

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended **June 30, 2014**

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-422

**MIDDLESEX WATER COMPANY**

(Exact name of registrant as specified in its charter)

**New Jersey**  
(State of incorporation)

**22-1114430**  
(IRS employer identification no.)

**1500 Ronson Road, Iselin, New Jersey 08830**  
(Address of principal executive offices, including zip code)

**(732) 634-1500**  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit and post files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes  No

The number of shares outstanding of each of the registrant's classes of common stock, as of July 31, 2014: Common Stock, No Par Value: 16,056,825 shares outstanding.

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**MIDDLESEX WATER COMPANY**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
**(Unaudited)**  
**(In thousands except per share amounts)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Operating Revenues	\$ 29,190	\$ 29,102	\$ 56,363	\$ 56,140
Operating Expenses:				
Operations and Maintenance	14,563	15,148	30,000	30,578
Depreciation	2,837	2,725	5,652	5,434
Other Taxes	3,043	3,058	5,997	6,092
Total Operating Expenses	20,443	20,931	41,649	42,104
Operating Income	8,747	8,171	14,714	14,036
Other Income (Expense):				
Allowance for Funds Used During Construction	66	89	133	127
Other Income	135	—	146	97
Other Expense	(155)	(11)	(175)	(21)
Total Other Income, net	46	78	104	203
Interest Charges	1,515	1,538	2,618	2,693
Income before Income Taxes	7,278	6,711	12,200	11,546
Income Taxes	2,550	2,230	4,303	3,888
Net Income	4,728	4,481	7,897	7,658
Preferred Stock Dividend Requirements	36	51	79	103
Earnings Applicable to Common Stock	\$ 4,692	\$ 4,430	\$ 7,818	\$ 7,555
Earnings per share of Common Stock:				
Basic	\$ 0.29	\$ 0.28	\$ 0.49	\$ 0.48
Diluted	\$ 0.29	\$ 0.28	\$ 0.49	\$ 0.47
Average Number of				
Common Shares Outstanding :				
Basic	16,018	15,829	15,996	15,818
Diluted	16,199	16,092	16,190	16,081
Cash Dividends Paid per Common Share	\$ 0.1900	\$ 0.1875	\$ 0.3800	\$ 0.3750

See Notes to Condensed Consolidated Financial Statements.

**MIDDLESEX WATER COMPANY**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Unaudited)  
(In thousands)

ASSETS		June 30, 2014	December 31, 2013
<b>UTILITY PLANT:</b>	Water Production	\$ 135,633	\$ 132,834
	Transmission and Distribution	364,669	359,931
	General	57,371	55,670
	Construction Work in Progress	6,774	8,410
	<b>TOTAL</b>	<b>564,447</b>	<b>556,845</b>
	Less Accumulated Depreciation	113,017	110,366
	<b>UTILITY PLANT - NET</b>	<b>451,430</b>	<b>446,479</b>
<b>CURRENT ASSETS:</b>	Cash and Cash Equivalents	5,071	4,834
	Accounts Receivable, net	11,044	11,640
	Unbilled Revenues	7,054	5,652
	Materials and Supplies (at average cost)	2,358	1,984
	Prepayments	3,038	1,728
	<b>TOTAL CURRENT ASSETS</b>	<b>28,565</b>	<b>25,838</b>
<b>DEFERRED CHARGES AND OTHER ASSETS:</b>	Unamortized Debt Expense	3,438	3,526
	Preliminary Survey and Investigation Charges	2,579	4,728
	Regulatory Assets	34,098	34,386
	Operations Contracts, Developer and Other Receivables	3,605	2,744
	Restricted Cash	4,937	2,473
	Non-utility Assets - Net	9,259	9,440
	Other	703	727
	<b>TOTAL DEFERRED CHARGES AND OTHER ASSETS</b>	<b>58,619</b>	<b>58,024</b>
	<b>TOTAL ASSETS</b>	<b>\$ 538,614</b>	<b>\$ 530,341</b>
<b>CAPITALIZATION AND LIABILITIES</b>			
<b>CAPITALIZATION:</b>	Common Stock, No Par Value	\$ 147,654	\$ 146,185
	Retained Earnings	44,307	42,560
	<b>TOTAL COMMON EQUITY</b>	<b>191,961</b>	<b>188,745</b>
	Preferred Stock	2,435	2,886
	Long-term Debt	132,231	129,798
	<b>TOTAL CAPITALIZATION</b>	<b>326,627</b>	<b>321,429</b>
<b>CURRENT LIABILITIES:</b>	Current Portion of Long-term Debt	5,520	5,386
	Notes Payable	28,000	28,450
	Accounts Payable	6,675	6,328
	Accrued Taxes	9,952	8,132
	Accrued Interest	1,150	1,151
	Unearned Revenues and Advanced Service Fees	778	837
	Other	2,399	2,394
	<b>TOTAL CURRENT LIABILITIES</b>	<b>54,474</b>	<b>52,678</b>
<b>COMMITMENTS AND CONTINGENT LIABILITIES (Note 7)</b>			
<b>DEFERRED CREDITS AND OTHER LIABILITIES:</b>	Customer Advances for Construction	21,392	21,837
	Accumulated Deferred Investment Tax Credits	950	989
	Accumulated Deferred Income Taxes	40,420	39,110
	Employee Benefit Plans	20,185	21,335
	Regulatory Liability - Cost of Utility Plant Removal	9,828	9,639
	Other	1,337	1,348
	<b>TOTAL DEFERRED CREDITS AND OTHER LIABILITIES</b>	<b>94,112</b>	<b>94,258</b>
<b>CONTRIBUTIONS IN AID OF CONSTRUCTION</b>		<b>63,401</b>	<b>61,976</b>
	<b>TOTAL CAPITALIZATION AND LIABILITIES</b>	<b>\$ 538,614</b>	<b>\$ 530,341</b>

See Notes to Condensed Consolidated Financial Statements.

