue Refunding Bonds that were issued in 2017.

The 11.3 percent decrease in deferred outflows of resources related to pensions was due to a decrease in the net difference between projected and actual earnings on pension plan investments.

The 49.2 percent increase in current liabilities was mainly due to an increase in the advance payment from State for preventive maintenance.

The 13.2 percent decrease in Notes payable was a result of payments made during the fiscal year for current obligations.

The 19.1 percent decrease in non-current obligations under capital leases was a combination of amortization of current lease obligations and the liability reduction for the lease terminations. The final payment was made on the Metro-Park Parking Facility capital lease. As of June 30, 2018, all capital leases have been paid off and only leveraged lease obligations remain.

The 4.8 percent reduction in the net pension liability was a result of an increased return on plan assets due to favorable market conditions during the year.

The 102.8 percent increase in the obligation for postemployment benefits is primarily due to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as further discussed in note 2 to the financial statements.

## FISCAL YEAR 2017

The 24.3 percent decrease in current assets in fiscal year 2017 is primarily due to a decrease in Federal grant receivables. Fuel commodity swaps presented as a derivative instrument asset decreased by \$7.4 million or 58.1 percent, and have been reported as a current asset. Restricted non-current assets decreased 29.1 percent as a result of payments for the acquisition of rolling stock and assets relating to service improvements and expansion, as well as the payments made for capital leases, including leveraged leases. Of the \$6,346.0 million in capital assets, net, \$618.8 million represents construction in progress; \$5,316.7 million represents NJ TRANSIT's investment in buildings, structures, track, equipment, locomotives, railcars and buses, net of depreciation; and \$410.5 million represents land and other capital assets.

The 344.2 percent increase in deferred outflows of resources – refunding of debt was due to the deferred loss on refunding of debt associated with the issuance of New Jersey Economic Development Authority Transportation Project Sublease Revenue and Revenue Refunding Bonds, Series 2017 issued during the year.

The 30.6 percent decrease in current liabilities was mainly due to the paydown of the revolving line of credit.

The 41.6 percent decrease in non-current obligations under capital leases was due to the final payment on four separate lease obligations that totaled \$209.8 million.

The 39.3 percent decrease in the net pension liability is a result of changes in actuarial assumptions and benefit terms. The discount rates decreased to 7.50 percent for TERP and UWUA and 7.75 percent for ATU, TWU-UTU, and Mercer from prior years' 8.0 percent. The net pension liability also increased as a result of changes of benefit terms due to higher salaries under the union arbitration award.

The 11.9 percent increase in the obligation for postemployment benefits required under GASB Statement No. 45, *Accounting, and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* is due primarily to an increase in the annual required contribution as a result of updated claims and projected medical trends.

## CHANGES IN NET POSITION

Changes in net position reflect the current year's results of operations combined with non-operating revenue and expenses, and capital contributions. The decrease in net position in fiscal year 2018 was \$634.9 million (Table A-2). While there are many contributing factors, this was primarily the result of recording the cumulative effect of the accounting change related to the implementation of GASB Statement No. 75.

The decrease in net position in fiscal year 2017 was \$345.8 million (Table A-2). While there are many contributing factors, this was primarily the result of a 21.0 percent decrease in federal and state operating grant revenue recognized during the year.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

**TABLE A-2**  
**CHANGES IN NJ TRANSIT NET POSITION** (*\$ in millions*)

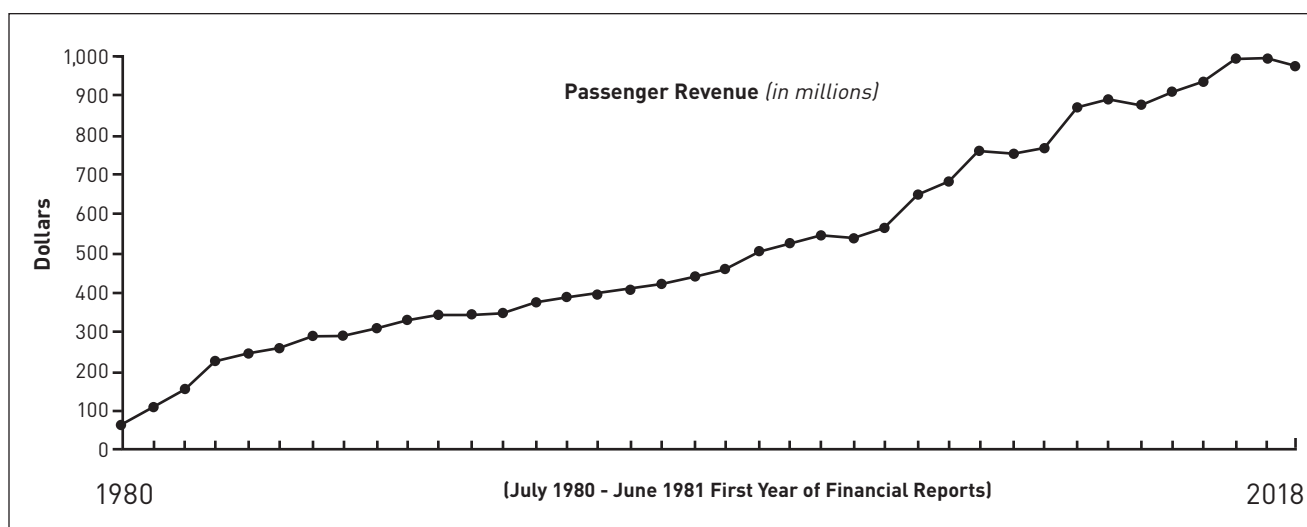
|   | YEARS ENDED JUNE 30,    |                         |                         | % INC/(DEC)   |               |
|---|-------------------------|-------------------------|-------------------------|---------------|---------------|
|   | 2018                    | 2017                    | 2016                    | 2018/2017     | 2017/2016     |
| <b>Operating Revenues</b>                                       |                         |                         |                         |               |               |
| Passenger fares   | \$972.6                 | \$992.2                 | \$995.0                 | (2.0)         | (0.3)         |
| Other, net  | 83.7                    | 87.8                    | 81.8                    | (4.7)         | 7.3           |
| <b>Total Operating Revenues</b>                                 | <b><u>1,056.3</u></b>   | <b><u>1,080.0</u></b>   | <b><u>1,076.8</u></b>   | <b>(2.2)</b>  | <b>0.3</b>    |
| <b>Operating Expenses</b>                                       |                         |                         |                         |               |               |
| Total operating expenses before depreciation and other expenses | 2,315.5                 | 2,260.1                 | 2,356.2                 | 2.5           | (4.1)         |
| Depreciation  | 498.9                   | 498.0                   | 491.6                   | 0.2           | 1.3           |
| <b>Total Operating Expenses</b>                                 | <b><u>2,814.4</u></b>   | <b><u>2,758.1</u></b>   | <b><u>2,847.8</u></b>   | <b>2.0</b>    | <b>(3.1)</b>  |
| <b>Operating Loss</b>   | <b>(1,758.1)</b>        | <b>(1,678.1)</b>        | <b>(1,771.0)</b>        | <b>4.8</b>    | <b>(5.2)</b>  |
| Non-operating revenues, net                                     | 1,208.9                 | 1,038.6                 | 1,160.1                 | 16.4          | (10.5)        |
| Capital contributions, net                                      | 481.6                   | 293.7                   | 332.8                   | 64.0          | (11.7)        |
| <b>Change in Net Position</b>                                   | <b>(67.6)</b>           | <b>(345.8)</b>          | <b>(278.1)</b>          | <b>(80.5)</b> | <b>(24.3)</b> |
| <b>Total Net Position, Beginning, as Previously Reported</b>    | <b><u>4,212.6</u></b>   | <b><u>4,558.4</u></b>   | <b><u>4,836.5</u></b>   | <b>(7.6)</b>  | <b>(5.8)</b>  |
| Cumulative Effect of Accounting Change                          | (567.3)                 | —                       | —                       | 100.0         | —             |
| <b>Total Net Position, Beginning, as Restated</b>               | <b><u>3,645.3</u></b>   | <b><u>4,558.4</u></b>   | <b><u>4,836.5</u></b>   | <b>(20.0)</b> | <b>(5.8)</b>  |
| <b>Total Net Position, Ending</b>                               | <b><u>\$3,577.7</u></b> | <b><u>\$4,212.6</u></b> | <b><u>\$4,558.4</u></b> | <b>(15.1)</b> | <b>(7.6)</b>  |

## OPERATING REVENUES

Operating revenues are comprised of passenger fares and other operating revenues, net of a bad debt allowance.

## PASSENGER FARE REVENUES

Passenger fare revenue consists of fares earned during the year from the sale of tickets and monthly passes and bus fare box receipts.



Total passenger revenue for fiscal year 2018 decreased \$19.6 million or 2.0 percent. When major weather conditions, calendar anomalies and special events are factored out of each year, the resulting loss in revenue is only 0.58 percent. This decrease can be attributed to rail service disruption caused by 2017 summer Amtrak NY Penn station repair work. Rail passenger revenue for fiscal year 2018 decreased by \$16.3 million or 2.8 percent, with ridership decreasing 1.5 million passenger trips, or 1.7 percent. Bus passenger revenue decreased by \$1.7 million or 0.4 percent, with ridership decreasing by 2.8 million passenger trips. Passenger revenues for Light Rail, which includes Newark Light Rail, Hudson-Bergen Light Rail and River LINE revenues, decreased by \$0.2 million, or 0.9 percent, with ridership remaining at the same level.

**TABLE A-3**  
**PASSENGER REVENUE** (*\$ in millions*)

|                       | YEARS ENDED JUNE 30,  |                       |                       | % INC/(DEC)  | % INC/(DEC)  |
|-----------------------|-----------------------|-----------------------|-----------------------|--------------|--------------|
|                       | 2018                  | 2017                  | 2016                  | 2018/2017    | 2017/2016    |
| Rail Operations       | \$561.4               | \$577.7               | \$581.8               | (2.8)        | (0.7)        |
| Bus Operations        | 384.1                 | 385.8                 | 385.0                 | (0.4)        | 0.2          |
| Light Rail Operations | 22.6                  | 22.8                  | 23.5                  | (0.9)        | (3.0)        |
| Special Transit Fares | 4.5                   | 5.9                   | 4.7                   | (23.7)       | 25.5         |
| <b>Total</b>          | <b><u>\$972.6</u></b> | <b><u>\$992.2</u></b> | <b><u>\$995.0</u></b> | <b>(2.0)</b> | <b>(0.3)</b> |

**TABLE A-3a**  
**RIDERSHIP** (*in millions*)

|                          | YEARS ENDED JUNE 30, |                     |                     | % INC/(DEC)  | % INC/(DEC)  |
|--------------------------|----------------------|---------------------|---------------------|--------------|--------------|
|                          | 2018                 | 2017                | 2016                | 2018/2017    | 2017/2016    |
| <b>Rail Lines</b>        |                      |                     |                     |              |              |
| Newark Division          | 52.7                 | 53.4                | 54.8                | (1.3)        | (2.6)        |
| Hoboken Division         | 32.0                 | 32.8                | 33.6                | (2.4)        | (2.4)        |
| Atlantic City            | 0.7                  | 0.7                 | 0.8                 | —            | (12.5)       |
| <b>Total</b>             | <b><u>85.4</u></b>   | <b><u>86.9</u></b>  | <b><u>89.2</u></b>  | <b>(1.7)</b> | <b>(2.3)</b> |
| <b>Bus Lines</b>         |                      |                     |                     |              |              |
| Northern Division        | 69.9                 | 70.5                | 71.9                | (0.9)        | (1.9)        |
| Central Division         | 63.0                 | 64.4                | 66.7                | (2.2)        | (3.4)        |
| Southern Division        | 18.6                 | 19.4                | 21.1                | (4.1)        | (8.1)        |
| <b>Total</b>             | <b><u>151.5</u></b>  | <b><u>154.3</u></b> | <b><u>159.7</u></b> | <b>(1.8)</b> | <b>(3.4)</b> |
| <b>Light Rail Lines</b>  |                      |                     |                     |              |              |
| Newark Light Rail        | 5.5                  | 5.5                 | 5.7                 | —            | (3.5)        |
| Hudson-Bergen Light Rail | 15.5                 | 15.5                | 15.5                | —            | —            |
| River LINE               | 2.7                  | 2.7                 | 2.7                 | —            | —            |
| <b>Total</b>             | <b><u>23.7</u></b>   | <b><u>23.7</u></b>  | <b><u>23.9</u></b>  | <b>—</b>     | <b>(0.8)</b> |
| <b>Total Ridership</b>   | <b><u>260.6</u></b>  | <b><u>264.9</u></b> | <b><u>272.8</u></b> | <b>(1.6)</b> | <b>(2.9)</b> |

## FISCAL YEAR 2018

### OTHER OPERATING REVENUES

Other operating revenues, net of the allowance for bad debt, consist of contracted service revenues, rental income, station and vehicle advertising, facility leases, parking lot operations and revenue received from operating service on behalf of Metro-North. There was a decrease in other operating revenues of \$4.1 million, or 4.7 percent due to additional revenue for sales of fixed assets in the prior year.

### OPERATING EXPENSES

Operating expenses consist of employment costs, outside services, materials and supplies, depreciation and other operating costs. NJ TRANSIT continues to upgrade facilities damaged in Superstorm Sandy. These upgrades are part of NJ TRANSIT's Resilience Program that is designed to make the transportation system

stronger, more durable, and more reliable. The largest expense component related to storm repairs was for outside services, specifically repairs to rail infrastructure and project oversight costs. These costs are reported in the natural operating expense accounts in the Statements of Revenue, Expenses, and Changes in Net Position.

### EMPLOYMENT COSTS

Employment costs consisting of labor and related fringe benefit expenses represent 59.8 percent of NJ TRANSIT's total operating costs. These costs include full-time and part-time agreement employees' regular wages and related overtime costs, non-agreement salaries, employment taxes, health and welfare expenses, retirement costs and other fringe benefits.

During fiscal year 2018, labor costs increased \$33.7 million, or 4.9 percent, and fringe benefits decreased \$0.7 million, or 0.1 percent from fiscal year 2017.

## OTHER OPERATING COSTS

Other operating costs include parts, materials and supplies, outside services, claims and insurance, fuel and propulsion, trackage, tolls and fees, utilities, purchased transportation and other expenses.

Parts and materials decreased by \$4.7 million or 2.7 percent due to a decrease in expenses for reimbursable projects and resiliency program costs.

Cost of services increased \$6.2 million or 3.9 percent due to increased costs for professional and technical services, electronic equipment services and contracted maintenance services, primarily attributable to the contract service escalations.

Claims and insurance expense decreased \$14.8 million or 14.5 percent. A significant portion of the decrease was due decreases in insurance reserves from pending third party injury and damage cases. In the last year, NJ TRANSIT incurred significant increase in claim cost as a result of Hoboken accident.

Purchased transportation increased \$32.7 million or 15.4 percent resulting from increased costs for the Hudson Bergen County Light Rail/River LINE program and the Senior Citizen/Rural Transportation program, which is operated by the counties and municipalities and reimbursed by State Casino Revenue funds. The increase was partially due to the additional cost paid to private carriers for service disruption caused by Amtrak repair work.

## NON-OPERATING REVENUES (EXPENSES)

Non-operating revenues increased by \$170.3 million, or 16.4 percent, primarily attributable to an increase in awards for federal preventive maintenance.

## CAPITAL CONTRIBUTIONS, NET

NJ TRANSIT receives federal, state and local grants for essentially all of its capital construction and acquisitions. Funding of capital grant expenditures totaling \$481.6 million was \$187.9 million, or 64.0 percent, above fiscal year 2017.

Major capital projects during the year included the acquisition and rehabilitation of revenue vehicles, including railcars, buses, vans and light railcars, construction of and improvements to passenger and support facilities, and rail, bus and light rail infrastructure.

## FISCAL YEAR 2017

### OTHER OPERATING REVENUES

Other operating revenues, net of the allowance for bad debt, consist of contracted service revenues, rental income, station and vehicle advertising, facility leases, parking lot operations and revenue received from operating service on behalf of Metro-North. There was an increase in other operating revenues of \$6.0 million, or 7.3 percent due to several factors, including increased revenues related to the operation of the Metro-North Line, increased station concessions and rents as well as an increase in parking fees.

### OPERATING EXPENSES

Operating expenses consist of employment costs, outside services, materials and supplies, depreciation and other operating costs. NJ TRANSIT continues to upgrade facilities damaged in Superstorm Sandy. These upgrades are part of NJ TRANSIT's Resilience Program that is designed to make the transportation system stronger, more durable, and more reliable. The largest expense component related to storm repairs was for outside services, specifically repairs to rail infrastructure and project oversight costs. These costs are reported in the natural operating expense accounts in the Statements of Revenue, Expenses, and Changes in Net Position.

### EMPLOYMENT COSTS

Employment costs consisting of labor and related fringe benefit expenses represent 59.8 percent of NJ TRANSIT's total operating costs. These costs include full-time and part-time agreement employees' regular wages and related overtime costs, non-agreement salaries, employment taxes, health and welfare expenses, retirement costs and other fringe benefits.

During fiscal year 2017, labor costs decreased \$40.6 million, or 5.6 percent, and fringe benefits decreased \$12.5 million, or 1.9 percent from fiscal year 2016. The difference is a result of NJ TRANSIT settling the Bus Workers Amalgamated Transit Union (ATU) labor contract in 2016.

### OTHER OPERATING COSTS

Other operating costs include parts, materials and supplies, outside services, claims and insurance, fuel and propulsion, trackage, tolls and fees, utilities, purchased transportation and other expenses.

Parts and materials increased by \$7.0 million or 4.1 percent due to an increase in expenses for reimbursable projects and resiliency program costs.

Cost of services decreased \$13.5 million or 7.9 percent due to decreased costs for professional and technical services, electronic equipment services and contracted maintenance services.

Claims and insurance expense increased \$8.1 million or 8.6 percent. A significant portion of the increase was due to unanticipated increases to insurance reserves from pending third party injury and damage cases.

Fuel and propulsion expenses decreased \$37.6 million, or 28.5 percent. Fuel expenses decreased \$40.2 million, or 44.8 percent, and propulsion increased \$2.6 million, or 6.1 percent. The decrease in costs is mainly attributed to the ability to obtain fuel at lower costs per gallon in Fiscal Year 2017, as compared to Fiscal Year 2016.

Trackage, tolls, and fees increased \$2.8 million, or 3.5 percent, as a result of increased Port Authority Tunnel tolls and an increase in interlocking maintenance costs on the Northeast Corridor.

Purchased transportation decreased \$11.0 million or 4.9 percent resulting from decreased costs for the Senior Citizen/Rural Transportation program, which is operated by the counties and municipalities and reimbursed by State casino revenue funds.

Depreciation expense increased by \$6.4 million, or 1.3 percent due to the timing of assets additions and disposals.

#### NON-OPERATING REVENUES (EXPENSES)

Non-operating revenues decreased by \$121.5 million, or 10.5 percent, primarily attributable to a decrease in federal and state grant revenue, due to the timing of grant awards. This decrease was slightly offset by an increase in the State appropriations from \$33.2 million in fiscal year 2016

to \$140.9 million in 2017. State operating assistance was supplemented with funds from the New Jersey Turnpike Authority as part of an agreement between the Turnpike Authority and the State Treasurer.

#### CAPITAL CONTRIBUTIONS, NET

NJ TRANSIT receives federal, state and local grants for essentially all of its capital construction and acquisitions. Funding of capital grant expenditures totaling \$293.7 million was \$39.1 million, or 11.8 percent, below fiscal year 2016.

Major capital projects during the year included the acquisition and rehabilitation of revenue vehicles, including railcars, buses, vans and light railcars, construction of and improvements to passenger and support facilities, and rail, bus and light rail infrastructure.

#### CAPITAL ASSETS

As of June 30, 2018, NJ TRANSIT had invested \$15,299.8 million in capital assets. Net of accumulated depreciation, NJ TRANSIT's net capital assets at June 30, 2018 totaled \$6,228.9 million (Table A-4). This amount represents a net decrease of \$117.1 million, or 1.8 percent, below June 30, 2017 net capital assets.

As of June 30, 2017, NJ TRANSIT had invested \$14,972.2 million in capital assets. Net of accumulated depreciation, NJ TRANSIT's net capital assets at June 30, 2017 totaled \$6,346.0 million (Table A-4). This amount represents a net decrease of \$296.4 million, or 4.5 percent, below June 30, 2016 net capital assets.

In Fiscal Year 2018, NJ TRANSIT's Board of Directors approved a \$1.37 billion capital program that called for continued investment in the State of New Jersey's transit infrastructure in order to improve the overall state-of-good-repair of the system, to improve reliability and safety and support future expansions, and to create additional

**TABLE A-4**  
**NJ TRANSIT CAPITAL ASSETS** (net of depreciation)  
(\$ in millions)

|                                  | 2018                    | AS OF JUNE 30,          |                         | % INC/(DEC)  |              |
|----------------------------------|-------------------------|-------------------------|-------------------------|--------------|--------------|
|                                  |                         | 2017                    | 2016                    | 2018/2017    | 2017/2016    |
| Capital projects in process      | \$880.7                 | \$618.8                 | \$674.2                 | 42.3         | 8.2          |
| Revenue vehicles                 | 1,827.1                 | 1,964.8                 | 2,024.4                 | (7.0)        | (2.9)        |
| Buildings and structures         | 2,117.5                 | 2,296.6                 | 2,418.3                 | (7.8)        | (5.0)        |
| Track                            | 879.7                   | 941.4                   | 1,005.5                 | (6.6)        | (6.4)        |
| Land                             | 396.3                   | 396.3                   | 396.3                   | —            | —            |
| Equipment                        | 113.4                   | 113.9                   | 109.5                   | (0.4)        | 4.0          |
| Other                            | 14.2                    | 14.2                    | 14.2                    | —            | —            |
| <b>Total Capital Assets, Net</b> | <b><u>\$6,228.9</u></b> | <b><u>\$6,346.0</u></b> | <b><u>\$6,642.4</u></b> | <b>(1.8)</b> | <b>(4.5)</b> |

# MANAGEMENT'S DISCUSSION AND ANALYSIS

programs to augment the customer experience and security. The program continued to invest in upgrades to the efficiency and state-of-good-repair of the NEC for both infrastructure and stations, part of NJ TRANSIT's 10-year, \$1.0 billion NEC investment program. This program also provides a financial commitment for the completion and implementation of Positive Train Control, as well as continued investment in the Newark and Hudson-Bergen Light Rail systems, including an investment in bus passenger and bus support facility improvements

Looking forward to fiscal year 2019, NJ TRANSIT's Board of Directors approved a \$1.46 billion capital program that calls for continued investment in the State's transit infrastructure in order to improve overall state-of-good repair of the system, improve reliability and safety, and

augment the customer service experience. The program funds continue state-of-good-repair investments in transit stations and infrastructure, investments in NEC, safety initiatives, Positive Train Control installation, system expansion, and support for local mobility program.