**MIDDLESEX WATER COMPANY**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**  
**(In thousands)**

	<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income	\$ 7,897	\$ 7,658
Adjustments to Reconcile Net Income to		
Net Cash Provided by Operating Activities:		
Depreciation and Amortization	6,038	5,705
Provision for Deferred Income Taxes and Investment Tax Credits	1,335	1,075
Equity Portion of Allowance for Funds Used During Construction (AFUDC)	(84)	(82)
Cash Surrender Value of Life Insurance	(70)	(112)
Stock Compensation Expense	299	269
Changes in Assets and Liabilities:		
Accounts Receivable	796	1,283
Unbilled Revenues	(1,402)	(1,248)
Materials & Supplies	(374)	(701)
Prepayments	(1,310)	(479)
Accounts Payable	347	1,325
Accrued Taxes	1,820	530
Accrued Interest	(1)	189
Employee Benefit Plans	(1,232)	767
Unearned Revenue & Advanced Service Fees	(59)	3
Other Assets and Liabilities	(192)	14
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>13,808</b>	<b>16,196</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Utility Plant Expenditures, Including AFUDC of \$49 in 2014, \$45 in 2013	(8,505)	(10,222)
Restricted Cash	(2,464)	(2,630)
Distributions from / (Investment in) Joint Venture	765	(1,005)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(10,204)</b>	<b>(13,857)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Redemption of Long-term Debt	(1,726)	(7,724)
Proceeds from Issuance of Long-term Debt	4,398	3,987
Net Short-term Bank Borrowings	(450)	—
Deferred Debt Issuance Expense	(8)	—
Restricted Cash	—	6,070
Proceeds from Issuance of Common Stock	719	883
Payment of Common Dividends	(6,071)	(5,930)
Payment of Preferred Dividends	(79)	(103)
Construction Advances and Contributions-Net	(150)	445
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(3,367)</b>	<b>(2,372)</b>
<b>NET CHANGES IN CASH AND CASH EQUIVALENTS</b>	<b>237</b>	<b>(33)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>4,834</b>	<b>3,025</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 5,071</b>	<b>\$ 2,992</b>
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY:</b>		
Utility Plant received as Construction Advances and Contributions	\$ 1,130	\$ 291
Long-term Debt Deobligation	\$ —	\$ 64
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:</b>		
Cash Paid During the Year for:		
Interest	\$ 2,770	\$ 2,627
Interest Capitalized	\$ 49	\$ 45
Income Taxes	\$ 2,215	\$ 3,190

See Notes to Condensed Consolidated Financial Statements.

**MIDDLESEX WATER COMPANY**  
**CONDENSED CONSOLIDATED STATEMENTS OF CAPITAL STOCK**  
**AND LONG-TERM DEBT**  
**(Unaudited)**  
**(In thousands)**

	June 30, 2014	December 31, 2013
<b>Common Stock, No Par Value</b>		
Shares Authorized - 40,000		
Shares Outstanding - 2014 - 16,055	\$ 147,654	\$ 146,185
2013 - 15,963		
<b>Retained Earnings</b>		
	44,307	42,560
<b>TOTAL COMMON EQUITY</b>	<b>\$ 191,961</b>	<b>\$ 188,745</b>
<b>Cumulative Preferred Stock, No Par Value:</b>		
Shares Authorized - 130		
Shares Outstanding - 24-2014; 28-2013		
Convertible:		
Shares Outstanding, \$7.00 Series - 10-2014; 14-2013	\$ 1,006	\$ 1,457
Shares Outstanding, \$8.00 Series - 3	349	349
Nonredeemable:		
Shares Outstanding, \$7.00 Series - 1	80	80
Shares Outstanding, \$4.75 Series - 10	1,000	1,000
<b>TOTAL PREFERRED STOCK</b>	<b>\$ 2,435</b>	<b>\$ 2,886</b>
<b>Long-term Debt:</b>		
8.05%, Amortizing Secured Note, due December 20, 2021	\$ 1,917	\$ 2,005
6.25%, Amortizing Secured Note, due May 19, 2028	5,845	6,055
6.44%, Amortizing Secured Note, due August 25, 2030	4,527	4,667
6.46%, Amortizing Secured Note, due September 19, 2031	4,807	4,947
4.22%, State Revolving Trust Note, due December 31, 2022	443	465
3.60%, State Revolving Trust Note, due May 1, 2025	2,559	2,654
3.30% State Revolving Trust Note, due March 1, 2026	524	541
3.49%, State Revolving Trust Note, due January 25, 2027	553	569
4.03%, State Revolving Trust Note, due December 1, 2026	720	742
0.00% to 5.00%, State Revolving Trust Bond, due August 1, 2021	344	343
0.00%, State Revolving Fund Bond, due August 1, 2021	275	281
3.64%, State Revolving Trust Note, due July 1, 2028	322	330
3.64%, State Revolving Trust Note, due January 1, 2028	107	110
3.45%, State Revolving Trust Note, due August 1, 2031	1,115	467
6.59%, Amortizing Secured Note, due April 20, 2029	5,174	5,348
7.05%, Amortizing Secured Note, due January 20, 2030	3,896	4,021
5.69%, Amortizing Secured Note, due January 20, 2030	7,991	8,248
3.75%, State Revolving Trust Note, due July 1, 2031	2,463	2,515
3.75%, State Revolving Trust Note, due November 30, 2030	1,304	1,333
<b>First Mortgage Bonds:</b>		
0.00%, Series X, due September 1, 2018	262	268
4.25% to 4.63%, Series Y, due September 1, 2018	300	300
0.00%, Series Z, due September 1, 2019	658	671
5.25% to 5.75%, Series AA, due September 1, 2019	830	830
0.00%, Series BB, due September 1, 2021	945	965
4.00% to 5.00%, Series CC, due September 1, 2021	1,145	1,145
0.00%, Series EE, due August 1, 2023	3,882	3,968
3.00% to 5.50%, Series FF, due August 1, 2024	5,335	5,335
0.00%, Series GG, due August 1, 2026	1,152	1,171
4.00% to 5.00%, Series HH, due August 1, 2026	1,475	1,475
0.00%, Series II, due August 1, 2024	950	971
3.40% to 5.00%, Series JJ, due August 1, 2027	1,165	1,165
0.00%, Series KK, due August 1, 2028	1,322	1,346
5.00% to 5.50%, Series LL, due August 1, 2028	1,505	1,505
0.00%, Series MM, due August 1, 2030	1,604	1,637
3.00% to 4.375%, Series NN, due August 1, 2030	1,835	1,835
0.00%, Series OO, due August 1, 2031	2,659	2,709
2.00% to 5.00%, Series PP, due August 1, 2031	885	885
5.00%, Series QQ, due October 1, 2023	9,915	9,915
3.80%, Series RR, due October 1, 2038	22,500	22,500
4.25%, Series SS, due October 1, 2047	23,000	23,000
0.00%, Series TT, due August 1, 2032	2,809	2,860
3.00% to 3.25%, Series UU, due August 1, 2032	1,015	1,015
0.00%, Series VV, due August 1, 2033	2,815	—
3.00% to 5.00%, Series WW, due August 1, 2033	935	—

SUBTOTAL LONG-TERM DEBT	135,784	133,112
Add: Premium on Issuance of Long-term Debt	1,967	2,072
Less: Current Portion of Long-term Debt	(5,520)	(5,386)
<b>TOTAL LONG-TERM DEBT</b>	<b>\$ 132,231</b>	<b>\$ 129,798</b>

See Notes to Condensed Consolidated Financial Statements.

**MIDDLESEX WATER COMPANY**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 – Basis of Presentation and Recent Developments**

Middlesex Water Company (Middlesex or the Company) is the parent company and sole shareholder of Tidewater Utilities, Inc. (Tidewater), Tidewater Environmental Services, Inc. (TESI), Pinelands Water Company (Pinelands Water) and Pinelands Wastewater Company (Pinelands Wastewater) (collectively, Pinelands), Utility Service Affiliates, Inc. (USA), Utility Service Affiliates (Perth Amboy) Inc. (USA-PA), and Twin Lakes Utilities, Inc. (Twin Lakes). Southern Shores Water Company, LLC (Southern Shores) and White Marsh Environmental Systems, Inc. (White Marsh) are wholly-owned subsidiaries of Tidewater. The financial statements for Middlesex and its wholly-owned subsidiaries (the Company) are reported on a consolidated basis. All significant intercompany accounts and transactions have been eliminated.

The consolidated notes within the 2013 Annual Report on Form 10-K (the 2013 Form 10-K) are applicable to these financial statements and, in the opinion of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary (including normal recurring accruals) to present fairly the financial position as of June 30, 2014, the results of operations for the three month and six month periods ended June 30, 2014, and 2013 and cash flows for the six month periods ended June 30, 2014, and 2013. Information included in the Condensed Consolidated Balance Sheet as of December 31, 2013, has been derived from the Company's audited financial statements for the year ended December 31, 2013 included in the 2013 Form 10-K.

*Recent Accounting Guidance*

In May 2014, the Financial Accounting Standards Board issued an update to authoritative guidance related to revenue from contracts with customers. The update replaces most of the existing guidance with a single set of principles for recognizing revenue from contracts with customers. The guidance will be effective for the Company beginning January 1, 2017. Early adoption is not permitted. The new guidance must be applied retrospectively to each prior period presented or via a cumulative effect upon the date of initial application. We are currently evaluating the impact that the adoption will have on our consolidated financial statements and related disclosures.

There is no additional new adopted or proposed accounting guidance that could have a material impact on the Company's financial statements.

**Note 2 – Rate and Regulatory Matters**

**Middlesex** – In June 2014, Middlesex's application with the New Jersey Board of Public Utilities (NJBPU) seeking permission to increase base water rates was partially approved, granting an increase in annual operating revenues of \$4.2 million. The originally-filed base water rate increase request of \$10.6 million (subsequently revised to \$8.1 million, primarily resulting from lower employee benefit plan costs), filed in November 2013, was necessitated by capital investments Middlesex had made, or committed to make, increased operations and maintenance costs and lost revenues resulting from the ending of a wholesale water sales contract with the Borough of Sayreville, New Jersey in August 2013 and Middlesex's largest retail water customer, Hess Corporation, ceasing its oil refining operations at its Port Reading, New Jersey facility in February 2013. The new base water rates are designed to recover the increased costs, lost revenues, as well as a return on invested capital in rate base of \$208.6 million based on a return on equity of 9.75%. The rate increase became effective on July 20, 2014.

In May 2014, Middlesex filed a petition with the NJBPU seeking approval of foundational capital project information (Foundational Filing) that would allow for the implementation of a Distribution System Improvement Charge (DSIC). A DSIC is a rate-mechanism that allows water utilities to recover investment in capital improvements to their water distribution system made between base rate proceedings. If approved, the DSIC would increase annual revenues in increments occurring at approximate six-month intervals over a period of thirty-six months. The maximum annual revenues to be recovered under the Foundational Filing are \$3.6 million. A decision by the NJBPU is expected in August 2014. We cannot predict whether the NJBPU will ultimately approve, deny, or reduce the capital projects submitted for consideration.

**Tidewater** - In November 2013, Tidewater filed an application with the Delaware Public Service Commission (DEPSC) seeking permission to increase its base water rates by approximately \$3.9 million per year. The request was necessitated by capital investments Tidewater has made, or has committed to make, as well as increased operations and maintenance costs. On July 2, 2014, Tidewater filed additional information that resulted in reducing its original request to \$2.5 million, primarily from lower employee benefit plan costs. We cannot predict whether the DEPSC will ultimately approve, deny, or reduce the amount of the revised request. A decision by the DEPSC is expected in the third quarter of 2014. In connection with the rate increase application, Tidewater implemented a DEPSC approved 6.5% interim rate increase, subject to refund, on February 6, 2014. As of June 30, 2014, Tidewater has deferred \$0.5 million of the interim rate increase in the event that the final approved rate increase is less than the approved interim rate increase. Concurrent with Tidewater's interim rate increase, Tidewater's DEPSC approved \$0.1 million annual DSIC rate reset to \$0.

In April 2014, the DEPSC approved Tidewater's agreement with the United States Department of Defense for the privatization of the water system of Dover Air Force Base (DAFB) in Dover, Delaware. Under the agreement, Tidewater will provide DAFB with potable water service and integrate the DAFB water system into its regulated utility operations. Tidewater expects to begin providing water service to DAFB in October 2014. Service to DAFB is expected to initially generate approximately \$0.6 million of revenue annually.