Additional information about NJ TRANSIT's capital assets is presented in Note 5 to the financial statements.

## DEBT OBLIGATIONS

Debt obligations outstanding at June 30, 2018, totaled \$1,321.8 million compared with \$1,457.6 million at June 30, 2017, a decrease of 9.3 percent.

The following table summarizes the changes in debt between fiscal years 2018, 2017 and 2016 (*\$ in millions*):

|                                   | 2018                    | AS OF JUNE 30,<br>2017  | 2016                    | % INC/(DEC)  |               |
|-----------------------------------|-------------------------|-------------------------|-------------------------|--------------|---------------|
|                                   |                         |                         |                         | 2018/2017    | 2017/2016     |
| Notes payable                     | \$966.1                 | \$1,084.8               | \$1,105.2               | (10.9)       | (1.9)         |
| Obligations under capital leases* | 280.7                   | 297.8                   | 523.5                   | (5.7)        | (43.1)        |
| Revolving line of credit**        | 75.0                    | 75.0                    | 200.0                   | —            | (62.5)        |
| <b>Total</b>                      | <b><u>\$1,321.8</u></b> | <b><u>\$1,457.6</u></b> | <b><u>\$1,828.7</u></b> | <b>(9.3)</b> | <b>(20.3)</b> |

\* Includes \$280.7 million and \$296.3 million of leveraged lease transactions as of fiscal years 2018 and 2017, respectively.

\*\* NJ TRANSIT entered into a Revolving Credit Agreement with the Royal Bank of Canada (RBC) for the purposes of obtaining a \$300 million line of credit. As of June 30, 2018, \$75.0 million of loan borrowings remain outstanding.

Additional information about NJ TRANSIT's debt is presented in Notes 10 and 11 to the financial statements.



## **ECONOMIC CONDITIONS AND TRENDS**

NJ TRANSIT serves several primary market areas, including northern New Jersey, southern New Jersey, New York City and Philadelphia. Economic conditions and trends in each of these areas play a major role in the demand for NJ TRANSIT services.

Employment growth in the region served by NJ TRANSIT increased 1.6 percent above the prior fiscal year. This was the eighth consecutive fiscal year in which the region experienced job growth since emerging from recession, and the gains were more than twice the annual average growth rate of the past 20 fiscal years. Overall regional employment during fiscal year 2018 was at its highest level in history.

Regional employment had peaked during September 2008 (fiscal year 2009), then declined for 19 consecutive months before bottoming out in April 2010 (fiscal year 2010), with a net employment decline of almost 4.0 percent in the region. Regional employment by the end of fiscal year 2018 had more than fully recovered from the recession, and exceeded the pre-recession peak by 9.2 percent.

The various markets served by NJ TRANSIT have experienced differing levels of employment and economic recovery. New York City employment had

exhibited a 3.0 percent decline lasting a total of 16 months before its recovery started, and by the end of fiscal year 2018 had not only recovered jobs totaling those lost during fiscal 2009-10 but had added an additional 17.1 percent. Philadelphia had lost just 1.9 percent of its employment during a 14-month period, and has since recovered jobs totaling those lost plus another 7.6 percent above that.

New Jersey's economy, on the other hand, fared significantly worse than its neighbors both in depth and duration. New Jersey employment dropped almost 6.0 percent over a 40-month period, lasting from April 2008 (fiscal year 2008) to August 2011 (fiscal year 2012). New Jersey employment only fully recovered during fiscal year 2018, finishing the year with a net 1.7 percent increase above pre-recession levels.

## **CONTACTING NJ TRANSIT FINANCIAL MANAGEMENT**

This financial report is designed to provide our customers and other interested parties with a general overview of NJ TRANSIT finances and to demonstrate NJ TRANSIT's accountability for the funds it receives. If you have any questions about this report or need additional financial information, contact New Jersey Transit Corporation, Chief Financial Officer and Treasurer, One Penn Plaza East, Newark, New Jersey 07105-2246.

# FINANCIAL STATEMENTS

## NEW JERSEY TRANSIT CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF NET POSITION *(in thousands)*

|  | 2018               | AS OF JUNE 30,<br>2017 |
|--|--------------------|------------------------|
| <b>ASSETS</b>                                      |                    |                        |
| <b>Current Assets</b>                              |                    |                        |
| Cash and cash equivalents                          | \$80,654           | \$106,594              |
| Investments  | 54,139             | 48,875                 |
| Due from federal government                        | 284,413            | 75,923                 |
| Due from State of New Jersey                       | 250,718            | 130,884                |
| Material and supplies                              | 122,998            | 135,392                |
| Other  | 46,585             | 44,865                 |
| Derivative instrument asset                        | 24,115             | 5,345                  |
| <b>Total Current Assets</b>                        | <b>863,622</b>     | <b>547,878</b>         |
| <b>Non-Current Assets</b>                          |                    |                        |
| Restricted cash and cash equivalents               | 105,328            | 118,104                |
| Restricted leveraged lease deposits                | 280,744            | 296,346                |
| Capital assets, not being depreciated              | 1,291,181          | 1,029,304              |
| Capital assets, net of accumulated depreciation    | 4,937,733          | 5,316,723              |
| Derivative instrument asset                        | 14,430             | 1,945                  |
| <b>Total Non-Current Assets</b>                    | <b>6,629,416</b>   | <b>6,762,422</b>       |
| <b>Total Assets</b>                                | <b>7,493,038</b>   | <b>7,310,300</b>       |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>              |                    |                        |
| Refunding of debt                                  | 31,092             | 38,220                 |
| Deferred outflows related to pensions              | 266,210            | 299,951                |
| <b>Total Deferred Outflows of Resources</b>        | <b>297,302</b>     | <b>338,171</b>         |
| <b>LIABILITIES</b>                                 |                    |                        |
| <b>Current Liabilities</b>                         |                    |                        |
| Accounts payable                                   | 327,524            | 174,445                |
| Accrued payroll and benefits                       | 126,657            | 154,752                |
| Current installments under capital leases          | 53,671             | 17,057                 |
| Short-term notes and line-of-credit payable        | 188,960            | 178,570                |
| Other current liabilities                          | 232,574            | 97,897                 |
| <b>Total Current Liabilities</b>                   | <b>929,386</b>     | <b>622,721</b>         |
| <b>Non-Current Liabilities</b>                     |                    |                        |
| Notes payable                                      | 852,133            | 981,209                |
| Accrued injury and damage claims                   | 150,779            | 147,998                |
| Obligations under capital leases                   | 227,073            | 280,744                |
| Net pension liability                              | 728,174            | 765,288                |
| Other post-employment benefit obligation           | 1,098,490          | 541,584                |
| Unearned revenue and other non-current liabilities | 84,403             | 78,953                 |
| <b>Total Non-Current Liabilities</b>               | <b>3,141,052</b>   | <b>2,795,776</b>       |
| <b>Total Liabilities</b>                           | <b>4,070,438</b>   | <b>3,418,497</b>       |
| <b>DEFERRED INFLOWS OF RESOURCES</b>               |                    |                        |
| Deferred inflows related to pensions               | 62,329             | 10,099                 |
| Derivative instrument liability                    | 38,545             | 7,290                  |
| Deferred inflows related to total OPEB liability   | 41,301             | —                      |
| <b>Total Deferred Inflows of Resources</b>         | <b>142,175</b>     | <b>17,389</b>          |
| <b>NET POSITION</b>                                |                    |                        |
| Net investment in capital assets                   | 5,305,161          | 5,318,558              |
| Restricted for capital projects                    | 2,412              | 1,240                  |
| Unrestricted (deficit)                             | (1,729,846)        | (1,107,213)            |
| <b>Total Net Position</b>                          | <b>\$3,577,727</b> | <b>\$4,212,585</b>     |

**NEW JERSEY TRANSIT CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION** *(in thousands)*

|  | YEARS ENDED JUNE 30,      |                           |
|--|---------------------------|---------------------------|
|  | 2018                      | 2017                      |
| <b>Operating Revenues</b>                                  |                           |                           |
| Passenger fares  | \$972,624                 | \$992,225                 |
| Other, net   | 83,690                    | 87,807                    |
| <b>Total Operating Revenues</b>                            | <b><u>1,056,314</u></b>   | <b><u>1,080,032</u></b>   |
| <b>Operating Expenses</b>                                  |                           |                           |
| Labor  | 722,535                   | 688,819                   |
| Fringe benefits  | 661,260                   | 661,959                   |
| Parts, materials and supplies                              | 172,272                   | 176,986                   |
| Services   | 164,466                   | 158,257                   |
| Claims and insurance                                       | 87,141                    | 101,965                   |
| Fuel and propulsion  | 97,750                    | 94,264                    |
| Trackage, tolls and fees                                   | 84,066                    | 83,011                    |
| Utilities  | 40,375                    | 41,347                    |
| Purchased transportation                                   | 245,270                   | 212,548                   |
| Other  | 40,373                    | 40,975                    |
| <b>Total Operating Expenses, Before Depreciation</b>       | <b><u>2,315,508</u></b>   | <b><u>2,260,131</u></b>   |
| <b>Loss Before Depreciation and Other Expenses</b>         | <b>(1,259,194)</b>        | <b>(1,180,099)</b>        |
| Depreciation   | (498,858)                 | (497,989)                 |
| <b>Operating Loss</b>                                      | <b><u>(1,758,052)</u></b> | <b><u>(1,678,088)</u></b> |
| <b>Non-Operating Revenues (Expenses)</b>                   |                           |                           |
| State appropriation  | 140,856                   | 140,856                   |
| Federal, state and local reimbursements                    | 1,096,367                 | 922,122                   |
| Investment income  | 3,863                     | 4,016                     |
| Other non-operating revenues                               | 11,457                    | 18,113                    |
| Interest expense   | (43,614)                  | (46,478)                  |
| <b>Total Non-Operating Revenues (Expenses)</b>             | <b><u>1,208,929</u></b>   | <b><u>1,038,619</u></b>   |
| <b>Change in Net Position Before Capital Contributions</b> | <b>(549,123)</b>          | <b>(639,469)</b>          |
| Capital contributions, net                                 | 481,554                   | 293,691                   |
| <b>Change in Net Position</b>                              | <b>(67,569)</b>           | <b>(345,778)</b>          |
| <b>Total Net Position, Beginning, as Previously Stated</b> | <b><u>4,212,585</u></b>   | <b><u>4,558,363</u></b>   |
| Cumulative Effect of Accounting Change                     | (567,289)                 | —                         |
| <b>Total Net Position, Beginning, as Restated</b>          | <b><u>3,645,296</u></b>   | <b><u>—</u></b>           |
| <b>Total Net Position, Ending</b>                          | <b><u>\$3,577,727</u></b> | <b><u>\$4,212,585</u></b> |

# FINANCIAL STATEMENTS

## NEW JERSEY TRANSIT CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS *(in thousands)*

|   | YEARS ENDED JUNE 30,      |                           |
|---|---------------------------|---------------------------|
|   | 2018                      | 2017                      |
| <b>Cash Flows from Operating Activities</b>                           |                           |                           |
| Cash receipts from fares  | \$966,790                 | \$993,440                 |
| Other cash receipts   | 103,800                   | 101,371                   |
| Payments for claims   | (85,803)                  | (60,340)                  |
| Payments to employees   | (1,332,386)               | (1,252,057)               |
| Payments to suppliers   | (770,147)                 | (842,736)                 |
| <b>Net Cash (Used in) Operating Activities</b>                        | <b><u>(1,117,746)</u></b> | <b><u>(1,060,322)</u></b> |
| <b>Cash Flows from Non-Capital Financing Activities</b>               |                           |                           |
| Cash receipts from federal, state and local grants and Appropriations | 1,282,220                 | 1,262,974                 |
| <b>Net Cash Provided by Non-Capital Financing Activities</b>          | <b><u>1,282,220</u></b>   | <b><u>1,262,974</u></b>   |
| <b>Cash Flows from Capital and Related Financing Activities</b>       |                           |                           |
| Payment of obligations under capital leases                           | (1,455)                   | (4,683)                   |
| Interest payments   | (57,224)                  | (42,829)                  |
| Proceeds received from issuances of note and line of credit           | 400,000                   | 1,084,601                 |
| Repayment of note and line of credit obligations                      | (503,546)                 | (1,214,342)               |
| Payment for debt refunding costs                                      | —                         | (37,018)                  |
| Purchase of capital assets  | (529,582)                 | (272,455)                 |
| Capital grants  | 490,018                   | 369,315                   |
| <b>Net Cash (Used by) Capital and Related Financing Activities</b>    | <b><u>(201,789)</u></b>   | <b><u>(117,411)</u></b>   |
| <b>Cash Flows from Investing Activities</b>                           |                           |                           |
| Sales and maturities of investments                                   | 1,275                     | 2,091                     |
| Purchases of investments  | (5,943)                   | (4,941)                   |
| Interest on investments   | 3,267                     | 2,078                     |
| <b>Net Cash (Used in) Investing Activities</b>                        | <b><u>(1,401)</u></b>     | <b><u>(772)</u></b>       |
| <b>Net (Decrease) Increase in Cash and Cash Equivalents</b>           | <b><u>(38,716)</u></b>    | <b><u>84,469</u></b>      |
| <b>Cash and Cash Equivalents</b>                                      |                           |                           |
| <b>Beginning of Year</b>  | <b><u>224,698</u></b>     | <b><u>140,229</u></b>     |
| <b>End of Year</b>  | <b><u>\$185,982</u></b>   | <b><u>\$224,698</u></b>   |
| <b>Non-Cash Investing Activities</b>                                  |                           |                           |
| Increase in fair value of investments                                 | <b><u>\$595</u></b>       | <b><u>\$1,938</u></b>     |

**NEW JERSEY TRANSIT CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (continued) (in thousands)**

|  | YEARS ENDED JUNE 30,        |                             |
|--|-----------------------------|-----------------------------|
|  | 2018                        | 2017                        |
| <b>Reconciliation of Operating Loss to Net Cash<br/>Used in Operating Activities</b>       |                             |                             |
| <b>Cash Flows from Operating Activities</b>  |                             |                             |
| Operating Loss   | \$(1,758,052)               | \$(1,678,088)               |
| <b>Adjustment to Reconcile Operating Loss to Net Cash<br/>Used in Operating Activities</b> |                             |                             |
| Depreciation   | 498,858                     | 497,989                     |
| <b>Changes in Assets and Liabilities</b>   |                             |                             |
| Materials and supplies   | 12,394                      | (824)                       |
| Other current assets   | (438)                       | (273)                       |
| Other non-current assets   | 33,742                      | (129,710)                   |
| Accounts payable   | 21,250                      | (29,345)                    |
| Accrued payroll and benefits   | (28,095)                    | (42,812)                    |
| Other current liabilities  | 36,871                      | (6,841)                     |
| Accrued injury and damage claims   | 2,781                       | 39,550                      |
| Net pension liability  | (37,114)                    | 215,949                     |
| Net OPEB obligation  | (10,383)                    | 57,661                      |
| Unearned revenue and other non-current liabilities   | 110,440                     | 16,422                      |
| <b>Net Cash (Used in) Operating Activities</b>   | <b><u>\$(1,117,746)</u></b> | <b><u>\$(1,060,322)</u></b> |

### 1. ORGANIZATIONS AND BUSINESS PURPOSE

**Reporting Entity.** The New Jersey Transit Corporation (NJ TRANSIT) is a component unit of the State of New Jersey created by the New Jersey Public Transportation Act of 1979. NJ TRANSIT is empowered with the authority to acquire, own, operate, and contract for the operation of public passenger transportation services. NJ TRANSIT provides these services through bus operations (NJ TRANSIT Bus Operations, Inc., NJ TRANSIT Mercer, Inc. and NJ TRANSIT Morris, Inc.), and commuter rail operations (NJ TRANSIT Rail Operations Inc.). ARH III Insurance Company, Inc., a non-profit special purpose captive insurance company, is a blended component unit of NJ TRANSIT. NJ TRANSIT also contracts with several third-party providers for certain transportation services including the operation of two light rail lines. Under these contracts, NJ TRANSIT has the right to set fares and coordinate service levels and schedules. In addition, NJ TRANSIT contracts with the National Railroad Passenger Corporation (Amtrak) for the maintenance of certain NJ TRANSIT rolling stock and the use of Amtrak's NEC, including propulsion costs, right-of-way maintenance costs and certain transportation management services.

NJ TRANSIT receives operating assistance and capital funds from the State of New Jersey by legislative appropriation; the Federal Government by defined formula; discretionary grants under the Federal Urban Mass Transportation Act of 1964 as most recently amended by the Moving Ahead for Progress Act in the 21st Century Act (MAP-21) of 2012; and, local sources. Most federal grants are administered by the Federal Transit Administration (FTA). These grants are used to support construction, acquisition and operation of public transportation facilities, equipment and services.

NJ TRANSIT is governed by an eight-member Board of Directors. Seven of the members have voting authority and include the Commissioner of Transportation, who serves as Chairman, the State Treasurer and another member of the Executive Branch selected by the Governor, who serve ex-officio, and four other public members appointed by the governor with the consent of the State Senate. The eighth non-voting member is appointed by the Governor on the recommendation of the labor organization representing the plurality of the employees of NJ TRANSIT, that organization being the Amalgamated Transit Union. Five transit advisory committees regularly advise the Board of Directors on a number of topics. The North and South Jersey Transit Advisory Committees regularly advise the Board on customers' opinions, the Private Carrier Advisory Committee monitors the concerns of New Jersey's private bus carriers, the ADA Task Force assists NJ TRANSIT in

the implementation of its ADA improvements plan, and the Local Programs Citizens Advisory Committee advises NJ TRANSIT on public decisions regarding accessibility issues. NJ TRANSIT employs an executive director who manages the day-to-day operations.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting.** The accounts are maintained and financial statements are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States (GAAP) as they relate to enterprise funds of state and local governmental units and accordingly follow all applicable Governmental Accounting Standards Board (GASB) pronouncements.

In accordance with GAAP, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. All assets and liabilities associated with the operation of NJ TRANSIT are included in the Consolidated Statements of Net Position and depreciation of capital assets is recognized in the Consolidated Statements of Revenues, Expenses and Changes in Net Position. The two principal sources of revenue are passenger fares and governmental operating assistance and reimbursements. Operating expenses include the costs of operating the system, administrative expenses, and depreciation of capital assets.

#### **New Accounting Pronouncements Recently Adopted.**

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was issued in June 2015. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans*

*Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. The scope of this statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB.

This statement also addresses certain circumstances in which a non-employer entity provides financial support for OPEB of employees of another entity. In this statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and non-employer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, Non-employer contributing entities, the OPEB plan administrator, and the plan members.

In the year of adoption, changes to conform to the provisions of this statement should be applied retroactively by restating financial statements, if practical, for all prior periods presented. At the beginning of the period in which the provisions of this statement are adopted, there may be circumstances in which it is not practical for a government to determine the amounts of all applicable deferred inflows of resources and deferred outflows of resources related to OPEB. In such circumstances, the government should report a beginning deferred outflow of resources for OPEB contributions made subsequent to the measurement date of the beginning net OPEB liability but before the beginning of the government's fiscal year. Additionally, in those circumstances, no other beginning balances for deferred outflows of resources and deferred inflows of resources related to OPEB should be reported. If restatement of all prior periods presented is not practical, the cumulative effect, if any, of applying this Statement should be reported as a restatement of beginning net position (or fund balance or fund net position, as applicable) for the earliest period restated.

For the cost-sharing multiple-employer OPEB plan that NJ TRANSIT participates in, the State of New Jersey, Division of Pensions and Benefits did not provide the information that is required by NJ TRANSIT in order to restate its financial statements as of July 1, 2016. Accordingly, the cumulative effect of applying this statement was reported as a restatement of beginning net position as of July 1, 2017.

For the fiscal year ended June 30, 2018, the cumulative effect of adopting GASB Statement No. 75 was a \$567.3 million reduction to beginning net position. In the table that follows, we present the net impact of the cumulative effect of adopting GASB 75 on total and unrestricted net position.

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| <b>Statement of Revenues, Expenses and Changes in Net Position</b> <i>(in millions)</i> |                         |
|---|-------------------------|
| Total net position, beginning of period, July 1, 2017                                   | \$4,212.6               |
| Cumulative effect of adopting GASB Statement No. 75                                     | <u>(567.3)</u>          |
| <b>Total net position, beginning of period, July 1, 2017 (as restated)</b>              | <b><u>\$3,645.3</u></b> |
| Unrestricted net position, beginning of period, July 1, 2017                            | \$(1,107.2)             |
| Cumulative effect of adopting GASB Statement No. 75                                     | <u>(567.3)</u>          |
| <b>Unrestricted net position, beginning of period, July 1, 2017 (as restated)</b>       | <b><u>\$1,674.5</u></b> |

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## **Accounting Standards Issued But Not Yet Adopted.**

GASB Statement No. 83, *Certain Asset Retirement Obligations*, was issued in March 2016. The primary objective of this statement is to provide financial statement users with information about asset retirement obligations (ARO's) that were not addressed in GASB standards by establishing uniform accounting and financial reporting requirements for those obligations. The requirements of this statement apply to financial statements of all state and local governments. For purposes of applying this statement, an ARO is a legally enforceable liability associated with the retirement of a tangible capital asset (that is, the tangible capital asset is permanently removed from service). The retirement of a tangible capital asset encompasses its sale, abandonment, recycling, or disposal in some other manner; however, it does not encompass the temporary idling of a tangible capital asset. This statement also applies to legally enforceable liabilities of a lessor in connection with the retirement of its leased property if those liabilities meet the definition of an ARO.

The statement is effective for fiscal years beginning after June 15, 2018. NJ TRANSIT is in the process of evaluating the impact of its adoption on the financial statements.

GASB Statement No. 84, *Fiduciary Activities*, was issued in January 2017. The primary objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

This statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

The statement is effective for fiscal years beginning after December 15, 2018. NJ TRANSIT is in the process of evaluating the impact of its adoption on the financial statements.

GASB Statement No. 87, *Leases*, was issued in June 2017. The primary objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lease is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The statement is effective for fiscal years beginning after December 15, 2019. NJ TRANSIT is in the process of evaluating the impact of its adoption on the financial statements.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, was issued in April 2018. The primary objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

The Statement is effective for fiscal years beginning after June 15, 2018. NJ TRANSIT is in the process of evaluating the impact of its adoption on the financial statements.



GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, was issued in June 2018. The primary objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraph 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1980 FASB and AICPA Pronouncements*, which are superseded by this statement. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

The statement is effective for fiscal years beginning after December 15, 2019. NJ TRANSIT is in the process of evaluating the impact of its adoption on the financial statements.

GASB Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*, was issued in August 2018. The primary objectives of this statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The statement is effective for fiscal years beginning after December 15, 2018. NJ TRANSIT is in the process of evaluating the impact of its adoption on the financial statements.

**Revenue and Expense Classification.** NJ TRANSIT distinguishes operating revenues and expenses from non-operating items in the preparation of its financial statements. Operating revenues and expenses primarily result from providing transportation services in connection with NJ TRANSIT's ongoing operations. The principal operating revenues are generated from passenger fares. NJ TRANSIT's operating expenses include employment costs, materials, services, claims and insurance, purchased transportation and other expenses related to the delivery of transportation services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. NJ TRANSIT's primary source of non-operating revenue relates to grants, subsidies, and capital contributions. Grants, subsidies and capital contribution revenue is recognized at the time eligible expenses occur and/or NJ TRANSIT has complied with the grant and subsidy requirements.

Non-capital grants and subsidies are reported as non-operating revenue and capital grants are reported as a separate item on the Statements of Revenues, Expenses, and Changes in Net Position as capital contributions.

**Net Position.** Net position equals assets, plus deferred outflows of resources, minus liabilities, minus deferred inflows of resources and are classified into three categories:

- **Net Investment in Capital Assets** – This reflects the net position of NJ TRANSIT that is invested in capital assets, net of related debt. This indicates that this net position is not accessible for other purposes.
- **Restricted for Capital Projects** – This represents the net position that is not accessible for general use because their use is subject to restrictions enforceable by third parties.
- **Unrestricted (Deficit)** – This relates to net position that does not meet the definition of “net investment in capital assets” or “restricted,” as discussed above, such as the recognition of the liability for postretirement benefits other than pensions that exceed the net position for general use.

**Cash and Cash Equivalents.** Cash and cash equivalents consist of cash on hand, demand deposits and other short-term investments with maturities of three months or less when purchased. The Corporation considers cash and cash equivalents and investments held for the repayment of the non-current portion of notes payable and debt to be non-current assets.

**Investments.** All investments are stated at fair value based on quoted market prices, as available (see Note 3). Income from investments is recognized on the accrual basis. Realized gains or losses on sales of investment securities are accounted for using the specific identification method. NJ TRANSIT has elected to combine realized and unrealized gains and losses on investments. The calculation of realized gains and losses is independent of the calculation of the change in the fair value of investments. Realized gains and losses include unrealized amounts from prior years.

**Accounts Receivable.** Accounts receivable, primarily amounts due from federal and state governments, are included with other current assets and are recorded net of an allowance for uncollectible amounts.

**Capital Assets.** All capital assets are recorded at cost and include revenue and non-revenue vehicles, buildings, stations, furniture, fixtures, other equipment and infrastructure assets (right-of-way, track work,

and bridges). Capital assets, which were acquired by the State of New Jersey, Department of Transportation and subsequently transferred to NJ TRANSIT at cost, are included in capital assets.

**Capitalization Policy.** Under NJ TRANSIT’s policy, purchases exceeding \$5,000 representing additions or betterments, with a useful life greater than one year, are capitalized. Ordinary maintenance and repairs are charged to expense as incurred.

**Depreciation Policy.** Depreciation of capital assets is computed using the straight-line method over the estimated useful lives of the assets as follows:

|                                      | YEARS |
|--------------------------------------|-------|
| Buildings, structures and track work | 25    |
| Railcars and locomotives             | 22-25 |
| Buses, vans and light railcars       | 5-15  |
| Furniture, fixtures and equipment    | 3-10  |
| Computer software and licenses       | 3     |

**Capital Projects in Process.** These are costs incurred by NJ TRANSIT for capital projects in various stages of completion and include all activities designed to construct, acquire, or extend useful lives of existing capital assets.

**Net Capitalized Interest.** Net interest costs on funds borrowed to finance the construction or acquisition of certain capital assets, during the period of construction or acquisition, are capitalized and depreciated over the life of the related assets once placed in service.

**Materials and Supplies.** Fuel, spare parts, and supplies purchased are recorded as inventories at average cost, net of a reserve for slow-moving and obsolete parts.

**Deferred Outflows/Inflows of Resources.** Deferred outflows of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. The first deferred outflow results from refunding long-term debt and is the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second item relates to the contributions made to the pension plans

subsequent to the measurement date of NJ TRANSIT's net pension and OPEB liability and changes of assumptions in calculating the liability. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

NJ TRANSIT has deferred inflows of resources related to the net deferred gains on pension plan investments which are being amortized over a five-year period, changes of assumptions or other inputs on OPEB plan and a derivative instrument asset which relates to fuel commodity swaps entered into during the year.

**Injury and Damage Claims.** Injury and damage claims are accrued at estimated award or settlement amounts when it is probable that an asset has been damaged or a liability has been incurred and the amount of the loss can be reasonably estimated. NJ TRANSIT is insured against public liability, property damage and Federal Employee Liability Act (FELA) claims through various levels of coverage placed with commercial insurance carriers and its wholly owned subsidiary, ARH III Insurance Company, Inc. Such coverage includes self-insured retention.

**Pollution Remediation Obligations.** Pollution remediation costs are being expensed in accordance with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. An operating expense provision and corresponding liability measured at current value using the expected cash flow method has been recognized for certain pollution remediation obligations. Pollution remediation obligations occur when any one of the obligating events takes place (see Note 12).

**Note Premiums and Discounts.** Premiums and discounts, which are recorded net with Notes Payable, are amortized over the life of the debt using the effective interest method.

**Income Taxes.** NJ TRANSIT is exempt from federal income taxes under the Internal Revenue Code, Section 115 and from state income taxes under N.J.S.A. 27:25-16. Accordingly, no provision is recorded for federal and state income taxes.

**Pensions.** For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position

of the five defined benefit, single-employer plans that NJ TRANSIT sponsors, the New Jersey Public Employee Retirement System (PERS) and the New Jersey Police and Firemen's System (PFRS) and additions to/deductions from these plans' fiduciary net position have been determined on the same basis as they are reported by these plans. For this purpose, benefit payments (including refunds or employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Other Postemployment Benefits.** NJ TRANSIT adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* to record the Other Postemployment Benefits (OPEB) expense, liability and deferred inflows of resources related to OPEB. The benefits are currently funded on a pay-as-you-go basis. (see Note 7).

**Compensated Absences.** Accumulation and payment of vacation and sick leave for agreement employees is based on the collective bargaining agreements with the various unions. Non-agreement employees are permitted to carryover one year's worth of vacation days. Sick days earned for non-agreement employees after January 1, 2012 are not eligible for cash-in upon retirement. Compensated absences are accrued as a liability when earned and the liability is measured using the pay rates in effect at the statement of net position date.

**Out of Period Adjustment.** NJ TRANSIT identified certain adjustments that were not recorded in its financial statements for the prior period and were corrected in the current year's financial statements. Specifically, NJ TRANSIT identified adjustments to Due from State of New Jersey and Accounts Payable, which resulted in reporting an understatement as of June 30, 2017, of approximately \$55.9 million. There was no impact on NJ TRANSIT's net position for either the current or prior periods. NJ TRANSIT considered the effects of all adjustments identified on its current and prior period financial statements and determined that the adjustments did not have a material effect on its financial statements presented. Accordingly, NJ TRANSIT recorded this adjustment of approximately \$55.9 million as an out-of-period adjustment to Due from State of New Jersey and Accounts Payable as of June 30, 2018.

## 3. DEPOSITS AND INVESTMENTS

NJ TRANSIT's deposits and investments follow *(in millions)*:

|   | AS OF JUNE 30, |                |
|---|----------------|----------------|
|   | 2018           | 2017           |
| <b>Current</b>                                    |                |                |
| Cash on hand                                      | \$14.0         | \$11.6         |
| Cash equivalents                                  | 66.7           | 95.0           |
| <b>Total cash and cash equivalents</b>            | <b>80.7</b>    | <b>106.6</b>   |
| Investments                                       | 54.1           | 48.9           |
| <b>Total current cash and investments</b>         | <b>134.8</b>   | <b>155.5</b>   |
| <b>Non-current</b>                                |                |                |
| Restricted cash on hand                           | 5.9            | 5.2            |
| Restricted cash equivalents                       | 99.4           | 112.9          |
| <b>Total restricted cash and cash equivalents</b> | <b>105.3</b>   | <b>118.1</b>   |
| <b>Total Deposits and Investments</b>             | <b>\$240.1</b> | <b>\$273.6</b> |

NJ TRANSIT's cash on deposit with various entities as of June 30, 2018 and June 30, 2017 totaled \$19.9 million and \$16.8 million, respectively.

| ACCOUNT TYPE                                   | BALANCE <i>(in millions)</i> |               |
|--|------------------------------|---------------|
|  | 2018                         | 2017          |
| Insured  | \$1.9                        | \$1.1         |
| Insured held at NJ TRANSIT's locations         | 6.2                          | 3.0           |
| Uncollateralized held by health care providers | 5.9                          | 5.2           |
| Uninsured held by banks                        | 5.9                          | 7.5           |
| <b>Total</b>                                   | <b>\$19.9</b>                | <b>\$16.8</b> |

**Custodial Credit Risk.** Custodial credit risk is the risk that a bank failure would result in the forfeiture of NJ TRANSIT deposits. NJ TRANSIT does not have a policy for custodial credit risk. As of June 30, 2018, and 2017, \$11.8 million and \$12.7 million, respectively, of NJ TRANSIT's cash balance were exposed to custodial credit risk.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following schedule lists the allocation of cash and investments by financial institution (*\$ in millions*):

| Institution/Issuer            | 2018                  |                | 2017                  |                |
|-------------------------------|-----------------------|----------------|-----------------------|----------------|
|                               | AMOUNT                | % OF PORTFOLIO | AMOUNT                | % OF PORTFOLIO |
| Bank of America               | \$32.0                | 13.3*          | \$30.7                | 11.2*          |
| BNY Mellon                    | 11.2                  | 4.7*           | 23.3                  | 8.5*           |
| Chase                         | 0.1                   | 0.1            | 0.1                   | 0.1            |
| City National Bank            | 2.5                   | 1.0            | 2.5                   | 0.9            |
| ETF – ARH                     | 54.2                  | 22.6           | 48.9                  | 17.9           |
| Fidelity Investments          | 8.6                   | 3.6            | 6.4                   | 2.3            |
| Morgan Stanley                | 4.4                   | 1.8            | 9.3                   | 3.4            |
| PNC Institutional Investments | 0.6                   | 0.3            | 0.6                   | 0.2            |
| State Street Bank and Trust   | 9.8                   | 4.1*           | 23.8                  | 8.7*           |
| US Bank                       | 99.5                  | 41.5*          | 112.9                 | 41.3*          |
| Wachovia                      | 2.7                   | 1.1            | 2.0                   | 0.7            |
| Wells Fargo Bank              | 0.8                   | 0.3            | 1.8                   | 0.7            |
| Wells Fargo Securities        | 12.0                  | 5.0            | 9.6                   | 3.5            |
| Working Funds/Petty Cash      | 1.7                   | 0.7            | 1.7                   | 0.6            |
| <b>Total</b>                  | <b><u>\$240.1</u></b> |                | <b><u>\$273.6</u></b> |                |

\*Majority of the investments held are money market mutual funds that invest primarily in government securities.

**Interest Rate Risk.** In accordance with NJ TRANSIT's investment policy, NJ TRANSIT manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year. However, up to 25 percent of all investments may be invested in eligible securities, which mature within two years provided that the average maturity of all investments shall not exceed one year. Investments associated with the proceeds of debt issuance are governed by the related bond covenant agreements.

NJ TRANSIT's investments as of June 30, 2018 and 2017 totaled \$220.2 million and \$256.8 million, respectively.

| Investments  | Fair Value ( <i>\$ in millions</i> ) |                       | Weighted Average Maturity in Years |      |
|--|--------------------------------------|-----------------------|------------------------------------|------|
|  | 2018                                 | 2017                  | 2018                               | 2017 |
| State of NJ Cash Management Fund   | \$9.8                                | \$67.3                | 0.01                               | 0.07 |
| Money Markets  | 156.3                                | 140.6                 | 0.18                               | 0.14 |
| Exchange Traded Funds (ARH)  | <u>54.1</u>                          | <u>48.9</u>           | 0.06                               | 0.05 |
| <b>Total</b>   | <b><u>\$220.2</u></b>                | <b><u>\$256.8</u></b> |                                    |      |
| Portfolio weighted average maturity (inclusive of proceeds from debt issuance) |                                      |                       | 0.14                               | 0.10 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Credit Risk.** NJ TRANSIT's investments are restricted to (a) United States Treasury Securities; (b) corporate obligations, provided they are rated Baa/BBB or better; (c) senior debt securities, provided such securities are rated at least AA; (d) commercial paper, which must have the highest prime rating and must be issued by a company incorporated in the United States; (e) certificates of deposit, both collateralized and uncollateralized (in the case of collateralization, the market value of the collateral must be 120 percent of the purchased price at the time of purchase); (f) repurchase agreements; (g) banker's acceptances; (h) loan participation notes; and (i) money market mutual funds. The restrictions pertaining to each class of these securities are outlined in NJ TRANSIT's investment policy and are strictly adhered to. Any deviation from the established risk is authorized by the Board of Directors.

NJ TRANSIT investment policy limits exposure to any single issuer to 20 percent of the investment portfolio. This restriction does not apply to issues of the U.S. government or its agencies that are explicitly guaranteed by the U.S. government or the State of New Jersey Cash Management Fund.

The investment of NJ TRANSIT funds is governed by NJ TRANSIT's By-Laws. The Treasurer is authorized to invest and deposit funds of NJ TRANSIT in obligation and/or depositories, which are generally consistent with the investment policies of the State of New Jersey Cash Management Fund as permitted under Public Law 1950 c.270 and subsequent legislation or as otherwise prescribed by the Board of Directors of NJ TRANSIT.

Investee institutions and organizations qualify as depositories based on such criteria as minimum capital, credit ratings, and other evaluation factors.

U.S. government and agency obligations are guaranteed by the full faith and credit of the issuing entity and are held by NJ TRANSIT's escrow agent in an account for NJ TRANSIT. Repurchase agreements are uncollateralized and uninsured and are limited to investment-grade paper. The State of New Jersey Cash Management Fund is a common trust fund administered by the New Jersey Department of Treasury, Division of Investment and is an unrated investment.

**Concentration of Credit Risk.** Concentration of credit risk is the risk of loss attributed to the magnitude of the Corporation's investment in a single issuer. As of June 30, 2018, no exposure of the concentration of credit risk existed since the Corporation did not hold any investments in any one issuer that would represent five percent or more of total investments. Investments issued or explicitly guaranteed by the U.S. government and pooled investments are excluded from this assessment.

**Fair Value Measurements.** NJ TRANSIT categorizes its fair value measurement within the fair value hierarchy established by generally accepted governmental standards. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 input are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

NJ TRANSIT has the following recurring fair value measurements as of June 30, 2018 *(in millions)*:

|  | Total                 | Quoted Prices in<br>Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|--|-----------------------|--|---|--|
| <b>Investments by fair value level:</b>                    |                       |  |   |  |
| Money market funds   | \$156.3               | \$156.3  | \$ —  | \$ —   |
| Exchange traded funds (ARH)                                | 54.1                  | 54.1   | —   | —  |
| <b>Total investments by fair value level</b>               | <b><u>\$210.4</u></b> | <b><u>\$210.4</u></b>  | <b><u>\$—</u></b>                                   | <b><u>\$—</u></b>                                  |
| <b>Investments in Local Government<br/>Investment Pool</b> |                       |  |   |  |
| State of NJ Cash Management Fund                           | 9.8                   |  |   |  |
| <b>Total investments measured at fair value</b>            | <b><u>\$220.2</u></b> |  |   |  |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NJ TRANSIT has the following recurring fair value measurements as of June 30, 2017 *(in millions)*:

|  | Total          | Quoted Prices in<br>Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|--|----------------|--|---|--|
| <b>Investments by fair value level:</b>                    |                |  |   |  |
| Money market funds   | \$140.6        | \$140.6  | \$ —  | \$ —   |
| Exchange traded funds (ARH)                                | 48.9           | 48.9   | —   | —  |
| <b>Total investments by fair value level</b>               | <b>\$189.5</b> | <b>\$189.5</b>   | <b>\$—</b>  | <b>\$—</b>   |
| <b>Investments in Local Government<br/>Investment Pool</b> |                |  |   |  |
| State of NJ Cash Management Fund                           | 67.3           |  |   |  |
| <b>Total investments</b>                                   | <b>\$256.8</b> |  |   |  |

The following table presents fair value measurement information for NJ TRANSIT's captive insurance company's ("ARH III Insurance Company Inc.") investments at June 30, 2018 and June 30, 2017 *(in millions)*:

| <b>EXCHANGE TRADED FUNDS:</b>                    | <b>2018</b>   | <b>2017</b>   |
|--|---------------|---------------|
| iShares Intermediate Credit Bond                 | \$5.2         | \$4.6         |
| iShares 1-3 Year Credit Bond                     | 4.7           | 4.4           |
| iShares Russell 1000 Growth                      | 5.0           | 4.5           |
| iShares Russell 1000 Value                       | 4.4           | 4.1           |
| iShares iBoxx Investment Grade<br>Corporate Bond | 4.0           | 3.7           |
| iShares 3-7 Year Treasury Bond                   | 4.4           | 3.6           |
| Vanguard FTSE Developed Markets                  | 3.2           | 3.2           |
| iShares Core S&P Small-Cap                       | 3.0           | 2.6           |
| Others, less than five percent                   | 20.2          | 18.2          |
| <b>Total ARH III Insurance Company ETF's</b>     | <b>\$54.1</b> | <b>\$48.9</b> |

#### 4. RESTRICTED ASSETS

Restricted assets include cash, investments, and amounts on deposit with lessors that have been restricted from use for normal operations as a result of agreements with outside parties.

Since April 1997, certain proceeds, primarily from the issuance of Grant Anticipation Notes, Certificates of Participation, and New Jersey Economic Development

Authority Bonds, financed portions of NJ TRANSIT's capital projects. These proceeds are restricted by applicable agreement covenants. As of June 30, 2018 and 2017, the balance of restricted assets related to these proceeds was \$99.5 million, and \$107.0 million, respectively.

Since fiscal year 1996, NJ TRANSIT has entered into leveraged leases with certain domestic and overseas lessors. Restricted leveraged lease deposits as of June 30, 2018, and 2017 were \$280.7 million, and \$296.3 million, respectively for these lease agreements that represent agreements made to meet NJ TRANSIT's payment obligations throughout the term of the leases.

As these transactions do not meet the definition of an "in-substance defeasance," NJ TRANSIT has recorded Obligations Under Capital Leases and the related assets as Restricted Leveraged Lease Deposits in the Consolidated Statements of Net Position.

Other restricted amounts are made up primarily of deposit requirements for NJ TRANSIT health insurance plans, sale of fixed asset reserves and reserve requirements for Metropark parking deck. The proceeds of other restricted amounts totaled \$5.9 million, and \$11.1 million as of June 30, 2018, and 2017, respectively.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 5. CAPITAL ASSETS

A summary of all capital assets of NJ TRANSIT as of June 30, 2018 follows *(in millions)*:

|   | Balance<br>June 30, 2017 | Increases             | Decreases             | Balance<br>June 30, 2018 |
|---|--------------------------|-----------------------|-----------------------|--------------------------|
| <b>Capital Assets not being Depreciated</b>       |                          |                       |                       |                          |
| Land  | \$396.3                  | \$ —                  | \$ —                  | \$396.3                  |
| Capital projects in process                       | 618.8                    | 386.2                 | 124.3                 | 880.7                    |
| Operating rights                                  | 14.2                     | —                     | —                     | 14.2                     |
| <b>Total Capital Assets not being depreciated</b> | <b><u>1,029.3</u></b>    | <b><u>386.2</u></b>   | <b><u>124.3</u></b>   | <b><u>1,291.2</u></b>    |
| <b>Capital Assets being Depreciated</b>           |                          |                       |                       |                          |
| Buildings and structures                          | 5,896.8                  | 17.1                  | —                     | 5,913.9                  |
| Track   | 2,390.9                  | 20.0                  | 3.6                   | 2,407.3                  |
| Railcars and locomotives                          | 2,923.7                  | 0.1                   | —                     | 2,923.8                  |
| Buses, vans and light railcars                    | 1,892.7                  | 50.6                  | 54.7                  | 1,888.6                  |
| Furniture, fixtures and equipment                 | 808                      | 14.5                  | 0.3                   | 822.2                    |
| Computer software & licenses                      | 30.8                     | 22                    | —                     | 52.8                     |
| <b>Total Capital Assets being Depreciated</b>     | <b><u>13,942.9</u></b>   | <b><u>124.3</u></b>   | <b><u>58.6</u></b>    | <b><u>14,008.6</u></b>   |
| <b>Less Accumulated Depreciation</b>              |                          |                       |                       |                          |
| Buildings and structures                          | 3,600.2                  | 196.2                 | —                     | 3,796.4                  |
| Track   | 1,449.5                  | 79.2                  | 1.1                   | 1,527.6                  |
| Railcars and locomotives                          | 1,531.4                  | 93.4                  | —                     | 1,624.8                  |
| Buses, vans and light railcars                    | 1,320.2                  | 94.4                  | 54.1                  | 1,360.5                  |
| Furniture, fixtures and equipment                 | 696.3                    | 30.7                  | 0.1                   | 726.9                    |
| Computer software & licenses                      | 28.6                     | 6.1                   | —                     | 34.7                     |
| <b>Total Accumulated Depreciation</b>             | <b><u>8,626.2</u></b>    | <b><u>500.0</u></b>   | <b><u>55.3</u></b>    | <b><u>9,070.9</u></b>    |
| <b>Total Capital Assets, Net of Depreciation</b>  | <b><u>5,316.7</u></b>    | <b><u>(375.7)</u></b> | <b><u>3.3</u></b>     | <b><u>4,937.7</u></b>    |
| <b>Total Net Capital Assets</b>                   | <b><u>\$6,346.0</u></b>  | <b><u>\$10.5</u></b>  | <b><u>\$127.6</u></b> | <b><u>\$6,228.9</u></b>  |



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A summary of all capital assets of NJ TRANSIT as of June 30, 2017 follows *(in millions)*:

|   | Balance<br>June 30, 2016 | Increases             | Decreases             | Balance<br>June 30, 2017 |
|---|--------------------------|-----------------------|-----------------------|--------------------------|
| <b>Capital Assets not being Depreciated</b>       |                          |                       |                       |                          |
| Land  | \$396.3                  | \$ —                  | \$ —                  | \$396.3                  |
| Capital projects in process                       | 674.2                    | 295.3                 | 350.7                 | 618.8                    |
| Operating rights                                  | 14.2                     | —                     | —                     | 14.2                     |
| <b>Total Capital Assets not being Depreciated</b> | <b><u>1,084.7</u></b>    | <b><u>295.3</u></b>   | <b><u>350.7</u></b>   | <b><u>1,029.3</u></b>    |
| <b>Capital Assets being Depreciated</b>           |                          |                       |                       |                          |
| Buildings and structures                          | 5,819.6                  | 100.4                 | 23.2                  | 5,896.8                  |
| Track   | 2,376.7                  | 43.4                  | 29.2                  | 2,390.9                  |
| Railcars and locomotives                          | 3,007.9                  | —                     | 84.2                  | 2,923.7                  |
| Buses, vans and light railcars                    | 1,875.6                  | 132.5                 | 115.4                 | 1,892.7                  |
| Furniture, fixtures and equipment                 | 770.6                    | 66.4                  | 29.0                  | 808.0                    |
| Computer software & licenses                      | 25.4                     | 8.0                   | 2.6                   | 30.8                     |
| <b>Total Capital Assets being Depreciated</b>     | <b><u>13,875.8</u></b>   | <b><u>350.7</u></b>   | <b><u>283.6</u></b>   | <b><u>13,942.9</u></b>   |
| <b>Less Accumulated Depreciation</b>              |                          |                       |                       |                          |
| Buildings and structures                          | 3,401.3                  | 202.4                 | 3.5                   | 3,600.2                  |
| Track   | 1,371.2                  | 80.6                  | 2.3                   | 1,449.5                  |
| Railcars and locomotives                          | 1,521.9                  | 93.7                  | 84.2                  | 1,531.4                  |
| Buses, vans and light railcars                    | 1,337.2                  | 89.5                  | 106.5                 | 1,320.2                  |
| Furniture, fixtures and equipment                 | 663.3                    | 44.2                  | 11.2                  | 696.3                    |
| Computer software & licenses                      | 23.2                     | 8.0                   | 2.6                   | 28.6                     |
| <b>Total Accumulated Depreciation</b>             | <b><u>8,318.1</u></b>    | <b><u>518.4</u></b>   | <b><u>210.3</u></b>   | <b><u>8,626.2</u></b>    |
| <b>Total Capital Assets, Net of Depreciation</b>  | <b><u>5,557.7</u></b>    | <b><u>(167.7)</u></b> | <b><u>73.3</u></b>    | <b><u>5,316.7</u></b>    |
| <b>Total Net Capital Assets</b>                   | <b><u>\$6,642.4</u></b>  | <b><u>\$127.6</u></b> | <b><u>\$424.0</u></b> | <b><u>\$6,346.0</u></b>  |

## 6. PENSION AND EMPLOYEE BENEFIT PLANS

Employees of NJ TRANSIT participate in either the NJ TRANSIT sponsored defined benefit plans, which are single-employer pension plans, the PERS, or the PFRS. PERS and PFRS are cost-sharing multiple-employer defined benefit plans, which are administered by the State of New Jersey, Division of Pensions and Benefits.