**TESI** - The DEPSC approved an April 2014 request by TESI to relinquish its Certificate of Public Necessity and Convenience ("CPCN") for a real estate parcel in Sussex County, Delaware. This approval allowed for a companion transaction to be completed, whereby TESI was reimbursed with a combination of cash and a future receivable by a real estate developer for \$1.9 million of Preliminary Survey and Investigation Costs incurred in connection with the CPCN. TESI recognized a gain of less than \$0.1 million from this transaction.

### **Note 3 – Capitalization**

#### *Common Stock*

During the six months ended June 30, 2014 and 2013, there were 35,078 common shares (approximately \$0.7 million) and 45,378 common shares (approximately \$0.9 million), respectively, issued under the Company's Amended and Restated Dividend Reinvestment and Common Stock Purchase Plan.

For the six months ended June 30, 2014, 4,298 shares (approximately \$0.5 million) of the Company's no par \$7.00 Series Cumulative and Convertible Preferred Stock were converted into 51,576 shares of common stock.

#### *Long-term Debt*

In May 2014, Middlesex borrowed approximately \$3.8 million through the New Jersey Environmental Infrastructure Trust under the New Jersey State Revolving Fund (SRF) loan program and issued first mortgage bonds designated as Series VV (approximately \$2.8 million) and Series WW (approximately \$0.9 million). The interest rate on the Series VV bond is zero and the interest rate on the Series WW bond ranges from 3.0% to 5.0% depending on the serial maturity date. The final maturity date for both bonds is August 1, 2033. Proceeds were recorded as Restricted Cash and may only be used for the Middlesex 2014 RENEW project, which is part of a program to clean and cement all unlined mains in the Middlesex system.

#### *Fair Value of Financial Instruments*

The following methods and assumptions were used by the Company in estimating its fair value disclosure for financial instruments for which it is practicable to estimate that value. The carrying amounts reflected in the condensed consolidated balance sheets for cash and cash equivalents, trade receivables, accounts payable and notes payable approximate their respective fair values due to the short-term maturities of these instruments. The fair value of the Company's long-term debt relating to First Mortgage and SRF Bonds (Bonds) is based on quoted market prices for similar issues. Under the fair value hierarchy, the fair value of cash and cash equivalents is classified as a Level 1 measurement and the fair value of the Bonds in the table below are classified as Level 2 measurements.

The carrying amount and fair value of the Company's bonds were as follows:

	June 30, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
First Mortgage Bonds	\$ 90,898	\$ 89,357	\$ 87,471	\$ 79,733
SRF Bonds	\$ 619	\$ 621	\$ 625	\$ 628

For other long-term debt for which there was no quoted market price and there is not an active trading market, it was not practicable to estimate their fair value (for details, including carrying value, interest rate and due date on these series of long-term debt, please refer to those series noted as "Amortizing Secured Note" and "State Revolving Trust Note" on the Condensed Consolidated Statements of Capital Stock and Long-Term Debt). The carrying amount of these instruments was \$44.3 million at June 30, 2014 and \$45.0 million at December 31, 2013. Customer advances for construction have carrying amounts of \$21.4 million and \$21.8 million, respectively, at June 30, 2014 and December 31, 2013. Their relative fair values cannot be accurately estimated since future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases.

#### Note 4 – Earnings Per Share

Basic earnings per share (EPS) are computed on the basis of the weighted average number of shares outstanding during the period presented. Diluted EPS assumes the conversion of both the Convertible Preferred Stock \$7.00 Series and the Convertible Preferred Stock \$8.00 Series.

	(In Thousands Except per Share Amounts)			
	Three Months Ended June 30,			
	2014		2013	
	Income	Shares	Income	Shares
<b>Basic:</b>				
Net Income	\$ 4,728	16,018	\$ 4,481	15,829
Preferred Dividend	(36)		(51)	
Earnings Applicable to Common Stock	\$ 4,692	16,018	\$ 4,430	15,829
<b>Basic EPS</b>	\$ 0.29		\$ 0.28	
<b>Diluted:</b>				
Earnings Applicable to Common Stock	\$ 4,692	16,018	\$ 4,430	15,829
\$7.00 Series Preferred Dividend	17	140	24	167
\$8.00 Series Preferred Dividend	6	41	14	96
Adjusted Earnings Applicable to Common Stock	\$ 4,715	16,199	\$ 4,468	16,092
<b>Diluted EPS</b>	\$ 0.29		\$ 0.28	

(In Thousands Except per Share Amounts)  
Six Months Ended June 30,

	2014		2013	
	Income	Shares	Income	Shares
<b>Basic:</b>				
Net Income	\$ 7,897	15,996	\$ 7,658	15,818
Preferred Dividend	(79)		(103)	
Earnings Applicable to Common Stock	\$ 7,818	15,996	\$ 7,555	15,818
<b>Basic EPS</b>	\$ 0.49		\$ 0.48	
<b>Diluted:</b>				
Earnings Applicable to Common Stock	\$ 7,818	15,996	\$ 7,555	15,818
\$7.00 Series Preferred Dividend	41	153	49	167
\$8.00 Series Preferred Dividend	12	41	28	96
Adjusted Earnings Applicable to Common Stock	\$ 7,871	16,190	\$ 7,632	16,081
<b>Diluted EPS</b>	\$ 0.49		\$ 0.47	

#### Note 5 – Business Segment Data

The Company has identified two reportable segments. One is the regulated business of collecting, treating and distributing water on a retail and wholesale basis to residential, commercial, industrial and fire protection customers in parts of New Jersey, Delaware and Pennsylvania. This segment also includes regulated wastewater systems in New Jersey and Delaware. The Company is subject to regulations as to its rates, services and other matters by New Jersey, Delaware and Pennsylvania with respect to utility services within these states. The other segment is primarily comprised of non-regulated contract services for the operation and maintenance of municipal and private water and wastewater systems in New Jersey and Delaware. Inter-segment transactions relating to operational costs are treated as pass-through expenses. Finance charges on inter-segment loan activities are based on interest rates that are below what would normally be charged by a third party lender.