### NJ TRANSIT SPONSORED SINGLE-EMPLOYER DEFINED BENEFIT PLANS

#### General Information About the Plans

**Plan Descriptions.** NJ TRANSIT sponsors five defined benefit, single-employer pension plans for the employees. Of the five single-employer defined benefit pension plans, four cover bus agreement employees and one plan covers non-agreement employees. The four agreement plans are the Amalgamated Transit Union (ATU) Employees Retirement Plan, the Transport Workers Union Employees (TWU) Retirement Plan, the Utility Workers' Union of America (UWUA) Employees Retirement Plan, and the Mercer Employees Retirement Plan. The plan covering all non-agreement employees, hired prior to July 1, 2006, is the Transit Employees Retirement Plan (TERP).

On December 20, 2015, the members of the Amalgamated Transit Union, Local 540 (ATU, Local 540) voted to join the Amalgamated Transit Union, New Jersey State Council (ATU, NJ State Council). On April 2, 2016, the agreement to accrete ATU, Local 540 with ATU, State Council was executed. On May 25, 2016, the members of the Transport Workers Union of America Employees voted to join the Amalgamated Transit Union, New Jersey State Council (ATU, NJ State Council). In fiscal year 2017, the agreements to merge Mercer and Transport Workers Union of America Employees with ATU, NJ State Council were executed. As a result of the merger, the Retirement Plan for Mercer and Transport Workers Union of America Employees were merged with the Retirement Plan for NJ TRANSIT Bus Operations, Inc. Amalgamated Transit Union Employees.

**Benefits Provided.** Each single-employer pension plan provides retirement, disability and death benefits for plan members and beneficiaries with the exception of the TERP plan, which has no disability provision and was closed to non-agreement employees hired on or after July 1, 2006. NJ TRANSIT maintains the authority to establish and amend benefit provisions of the non-agreement plan while the agreement plans are subject to the collective bargaining process. Separate audited financial statements are issued for the five pension plans, copies of which are available on the internet at [www.njtransit.com](http://www.njtransit.com).

The Plans provide retirement, death and disability benefits with full vesting of the accrued benefits to a participant who terminates employment with 10 or more years of vesting service. A participant is credited with one year of vesting service for each calendar year in which he completes 1,000 hours of service or more. The standard form of pension payment to a retiring participant is a 50% actuarially equivalent reduced surviving spouse annuity unless the participant elects to have the benefits paid in some other form. For ATU and TERP, the retirement benefits rate is based on 2.125% for each year of service multiplied by the average of the highest three years earnings in the past ten years of service. For UWUA, employees retiring on November 1, 2007 and thereafter, the retirement benefit rate increased from previous 2.0% to 2.125% for each year of service multiplied by the average of the highest three years earnings in the last ten years of service. For Mercer employees retiring on September 1, 2008 and thereafter, the retirement benefit rate increased to 2.125% from previous 2.0% for each year of service multiplied by the average of the highest three years earnings in the last ten years of service. Participants are always fully vested for their own contributions.

**Employees covered by benefit terms.** At July 1, 2017, the following employees were covered by the benefit terms:

|  | ATU                 | TERP                | UWUA(UCA)        |
|--|---------------------|---------------------|------------------|
| Active participants  | 4,580               | 946                 | 9                |
| Inactive plan participants or beneficiaries currently receiving benefits | 3,454               | 1,353               | 26               |
| Inactive plan participants entitled to but not yet receiving benefits    | <u>327</u>          | <u>244</u>          | <u>5</u>         |
| <b>Total</b>   | <b><u>8,361</u></b> | <b><u>2,543</u></b> | <b><u>40</u></b> |

**Contributions.** Under the provisions of four bus single-employer pension plans, the contribution requirements of plan members and NJ TRANSIT are established as a result of bargaining agreements between the unions and NJ TRANSIT. In accordance with the TERP plan document, the TERP contributions shall be paid in such intervals and in such amounts as directed by the Company under the advice of an actuary. Plan members are required to contribute 2 to 5 percent of their annual covered salary. For the year ended June 30, 2018, NJ TRANSIT average contribution rate is 21.5 percent of annual covered payroll.

**Net Pension Liability.** NJ TRANSIT's liability was measured as of July 1, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

**Actuarial assumptions.** The total pension liability was determined by an actuarial valuation as of July 1, 2017, using the following actuarial assumptions for the five defined benefit plans, applied to all periods included in the measurement:

|                           |   |
|---------------------------|---|
| Inflation                 | 3.00%   |
| Salary increases          | 3.00% plus age and service based merit increases  |
| Investment rate of return | 7.50% for TERP and UWUA, 7.75% for ATU, net of pension plan investment expense, including inflation |

Mortality rates were based on the RP-2014 Blue Collar Mortality Tables for annuitants and non-annuitants. These tables are adjusted to future years using generational projection under one-half Scale MP-2014 to anticipate future mortality improvement.

The long-term expected rate of return on pension plan investments 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 real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018 are summarized in the following table:

| Asset Class               | Target Allocation |        | Long-Term Expected Real Rate of Return |        |
|---------------------------|-------------------|--------|--|--------|
|                           | ATU               | Other* | ATU                                    | Other* |
| Domestic large cap equity | 38.0%             | 42.0%  | 6.4%                                   | 6.4%   |
| Domestic mid cap equity   | 5.0%              | 0.0%   | 6.4%                                   | 0.0%   |
| Domestic small cap equity | 4.0%              | 7.0%   | 6.4%                                   | 6.4%   |
| Foreign equity            | 10.0%             | 12.0%  | 7.4%                                   | 7.4%   |
| Fixed income              | 35.0%             | 37.0%  | 1.8%                                   | 1.8%   |
| Real estate               | 6.0%              | 0.0%   | 5.1%                                   | 0.0%   |
| Cash                      | 2.0%              | 2.0%   | 0.0%                                   | 0.0%   |

**\* TERP and UWUA (UCA)**

**Discount rate.** The discount rate used to measure the total pension liability was 7.50% for TERP and UWUA and 7.75% for ATU. The projection of cash flows used to determine the discount rate assumed that contributions will be made at the actuarially determined amount. Based on those assumptions, the pension plan's fiduciary

net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Changes in the Net Pension Liability for the year ended June 30, 2018 (in millions):

|   | ATU                     | TERP                  | UWUA(UCA)           |
|---|-------------------------|-----------------------|---------------------|
| <b>Total pension liability</b>                                |                         |                       |                     |
| Service cost  | \$29.3                  | \$7.2                 | \$0.1               |
| Interest  | 95.1                    | 54.1                  | 0.6                 |
| Change of benefit terms                                       | 102.3                   | —                     | —                   |
| Differences between expected and actual experience            | 15.0                    | 11.8                  | —                   |
| Change of assumptions   | 14.6                    | 1.1                   | —                   |
| Benefit payments, including refunds of employee contributions | (79.8)                  | (44.1)                | (0.6)               |
| <b>Net change in total pension liability</b>                  | <b>176.5</b>            | <b>30.1</b>           | <b>0.1</b>          |
| <b>Total pension liability – beginning</b>                    | <b><u>1,270.6</u></b>   | <b><u>745.6</u></b>   | <b><u>8.2</u></b>   |
| <b>Total pension liability – ending (a)</b>                   | <b><u>\$1,447.1</u></b> | <b><u>\$775.7</u></b> | <b><u>\$8.3</u></b> |
| <b>Plan fiduciary net position</b>                            |                         |                       |                     |
| Contributions – employer                                      | \$45.8                  | \$33.9                | \$0.2               |
| Contributions – employee                                      | 11.9                    | 1.6                   | —                   |
| Net investment income   | 109.3                   | 47.0                  | 0.6                 |
| Benefit payments, including refunds of employee contributions | (79.8)                  | (44.1)                | (0.6)               |
| Administrative expense  | (0.3)                   | (0.2)                 | —                   |
| Other*  | 70.5                    | —                     | —                   |
| <b>Net change in plan fiduciary net position</b>              | <b>157.4</b>            | <b>38.2</b>           | <b>0.2</b>          |
| <b>Plan fiduciary net position – beginning</b>                | <b><u>932.4</u></b>     | <b><u>483.7</u></b>   | <b><u>6.5</u></b>   |
| <b>Plan fiduciary net position – ending (b)</b>               | <b><u>\$1,089.8</u></b> | <b><u>\$521.9</u></b> | <b><u>\$6.7</u></b> |
| <b>Net pension liability – ending (a) – (b)</b>               | <b><u>\$357.3</u></b>   | <b><u>\$253.8</u></b> | <b><u>\$1.6</u></b> |

\*Includes the accretion of Mercer effective April 2, 2016 and the accretion of TWU-UTU effective July 30, 2016

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Changes in the Net Pension Liability for the year ended June 30, 2017 (in millions):**

| For the year ended June 30, 2017                              | ATU                     | TERP                  | TWU                  | MERCER               | UWUA(UCA)           |
|---|-------------------------|-----------------------|----------------------|----------------------|---------------------|
| <b>Total pension liability</b>                                |                         |                       |                      |                      |                     |
| Service cost  | \$25.5                  | \$6.7                 | \$1.1                | \$1.0                | \$0.1               |
| Interest  | 88.7                    | 53.5                  | 3.8                  | 3.4                  | 0.6                 |
| Change of benefit terms                                       | 45.0                    | —                     | —                    | (0.8)                | —                   |
| Differences between expected and actual experience            | 2.6                     | 0.5                   | (0.5)                | —                    | —                   |
| Change of assumptions   | 31.4                    | 35.2                  | 1.2                  | 1.0                  | 0.3                 |
| Benefit payments, including refunds of employee contributions | (69.5)                  | (41.5)                | (3.0)                | (2.5)                | (0.6)               |
| <b>Net change in total pension liability</b>                  | <b>123.7</b>            | <b>54.4</b>           | <b>2.6</b>           | <b>2.1</b>           | <b>0.4</b>          |
| <b>Total pension liability – beginning</b>                    | <b>1,146.9</b>          | <b>691.2</b>          | <b>49.3</b>          | <b>43.8</b>          | <b>7.8</b>          |
| <b>Total pension liability – ending (a)</b>                   | <b><u>\$1,270.6</u></b> | <b><u>\$745.6</u></b> | <b><u>\$51.9</u></b> | <b><u>\$45.9</u></b> | <b><u>\$8.2</u></b> |
| <b>Plan fiduciary net position</b>                            |                         |                       |                      |                      |                     |
| Contributions – employer                                      | \$44.9                  | \$30.7                | \$1.8                | \$2.5                | \$0.2               |
| Contributions – employee                                      | 11.0                    | 1.6                   | 0.3                  | 0.2                  | —                   |
| Net investment income   | 4.0                     | 4.1                   | 0.5                  | 0.4                  | 0.1                 |
| Benefit payments, including refunds of employee contributions | (69.5)                  | (41.5)                | (3.0)                | (2.5)                | (0.6)               |
| Administrative expense  | (0.3)                   | (0.3)                 | —                    | —                    | —                   |
| <b>Net change in plan fiduciary net position</b>              | <b>(9.9)</b>            | <b>(5.4)</b>          | <b>(0.4)</b>         | <b>0.6</b>           | <b>(0.3)</b>        |
| <b>Plan fiduciary net position – beginning</b>                | <b>942.3</b>            | <b>489.1</b>          | <b>41.9</b>          | <b>28.5</b>          | <b>6.8</b>          |
| <b>Plan fiduciary net position – ending (b)</b>               | <b><u>\$932.4</u></b>   | <b><u>\$483.7</u></b> | <b><u>\$41.5</u></b> | <b><u>\$29.1</u></b> | <b><u>\$6.5</u></b> |
| <b>Net pension liability – ending (a) – (b)</b>               | <b><u>\$338.2</u></b>   | <b><u>\$261.9</u></b> | <b><u>\$10.4</u></b> | <b><u>\$16.8</u></b> | <b><u>\$1.7</u></b> |

**Sensitivity of the net pension liability to changes in the discount rate.** The following presents the Net Pension Liability, calculated using the discount rate of 7.75%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate (in millions):

| Asset Class | 1% Decrease (6.75%) | Current Discount (7.75%) | 1% Increase (8.75%) |
|-------------|---------------------|--------------------------|---------------------|
| ATU         | \$513.4             | \$357.3                  | \$225.1             |

The following presents the Net Pension Liability, calculated using the discount rate of 7.50%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate (\$ in millions):

| Asset Class | 1% Decrease (6.50%) | Current Discount (7.50%) | 1% Increase (8.50%) |
|-------------|---------------------|--------------------------|---------------------|
| TERP        | \$335.0             | \$253.8                  | \$184.4             |
| UWUA (UCA)  | 2.2                 | 1.6                      | 0.8                 |

**Pension plan fiduciary net position.** Detailed information about the pension plan's fiduciary net position is available in the separately issued pension financial reports.

## COST-SHARING MULTIPLE-EMPLOYER PLANS

**Plan Descriptions.** NJ TRANSIT and its subsidiaries contribute to the New Jersey Public Employees' Retirement System (PERS) and the Police and Firemen's System (PFRS). These cost-sharing multiple-employer, defined benefit pension plans are administered by the State of New Jersey. Each plan provides retirement, disability and death benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by the State Legislature. The State of New Jersey issues separate, standalone financial reports for the PERS and PFRS plans. Information on the total plan funding status and progress, contribution required and trend information can be found in the Comprehensive Annual Financial Report of State of New Jersey, Division of Pensions and Benefits, available on the State's website [www.nj.gov/treasury/pensions/financial-reports.shtml](http://www.nj.gov/treasury/pensions/financial-reports.shtml).

A special funding situation exists for the Local employers of the Police and Firemen's Retirement System of New Jersey. Under N.J.S.A. 43:16A-15, local participating employers are responsible for their own contributions based on actuarially determined amounts, except where legislation was passed which legally obligated the State if certain circumstances occurred. The legislation which legally obligates the State is as follows: Chapter 8, P.L. 2000, Chapter 318, P.L. 2001, Chapter 86, P.L. 2001, Chapter 511, P.L. 1991, Chapter 109, P.L. 1979, Chapter 247, P.L. 1993 and Chapter 201, P.L. 2001. The amounts contributed on behalf of the local participating employers under this legislation is considered to be a special funding situation as defined by GASB Statement No. 68 and the State is treated as a non-employer contributing entity. Since the local participating employers do not contribute under this legislation directly to the plan (except for employer specific financed amounts), there is no net pension liability or deferred outflows or inflows to report in the financial statements of the local participating employers related to this legislation.

**Benefits Provided.** *PERS* - The vesting and benefit provisions are set by N.J.S.A. 43:15A. *PERS* provides retirement, death and disability benefits. All benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of *PERS*.

The following represents the membership tiers for *PERS*:

| Tier | Definition   |
|------|--|
| 1    | Members who were enrolled prior to July 1, 2007  |
| 2    | Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008 |
| 3    | Members who were eligible to enroll on or after November 2, 2008 and prior to May 22, 2010 |
| 4    | Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011    |
| 5    | Members who were eligible to enroll on or after June 28, 2011                              |

Service retirement benefits of 1/55th of final average salary for each year of service credit is available to tiers 1 and 2 members upon reaching age 60 and to tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit is available to tier 4 members upon reaching age 62 and tier 5 members upon reaching age 65. Early retirement benefits are available to tiers 1 and 2 members before reaching age 60, tiers 3 and 4 before age 62 and tier 5 with 30 or more years of service credit before age 65. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the retirement age of his/her respective tier. Deferred retirement is available to members who have at least 10 years of service credit and have not reached the service retirement age for the respective tier.

*PFRS* - The vesting and benefit provisions are set by N.J.S.A. 43:16A. *PFRS* provides retirement as well as death and disability benefits. All benefits vest after ten years of service, except disability benefits which vest after four years of service.

The following represents the membership tiers for *PFRS*:

| Tier | Definition  |
|------|---|
| 1    | Members who were enrolled prior to May 22, 2010   |
| 2    | Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011 |
| 3    | Members who were eligible to enroll on or after June 28, 2011                           |

Service retirement benefits are available at age 55 and are generally determined to be 2 percent of final compensation for each year of creditable service, as defined, up to 30 years plus 1 percent for each year of service in excess of 30 years. Members may seek special retirement after achieving 25 years of creditable service, in which benefits would equal 65 percent (tiers 1 and 2 members) and 60 percent (tier 3 members) of final compensation plus 1 percent for each year of creditable service over 25 years but not to exceed 30 years. Members may elect deferred retirement benefits after achieving ten years of service, in which case benefits would begin at age 55 equal to 2 percent of final compensation for each year of service.

**Contributions Made. PERS** - The contribution policy is set by N.J.S.A. 43:15A and requires contributions by active members and contributing employers. Members contribute at a uniform rate. Pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate increased from 5.5 percent of annual compensation to 6.5 percent plus an additional 1 percent phased-in over 7 years beginning in July 2012. The member contribution rate was 7.2 percent in State fiscal year 2017. The phase-in of the additional incremental member contribution rate takes place in July of each subsequent State fiscal year. The rate for members who are eligible for the Prosecutors Part of PERS (Chapter 366, P.L. 2001) increased from 8.5 percent of base salary to 10 percent. Employers' contribution amounts are based on an actuarially determined rate. The annual employer contributions include funding for basic retirement allowances and noncontributory death benefits. Contributions to the PERS plan from NJ TRANSIT for the fiscal year 2018 were \$0.6 million, or 13.04 percent of annual covered payroll.

**PFRS** - The contribution policy is set by N.J.S.A. 43:16A and requires contributions by active members and contributing employers. Employers' contribution amounts are based on an actuarially determined rate. The annual employer contributions include funding for basic retirement allowances and noncontributory death benefits. Pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate increased from 8.5 percent to 10 percent in October 2011. NJ TRANSIT's required contribution rate to the PFRS plan for the fiscal year 2017 was 30.66% of annual covered payroll of which 24.70% of payroll was required by NJ TRANSIT and 5.96% of payroll was required from the State. NJ TRANSIT's contributions to the PFRS plan were \$6.2 million.

**Pension Liabilities Related to Pensions**

**PERS** - At June 30, 2018, NJ TRANSIT reported a liability of \$12.7 million for its proportionate share of the net pension liability.

**PFRS** - At June 30, 2018, NJ TRANSIT reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to NJ TRANSIT.

The amount recognized by NJ TRANSIT as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with NJ TRANSIT were as follows (*in millions*):

|   | <b>June 30,<br/>2018</b> |
|---|--------------------------|
| NJ TRANSIT's proportionate share of the net pension liability                       | \$102.9                  |
| State's proportionate share of the net pension liability associated with NJ TRANSIT | <u>11.5</u>              |
| <b>Total</b>  | <b><u>\$114.4</u></b>    |

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The NJ TRANSIT's proportion of the net pension liability was based on a projection of the long-term share of contribution to the pension plans relative to the projected contributions of all participating State agencies, actuarially determined. At June 30, 2017, NJ TRANSIT's proportion was 0.054483 percent and 0.666296 percent for PERS and PFRS, respectively.

For the year ended June 30, 2018, NJ TRANSIT recognized pension expense of \$1.4 million and revenue of \$1.4 million for support provided by the State related to PFRS.

**Actuarial assumptions. PERS:** The collective total pension liability in the June 30, 2017 measurement date was determined by an actuarial valuation as of July 1, 2016, which was rolled forward to June 30, 2017. The key actuarial assumptions are summarized below

|                            |               |
|----------------------------|---------------|
| Inflation:                 | 2.25%         |
| Salary increase:           | Based on age  |
| Through 2026               | 1.65% – 4.15% |
| Thereafter                 | 2.65% – 5.15% |
| Investment rate of return: | 7.00%         |

Pre-retirement mortality rates were based on the RP-2000 Pre-retirement Mortality Table for male and female active participants. The tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the Plan actuary's modified MP-2014 projection scale.

*PFRS:* The collective total pension liability in the June 30, 2017 measurement date was determined by an actuarial valuation as of July 1, 2016, which was rolled forward to June 30, 2017. The key actuarial assumptions are summarized below:

|                            |               |
|----------------------------|---------------|
| Inflation:                 | 2.25%         |
| Salary increase:           | Based on age  |
| Through 2026               | 2.10% – 8.98% |
| Thereafter                 | 3.10% – 9.98% |
| Investment rate of return: | 7.00%         |

Pre-retirement mortality rates were based on the RP-2000 Pre-retirement mortality tables projected thirteen years using Projection Scale BB and then projected on a generational basis using the Plan actuary's modified 2014 projection scales. Post-retirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables projected one year using Projection Scale AA and three years using the plan actuary's modified 2014 projection scales, which was further projected on a generational basis using the plan actuary's modified 2014 projection scales.