Operations by Segments:	(In Thousands)			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
<b>Revenues:</b>				
Regulated	\$ 25,720	\$ 25,637	\$ 49,373	\$ 49,061
Non – Regulated	3,624	3,580	7,261	7,316
Inter-segment Elimination	(154)	(115)	(271)	(237)
<b>Consolidated Revenues</b>	<b>\$ 29,190</b>	<b>\$ 29,102</b>	<b>\$ 56,363</b>	<b>\$ 56,140</b>
<b>Operating Income:</b>				
Regulated	\$ 8,143	\$ 7,678	\$ 13,547	\$ 13,016
Non – Regulated	604	493	1,167	1,020
<b>Consolidated Operating Income</b>	<b>\$ 8,747</b>	<b>\$ 8,171</b>	<b>\$ 14,714</b>	<b>\$ 14,036</b>
<b>Net Income:</b>				
Regulated	\$ 4,416	\$ 4,235	\$ 7,297	\$ 7,145
Non – Regulated	312	246	600	513
<b>Consolidated Net Income</b>	<b>\$ 4,728</b>	<b>\$ 4,481</b>	<b>\$ 7,897</b>	<b>\$ 7,658</b>
<b>Capital Expenditures:</b>				
Regulated	\$ 4,339	\$ 5,703	\$ 8,474	\$ 10,104
Non – Regulated	—	13	31	118
<b>Total Capital Expenditures</b>	<b>\$ 4,339</b>	<b>\$ 5,716</b>	<b>\$ 8,505</b>	<b>\$ 10,222</b>

	As of June 30, 2014	As of December 31, 2013
<b>Assets:</b>		
Regulated	\$ 537,465	\$ 529,381
Non – Regulated	7,831	8,887
Inter-segment Elimination	(6,682)	(7,927)
<b>Consolidated Assets</b>	<b>\$ 538,614</b>	<b>\$ 530,341</b>

**Note 6 – Short-term Borrowings**

As of June 30, 2014, the Company has established lines of credit aggregating \$60.0 million. At June 30, 2014, the outstanding borrowings under these credit lines were \$28.0 million at a weighted average interest rate of 1.40%.

The weighted average daily amounts of borrowings outstanding under the Company's credit lines and the weighted average interest rates on those amounts were as follows:

	(In Thousands)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Average Daily Amounts Outstanding	\$ 26,874	\$ 25,873	\$ 27,435	\$ 26,895
Weighted Average Interest Rates	1.42%	1.34%	1.44%	1.37%

The maturity dates for the \$28.0 million outstanding as of June 30, 2014 are all in July 2014 and are extendable at the discretion of the Company.

Interest rates for short-term borrowings under the lines of credit are below the prime rate with no requirement for compensating balances.

#### Note 7 – Commitments and Contingent Liabilities

##### Water Supply

Middlesex has an agreement with the New Jersey Water Supply Authority (NJWSA) for the purchase of untreated water through November 30, 2023, which provides for an average purchase of 27 million gallons a day (mgd). Pricing is set annually by the NJWSA through a public rate making process. The agreement has provisions for additional pricing in the event Middlesex overdrafts or exceeds certain monthly and annual thresholds.

Middlesex also has an agreement with a non-affiliated regulated water utility for the purchase of treated water. This agreement, which expires February 27, 2016, provides for the minimum purchase of 3 mgd of treated water with provisions for additional purchases.

Purchased water costs are shown below:

	(In Thousands)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Treated	\$ 802	\$ 762	\$ 1,580	\$ 1,523
Untreated	515	515	1,121	1,121
Total Costs	\$ 1,317	\$ 1,277	\$ 2,701	\$ 2,644

*Contract Operations* - USA-PA operates the City of Perth Amboy, New Jersey's water and wastewater systems under a 20-year agreement, which expires in 2018. In connection with the agreement with Perth Amboy, USA-PA entered into a 20-year subcontract with a wastewater operating company for the operation and maintenance of the Perth Amboy wastewater collection system. The subcontract provides for the sharing of certain fixed and variable fees and operating expenses.

*Guarantees* - In September 2013, Middlesex entered into agreements with Applied Water Management, Inc. (AWM), Natural Systems Utilities, LLC (NSU), the parent company of AWM, and the County of Monmouth, New Jersey (Monmouth County) for the design, construction and operation of a leachate pretreatment facility at the Monmouth County Reclamation Center in Tinton Falls, New Jersey. Under the terms of the agreements, AWM will obtain permits, design, build and operate the landfill leachate pretreatment facility and Middlesex will serve in the role of guarantor of AWM's performance on the project, in addition to providing operational support. Construction of the facility is being financed by Monmouth County and is expected to begin in the third quarter of 2014. Middlesex expects to act as guarantor of AWM's performance through at least August 2018 and is contractually obligated to act as guarantor of AWM's performance through 2028 unless another guarantor, acceptable to Monmouth County, is identified. Under agreements with AWM and NSU, Middlesex earns a fee for providing the guaranty of AWM's performance to Monmouth County, and AWM and NSU, serving as guarantor to Middlesex with respect to the performance of AWM, indemnify Middlesex against any claims that may arise under the Middlesex guaranty to Monmouth County.

Middlesex believes it is unlikely any payments would need to be made under Middlesex's guaranty of AWM's performance to Monmouth County. If asked to perform under the guaranty to Monmouth County, and, if AWM and NSU, as guarantor to Middlesex, do not fulfill their obligations to indemnify Middlesex against any claims that may arise under the Middlesex guaranty to Monmouth County, Middlesex would be required to fulfill the construction and operational commitments of AWM. As of June 30, 2014, and December 31, 2013, the liability recognized in Other Non-Current Liabilities on the balance sheet for the guaranty is approximately \$0.3 million and \$0.4 million, respectively.

#### *Construction*

The Company expects to spend approximately \$26.6 million for its construction program in 2014. The actual timing and amount of capital expenditures is dependent on project scheduling and refinement of engineering estimates for certain projects.

#### *Litigation*

The Company is a defendant in lawsuits in the normal course of business. We believe the resolution of pending claims and legal proceedings will not have a material adverse effect on the Company's consolidated financial statements.

#### *Change in Control Agreements*

The Company has Change in Control Agreements with certain of its officers that provide compensation and benefits in the event of termination of employment in connection with a change in control of the Company.