**Discount rate.** *PERS:* The discount rates used to measure the total pension liability was 5.00% as of June 30, 2017. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00%, and a municipal bond rate of 3.58% as of June 30, 2017 based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contribution from employers

will be made based on the contribution rate in the most recent fiscal year. 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 2040. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2040, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

*PFRS:* The discount rates used to measure the total pension liability 6.14% as of June 30, 2017. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00%, and a municipal bond rate of 3.58% as of June 30, 2017, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers and nonemployer contributing entity will be made based on the contribution rate in the most recent fiscal year. 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 2057. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2057, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

**Expected rate of return on investments** The long-term expected rate of return on pension plan investments 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.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017 are summarized in the following table:

| Asset Class                       | Target Allocation | Long-Term Extended Real Rate of Return |
|-----------------------------------|-------------------|--|
| <b>PERS/PFRS:</b>                 |                   |  |
| Absolute Return/Risk Mitigation   | 5.00%             | 5.51%                                  |
| Cash                              | 5.50%             | 1.00%                                  |
| U.S. Treasuries                   | 3.00%             | 1.87%                                  |
| Investment Grade Credit           | 10.00%            | 3.78%                                  |
| Public High Yield                 | 2.50%             | 6.82%                                  |
| Global Diversified Credit         | 5.00%             | 7.10%                                  |
| Credit Oriented Hedge Funds       | 1.00%             | 6.60%                                  |
| Debt Related Private Equity       | 2.00%             | 10.63%                                 |
| Debt Related Real Estate          | 1.00%             | 6.61%                                  |
| Private Real Asset                | 2.50%             | 11.83%                                 |
| Equity Related Real Estate        | 6.25%             | 9.23%                                  |
| U.S. Equity                       | 30.00%            | 8.19%                                  |
| Non-U.S. Developed Markets Equity | 11.50%            | 9.00%                                  |
| Emerging Markets Equity           | 6.50%             | 11.64%                                 |
| Buyouts/Venture Capital           | 8.25%             | 13.08%                                 |

**Sensitivity of the net pension liability to changes in the discount rate.** The following presents NJ TRANSIT's proportionate share of the net pension liability calculated using the discount rate of 5.00 percent and 6.14 percent for PERS and PFRS, respectively, as well as the proportionate share of the net pension liability using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate (*\$ in millions*):

|                            | 1% Decrease | Current Discount Rate | 1% Increase |
|----------------------------|-------------|-----------------------|-------------|
| PERS (4.00%, 5.00%, 6.00%) | \$15.7      | \$12.7                | \$10.1      |
| PFRS (5.14%, 6.14%, 7.14%) | 150.7       | 114.4                 | 84.5        |

**Fiduciary plan net position.** Detailed information about the PERS and PFRS fiduciary net position is available in the separately issued Comprehensive Annual Financial Report of State of New Jersey, Division of Pensions and Benefits, available on the State's website [www.nj.gov/treasury/pensions/financial-reports.shtml](http://www.nj.gov/treasury/pensions/financial-reports.shtml).

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

**(Single-Employer and Cost-Sharing Multiple-Employer Plans).** For the year ended June 30, 2018, NJ TRANSIT recognized pension expense of \$140.7 million.

At June 30, 2018, NJ TRANSIT reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources *(in millions)*:

|  | Deferred Outflows<br>of Resources | Deferred Inflows<br>of Resources |
|--|-----------------------------------|----------------------------------|
| Net difference between projected and actual earnings on pension plan investments | \$92.0                            | \$36.4                           |
| Changes of assumptions or other inputs   | 60.4                              | 19.4                             |
| Changes in proportion  | 6.0                               | 1.3                              |
| Differences between expected and actual experience                               | 22.7                              | 5.2                              |
| NJ TRANSIT contributions subsequent to the measurement date                      | <u>85.1</u>                       | <u>—</u>                         |
| <b>Total</b>   | <b><u>\$266.2</u></b>             | <b><u>\$62.3</u></b>             |

Deferred outflows of resources of \$85.1 million resulted from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows *(in millions)*:

|               | TOTAL                 |
|---------------|-----------------------|
| Year 1 (2018) | \$51.6                |
| Year 2 (2019) | 38.4                  |
| Year 3 (2020) | 22.6                  |
| Year 4 (2021) | 5.3                   |
| Year 5 (2022) | <u>0.9</u>            |
| <b>Total</b>  | <b><u>\$118.8</u></b> |

### **Defined Contribution Plans**

In addition to the defined benefit plans, NJ TRANSIT provides an employee savings and protection plan 401(k) for all eligible non-agreement employees. NJ TRANSIT provides a maximum 50 percent matching contribution on the first six percent contributed by the employees. This plan permits employees to contribute up to 50 percent of their salary not to exceed \$18,500 annually on a pre-tax basis.

NJ TRANSIT also provides money purchase pension plans 401(a) and employee savings/deferred compensation plans (457) for eligible agreement and non-agreement employees. NJ TRANSIT contributed 1 to 6 percent of annual compensation to certain employees' accounts in the 401(a) plan. (Effective 1/1/09, newly hired employees in the conductors' union (RAIL) get a 1 percent contribution in their first year of employment, with an additional contribution of 1 percent per year up to a maximum of 5 percent.) The 457 plan permits employees to contribute up to 50 percent of their salary not to exceed \$18,500 annually on a pre-tax basis.

Beginning in 2002, a pre-tax contribution was added for participants of the 401(k) and 457 plans. The Economic Growth and Tax Relief Act of 2001 permits individuals who are age 50 (or older) by the end of the calendar year to elect to make additional "catch up" contributions to the plan. This is in addition to the pre-tax employee contribution limit. Pursuant to the act, participants in the 401(k) and 457 plans who are over 50 years of age can contribute an additional \$6,000 above the \$18,500 limit.

NJ TRANSIT's expense for the defined contribution plans totaled \$25.7 million in fiscal year 2018.

**7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

Employees of NJ TRANSIT participate in either the NJ TRANSIT sponsored single employer defined benefit OPEB plan or the Health Benefit Local Government Retirement Employees Plan administered by the State of New Jersey, Division of Pensions and Benefits, which is a cost-sharing multiple-employer plan.

**NJ TRANSIT SPONSORED OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN**

**General Information about the Plan**

Plan Descriptions. NJ TRANSIT’s OPEB plan, a single employer defined benefit plan, provides OPEB for all eligible retirees and their spouses. The contribution and benefit requirements are negotiated between NJ TRANSIT and union representatives for Rail and Bus agreement employees. NJ TRANSIT establishes and may amend the provisions for non-agreement employees. NJ TRANSIT’s required contribution is based on projected pay-as-you-go financing requirements and no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

**Benefits Provided.** NJ TRANSIT provides postemployment medical, dental, vision and life insurance benefits for eligible retirees and their spouses. The benefit terms are as follows:

Bus Agreement: Benefit terms cover retirees who are earlier of 1) age 55 with 10 years of service, 2) Rule of 80, or 3) Hired after age 50 with 5 years of service. Medical benefits vary for retirees who are Pre-age 65 and post-age 65. Dental benefits cover Pre-age 65 only, while life insurance benefits cover eligible retirees with flat \$7,500 and \$8,000 for regular Mercer retirees and supervisors.

Rail Agreement: Benefit terms cover retirees who are Age 60 with 30 years of service.

Medical benefits vary for retirees who are Pre-age 65 and post-age 65. There is no dental benefit coverage and life insurance benefits cover eligible retirees with flat \$2,000.

Non-Agreement: Benefit terms covers retirees who are earlier of 1) age 55 with 10 years of service, 2) Rule of 80, or 3) Hired after age 50 with 5 years of service.

Medical benefits vary for retirees who are Pre-age 65 and post-age 65. Dental benefits cover Pre-age 65 and post 9/1/08 pre/post-age 65 retirees, while life insurance benefits cover eligible retirees with flat \$5,000 for pre-1/1/94 retirees. All other retirees’ life insurance remain at \$10,000.

**Employees covered by benefit terms. At June 30, 2018, the following employees were covered by the benefit terms:**

|  |                      |
|--|----------------------|
| Inactive employees or beneficiaries currently receiving benefit payments | 6,470                |
| Inactive employees entitled to but not yet receiving benefit payments    | —                    |
| Active employees   | <u>10,303</u>        |
| <b>Total Membership</b>  | <b><u>16,773</u></b> |

**Total OPEB Liability**

NJ TRANSIT’s total OPEB liability of \$1,098.5 million was measured as of June 30, 2018, and was determined by an actuarial valuation as of July 1, 2017.

**Actuarial assumptions.** The total OPEB liability as of June 30, 2018 was measured at June 30, 2018 and determined by an actuarial valuation date at July 1, 2017 which was rolled forward to the measurement date using update procedures.

The following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

|                             |  |
|-----------------------------|--|
| Inflation                   | 2.20%  |
| Salary increases            | 3.00%, including inflation                                     |
| Discount Rate               | 3.87%  |
| Healthcare cost trend rates | 5.50% for 2018 decreasing to an ultimate rate of 3.84% by 2075 |

The discount rate was based on the Bond Buyer General Obligation 20-year Municipal Bond Index.

Mortality rates were based on the RP-2014 Blue Collar Mortality Tables (Gender specific) backward to the base year (2006) using Scale MP-2014, and projected forward generationally from 2006 using Scale MP-2017 (Non-Annuitants and Annuitants).

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The actuarial assumptions used in this July 1, 2017 valuation were based on the same assumptions used for the NJ TRANSIT retirement plans actuarial valuations as of July 1, 2017.

**Changes in the Total OPEB Liability (in millions):**

|  | FY 2018                 |
|--|-------------------------|
| <b>Balance at 6/30/2017</b>            | <b>\$1,108.9</b>        |
| Changes for the year:                  |                         |
| Service cost                           | 56.6                    |
| Interest                               | 38.7                    |
| Changes of assumptions or other inputs | (48.2)                  |
| Benefit Payments                       | (57.5)                  |
| <b>Net changes</b>                     | <b>(10.4)</b>           |
| <b>Balance at 6/30/2018</b>            | <b><u>\$1,098.5</u></b> |

Changes of assumptions and other inputs reflect a change in the discount rate from 3.58 percent as of July 1, 2017 to 3.87 percent as of June 30, 2018.

**Sensitivity of the total OPEB liability to change in the discount rate and healthcare cost trend rates.** The following presents the total OPEB liability of NJ TRANSIT, as well as what NJ TRANSIT's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.87 percent) or 1-percentage-point higher (4.87 percent) than the current discount rate:

|   | 1%<br>Decrease<br>(2.87%) | Discount<br>Rate<br>(3.87%) | 1%<br>Increase<br>(4.87%) |
|---|---------------------------|-----------------------------|---------------------------|
| <b>Total OPEB liability (in millions)</b> | \$1,279.1                 | \$1,098.5                   | \$954.1                   |

**Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates.** The following presents the total OPEB liability of NJ TRANSIT, as well as what NJ TRANSIT's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (4.50 percent decreasing to 2.84 percent) or 1-percentage-point higher (6.50 percent decreasing to 4.84 percent) than the current healthcare cost trend rates:

|   | 1%<br>Decrease<br>(4.50%<br>decreasing<br>to 2.84%) | Healthcare<br>Cost Trend<br>Rates<br>(5.50%<br>decreasing<br>to 3.84%) | 1%<br>Increase<br>(6.50%<br>decreasing<br>to 4.84%) |
|---|---|--|---|
| <b>Total OPEB liability (in millions)</b> | \$935.1   | \$1,098.5  | \$1,315.5   |

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended June 30, 2018, NJ TRANSIT recognized OPEB expense of \$30.9 million. At June 30, 2018, NJ TRANSIT reported \$41.3 million of deferred inflows of resources related to OPEB from changes of assumptions or other inputs, which will be recognized in OPEB expense as follows (in millions):

|               | TOTAL                |
|---------------|----------------------|
| Year 1 (2019) | \$(6.9)              |
| Year 2 (2020) | (6.9)                |
| Year 3 (2021) | (6.9)                |
| Year 4 (2022) | (6.9)                |
| Year 5 (2023) | (6.9)                |
| Thereafter    | (6.8)                |
| <b>Total</b>  | <b><u>\$41.3</u></b> |

**STATE OF NEW JERSEY HEALTH BENEFIT LOCAL GOVERNMENT RETIREMENT EMPLOYEES PLAN**

**General Information about the Plan**

**Plan Descriptions.**

The State of New Jersey sponsors and administers the post-retirement health benefit program covering employees of NJ TRANSIT who are in Police and Firemen’s system (PFRS). The State Health Benefit Local Government Retired Employees Plan (the Plan) is a cost-sharing multiple-employer defined benefit other postemployment benefit plan with a special funding situation. It covers employees of local government employers that have adopted a resolution to participate in the Plan. The State grants the authority to establish and amend the benefit terms to the PFRS.

The plan meets the definition of an equivalent arrangement as defined in paragraph 4 of GASB Statement No. 75; therefore, assets are accumulated to pay associated benefits. For additional information about the Plan, please refer to the State of New Jersey, Division of Pensions and Benefits’ Comprehensive Annual Financial Report, which can be found at <https://www.state.nj.us/treasury/pensions/financial-reports.shtml>. In accordance with GASB Statement No. 75, the plan is Cost-Sharing Multiple-Employer plan with a special funding situation. There are 259 members from NJ TRANSIT.

**Benefits Provided.** In accordance with Chapter 330, P.L. 1997, which is codified in N.J.S.A 52:14-17.32i, the State provides medical and prescription coverage to eligible policemen and fireman retirees who are age 55 with 25 years of service (mandatory at age 65) and disability insurance under various terms. The State also provides funding for retiree health benefits to survivors of local police officers and firefighters who die in the line of duty under Chapter 271, P.L.1989.

**Total OPEB Liability.**

As PFRS is 100% funded by the State, the NJ TRANSIT’s OPEB liability was zero. The portion of the State’s total proportionate share of the collective net OPEB liability that is associated with NJ TRANSIT was 0.930483%

**Actuarial assumptions** The total OPEB liability as of June 30, 2018 was measured at June 30, 2017 and determined by an actuarial valuation as of June 30, 2016 which was rolled forward to the measurement date using update procedures.

The following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

|                             |  |
|-----------------------------|--|
| Inflation                   | 2.20%  |
| Salary increases            | 3.00%, including inflation                                     |
| Discount rate               |  |
| Prior measurement date      | 3.58%  |
| Measurement date            | 3.87%  |
| Healthcare cost trend rates | 5.50% for 2018 decreasing to an ultimate rate of 3.84% by 2075 |

The discount rate was based on the Bond Buyer General Obligation 20-year Municipal Bond Index.

Mortality rates were based on the RP-2014 Blue Collar Mortality Tables (Gender specific) backward to the base year (2006) using Scale MP-2014, and projected forward generationally from 2006 using Scale MP-2017 (Non-Annuitants and Annuitants).

**OPEB Expense**

For the year ended June 30, 2018, NJ TRANSIT recognized OPEB expense of \$5.8 million and revenue of \$5.8 million for support provided by the State related to PFRS.

## 8. OTHER CURRENT LIABILITIES

Other current liabilities totaled \$232.6 million and \$97.9 million at June 30, 2018 and 2017, respectively, are comprised of the following (*in millions*):

|                                    | AS OF JUNE 30,        |                      |
|------------------------------------|-----------------------|----------------------|
|                                    | 2018                  | 2017                 |
| Advance funds-State/Port Authority | \$102.6               | \$4.8                |
| NEC Obligations                    | 54.5                  | 14.8                 |
| Injury and damage claims (Note 14) | 43.1                  | 44.5                 |
| Retainage on construction projects | 8.0                   | 8.6                  |
| Pollution remediation obligations  | 7.9                   | 8.1                  |
| Other                              | 16.5                  | 17.1                 |
| <b>Total</b>                       | <b><u>\$232.6</u></b> | <b><u>\$97.9</u></b> |

The advanced funds represent funds received for capital projects for which expenditures have not yet been incurred and/or will be subsequently paid back to the State Transportation Trust Fund. Other current liabilities include fees related to the NEC Service and unearned passenger revenue for bulk ticket and monthly sales related to future periods.

## 9. UNEARNED REVENUE AND OTHER NON-CURRENT LIABILITIES

Unearned revenue and other non-current liabilities totaled \$84.4 million and \$79.0 million as of June 30, 2018 and 2017, respectively. These amounts relate to unearned lease and permit revenues, reserves for future environmental clean-up costs, and funds designated for future asset purchases (*in millions*).

|  | AS OF JUNE 30,       |                      |
|--|----------------------|----------------------|
|  | 2018                 | 2017                 |
| Materials and supplies – capital spare parts | \$9.6                | \$12.2               |
| Leases and permits                           | 7.6                  | 7.8                  |
| Federal interest on capital assets           | 5.3                  | 5.5                  |
| Non-Federal capital project advances         | 28.5                 | 24.5                 |
| Other  | 8.1                  | 4.6                  |
| <b>Total unearned revenue</b>                | <b><u>59.1</u></b>   | <b><u>54.6</u></b>   |
| Sick leave                                   | 3.7                  | 3.9                  |
| Pollution remediation obligations            | 21.6                 | 20.5                 |
| <b>Total other non-current liabilities</b>   | <b><u>25.3</u></b>   | <b><u>24.4</u></b>   |
| <b>Total</b>                                 | <b><u>\$84.4</u></b> | <b><u>\$79.0</u></b> |

## 10. DEBT AND OTHER OBLIGATIONS

### ***Revolving Line of Credit***

In June 2015, NJ TRANSIT entered into a Revolving Credit Agreement with the Royal Bank of Canada (RBC) for the purposes of obtaining a \$300 million Line of Credit (Line). The Revolving Credit Agreement and Line are secured by a NJ TRANSIT Corporation Federally Taxable Grant Anticipation Note; Series 2015 (the Series 2015 Note) dated June 9, 2015. The Series 2015 Note evidences the revolving loans made by RBC to NJ TRANSIT and were issued to RBC in anticipation of the receipt of certain grant funds from the Federal Transit Administration (FTA). The Revolving Credit Agreement and Line will terminate September 27, 2019.

The Line will assist NJ TRANSIT in meeting its operating cash requirements for expenditures that are eligible for reimbursement from the FTA, Section 5307 and 5337 Formula Funds.

NJ TRANSIT will pay a commitment fee of 30 basis points (based upon NJ TRANSIT's current ratings) on undrawn amounts and a floating interest rate based upon LIBOR plus 60 basis points (based upon the current rating) on drawn amounts. NJ TRANSIT is required to repay all outstanding amounts within 45 days of September 30, 2018; the end of the federal fiscal year.

During fiscal year 2018, NJ TRANSIT has drawn \$400 million on the Line and has repaid \$400 million. Total outstanding loan balance at June 30, 2018 and June 30, 2017 was \$75 million.

### ***Bonds Payable***

In January 2017, the New Jersey Economic Development Authority (NJEDA) issued \$627.7 million of Series 2017 Transportation Project Sublease Revenue and Refunding Bonds. This issue consisted of \$64.1 million of 2017 Series A; Transportation Project Sublease Revenue Bonds and \$563.6 million of 2017 Series B; Transportation Project Sublease Revenue Refunding Bonds. The Series 2017A Bonds were issued to finance the cost of "New Money Projects" related to the Traction Power High Voltage Substation Circuit Breaker Replacement Project, Long Slip Fill and Rail Enhancement Project and the Bus Radio System Replacement Project as well as the payment of capitalized interest and the payment of the cost of issuance of the 2017 Series A Bonds. The Series 2017B

Bonds were issued to finance the refunding advance of prior obligations specifically the Series 2004A Certificates of Participation, dated April 1, 2004, the Series 2008A, Certificates of Participation, dated April 1, 2008 and Series 2009A Certificates of Participation, dated April 1, 2009 as well as the payment of cost of issuance of the 2017 Series B Bonds. As a result of this refunding, NJ TRANSIT increased its total debt service requirements over the life of the issue by \$13.7 million, which resulted in a net present value loss of \$5.6 million. As of June 30, 2018, \$64.1 million of 2017 Series A and \$563.6 million of 2017 Series B remain outstanding.

In August 2014, NJ TRANSIT refunded its \$484.3 million of outstanding Certificates of Participation (COPs) by issuing \$483.7 million in Grant Anticipation Notes (GANs) secured by future Section 5307 Federal Transit Administration Grants. The COPs issued between 2000 and 2005 financed the acquisition of heavy and light rail rolling stock. As a result of the defeasance, NJ TRANSIT decreased its total debt service requirements over the life of the issue by \$2.8 million, which resulted in a net present value savings of \$11.0 million.

The 2014 GANs were issued as two series. The \$381.8 million Series 2014A tax-exempt Notes refunded all of the outstanding 2000B, 2002B and 2005A COPs as well as certain maturities of the 2002A and 2003A COPs. The \$101.9 million Series B taxable Notes refunded certain maturities of the 2002A and 2003A COPs. As of June 30, 2018, \$260.2 million of the 2014A GANs remain outstanding.

The 2014A Notes were issued at yields between 0.43 percent and 2.55 percent with a final maturity of September 2021. The 2014B Notes were issued at yields between 0.35 percent and 0.8 percent with a final maturity of September 2015.