### **Note 8 – Employee Benefit Plans**

#### *Pension Benefits*

The Company's Pension Plan covers substantially all employees hired prior to March 31, 2007. Employees hired after March 31, 2007 are not eligible to participate in this plan, but do participate in a defined contribution plan that provides an annual contribution into a self-directed retirement account at the discretion of the Company, based upon a percentage of the participants' compensation. In order to be eligible for contribution, the participating employee must be employed by the Company on December 31st of the year to which the award relates. For the three months ended June 30, 2014, the Company made Pension Plan cash contributions of \$0.8 million. The Company did not make any Pension Plan contributions in the three months ended June 30, 2013. For the six months ended June 30, 2014 and 2013, the Company made Pension Plan cash contributions of \$1.3 million and \$0.6 million, respectively. The Company expects to make additional Pension Plan cash contributions of approximately \$2.0 million over the remainder of the current year. The Company also maintains an unfunded supplemental retirement benefit plan for certain active and retired Company officers and currently pays \$0.3 million in annual benefits to the retired participants.

#### *Other Postretirement Benefits*

The Company's postretirement plan other than pensions (Other Benefits Plan) covers substantially all of its retired employees. Employees hired after March 31, 2007 are not eligible to participate in this plan. Coverage includes healthcare and life insurance. For the three months ended June 30, 2014, the Company made Other Benefits Plan cash contributions of \$0.2 million. The Company did not make any Other Benefits Plan contributions in the three months ended June 30, 2013. For the six months ended June 30, 2014 and 2013, the Company made Other Benefits Plan cash contributions of \$0.4 million and \$0.7 million, respectively. The Company expects to make additional Other Benefits Plan cash contributions of approximately \$1.0 million over the remainder of the current year.

The following tables set forth information relating to the Company's periodic costs for its employee retirement benefit plans:

	(In Thousands)			
	Pension Benefits		Other Benefits	
	Three Months Ended June 30,			
	2014	2013	2014	2013
Service Cost	\$ 474	\$ 575	\$ 258	\$ 335
Interest Cost	671	617	448	398
Expected Return on Assets	(884)	(723)	(484)	(405)
Amortization of Unrecognized Losses	104	408	353	517
Amortization of Unrecognized Prior Service Cost (Credit)	—	3	(432)	(432)
Net Periodic Benefit Cost	\$ 365	\$ 880	\$ 143	\$ 413

	(In Thousands)			
	Pension Benefits		Other Benefits	
	Six Months Ended June 30,			
	2014	2013	2014	2013
Service Cost	\$ 947	\$ 1,150	\$ 516	\$ 669
Interest Cost	1,341	1,234	896	797
Expected Return on Assets	(1,767)	(1,447)	(969)	(811)
Amortization of Unrecognized Losses	208	816	707	1,033
Amortization of Unrecognized Prior Service Cost (Credit)	1	5	(864)	(864)
Net Periodic Benefit Cost	\$ 730	\$ 1,758	\$ 286	\$ 824

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements of Middlesex Water Company (Middlesex or the Company) included elsewhere herein and with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

### **Forward-Looking Statements**

Certain statements contained in this periodic report and in the documents incorporated by reference constitute "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933. The Company intends that these statements be covered by the safe harbors created under those laws. These statements include, but are not limited to:

- statements as to expected financial condition, performance, prospects and earnings of the Company;
- statements regarding strategic plans for growth;
- statements regarding the amount and timing of rate increases and other regulatory matters, including the recovery of certain costs recorded as regulatory assets;
- statements as to the Company's expected liquidity needs during the upcoming fiscal year and beyond and statements as to the sources and availability of funds to meet its liquidity needs;
- statements as to expected customer rates, consumption volumes, service fees, revenues, margins, expenses and operating results;
- statements as to financial projections;
- statements as to the expected amount of cash contributions to fund the Company's retirement benefit plans, anticipated discount rates and rates of return on retirement benefit plan assets;
- statements as to the ability of the Company to pay dividends;
- statements as to the Company's compliance with environmental laws and regulations and estimations of the materiality of any related costs;
- statements as to the safety and reliability of the Company's equipment, facilities and operations;
- statements as to the Company's plans to renew municipal franchises and consents in the territories it serves;
- statements as to trends; and
- statements regarding the availability and quality of our water supply.

These forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed or implied by the forward-looking statements. Important factors that could cause actual results to differ materially from anticipated results and outcomes include, but are not limited to:

- the effects of general economic conditions;
- increases in competition in the markets served by the Company;
- the ability of the Company to control operating expenses and to achieve efficiencies in its operations;
- the availability of adequate supplies of water;
- actions taken by government regulators, including decisions on rate increase requests;
- new or additional water quality standards;
- weather variations and other natural phenomena;
- the existence of financially attractive acquisition candidates and the risks involved in pursuing those acquisitions;
- acts of war or terrorism;
- cyber security incidents or failure of information technology systems;
- significant changes in the pace of housing development in Delaware;
- the availability and cost of capital resources;
- the ability to translate Preliminary Survey & Investigation charges into active projects; and
- other factors discussed elsewhere in this quarterly report.

Many of these factors are beyond the Company's ability to control or predict. Given these uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements, which only speak to the Company's understanding as of the date of this report. The Company does not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events, except as may be required under applicable securities laws.

For an additional discussion of factors that may affect the Company's business and results of operations, see Item 1A. - Risk Factors in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

## Overview

Middlesex Water Company (Middlesex) has operated as a water utility in New Jersey since 1897, in Delaware through our wholly-owned subsidiary, Tidewater Utilities, Inc. (Tidewater), since 1992 and in Pennsylvania through our wholly-owned subsidiary, Twin Lakes Utilities, Inc. (Twin Lakes), since 2009. We are in the business of collecting, treating and distributing water for domestic, commercial, municipal, industrial and fire protection purposes. We also operate two New Jersey municipal water and wastewater systems under contract and provide regulated wastewater services in New Jersey and Delaware through our subsidiaries. We are regulated as to rates charged to customers for water and wastewater services, as to the quality of water service we provide and as to certain other matters in New Jersey, Delaware and Pennsylvania. Only our Utility Service Affiliates, Inc. (USA), Utility Service Affiliates (Perth Amboy), Inc. (USA-PA) and White Marsh Environmental Services, Inc. (White Marsh) subsidiaries are not regulated utilities.