In September 2008, the NJEDA issued \$342.1 million of Series 2008A River LINE Sublease Revenue Bonds at yields between 1.95 percent and 4.41 percent with a final maturity of 2019. The proceeds were used to refund the NJEDA 2003A River LINE Sublease Revenue Bonds. The 2008A Notes were issued on a fixed rate basis and eliminated the financial exposure of the 2003A Notes which included interest rate swaps. As of June 30, 2018, \$39.5 million of the NJEDA 2008A Bonds remain outstanding.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following schedule summarizes notes payable, and other obligations, by issue, as of June 30, 2018 *(in millions)*:

|                            | Inception Date | Balance June 30, 2017 | Additions      | Payments/Reductions | Balance June 30, 2018 | Due Within One Year |
|----------------------------|----------------|-----------------------|----------------|---------------------|-----------------------|---------------------|
| <b>Federal</b>             |                |                       |                |                     |                       |                     |
| GANS 2014A                 | 09/15          | \$318.0               | \$—            | \$57.8              | \$260.2               | \$60.7              |
| <b>State of NJ</b>         |                |                       |                |                     |                       |                     |
| NJEDA 2008A                | 09/08          | 85.3                  | —              | 45.8                | 39.5                  | 39.5                |
| NJEDA 2017A                | 01/17          | 64.1                  | —              | —                   | 64.1                  | —                   |
| NJEDA 2017B                | 01/17          | 563.6                 | —              | —                   | 563.6                 | 13.8                |
| <b>OTHER</b>               |                |                       |                |                     |                       |                     |
| Revolving Line of Credit   | 06/15          | 75.0                  | 400.0          | 400.0               | 75.0                  | 75.0                |
| <b>Total</b>               |                | <b>1,106.0</b>        | <b>400.0</b>   | <b>503.6</b>        | <b>1,002.4</b>        | <b>\$189.0</b>      |
| Unamortized Bond Premium   |                | 53.8                  | —              | 15.1                | 38.7                  |                     |
| <b>Total Notes Payable</b> |                | <b>\$1,159.8</b>      | <b>\$400.0</b> | <b>\$518.7</b>      | <b>\$1,041.1</b>      |                     |

The following schedule summarizes notes payable obligations, by issue, as of June 30, 2017 *(in millions)*:

|                            | Inception Date | Balance June 30, 2016 | Additions        | Payments/Reductions | Balance June 30, 2017 | Due Within One Year |
|----------------------------|----------------|-----------------------|------------------|---------------------|-----------------------|---------------------|
| <b>Federal</b>             |                |                       |                  |                     |                       |                     |
| GANS 2014A                 | 09/15          | \$373.0               | \$—              | \$55.0              | \$318.0               | \$57.8              |
| <b>State of NJ</b>         |                |                       |                  |                     |                       |                     |
| COPs 2004A                 | 03/04          | 56.0                  | —                | 56.0                | —                     | —                   |
| COPs 2008A                 | 04/08          | 180.4                 | —                | 180.4               | —                     | —                   |
| NJEDA 2008A                | 09/08          | 129.5                 | —                | 44.2                | 85.3                  | 45.8                |
| COPs 2009A                 | 04/09          | 322.8                 | —                | 322.8               | —                     | —                   |
| NJEDA 2017A                | 01/17          | —                     | 64.1             | —                   | 64.1                  | —                   |
| NJEDA 2017B                | 01/17          | —                     | 563.6            | —                   | 563.6                 | —                   |
| <b>NJT COPs</b>            |                |                       |                  |                     |                       |                     |
| COPs 2003                  | 02/03          | 1.7                   | —                | 1.7                 | —                     | —                   |
| <b>OTHER</b>               |                |                       |                  |                     |                       |                     |
| Revolving Line of Credit   | 06/15          | 200.0                 | 425.0            | 550.0               | 75.0                  | 75.0                |
| <b>Total</b>               |                | <b>1,263.4</b>        | <b>1,052.7</b>   | <b>1,210.0</b>      | <b>1,106.0</b>        | <b>\$178.6</b>      |
| Unamortized Bond Premium   |                | 41.8                  | 31.9             | 19.9                | 53.8                  |                     |
| <b>Total Notes Payable</b> |                | <b>\$1,305.2</b>      | <b>\$1,084.6</b> | <b>\$1,230.0</b>    | <b>\$1,159.8</b>      |                     |



Long-term notes payable maturities as of June 30, 2018  
(in millions):

| Fiscal Years | Principal             | Interest              | Total                   |
|--------------|-----------------------|-----------------------|-------------------------|
| 2019         | \$114.0               | \$43.6                | \$157.6                 |
| 2020         | 120.8                 | 36.8                  | 157.6                   |
| 2021         | 126.9                 | 30.6                  | 157.5                   |
| 2022         | 131.7                 | 24.2                  | 155.9                   |
| 2023         | 66.2                  | 19.2                  | 85.4                    |
| 2024-2028    | 367.8                 | 43.1                  | 410.9                   |
| <b>Total</b> | <b><u>\$927.4</u></b> | <b><u>\$197.5</u></b> | <b><u>\$1,124.9</u></b> |

## 11. LEASES AND OTHER COMMITMENTS

**Leveraged Lease Transactions.** NJ TRANSIT has entered into a number of leveraged lease transactions with certain domestic and foreign lessors. These transactions entail the sale/leaseback (SILO) or lease/leaseback (LILO) of various NJ TRANSIT commuter and light rail vehicles, buses, equipment and facilities to third party lessors.

In connection with the leveraged lease transactions, NJ TRANSIT has made investment arrangements to meet its payment obligations throughout the term of the respective leases. As these transactions do not meet the definition of an “in-substance defeasance,” NJ TRANSIT has recorded Obligations under Capital Leases and the related assets as Restricted Leveraged Lease Deposits in the Consolidated Statements of Net Position (see Note 4).

**Leveraged Lease Risk Exposures.** Under the terms of these agreements, a significant portion of the initial amount received by NJ TRANSIT from the third party (approximately 80 percent) is paid to an affiliate of the third party’s lender which has the obligation to make an equivalent portion of the sublease rent payments, eliminating the need for NJ TRANSIT to make these payments to the third party. This portion of the lease rent payments is equal to the debt service on the related third-party loan.

NJ TRANSIT also pays an amount to and enters into an Equity Payment Undertaking Agreement with a third party whereby that party has the obligation to provide the amounts necessary to make the remainder of the basic lease rent payments and pay the purchase price due upon exercise by NJ TRANSIT at the end of the lease. The amount remaining after payment of transaction expenses is NJ TRANSIT’s net benefit from these transactions.

**Counterparty Risk.** Counterparty risk is the risk of a party to a leveraged lease agreement failing to fulfill their contractual obligation. Each leveraged lease transaction involves a variety of parties and counterparties. Counterparty risk is a type of credit risk that closely relates to the credit quality of the parties involved in the transactions. It is reduced by having an organization with good credit act as a guarantor between the two or more parties.

**Collateral and Surety Risk.** Collateral is a security or guarantee (usually an asset) pledged for the repayment of a loan if one cannot or is unable to repay. In the event of deterioration in the credit ratings of the counterparty, the agreement may require that collateral be posted to secure the party’s obligations. Further ratings deterioration below levels agreed to in the Equity Payment Undertaking Agreement could result in additional collateral being posted with a third-party custodian. In most cases, collateral must be cash, U.S. Treasuries, or certain federal agency securities. Additional insurance coverage of possible early termination payments is provided by separate surety policies in most contracts, which protects the counterparties from financial loss should the guarantors fail to perform in accordance with contract terms and conditions. Furthermore, if the credit ratings of the companies that provide the surety protections fall below the rating trigger associated with the early termination surety, NJ TRANSIT may also be required to replace the surety company. If the required replacement of either a surety or counterparty is not performed, it could trigger a termination event requiring a cash settlement.

**Termination Risk.** A leveraged lease agreement could be terminated if one party does not fulfill the obligations set forth in the contract. When an Event of Default or a Termination Event has occurred, either NJ TRANSIT or the counterparties could be required to make a termination payment according to the contract terms. Events of Default include non-payment, false or misleading representations, or the bankruptcy of NJ TRANSIT or the counterparties. Termination Events include a downgrade of the counterparty’s credit rating to below that stated in the agreement. For example, under a current Equity Payment Undertaking Agreement, with respect to ratings of the equity payment undertaker, the counterparty, which may be a bank or other financial institution, must have a Credit Rating of at least AA by Standard & Poor’s and of at least Aa2 by Moody’s at all times before the final maturity of a leveraged lease. A party has the right to terminate the lease agreement earlier when there is a downgrading of the counterparty’s credit ratings.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Interest Rate Risk.** The interest rate risk goes up when the market interest rate goes down and the returns on the investment decline. Accounts initially deposited together with the aforementioned obligation of the third party's lender, result in a financial defeasance of all sublease obligations, including the cost of purchasing the third party's remaining rights at the end of the sublease period if the purchase option is exercised. Should an event occur that changes the initial deposit instruments, it is possible that the amount earned on the deposit account balance may not match the option price stated in the agreement at the end of the lease period. Under the terms of the agreement, should there be less interest earned on deposits than scheduled to make related payments, NJ TRANSIT would be liable for the shortfall.

The American International Group, Inc. (AIG) is a primary guarantor in a number of leases. Due to the downgrading of AIG by the rating agencies in the fall of 2008, NJ TRANSIT is required under the lease agreement to replace AIG as the financial guarantor. As of June 30, 2018, NJ TRANSIT management has terminated the majority of leveraged leases associated with AIG.

### Capital Leases

NJ TRANSIT did not enter into any new capital leases in fiscal year 2018. A summary of each capital lease follows. All other leases represent leveraged leases.

In 1994, NJ TRANSIT entered into a 23-year lease/sublease agreement for the land adjacent to its Metropark Train Station for the purpose of constructing an aboveground parking facility. A portion of the financing for this facility was provided by the NJEDA through the issuance of parking facility sublease revenue bonds. NJ TRANSIT has committed in substance to make rental payments in an amount equal to the NJEDA bond obligations. The lease obligation was paid off as of June 30, 2018.

In total, NJ TRANSIT has recorded obligations under capital leases of \$280.7 million as of June 30, 2018.

The cost of capital assets under capital leases, including leveraged leases, is summarized as follows and is included in capital assets (see Note 5) *(in millions)*:

|  | <b>AS OF JUNE 30,</b> |                       |
|--|-----------------------|-----------------------|
|  | <b>2018</b>           | <b>2017</b>           |
| Buildings  | \$—                   | \$34.5                |
| Railcars and Locomotives                             | 324.8                 | 382.5                 |
| Buses and Light Railcars                             | <u>115.1</u>          | <u>139.6</u>          |
| <b>Capital Assets Under Capital Leases (at cost)</b> | <b>439.9</b>          | <b>556.6</b>          |
| Less Accumulated Depreciation                        | <u>292.9</u>          | <u>372.7</u>          |
| <b>Net Capital Assets Under Capital Leases</b>       | <b><u>\$147.0</u></b> | <b><u>\$183.9</u></b> |

The following schedule summarizes the capital lease obligations, including leveraged lease obligations, as of June 30, 2018 *(in millions)*:

|  | <b>Inception Date</b> | <b>Balance<br/>June 30,<br/>2017</b> | <b>Additions</b>  | <b>Payments/<br/>Reductions</b> | <b>Balance<br/>June 30,<br/>2018</b> | <b>Due Within<br/>One Year</b> |
|--|-----------------------|--------------------------------------|-------------------|---------------------------------|--------------------------------------|--------------------------------|
| Metropark Parking Facility             | 03/94                 | \$1.5                                | \$—               | \$1.5                           | \$—                                  | \$—                            |
| Comet IV Coaches                       | 09/03                 | 26.4                                 | —                 | —                               | 26.4                                 | —                              |
| Light Railcars                         | 09/03, 10/03          | 43.0                                 | —                 | 2.9                             | 40.1                                 | 40.1                           |
| Articulated Buses                      | 07/04                 | 9.6                                  | —                 | 2.9                             | 6.7                                  | 3.0                            |
| Diesel Locomotives                     | 12/05                 | 76.8                                 | —                 | 5.0                             | 71.8                                 | 5.3                            |
| Multilevel Railcars                    | 12/06                 | 16.4                                 | —                 | 0.5                             | 15.9                                 | 0.6                            |
| Multilevel Railcars                    | 06/07                 | 31.5                                 | —                 | 0.8                             | 30.7                                 | 0.9                            |
| Multilevel Railcars                    | 12/07                 | 55.0                                 | —                 | 1.7                             | 53.3                                 | 1.9                            |
| Multilevel Railcars                    | 01/08                 | <u>37.6</u>                          | <u>—</u>          | <u>1.8</u>                      | <u>35.8</u>                          | <u>1.9</u>                     |
| <b>Total Capital Lease Obligations</b> |                       | <b><u>\$297.8</u></b>                | <b><u>\$—</u></b> | <b><u>\$17.1</u></b>            | <b><u>\$280.7</u></b>                | <b><u>\$53.7</u></b>           |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Minimum capital lease maturities as of June 30, 2018 (in millions):

| Fiscal Years                           | Principal             | Interest              | Total                 |
|--|-----------------------|-----------------------|-----------------------|
| 2019                                   | \$53.7                | \$13.1                | \$66.8                |
| 2020                                   | 15.0                  | 10.4                  | 25.4                  |
| 2021                                   | 12.2                  | 9.8                   | 22.0                  |
| 2022                                   | 13.2                  | 9.3                   | 22.5                  |
| 2023                                   | 13.0                  | 8.1                   | 21.1                  |
| 2024-2028                              | 134.5                 | 54.1                  | 188.6                 |
| 2029-2033                              | <u>39.1</u>           | <u>—</u>              | <u>39.1</u>           |
| <b>Total Capital Lease Obligations</b> | <b><u>\$280.7</u></b> | <b><u>\$104.8</u></b> | <b><u>\$385.5</u></b> |

The following schedule summarizes the capital lease obligations, including leveraged lease obligations, as of June 30, 2017 (in millions):

|  | Inception<br>Date | Balance<br>June 30,<br>2016 | Additions         | Payments/<br>Reductions | Balance<br>June 30,<br>2017 | Due Within<br>One Year |
|--|-------------------|-----------------------------|-------------------|-------------------------|-----------------------------|------------------------|
| Metropark Parking Facility             | 03/94             | \$2.8                       | \$—               | \$1.3                   | \$1.5                       | \$1.6                  |
| MMC, Locos. & Railcars                 | 01/97             | 5.5                         | —                 | 5.5                     | —                           | —                      |
| Bus Garages                            | 07/97             | 5.5                         | —                 | 5.5                     | —                           | —                      |
| HBLR                                   | 12/00             | 195.5                       | —                 | 195.5                   | —                           | —                      |
| Comet IV Coaches                       | 09/03             | 26.4                        | —                 | —                       | 26.4                        | —                      |
| Light Railcars                         | 09/03, 10/03      | 45.8                        | —                 | 2.8                     | 43.0                        | 2.9                    |
| Articulated Buses                      | 07/04             | 12.4                        | —                 | 2.8                     | 9.6                         | 2.9                    |
| Diesel Locomotives                     | 12/05             | 81.4                        | —                 | 4.6                     | 76.8                        | 4.9                    |
| Multilevel Railcars                    | 12/06             | 16.9                        | —                 | 0.5                     | 16.4                        | 0.5                    |
| Multilevel Railcars                    | 06/07             | 32.2                        | —                 | 0.7                     | 31.5                        | 0.8                    |
| Multilevel Railcars                    | 12/07             | 56.5                        | —                 | 1.5                     | 55.0                        | 1.7                    |
| Multilevel Railcars                    | 01/08             | 39.3                        | —                 | 1.7                     | 37.6                        | 1.8                    |
| MCI Cruiser Buses                      | 06/12             | 3.3                         | —                 | 3.3                     | —                           | —                      |
| <b>Total Capital Lease Obligations</b> |                   | <b><u>\$523.5</u></b>       | <b><u>\$—</u></b> | <b><u>\$225.7</u></b>   | <b><u>\$297.8</u></b>       | <b><u>\$17.1</u></b>   |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2018, NJ TRANSIT committed to future purchases under the following capital projects and special services which will be funded from federal, state, local or other capital sources *(in millions)*:

|   | <b>2018</b>           |
|---|-----------------------|
| Casino Revenue Transportation Program                         | \$12.3                |
| Bus AVL Radio System Replacement                              | 13.8                  |
| Superstorm Sandy Reconstruction                               | 187.7                 |
| Rail Infrastructure   | 25.9                  |
| Positive Train Stop Stage 2                                   | 186.1                 |
| Portal Bridge   | 16.6                  |
| Rail Passenger Facilities                                     | 11.7                  |
| Bus Rolling Stock   | 265.0                 |
| Rail Rolling Stock  | 107.9                 |
| Other, for commitments less than \$10 million                 | 84.1                  |
| <b>Total Capital Projects and Special Service Commitments</b> | <b><u>\$911.1</u></b> |

## 12. POLLUTION REMEDIATION OBLIGATIONS

GASB Statement No. 49, *Accounting, and Financial Reporting for Pollution Remediation Obligations* establishes standards for determining when expected pollution remediation outlays should be accrued as a liability or, if appropriate, capitalized. In 2018, an operating expense and corresponding liability, measured at their current value using the expected cash flow method, have been recognized for certain pollution remediation obligations. Pollution remediation obligations, which are estimates and subject to changes in price, technology, or applicable laws and regulations, occur when any one of the following obligating events takes place:

- NJ TRANSIT is compelled to take pollution remediation action because of an imminent endangerment.
- NJ TRANSIT is in violation of a pollution prevention-related permit or license.
- NJ TRANSIT is named by a regulator as a responsible or potentially responsible party to participate in remediation.
- NJ TRANSIT is named or there is evidence to indicate that it will be named in a lawsuit that compels participation in remediation activities.
- NJ TRANSIT commences, or legally obligates itself to commence remediation efforts.

As of June 30, 2018, the net pollution remediation reserve amount totaling \$29.6 million, was measured at its current value utilizing the expected cash flow method. The total liability of \$32.3 million was reduced by

\$2.7 million for expected recoveries from other responsible parties, potentially responsible parties (PRPs) and insurers. The cumulative liability increased by \$1.0 million, attributable primarily to the costs for additional liabilities related to the fiscal year 2018.

The following table summarizes the changes in NJ TRANSIT's liability for pollution remediation for the years June 30, 2018 and 2017 *(in millions)*:

|                                   | <b>AS OF JUNE 30</b> |                      |
|-----------------------------------|----------------------|----------------------|
|                                   | <b>2018</b>          | <b>2017</b>          |
| <b>Balance, Beginning of Year</b> | <b>\$28.6</b>        | <b>\$23.8</b>        |
| Current year costs                | 1.9                  | 6.4                  |
| Payment made during the year      | (0.9)                | (1.6)                |
| <b>Balance, End of Year</b>       | <b><u>\$29.6</u></b> | <b><u>\$28.6</u></b> |

The pollution remediation liability of \$29.6 million at June 30, 2018, essentially consists of future remediation activities associated with asbestos removal, cleanup of contamination, and wastewater treatment at NJ TRANSIT stations, garages and other facilities. Of this amount, \$7.9 million represents the current portion of the liability, which is included in accounts payable and other current liabilities, and \$21.7 million represents the noncurrent obligation, which is included in unearned revenue and other noncurrent liabilities.

The estimated outlays include costs of: (a) \$3.6 million associated with pre-cleanup activities including engineering studies, site investigation, corrective measures feasibility study, and the design of a remediation plan; (b) \$23.9 million related to cleanup activities, such as neutralization, containment, removal and disposal of pollutants, and restoration; (c) \$0.9 million for the external government oversight and enforcement-related activities; and, (d) \$3.9 million for the post-remediation monitoring.

## 13. OTHER OPERATING REVENUES

Other operating revenues comprise the following *(in millions)*:

|                                    | <b>YEARS ENDED</b>   |                      |
|------------------------------------|----------------------|----------------------|
|                                    | <b>JUNE 30,</b>      |                      |
|                                    | <b>2018</b>          | <b>2017</b>          |
| Lease and rental                   | \$27.7               | \$31.5               |
| Advertising                        | 17.4                 | 17.8                 |
| Metro-North operations             | 14.1                 | 14.0                 |
| Other                              | 25.4                 | 26.1                 |
| <b>Total</b>                       | <b><u>\$84.6</u></b> | <b><u>\$89.4</u></b> |
| Less Bad Debt Expense              | (0.9)                | (1.6)                |
| <b>Net Other Operating Revenue</b> | <b><u>\$83.7</u></b> | <b><u>\$87.8</u></b> |

**14. INJURY AND DAMAGE CLAIMS**

As of June 30, 2018, NJ TRANSIT maintained \$340 million excess commercial general liability program with a self-insured retention of \$10 million. Settlements have not exceeded this insurance coverage for each of the past three years. Additionally, NJ TRANSIT maintains an excess workers' compensation program with a self-insured retention of \$2 million. Employment-practice claims exceeding \$500,000 up to \$10 million are covered by a stand-alone commercial insurance policy. On October 14, 2004, ARH III Insurance Company, Inc., a wholly owned subsidiary of NJ TRANSIT, was formed. This captive insurance company provides coverage for Federal Employers Liability Act (FELA) and Third-Party Rail Excess Liability, Terrorism and Excess Workers Compensation consequently reducing NJ TRANSIT's self-insured retention and transferring the agency's financial liability in these areas.

NJ TRANSIT has recorded an estimated liability of \$193.8 million and \$192.5 million as of June 30, 2018 and June 30, 2017, respectively for outstanding public liability, property damage, FELA, workers' compensation, and employment practice claims. Of this amount, \$43.1 million is included in other current liabilities as of June 30, 2018 (see Note 8).

The liability is based on NJ TRANSIT's past loss experience. NJ TRANSIT believes the liability established is reasonable and appropriate to provide for settlement of losses and related loss expenses. Management believes that its reserves for claims incurred but not reported is determined in accordance with generally accepted actuarial principles and practices. However, estimating the ultimate liability is a complex and judgmental process inasmuch as the amounts are based on management's informed estimates and judgments using data currently available. As additional experience and data become available regarding claim payments and reporting patterns, legislative developments and economic conditions, the estimates are revised accordingly and the impact is reflected currently in NJ TRANSIT's financial statements.

The total claims liability activity for the years ended June 30, 2018 and 2017 was as follows (in millions):

|                                   | <b>AS OF JUNE 30,</b> |                       |
|-----------------------------------|-----------------------|-----------------------|
|                                   | <b>2018</b>           | <b>2017</b>           |
| <b>Balance, Beginning of Year</b> | <b>\$192.5</b>        | <b>\$150.8</b>        |
| Claims expense                    | 73.5                  | 65.3                  |
| Payment of claims                 | (72.2)                | (23.6)                |
| <b>Balance, End of Year</b>       | <b><u>\$193.8</u></b> | <b><u>\$192.5</u></b> |

**15. FEDERAL GRANTS**

The Urban Mass Transportation Act of 1964, as amended by ISTEA, TEA-21, SAFETEA-LU, MAP-21, and FAST ACT provides funding to NJ TRANSIT primarily for capital needs, based upon a defined formula grant program. Generally, such funds may be utilized for no more than 80 percent of the project costs for capital assistance or 50 percent for operating assistance. Funds are apportioned to NJ TRANSIT annually, and generally are available until expended.

NJ TRANSIT also receives discretionary capital grant awards to supplement the capital assistance obtained from the defined formula grant programs. Such discretionary awards are generally limited to projects for equipment acquisition, continued system expansion and modernization, or construction of major facilities.

**16. BLENDED COMPONENT UNIT – ARH III INSURANCE COMPANY, INC.**

ARH III Insurance Company, Inc. (the Company), a non-profit special purpose captive insurance company domiciled in the State of South Carolina, was established to limit certain risk exposures of NJ TRANSIT Corporation. ARH III has entered into insurance contracts with NJ TRANSIT which provide coverage to NJ TRANSIT in the following areas: Federal Employers' Liability Act and Third-Party Rail Excess Liability, Certified Terrorism Risk Insurance Act (TRIA) for casualty exposures and workers compensation.

In a prior year, the Company entered into a loss portfolio transfer with Liberty Mutual Insurance Company (Liberty) assuming reserves related to claims for NJ TRANSIT's workers compensation policy with Liberty for policy year July 1, 2007 through July 1, 2008. This transfer of liability included certain open claims, which remain open, from prior to the beginning of the policy period, although no claims have entered the Company's coverage layer. The Company's limits under each loss portfolio are \$2.5 million excess \$5.0 million per employee.

The Company has entered into insurance contracts with NJ TRANSIT which insure NJ TRANSIT for the following coverages: Federal Employee Liability Act and Third-Party Rail and Bus and Property, Certified Terrorism Risk Insurance Act ("TRIA") casualty exposures, and workers compensation. The Company's limits of liability range from \$2 million to \$9 million in excess of retentions ranging from \$1 million to \$10 million. Under the TRIA coverage, reinsurance is provided by the United States Government on a quota share basis for 82% in 2018 and 83% in 2017 (and shall then decrease by 1 percentage

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

point per calendar year until equal to 80%) of any certified loss as provided by TRIA, as amended. If, at any time during the policy period, TRIA is cancelled or not renewed, the Company's policy will automatically be cancelled at the same date and time.

Effective July 1, 2016, the Company began insuring the Parent at an excess layer of liability for the \$15 million excess \$25 million level. The excess layer of coverage includes coverages the Company currently provides to the Parent, as well as general liability and employer's liability.

The financial results for ARH III Insurance Company, Inc. for the years ended June 30, 2018 and 2017 are set forth below. Since the Company prepares the financial statements under FASB guidance, the amounts and format of financial statements have been adjusted to reflect GASB requirements. The condensed statements of net position and the statements of revenues, expenses, and changes in net position as of and for the years ended June 30, 2018 and 2017 are as follows (in millions):

## STATEMENTS OF NET POSITION

|                           | YEARS ENDED JUNE 30, |                      |
|---------------------------|----------------------|----------------------|
|                           | 2018                 | 2017                 |
| Current assets            | \$55.3               | \$51.0               |
| Non-current assets        | —                    | —                    |
| <b>Total Assets</b>       | <b><u>55.3</u></b>   | <b><u>51.0</u></b>   |
| Non-current liabilities   | 30.2                 | 29.9                 |
| <b>Total Liabilities</b>  | <b><u>30.2</u></b>   | <b><u>29.9</u></b>   |
| <b>Total Net Position</b> | <b><u>\$25.1</u></b> | <b><u>\$21.1</u></b> |

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

|                                      | YEARS ENDED JUNE 30, |                      |
|--------------------------------------|----------------------|----------------------|
|                                      | 2018                 | 2017                 |
| Operating revenues                   | \$2.3                | \$2.0                |
| Operating expenses                   | 0.4                  | 25.2                 |
| Operating income/(loss)              | 1.9                  | (23.2)               |
| Non-operating revenues               | 2.1                  | 3.1                  |
| <b>Change in Net Position</b>        | <b><u>4.0</u></b>    | <b><u>(20.1)</u></b> |
| <b>Total Net Position, Beginning</b> | <b><u>21.1</u></b>   | <b><u>41.2</u></b>   |
| <b>Total Net Position, Ending</b>    | <b><u>\$25.1</u></b> | <b><u>\$21.1</u></b> |

## STATEMENT OF CASH FLOWS

|   | YEARS ENDED JUNE 30, |                     |
|---|----------------------|---------------------|
|   | 2018                 | 2017                |
| <b>Cash Flows from Operating Activities</b>                 |                      |                     |
| Operating Income/(Loss)                                     | \$1.9                | (\$23.2)            |
| Changes in assets and liabilities                           | 0.3                  | 25.2                |
| <b>Net Cash Provided by Operating Activities</b>            | <b><u>2.2</u></b>    | <b><u>2.0</u></b>   |
| <b>Cash Flows from Investing Activities</b>                 |                      |                     |
| Sales and maturities of investments                         | 1.3                  | 1.8                 |
| Purchases of investments                                    | (5.9)                | (4.9)               |
| Interest on investments                                     | 1.5                  | 1.3                 |
| <b>Net Cash Used in Investing Activities</b>                | <b><u>(3.1)</u></b>  | <b><u>(1.8)</u></b> |
| <b>Net (Decrease) Increase in Cash and Cash Equivalents</b> | <b><u>(0.9)</u></b>  | <b><u>0.2</u></b>   |
| <b>Cash and Cash Equivalents Beginning of Year</b>          | <b><u>2.1</u></b>    | <b><u>1.9</u></b>   |
| <b>End of Year</b>  | <b><u>\$1.2</u></b>  | <b><u>\$2.1</u></b> |

## 17. CONTINGENCIES

NJ TRANSIT is a defendant in a number of lawsuits arising from claims for personal injury, property damage, breach of contract, civil rights, and personnel matters. Management believes that the ultimate resolution of these matters will not have a material adverse impact on the financial position of NJ TRANSIT.

NJ TRANSIT is addressing environmental issues at several locations within the State whereby virtue of ownership or use, NJ TRANSIT has a remediation responsibility. Management has analyzed all of these matters and has provided for amounts, which it currently believes are adequate. In management's opinion, the ultimate liability, if any, will have no material effect on the results of operations or the consolidated financial position of NJ TRANSIT (see Note 12).

NJ TRANSIT receives federal and state grants and appropriations for capital projects and other reimbursable activities that are subject to audit by the grantor agency. Although the outcome of any such audits cannot be predicted, it is management's opinion that these audits will not have a material effect on the results of operations or the consolidated financial position of NJ TRANSIT.

## 18. ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES

During the year, NJ TRANSIT had three (3) separate commodity swap agreements with financial institutions to protect against market fluctuations in the price of diesel fuel and heating oil. These fuel related derivative transactions are executed in accordance with the policies and procedures established by NJ TRANSIT's Swap Management Plan (SMP). The primary objective of the SMP Policy was to set forth policies and procedures for the execution and management of interest rate swaps, fuel swaps and related agreements, provide for security and payment provisions and set forth certain other provisions related to swap agreements between NJ TRANSIT and qualified swap counterparties.

The SMP policy explicitly prohibits NJ TRANSIT from entering into new interest or payment swaps. Existing swaps may be amended or terminated as determined by senior management of NJ TRANSIT. Under the terms of this plan, NJ TRANSIT will only enter into new fuel swaps.

NJ TRANSIT will competitively bid fuel swaps to financial institutions subject to compliance with applicable state and federal laws with the assistance of its Qualified Independent Representative (QIR).

NJ TRANSIT may enter into one or more fuel swaps from time to time to protect itself from uncontrolled variations in the price of diesel fuel. NJ TRANSIT will not enter into fuel swaps for speculative purposes.

The following risks are generally associated with commodity swap agreements:

**Counterparty Risk** – The risk that the swap counterparty will not fulfill its obligations under the swap contract. To mitigate such exposure NJ TRANSIT will consider limiting exposure to any one counterparty.

**Termination Risk** – The risk that the underlying swap transactions will not run to maturity due to a counterparty event. To minimize this risk, NJ TRANSIT will not enter into swaps where the counterparty has an option to terminate absent a default by NJ TRANSIT.

If a swap does terminate prior to maturity because of a counterparty default or ratings event, a mark-to-market termination payment may be required. Prior to NJ TRANSIT making any termination payment, NJ TRANSIT will examine all options to eliminate or reduce the amount of the termination payment.

The procedure for the posting of collateral including the acceptable securities and ratings for the third-party Trustee, to the extent practicable, shall be detailed in the Credit Support Annex agreed upon in advance of entering into the swap transaction.

As a counterparty, NJ TRANSIT will be required to post collateral should the calculated amount of all open positions exceed an agreed upon "Threshold" level.

**Basis Risk** – Refers to the risk that price fluctuations of the indexed product do not correlate perfectly to those of the physical product. To minimize this risk, the price index upon which the diesel fuel swaps will be based will be the monthly average settlement price for diesel fuel futures on the New York Mercantile Exchange ("NYMEX") for the delivery of physical diesel fuel in New York Harbor.

**Cash Flow Risk** – Refers to the risk that NJ TRANSIT may (in the short term) experience a cash flow outflow even though fuel prices are falling. Should there be a very significant drop in the price of all open contracts (exceeding the threshold amount) NJ TRANSIT would have to post collateral for all contracts but would only see the benefits of falling prices on current deliveries.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2018, the fair value of NJ TRANSIT's commodity swaps which are within the Level 2 category of the fair value hierarchy are as follows:

| Notional Amount<br>(Gallons)                       | Effective Date | Maturity Date                | Fair Value<br>06/30/18     | Terms<br>(Per Gallon)<br>Receive | Terms<br>(Per Gallon)<br>Pay |
|--|----------------|------------------------------|----------------------------|----------------------------------|------------------------------|
| <b>Counterparty: Goldman Sachs</b>                 |                |                              |                            |                                  |                              |
| 4,410,000  | 07/01/18       | 09/30/18                     | \$3,488,428                | Floating                         | 1.4215                       |
| 2,940,000  | 10/01/18       | 10/01/18                     | 2,135,977                  | Floating                         | 1.4950                       |
| 8,820,000  | 04/01/19       | 06/30/19                     | 5,244,316                  | Floating                         | 1.5870                       |
| 9,072,000  | 10/01/19       | 12/31/19                     | 5,426,853                  | Floating                         | 1.6097                       |
| 6,048,000  | 10/01/20       | 02/29/20                     | 3,777,507                  | Floating                         | 1.5875                       |
|  |                |                              | <u>\$20,073,081</u>        |                                  |                              |
| <b>Counterparty: Bank of America Merrill Lynch</b> |                |                              |                            |                                  |                              |
| 1,470,000  | 07/01/18       | 07/31/18                     | \$1,177,124                | Floating                         | 1.4175                       |
| 1,470,000  | 08/01/18       | 08/31/18                     | 1,169,520                  | Floating                         | 1.4175                       |
| 1,470,000  | 09/01/18       | 09/30/18                     | 1,162,113                  | Floating                         | 1.4175                       |
| 3,024,000  | 07/01/19       | 07/31/19                     | 1,724,425                  | Floating                         | 1.6185                       |
| 3,024,000  | 08/01/19       | 08/31/19                     | 1,746,366                  | Floating                         | 1.6185                       |
| 3,024,000  | 09/01/19       | 09/30/19                     | 1,754,967                  | Floating                         | 1.6185                       |
|  |                |                              | <u>\$8,734,515</u>         |                                  |                              |
| <b>Counterparty: Cargill Inc.</b>                  |                |                              |                            |                                  |                              |
| 2,940,000  | 11/01/18       | 11/30/18                     | \$2,114,061                | Floating                         | 1.5053                       |
| 2,940,000  | 12/01/18       | 12/31/18                     | 2,121,255                  | Floating                         | 1.5053                       |
| 2,940,000  | 01/01/19       | 01/31/19                     | 1,871,790                  | Floating                         | 1.5867                       |
| 2,940,000  | 02/01/19       | 02/28/19                     | 1,839,613                  | Floating                         | 1.5867                       |
| 2,940,000  | 03/01/19       | 03/31/19                     | 1,790,599                  | Floating                         | 1.5867                       |
|  |                |                              | <u>\$9,737,318</u>         |                                  |                              |
|  |                | <b>Total Commodity Swaps</b> | <b><u>\$38,544,914</u></b> |                                  |                              |



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2017, the fair value of NJ TRANSIT's commodity swaps which are within the Level 2 category of the fair value hierarchy are as follows:

| Notional Amount<br>(Gallons)                       | Effective Date | Maturity Date | Fair Value<br>06/30/17    | Terms<br>(Per Gallon)<br>Receive | Terms<br>(Per Gallon)<br>Pay |
|--|----------------|---------------|---------------------------|----------------------------------|------------------------------|
| <b>Counterparty: Goldman Sachs</b>                 |                |               |                           |                                  |                              |
| 2,940,000  | 07/01/17       | 08/31/17      | \$489,731                 | Floating                         | 1.3200                       |
| 5,880,000  | 09/01/17       | 12/31/17      | 737,607                   | Floating                         | 1.3865                       |
| 2,940,000  | 01/01/18       | 02/28/18      | 589,479                   | Floating                         | 1.3300                       |
| 5,888,000  | 03/01/18       | 06/30/18      | 838,552                   | Floating                         | 1.3875                       |
| 4,410,000  | 07/01/18       | 09/30/18      | 563,294                   | Floating                         | 1.4215                       |
| 2,940,000  | 10/01/18       | 10/01/18      | 202,797                   | Floating                         | 1.4950                       |
| 8,820,000  | 04/01/19       | 06/30/19      | (82,710)                  | Floating                         | 1.5870                       |
| 9,072,000  | 10/01/19       | 12/31/19      | 165,145                   | Floating                         | 1.6097                       |
| 6,048,000  | 10/10/20       | 02/29/20      | 320,985                   | Floating                         | 1.5875                       |
|  |                |               | <u>\$3,824,880</u>        |                                  |                              |
| <b>Counterparty: Bank of America Merrill Lynch</b> |                |               |                           |                                  |                              |
| 1,470,000  | 07/01/17       | 07/31/17      | \$251,215                 | Floating                         | 1.3120                       |
| 1,470,000  | 08/01/17       | 08/31/17      | 262,104                   | Floating                         | 1.3120                       |
| 1,470,000  | 09/01/17       | 09/30/17      | 168,520                   | Floating                         | 1.3840                       |
| 1,470,000  | 10/01/17       | 10/31/17      | 181,222                   | Floating                         | 1.3840                       |
| 1,470,000  | 11/01/17       | 11/30/17      | 195,078                   | Floating                         | 1.3840                       |
| 1,470,000  | 12/01/17       | 12/21/17      | 207,860                   | Floating                         | 1.3840                       |
| 1,470,000  | 01/01/18       | 01/31/18      | 291,680                   | Floating                         | 1.3320                       |
| 1,470,000  | 02/01/18       | 02/28/18      | 292,551                   | Floating                         | 1.3320                       |
| 1,470,000  | 03/01/18       | 03/31/18      | 205,019                   | Floating                         | 1.3875                       |
| 1,470,000  | 04/01/18       | 04/30/18      | 205,207                   | Floating                         | 1.3875                       |
| 1,470,000  | 05/01/18       | 05/31/18      | 210,195                   | Floating                         | 1.3875                       |
| 1,470,000  | 06/01/18       | 06/30/18      | 219,361                   | Floating                         | 1.3875                       |
| 1,470,000  | 07/01/18       | 07/31/18      | 185,041                   | Floating                         | 1.4175                       |
| 1,470,000  | 08/01/18       | 08/31/18      | 193,603                   | Floating                         | 1.4175                       |
| 1,470,000  | 09/01/18       | 09/30/18      | 203,083                   | Floating                         | 1.4175                       |
| 3,024,000  | 07/01/19       | 07/31/19      | (77,767)                  | Floating                         | 1.6185                       |
| 3,024,000  | 08/01/19       | 08/31/19      | (46,881)                  | Floating                         | 1.6185                       |
| 3,024,000  | 09/01/19       | 09/30/19      | (19,020)                  | Floating                         | 1.6185                       |
|  |                |               | <u>\$3,128,071</u>        |                                  |                              |
| <b>Counterparty: Cargill Inc.</b>                  |                |               |                           |                                  |                              |
| 2,940,000  | 11/01/18       | 11/30/18      | 191,853                   | Floating                         | 1.5053                       |
| 2,940,000  | 12/01/18       | 12/31/18      | 212,123                   | Floating                         | 1.5053                       |
| 2,940,000  | 01/01/19       | 01/31/19      | (14,063)                  | Floating                         | 1.5867                       |
| 2,940,000  | 02/01/19       | 02/28/19      | (17,771)                  | Floating                         | 1.5867                       |
| 2,940,000  | 03/01/19       | 03/31/19      | (34,919)                  | Floating                         | 1.5867                       |
|  |                |               | <u>\$337,223</u>          |                                  |                              |
|  |                |               | <u><b>\$7,290,174</b></u> |                                  |                              |

**REQUIRED SUPPLEMENTARY INFORMATION**

**Schedules of Changes in Net Pension Liability for NJ TRANSIT Sponsored Single-Employer Defined Benefit Plans Last Ten Fiscal Years** (*\$ in millions*)

| For the year ended June 30, 2018  | ATU                     | TERP                  | UWUA<br>(UCA)       |
|---|-------------------------|-----------------------|---------------------|
| <b>Total pension liability</b>  |                         |                       |                     |
| Service cost  | \$29.3                  | \$7.2                 | \$0.1               |
| Interest  | 95.1                    | 54.1                  | 0.6                 |
| Change of benefit terms   | 102.3                   | 0.0                   | —                   |
| Differences between expected<br>and actual experience                                 | 15.0                    | 11.8                  | —                   |
| Change of assumptions   | 14.6                    | 1.1                   | —                   |
| Benefit payments, including refunds of<br>employee contributions                      | (79.8)                  | (44.1)                | (0.6)               |
| <b>Net change in total pension liability</b>  | <b>176.5</b>            | <b>30.1</b>           | <b>0.1</b>          |
| <b>Total pension liability – beginning</b>  | <b><u>1,270.6</u></b>   | <b><u>745.6</u></b>   | <b><u>8.2</u></b>   |
| <b>Total pension liability – ending (a)</b>   | <b><u>\$1,447.1</u></b> | <b><u>\$775.7</u></b> | <b><u>\$8.3</u></b> |
| <b>Plan fiduciary net position</b>  |                         |                       |                     |
| Contributions – employer  | \$45.8                  | \$33.9                | \$0.2               |
| Contributions – employee  | 11.9                    | 1.6                   | —                   |
| Net investment income   | 109.3                   | 47.0                  | 0.6                 |
| Benefit payments including refunds of<br>employee contributions                       | (79.8)                  | (44.1)                | (0.6)               |
| Administrative expense  | (0.3)                   | (0.2)                 | —                   |
| Other*  | 70.5                    | —                     | —                   |
| <b>Net change in plan fiduciary net position</b>                                      | <b>157.4</b>            | <b>38.2</b>           | <b>0.2</b>          |
| <b>Plan fiduciary net position – beginning</b>  | <b><u>932.4</u></b>     | <b><u>483.7</u></b>   | <b><u>6.5</u></b>   |
| <b>Plan fiduciary net position – ending (b)</b>                                       | <b><u>\$1,089.8</u></b> | <b><u>\$521.9</u></b> | <b><u>\$6.7</u></b> |
| <b>Net pension liability – ending (a) – (b)</b>                                       | <b><u>\$357.3</u></b>   | <b><u>\$253.8</u></b> | <b><u>\$1.6</u></b> |
| <b>Plan fiduciary net position as a percentage<br/>of the total pension liability</b> | <b>75.31%</b>           | <b>67.29%</b>         | <b>80.72%</b>       |
| <b>Covered payroll</b>  | <b>\$290.3</b>          | <b>\$81.3</b>         | <b>\$0.5</b>        |
| <b>Net pension liability as percentage of<br/>covered payroll</b>                     | <b>123.08%</b>          | <b>312.18%</b>        | <b>320.00%</b>      |

\*Includes the accretion of Mercer effective April 2, 2016 and the accretion of TWU-UTU effective July 30, 2016

# REQUIRED SUPPLEMENTARY INFORMATION

| For the year ended June 30, 2017  | ATU                     | TERP                  | TWU                  | MERCER               | UWUA<br>(UCA)       |
|---|-------------------------|-----------------------|----------------------|----------------------|---------------------|
| <b>Total pension liability</b>  |                         |                       |                      |                      |                     |
| Service cost  | \$25.5                  | \$6.7                 | \$1.1                | \$1.0                | \$0.1               |
| Interest  | 88.7                    | 53.5                  | 3.8                  | 3.4                  | 0.6                 |
| Change of benefit terms   | 45.0                    | —                     | —                    | (0.8)                | —                   |
| Differences between expected and actual experience                                | 2.6                     | 0.5                   | (0.5)                | —                    | —                   |
| Change of assumptions   | 31.4                    | 35.2                  | 1.2                  | 1.0                  | 0.3                 |
| Benefit payments, including refunds of employee contributions                     | <u>(69.5)</u>           | <u>(41.5)</u>         | <u>(3.0)</u>         | <u>(2.5)</u>         | <u>(0.6)</u>        |
| <b>Net change in total pension liability</b>                                      | <b>123.7</b>            | <b>54.4</b>           | <b>2.6</b>           | <b>2.1</b>           | <b>0.4</b>          |
| <b>Total pension liability – beginning</b>  | <b><u>1,146.9</u></b>   | <b><u>691.2</u></b>   | <b><u>49.3</u></b>   | <b><u>43.8</u></b>   | <b><u>7.8</u></b>   |
| <b>Total pension liability – ending (a)</b>                                       | <b><u>\$1,270.6</u></b> | <b><u>\$745.6</u></b> | <b><u>\$51.9</u></b> | <b><u>\$45.9</u></b> | <b><u>\$8.2</u></b> |
| <b>Plan fiduciary net position</b>  |                         |                       |                      |                      |                     |
| Contributions – employer  | \$44.9                  | \$30.7                | \$1.8                | \$2.5                | \$0.2               |
| Contributions – employee  | 11.0                    | 1.6                   | 0.3                  | 0.2                  | —                   |
| Net investment income   | 4.0                     | 4.1                   | 0.5                  | 0.4                  | 0.1                 |
| Benefit payments including refunds of employee contributions                      | (69.5)                  | (41.5)                | (3.0)                | (2.5)                | (0.6)               |
| Administrative expense  | <u>(0.3)</u>            | <u>(0.3)</u>          | <u>—</u>             | <u>—</u>             | <u>—</u>            |
| <b>Net change in plan fiduciary net position</b>                                  | <b>(9.9)</b>            | <b>(5.4)</b>          | <b>(0.4)</b>         | <b>0.6</b>           | <b>(0.3)</b>        |
| <b>Plan fiduciary net position – beginning</b>                                    | <b><u>942.3</u></b>     | <b><u>489.1</u></b>   | <b><u>41.9</u></b>   | <b><u>28.5</u></b>   | <b><u>6.8</u></b>   |
| <b>Plan fiduciary net position – ending (b)</b>                                   | <b><u>\$932.4</u></b>   | <b><u>\$483.7</u></b> | <b><u>\$41.5</u></b> | <b><u>\$29.1</u></b> | <b><u>\$6.5</u></b> |
| <b>Net pension liability – ending (a) – (b)</b>                                   | <b><u>\$338.2</u></b>   | <b><u>\$261.9</u></b> | <b><u>\$10.4</u></b> | <b><u>\$16.8</u></b> | <b><u>\$1.7</u></b> |
| <b>Plan fiduciary net position as a percentage of the total pension liability</b> | <b>73.38%</b>           | <b>64.87%</b>         | <b>79.96%</b>        | <b>63.40%</b>        | <b>79.27%</b>       |
| <b>Covered payroll</b>  | <b>\$268.2</b>          | <b>\$86.9</b>         | <b>\$12.0</b>        | <b>\$9.6</b>         | <b>\$0.5</b>        |
| <b>Net pension liability as percentage of covered payroll</b>                     | <b>126.10%</b>          | <b>301.38%</b>        | <b>86.67%</b>        | <b>175.00%</b>       | <b>242.86%</b>      |