Our New Jersey water utility system (the Middlesex System) provides water services to approximately 61,000 retail customers, primarily in central New Jersey. The Middlesex System also provides water service under contract to municipalities in central New Jersey with a total population of approximately 219,000. Our Bayview subsidiary provides water services in Downe Township, New Jersey. Our other New Jersey subsidiaries, Pinelands Water Company (Pinelands Water) and Pinelands Wastewater Company (Pinelands Wastewater) (collectively, Pinelands), provide water and wastewater services to residents in Southampton Township, New Jersey.

We have an investment in a joint venture, Ridgewood Green RME, LLC, that owns and operates facilities to optimize the production of electricity at the Village of Ridgewood, New Jersey wastewater treatment plant and other municipal facilities.

In partnership with our subsidiary, USA-PA, we operate the water supply system and wastewater system for the City of Perth Amboy, New Jersey (Perth Amboy).

USA offers residential customers in New Jersey and Delaware water service line and sewer lateral maintenance programs (LineCare). USA entered into a marketing agreement (the Agreement), expiring in 2021, with HomeServe USA (HomeServe), a leading provider of home maintenance service programs to service, develop and grow USA's LineCare customer base. USA receives a service fee for the billing, cash collection and other administrative matters associated with HomeServe's service contracts. USA also operates the Borough of Avalon, New Jersey's (Avalon) water utility, sewer utility and storm water system. In addition to performing the day to day operations, USA is responsible for billing, collections, customer service, emergency responses and management of capital projects funded by Avalon. USA also provides unregulated water and wastewater services under contract with several New Jersey municipalities and an industrial customer.

Our Delaware subsidiaries, Tidewater and Southern Shores Water Company, LLC (Southern Shores), provide water services to approximately 39,000 retail customers in New Castle, Kent and Sussex Counties, Delaware. Tidewater's subsidiary, White Marsh, services an additional 3,500 customers in Kent and Sussex Counties through various operations and maintenance contracts.

Our Tidewater Environmental Services, Inc. (TESI) subsidiary provides wastewater services to approximately 3,200 residential retail customers.

Our Pennsylvania subsidiary, Twin Lakes, provides water services to approximately 120 retail customers in the Township of Shohola, Pike County, Pennsylvania.

The majority of our revenue is generated from retail and contract water services to customers in our service areas. We record water service revenue as such service is rendered and include estimates for amounts unbilled at the end of the period for services provided after the last billing cycle. Fixed service charges are billed in advance by our subsidiary, Tidewater, and are recognized in revenue as the service is provided.

Our ability to increase operating income and net income is based significantly on four factors: weather, adequate and timely rate relief, effective cost management, and customer growth. These factors are evident in the discussions below which compare our results of operations with prior periods.

## Recent Developments

**New Jersey Board of Public Utilities Approves Middlesex Base Water Rate Increase**— In June 2014, Middlesex’s application with the New Jersey Board of Public Utilities (NJBPU) seeking permission to increase base water rates was partially approved, granting an increase in annual operating revenues of \$4.2 million. The originally-filed base water rate increase request of \$10.6 million (subsequently revised to \$8.1 million, primarily resulting from lower employee benefit plan costs), filed in November 2013, was necessitated by capital investments Middlesex had made, or committed to make, increased operations and maintenance costs and lost revenues resulting from the ending of a wholesale water sales contract with the Borough of Sayreville, New Jersey in August 2013 and Middlesex’s largest retail water customer, Hess Corporation, ceasing its oil refining operations at its Port Reading, New Jersey facility in February 2013. The new base water rates are designed to recover the increased costs, lost revenues, as well as a return on invested capital in rate base of \$208.6 million based on a return on equity of 9.75%. The rate increase became effective on July 20, 2014.

**Tidewater Base Water Rate Filing** - In November 2013, Tidewater filed an application with the Delaware Public Service Commission (DEPSC) seeking permission to increase its base water rates by approximately \$3.9 million per year. The request was necessitated by capital investments Tidewater has made, or has committed to make, as well as increased operations and maintenance costs. On July 2, 2014, Tidewater filed additional information that resulted in reducing its original request to \$2.5 million, primarily from lower employee benefit plan costs. We cannot predict whether the DEPSC will ultimately approve, deny, or reduce the amount of the revised request. A decision by the DEPSC is expected in the third quarter of 2014.

**Dover Air Force Base** - In April 2014, the DEPSC approved Tidewater’s agreement with the United States Department of Defense for the privatization of the water system of Dover Air Force Base (DAFB) in Dover, Delaware. Under the agreement, Tidewater will provide DAFB with potable water service and integrate the DAFB water system into its regulated utility operations. Tidewater expects to begin providing water service to DAFB in October 2014. Service to DAFB is expected to initially generate approximately \$0.6 million of annual revenue.

## Outlook

Revenues in 2014 are expected to be favorably impacted by Middlesex and Tidewater base water rate increases, (see “*New Jersey Board of Public Utilities Approves Middlesex Base Water Rate Increase*” and “*Tidewater Base Water Rate Filing*” above for further discussion on Middlesex and Tidewater’s base rate increase filings). A decision by Tidewater’s regulator on its rate increase request is expected in the third quarter of 2014. In addition, revenues are expected to be favorably impacted by Tidewater’s agreement to provide water service to DAFB (beginning in October 2014) and the full year effect of TESI’s Plantations development (Plantations) wastewater asset acquisition, which TESI began serving in October 2013.

Improved performance in 2013 on our investment of retirement plan funds and a higher discount rate used for our actuarially-determined 2014 employee benefit plan expenses have lowered our expenses and cash contributions in 2014. See Note 8 of the Notes to Unaudited Condensed Consolidated Financial Statements for further discussion of Employee Benefit Plans.

Revenues and earnings are influenced by weather. Changes in usage patterns, as well as increases in capital expenditures and operating costs, are the primary factors in determining the need for rate increase requests. We continue to implement plans to streamline operations and reduce operating costs.

As a result the pace of new residential home construction, there may be an increase in the amount of preliminary survey and investigation (PS&I) costs that will not be currently recoverable in rates. If it is determined that recovery is unlikely, the applicable PS&I costs will be charged against income in the period of determination.

Our strategy is focused on four key areas:

- Acquire investor- and municipally-owned water and wastewater utilities;
- Operate municipal and industrial water and wastewater systems under contract;
- Invest in renewable energy projects that are complementary to the provision of water and wastewater services, and to our core water and wastewater competencies; and
- Invest in other products, services and opportunities that complement our core water and wastewater competencies.