| For the year ended June 30, 2016  | ATU                     | TERP                  | TWU                  | MERCER               | UWUA<br>(UCA)       |
|---|-------------------------|-----------------------|----------------------|----------------------|---------------------|
| <b>Total pension liability</b>  |                         |                       |                      |                      |                     |
| Service cost  | \$25.3                  | \$7.2                 | \$1.1                | \$1.0                | \$0.1               |
| Interest  | 85.9                    | 51.1                  | 3.8                  | 3.3                  | 0.6                 |
| Differences between expected and actual experience                                | (9.2)                   | 11.6                  | (1.3)                | (0.4)                | 0.1                 |
| Benefit payments, including refunds of employee contributions                     | <u>(63.7)</u>           | <u>(38.1)</u>         | <u>(2.9)</u>         | <u>(2.5)</u>         | <u>(0.6)</u>        |
| <b>Net change in total pension liability</b>                                      | <b>38.3</b>             | <b>31.8</b>           | <b>0.7</b>           | <b>1.4</b>           | <b>0.2</b>          |
| <b>Total pension liability – beginning</b>  | <b><u>1,108.6</u></b>   | <b><u>659.4</u></b>   | <b><u>48.6</u></b>   | <b><u>42.4</u></b>   | <b><u>7.6</u></b>   |
| <b>Total pension liability – ending (a)</b>                                       | <b><u>\$1,146.9</u></b> | <b><u>\$691.2</u></b> | <b><u>\$49.3</u></b> | <b><u>\$43.8</u></b> | <b><u>\$7.8</u></b> |
| <b>Plan fiduciary net position</b>  |                         |                       |                      |                      |                     |
| Contributions – employer  | \$44.0                  | \$29.5                | \$1.3                | \$2.1                | \$0.2               |
| Contributions – employee  | 6.9                     | 1.8                   | 0.3                  | 0.2                  | —                   |
| Net investment income   | 33.0                    | 9.2                   | 0.6                  | 0.5                  | 0.1                 |
| Benefit payments including refunds of employee contributions                      | (63.7)                  | (38.1)                | (2.9)                | (2.5)                | (0.6)               |
| Administrative expense  | <u>(3.2)</u>            | <u>(1.8)</u>          | <u>(0.2)</u>         | <u>(0.1)</u>         | <u>—</u>            |
| <b>Net change in plan fiduciary net position</b>                                  | <b>17.0</b>             | <b>0.6</b>            | <b>(0.9)</b>         | <b>0.2</b>           | <b>(0.3)</b>        |
| <b>Plan fiduciary net position – beginning</b>                                    | <b><u>925.3</u></b>     | <b><u>488.5</u></b>   | <b><u>42.8</u></b>   | <b><u>28.3</u></b>   | <b><u>7.1</u></b>   |
| <b>Plan fiduciary net position – ending (b)</b>                                   | <b><u>\$942.3</u></b>   | <b><u>\$489.1</u></b> | <b><u>\$41.9</u></b> | <b><u>\$28.5</u></b> | <b><u>\$6.8</u></b> |
| <b>Net pension liability – ending (a) – (b)</b>                                   | <b><u>\$204.6</u></b>   | <b><u>\$202.1</u></b> | <b><u>\$7.4</u></b>  | <b><u>\$15.3</u></b> | <b><u>\$1.0</u></b> |
| <b>Plan fiduciary net position as a percentage of the total pension liability</b> | <b>82.16%</b>           | <b>70.76%</b>         | <b>84.99%</b>        | <b>65.07%</b>        | <b>87.18%</b>       |
| <b>Covered payroll</b>  | <b>\$268.9</b>          | <b>\$92.3</b>         | <b>\$11.9</b>        | <b>\$9.5</b>         | <b>\$1.0</b>        |
| <b>Net pension liability as percentage of covered payroll</b>                     | <b>76.09%</b>           | <b>218.96%</b>        | <b>62.18%</b>        | <b>161.05%</b>       | <b>100.00%</b>      |

# REQUIRED SUPPLEMENTARY INFORMATION

| For the year ended June 30, 2015  | ATU                     | TERP                  | TWU                  | MERCER               | UWUA<br>(UCA)       |
|---|-------------------------|-----------------------|----------------------|----------------------|---------------------|
| <b>Total pension liability</b>  |                         |                       |                      |                      |                     |
| Service cost  | \$23.4                  | \$6.6                 | \$1.1                | \$0.9                | \$0.1               |
| Interest  | 80.2                    | 48.4                  | 3.5                  | 3.1                  | 0.6                 |
| Differences between expected and actual experience                                | 32.0                    | 16.4                  | 1.5                  | 1.3                  | 0.3                 |
| Benefit payments, including refunds of employee contributions                     | <u>(58.9)</u>           | <u>(34.8)</u>         | <u>(2.8)</u>         | <u>(2.4)</u>         | <u>(0.5)</u>        |
| <b>Net change in total pension liability</b>                                      | <b>76.7</b>             | <b>36.6</b>           | <b>3.3</b>           | <b>2.9</b>           | <b>0.5</b>          |
| <b>Total pension liability – beginning</b>  | <b><u>1,031.9</u></b>   | <b><u>622.8</u></b>   | <b><u>45.3</u></b>   | <b><u>39.5</u></b>   | <b><u>7.1</u></b>   |
| <b>Total pension liability – ending (a)</b>                                       | <b><u>\$1,108.6</u></b> | <b><u>\$659.4</u></b> | <b><u>\$48.6</u></b> | <b><u>\$42.4</u></b> | <b><u>\$7.6</u></b> |
| <b>Plan fiduciary net position</b>  |                         |                       |                      |                      |                     |
| Contributions – employer  | \$44.8                  | \$19.3                | \$1.3                | \$1.8                | \$0.2               |
| Contributions – employee  | 6.5                     | 1.8                   | 0.3                  | 0.2                  | —                   |
| Net investment income   | 134.5                   | 65.4                  | 6.0                  | 3.9                  | 1.0                 |
| Benefit payments  | (58.9)                  | (34.8)                | (2.8)                | (2.4)                | (0.5)               |
| Administrative expense  | <u>(3.1)</u>            | <u>(1.9)</u>          | <u>(0.2)</u>         | <u>(0.1)</u>         | <u>—</u>            |
| <b>Net change in plan fiduciary net position</b>                                  | <b>123.8</b>            | <b>49.8</b>           | <b>4.6</b>           | <b>3.4</b>           | <b>0.7</b>          |
| <b>Plan fiduciary net position – beginning</b>                                    | <b><u>801.4</u></b>     | <b><u>438.7</u></b>   | <b><u>38.2</u></b>   | <b><u>24.9</u></b>   | <b><u>6.4</u></b>   |
| <b>Plan fiduciary net position – ending (b)</b>                                   | <b><u>\$925.2</u></b>   | <b><u>\$488.5</u></b> | <b><u>\$42.8</u></b> | <b><u>\$28.3</u></b> | <b><u>\$7.1</u></b> |
| <b>Net pension liability – ending (a) – (b)</b>                                   | <b><u>\$183.4</u></b>   | <b><u>\$170.9</u></b> | <b><u>\$5.8</u></b>  | <b><u>\$14.1</u></b> | <b><u>\$0.5</u></b> |
| <b>Plan fiduciary net position as a percentage of the total pension liability</b> | <b>83.46%</b>           | <b>74.08%</b>         | <b>88.07%</b>        | <b>66.75%</b>        | <b>93.42%</b>       |
| <b>Covered payroll</b>  | <b>\$268.4</b>          | <b>\$97.2</b>         | <b>\$11.2</b>        | <b>\$9.5</b>         | <b>\$1.1</b>        |
| <b>Net pension liability as percentage of covered payroll</b>                     | <b>68.33%</b>           | <b>175.82%</b>        | <b>51.79%</b>        | <b>148.42%</b>       | <b>45.45%</b>       |

*This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

**Schedule of Pension Contributions for NJ TRANSIT Sponsored Single-Employer Defined Benefit Plans  
Last Ten Fiscal Years (\$ in millions)**
**Amalgamated Transit Union Employees Retirement Plan**

| <b>Years Ended<br/>June 30</b> | <b>Actuarially<br/>Determined<br/>Contributions</b> | <b>Contributions<br/>in Relation to<br/>the Actuarially<br/>Determined<br/>Contributions</b> | <b>Contribution<br/>Deficiency<br/>(Excess)</b> | <b>Covered<br/>Payroll</b> | <b>Contribution as<br/>a Percentage of<br/>Covered Payroll</b> |
|--------------------------------|---|--|---|----------------------------|--|
| 2018                           | \$54.4  | \$45.8   | \$5.1   | \$321.2                    | 14.26%   |
| 2017                           | 45.2  | 41.7   | 3.5   | 290.3                      | 14.36  |
| 2016                           | 41.7  | 44.9   | (3.2)   | 268.2                      | 16.74  |
| 2015                           | 44.9  | 44.0   | 0.9   | 268.9                      | 16.36  |
| 2014                           | 44.0  | 44.8   | (0.8)   | 268.4                      | 16.69  |
| 2013                           | 44.8  | 44.8   | —   | 266.2                      | 16.82  |
| 2012                           | 41.5  | 41.5   | —   | 259.9                      | 15.98  |
| 2011                           | 43.4  | 43.4   | —   | 269.9                      | 16.09  |
| 2010                           | 42.8  | 42.6   | 0.2   | 254.6                      | 16.73  |
| 2009                           | 34.6  | 34.9   | (0.3)   | 245.6                      | 14.19  |

**Non-Agreement Employees Retirement Plan**

| <b>Years Ended<br/>June 30</b> | <b>Actuarially<br/>Determined<br/>Contributions</b> | <b>Contributions<br/>in Relation to<br/>the Actuarially<br/>Determined<br/>Contributions</b> | <b>Contribution<br/>Deficiency<br/>(Excess)</b> | <b>Covered<br/>Payroll</b> | <b>Contribution as<br/>a Percentage of<br/>Covered Payroll</b> |
|--------------------------------|---|--|---|----------------------------|--|
| 2018                           | \$35.6  | \$33.9   | \$1.7   | \$81.2                     | 41.75%   |
| 2017                           | 33.9  | 33.9   | —   | 81.3                       | 41.70  |
| 2016                           | 30.7  | 30.7   | —   | 86.9                       | 35.33  |
| 2015                           | 29.5  | 29.5   | —   | 92.3                       | 31.96  |
| 2014                           | 36.4  | 19.3   | 17.1  | 97.2                       | 19.84  |
| 2013                           | 36.7  | 36.7   | —   | 102.9                      | 35.69  |
| 2012                           | 35.1  | 35.1   | —   | 106.9                      | 32.81  |
| 2011                           | 34.0  | 34.0   | —   | 111.5                      | 30.51  |
| 2010                           | 34.6  | 34.8   | (0.2)   | 115.7                      | 30.09  |
| 2009                           | 29.5  | 30.0   | (0.5)   | 122.5                      | 24.51  |

# REQUIRED SUPPLEMENTARY INFORMATION

## Utility Worker's Union of America Employee Retirement Plan

| Years Ended<br>June 30 | Actuarially<br>Determined<br>Contributions | Contributions<br>in Relation to<br>the Actuarially<br>Determined<br>Contributions | Contribution<br>Deficiency<br>(Excess) | Covered<br>Payroll | Contribution as<br>a Percentage of<br>Covered Payroll |
|------------------------|--|---|--|--------------------|---|
| 2018                   | \$0.2                                      | \$0.2   | \$—                                    | \$0.5              | 40.00%  |
| 2017                   | 0.2  | 0.2   | —                                      | 0.5                | 40.00   |
| 2016                   | 0.2  | 0.2   | —                                      | 1.0                | 20.00   |
| 2015                   | 0.2  | 0.2   | —                                      | 1.0                | 20.00   |
| 2014                   | 0.2  | 0.2   | —                                      | 1.1                | 18.18   |
| 2013                   | 0.2  | 0.2   | —                                      | 1.0                | 20.00   |
| 2012                   | 0.2  | 0.2   | —                                      | 1.0                | 20.00   |
| 2011                   | 0.2  | 0.2   | —                                      | 1.1                | 18.18   |
| 2010                   | 0.2  | 0.2   | —                                      | 1.5                | 13.33   |
| 2009                   | 0.2  | 0.2   | —                                      | 1.6                | 12.50   |

### NOTES TO SCHEDULE

Valuation date: Actuarial determined contribution rates are calculated as of July 1, of each year in which contributions are reported.

### Methods and assumptions used to determine the actuarially determined employer contributions rates:

|                               |   |
|-------------------------------|---|
| Actuarial Cost Method         | Projected Unit Credit Cost Method   |
| Amortization Method           | Amortize change in unfunded liabilities established after July 1, 2016 each over a 15-year period from date of origination.   |
| Remaining Amortization Period | 14 years remaining as of July 1, 2017 of the initial unfunded liabilities established as of July 1, 2016. Each subsequent change in unfunded has one more year remaining.   |
| Asset Valuation Method        | 5-year smoothed market  |
| Investment Rate of Return     | 7.50% for TERP and UWUA;<br>7.75% for ATU, net of pension plan investment expense, including inflation  |
| Inflation                     | 3.00%   |
| Salary Increases              | 3.00% plus age and service based merit increases  |
| Mortality                     | The mortality tables projected to July 1, 2017 under Scale MP-2017 reasonably reflect the projected mortality experience of the Plan as of the measurement date. The mortality table was then further adjusted to future years using generational projection under Scale MP-2017 to reflect future mortality improvement. |



**Schedule of NJ TRANSIT's Proportionate Share of the Net Pension Liability for Cost-Sharing Multiple-Employer Defined Benefit Plans Last Ten Fiscal Years (\$ in millions)**

| For the years ended   | <u>2018</u>    | <u>2017</u>    | <u>2016</u>    | <u>2015</u>   |
|---|----------------|----------------|----------------|---------------|
| <b><u>PERS</u></b>  |                |                |                |               |
| The Proportion of Net Pension Liability   | 0.0544837%     | 0.0509198%     | 0.0505610%     | 0.0500749%    |
| The Proportionate Share of Net Pension Liability  | \$12.7         | \$15.1         | \$11.3         | \$9.4         |
| Covered Payroll   | \$4.6          | \$4.1          | \$3.8          | \$3.5         |
| Proportionate Share of Net Pension Liability as a Percentage of its covered payroll     | 275.7%         | 368.3%         | 297.4%         | 268.6%        |
| Plan Fiduciary Net Position as a Percentage of Total Pension Liability                  | 36.78%         | 31.20%         | 38.21%         | 42.74%        |
| <b><u>PFRS</u></b>  |                |                |                |               |
| The Proportion of Net Pension Liability   | 0.6662963%     | 0.6338143%     | 0.6457926%     | 0.6491325%    |
| The Proportionate Share of Net Pension Liability  | \$102.9        | \$121.1        | \$107.6        | \$81.6        |
| The State's Proportionate Share of the Net Pension Liability Associated with NJ TRANSIT | <u>11.5</u>    | <u>10.1</u>    | <u>9.4</u>     | <u>8.8</u>    |
| Total   | <u>\$114.4</u> | <u>\$131.2</u> | <u>\$117.0</u> | <u>\$90.4</u> |
| Covered Payroll   | \$25.1         | \$22.7         | \$21.7         | \$20.6        |
| Proportionate Share of Net Pension Liability as a Percentage of its covered payroll     | 455.6%         | 578.0%         | 539.2%         | 438.8%        |
| Plan Fiduciary Net Position as a Percentage of Total Pension Liability                  | 54.52%         | 48.55%         | 52.84%         | 58.86%        |

*This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

# REQUIRED SUPPLEMENTARY INFORMATION

## Schedule of Contributions for Cost-Sharing Multiple-Employer Defined Benefit Plans Last Ten Fiscal Years (\$ in millions)

### Public Employees Retirement System

| Years Ended<br>June 30 | Actuarially<br>Required<br>Contributions | Contributions<br>in Relation to<br>the Actuarially<br>Determined<br>Contributions | Contribution<br>Deficiency<br>(Excess) | Covered<br>Payroll | Contribution as<br>a Percentage of<br>Covered Payroll |
|------------------------|--|---|--|--------------------|---|
| 2018                   | \$0.6                                    | \$0.6   | \$—                                    | \$4.6              | 13.04%  |
| 2017                   | 0.6                                      | 0.6   | —                                      | 4.1                | 14.63   |
| 2016                   | 0.5                                      | 0.5   | —                                      | 3.8                | 13.16   |
| 2015                   | 0.5                                      | 0.5   | —                                      | 3.6                | 13.89   |
| 2014                   | 0.4                                      | 0.4   | —                                      | 3.5                | 11.43   |
| 2013                   | 0.4                                      | 0.4   | —                                      | 3.5                | 11.43   |
| 2012                   | 0.5                                      | 0.5   | —                                      | 3.1                | 16.13   |
| 2011                   | 0.4                                      | 0.4   | —                                      | 3.1                | 12.90   |
| 2010                   | 0.3                                      | 0.3   | —                                      | 3.9                | 7.69  |
| 2009                   | 0.2                                      | 0.2   | —                                      | 3.8                | 5.26  |

### Police and Firemen's Retirement System

| Years Ended<br>June 30 | Contractually<br>Required<br>Contributions | Contributions<br>in Relation to<br>the Actuarially<br>Determined<br>Contributions | Contribution<br>Deficiency<br>(Excess) | Covered<br>Payroll | Contribution as<br>a Percentage of<br>Covered Payroll |
|------------------------|--|---|--|--------------------|---|
| 2018                   | \$6.2                                      | \$6.2   | \$—                                    | \$25.1             | 24.70%  |
| 2017                   | 5.7  | 5.7   | —                                      | 22.7               | 25.11   |
| 2016                   | 5.5  | 5.5   | —                                      | 21.7               | 25.35   |
| 2015                   | 5.2  | 5.2   | —                                      | 20.3               | 25.62   |
| 2014                   | 4.8  | 4.8   | —                                      | 20.6               | 23.30   |
| 2013                   | 4.9  | 4.9   | —                                      | 20.6               | 23.79   |
| 2012                   | 4.6  | 4.6   | —                                      | 20.0               | 23.00   |
| 2011                   | 4.2  | 4.2   | —                                      | 19.6               | 21.43   |
| 2010                   | 4.8  | 4.8   | —                                      | 18.7               | 25.67   |
| 2009                   | 4.5  | 4.5   | —                                      | 17.3               | 26.01   |

### Notes to Schedule

Changes in benefit terms: None

Changes in assumptions: : The discount rate changed from the rate as of June 30, 2016 to the rate as of June 30, 2017, in accordance with GASB Statement No. 67.

**Schedule of Changes in Total OPEB Liability and Related Ratios for  
NT TRANSIT's Sponsored Single-Employer Plan  
Last Ten Fiscal Years (\$ in millions)**

| <b>For the years ended</b>                                       | <b>2018</b>             |
|--|-------------------------|
| <b>Total OPEB liability</b>                                      |                         |
| Changes for the year:  |                         |
| Service cost   | \$56.6                  |
| Interest   | 38.7                    |
| Changes of assumptions or other inputs                           | (48.2)                  |
| Benefit Payments   | <u>(57.5)</u>           |
| <b>Net change in total OPEB liability</b>                        | <b><u>\$ (10.4)</u></b> |
| <b>Total OPEB liability – Beginning</b>                          | <b>\$1,108.9</b>        |
| <b>Total OPEB liability – Ending</b>                             | <b>\$1,098.5</b>        |
| Covered-employee payroll   | \$859.4                 |
| Total OPEB liability as a percentage of covered-employee payroll | 127.82%                 |

*This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

**Notes to Schedule**

*Changes in benefit terms:* None

*Changes in assumptions:* The discount rate changed from 3.58% as of June 30, 2017 to 3.87% as of June 30, 2018.

There are no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

**Actuarial assumptions**

The total OPEB liability in June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

|                             |  |
|-----------------------------|--|
| Inflation                   | 2.20%  |
| Salary increases            | 3.00%, including inflation                                     |
| Discount rate               |  |
| Prior measurement date      | 3.58%  |
| Measurement date            | 3.87%  |
| Healthcare cost trend rates | 5.50% for 2018 decreasing to an ultimate rate of 3.84% by 2075 |

The discount rate was based on the Bond Buyer General Obligation 20-year Municipal Bond Index.

Mortality rates were based on the RP-2014 Blue Collar Mortality Tables (Gender specific) backward to the base year (2006) using Scale MP-2014, and projected forward generationally from 2006 using Scale MP-2017 (Non-Annuitants and Annuitants).

**Schedule of NJ TRANSIT's Proportionate Share of Net OPEB Liability  
For Cost-sharing New Jersey Health Benefit Program  
Last Ten Fiscal Years (\$ in millions)**

| <b>For the years ended</b>  | <b>2018</b>   |
|---|---------------|
| NJ TRANSIT's proportion (percentage) of the collective net OPEB liability   | 0%            |
| NJ TRANSIT's proportionate share (amount) of the collective net OPEB liability                                      | \$—           |
| The State's Proportionate Share of the collective net OPEB liability associated with NJ TRANSIT                     | <u>\$80.9</u> |
| Total   | \$80.9        |
| Covered employee payroll  | \$25.1        |
| Proportionate share of the collective net OPEB Liability as a Percentage of the employer's covered employee payroll | 0%            |
| The OPEB plan's fiduciary net position as a percentage of the total OPEB liability                                  | 1.03%         |

*This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

**Actuarial assumptions and methods**

**Methods and assumptions used to determine the actuarially determined employer contributions rates:**

|                                   |   |
|-----------------------------------|---|
| Actuarial Cost Method             | Entry Age Normal cost method.   |
| Measurement Date                  | June 30, 2017   |
| Measurement Period                | June 30, 2016 to June 30, 2017  |
| Valuation Date                    | June 30, 2016   |
| Census Data                       | As of June 30, 2016   |
| Service Cost                      | The Actuarial Present Value of benefits is allocated as a level percentage over the earnings of an individual between entry age (i.e. – age at hire) and assumed retirement age(s). |
| Discount Rate                     | As of June 30, 2017: 3.58% As of June 30, 2016: 2.85% As of June 30, 2015: 3.80%  |
| Expected Rate of Return           | As of June 30, 2017: 3.58% As of June 30, 2016: 2.85% As of June 30, 2015: 3.80%  |
| Municipal Bond Rate Basis         | Bond Buyer General Obligation 20-Bond Municipal Bond Index  |
| Salary Increases                  | Not applicable  |
| Pre-Retirement Healthy Mortality  | RP-2006 Headcount-Weighted Healthy Employee Male / Female Mortality Table with Fully Generational Mortality Improvement Projections from the central year using Scale MP-2017       |
| Post-Retirement Healthy Mortality | RP-2006 Headcount-Weighted Healthy Annuitant Male / Female Mortality Table with Fully Generational Improvement Projections from the central year using Scale MP-2017                |
| Disabled Mortality                | RP-2006 Headcount-Weighted Disabled Male / Female Mortality Table with Fully Generational improvement Projections from the central year using Scale MP-2017                         |