### Operating Results by Segment

The discussion of the Company's operating results is on a consolidated basis and includes significant factors by subsidiary. The Company has two operating segments, Regulated and Non-Regulated.

The segments in the tables included below consist of the following companies: Regulated-Middlesex, Tidewater, Pinelands, Southern Shores, TESI and Twin Lakes; Non-Regulated-USA, USA-PA, and White Marsh.

### Results of Operations – Three Months Ended June 30, 2014

	(In Thousands)					
	Three Months Ended June 30,					
	2014			2013		
	Regulated	Non-Regulated	Total	Regulated	Non-Regulated	Total
Revenues	\$ 25,656	\$ 3,534	\$ 29,190	\$ 25,610	\$ 3,492	\$ 29,102
Operations and maintenance expenses	11,771	2,792	14,563	12,286	2,862	15,148
Depreciation expense	2,790	47	2,837	2,680	45	2,725
Other taxes	2,951	92	3,043	2,966	92	3,058
<b>Operating income</b>	<b>8,144</b>	<b>603</b>	<b>8,747</b>	<b>7,678</b>	<b>493</b>	<b>8,171</b>
Other income, net	51	(5)	46	78	—	78
Interest expense	1,493	22	1,515	1,514	24	1,538
Income taxes	2,286	264	2,550	2,007	223	2,230
<b>Net income</b>	<b>\$ 4,416</b>	<b>\$ 312</b>	<b>\$ 4,728</b>	<b>\$ 4,235</b>	<b>\$ 246</b>	<b>\$ 4,481</b>

### *Operating Revenues*

Operating revenues for the three months ended June 30, 2014 increased \$0.1 million from the same period in 2013. This increase was primarily related to the following factors:

- Middlesex System revenues decreased \$0.7 million, primarily due to the following:
  - o Sales to General Metered Service customers decreased by \$0.1 million, primarily resulting from Hess Corporation ceasing its oil refining operations at its Port Reading, New Jersey facility in February 2013; and
  - o Contract Sales to Municipalities decreased by \$0.6 million primarily due to the loss of the Borough of Sayreville, New Jersey as a wholesale customer in August 2013;
- Tidewater System revenues increased \$0.6 million, primarily due to the following:
  - o Increased fees for new customer connections to our water system;
  - o The February 2014 implementation of a DEPSC-approved 6.5% interim base rate increase, net of the partial deferral of the interim base rate increase (see Note 2, *Rate and Regulatory Matters – Tidewater*); and
  - o Higher customer demand;
- TESI's revenues increased \$0.1 million, primarily due to the acquisition of the wastewater assets of the Plantations, which TESI began serving in October 2013;
- All other revenues increased \$0.1 million.

### *Operation and Maintenance Expense*

Operation and maintenance expenses for the three months ended June 30, 2014 decreased \$0.6 million, primarily due to lower postretirement employee benefit plan costs resulting from improved performance in 2013 on our investment of retirement plan funds and a higher discount rate used for the actuarially determined 2014 expense.

### *Depreciation*

Depreciation expense for the three months ended June 30, 2014 increased \$0.1 million from the same period in 2013 due to a higher level of utility plant in service.

### *Other Taxes*

Other taxes for the three months ended June 30, 2014 were consistent with the same period in 2013, primarily due to lower revenue related taxes on lower taxable revenues in our Middlesex system offset by higher payroll taxes.

### *Other Income, net*

Other Income, net for the three months ended June 30, 2014 was consistent with the same period in 2013.

### *Interest Charges*

Interest charges for the three months ended June 30, 2014 were consistent with the same period in 2013.

### *Income Taxes*

Income taxes for the three months ended June 30, 2014 increased \$0.3 million from the same period in 2013, primarily due to increased operating income in 2014 as compared to 2013 and a higher effective tax rate, resulting from Middlesex's subsidiaries who pay state income taxes contributing a higher percentage of 2014 consolidated pre-tax income.

*Net Income and Earnings Per Share*

Net income for the three months ended June 30, 2014 increased \$0.2 million from the same period in 2013. Basic and diluted earnings per share were \$0.29 and \$0.28 for the three months ended June 30, 2014 and 2013, respectively.

**Results of Operations – Six Months Ended June 30, 2014**

	(In Thousands)					
	Six Months Ended June 30,					
	2014			2013		
	Regulated	Non-Regulated	Total	Regulated	Non-Regulated	Total
Revenues	\$ 49,281	\$ 7,082	\$ 56,363	\$ 49,002	\$ 7,138	\$ 56,140
Operations and maintenance expenses	24,362	5,638	30,000	24,733	5,845	30,578
Depreciation expense	5,559	93	5,652	5,344	90	5,434
Other taxes	5,813	184	5,997	5,909	183	6,092
<b>Operating income</b>	<b>13,547</b>	<b>1,167</b>	<b>14,714</b>	<b>13,016</b>	<b>1,020</b>	<b>14,036</b>
Other income, net	110	(6)	104	203	—	203
Interest expense	2,572	46	2,618	2,645	48	2,693
Income taxes	3,788	515	4,303	3,429	459	3,888
<b>Net income</b>	<b>\$ 7,297</b>	<b>\$ 600</b>	<b>\$ 7,897</b>	<b>\$ 7,145</b>	<b>\$ 513</b>	<b>\$ 7,658</b>

*Operating Revenues*

Operating revenues for the six months ended June 30, 2014 increased \$0.2 million from the same period in 2013. This increase was primarily related to the following factors:

- Middlesex System revenues decreased \$1.2 million, primarily due to the following:
  - o Sales to General Metered Service customers decreased by \$0.6 million, primarily resulting from Hess Corporation ceasing its oil refining operations at its Port Reading, New Jersey facility in February 2013; and
  - o Contract Sales to Municipalities decreased by \$0.6 million primarily due to the loss of the Borough of Sayreville, New Jersey as a wholesale customer in August 2013 (\$1.0 million) partially offset by higher demand from customers (\$0.4 million);
- Tidewater System revenues increased \$1.1 million, primarily due to the following:
  - o Increased fees for new customer connections to our water system;
  - o The February 2014 implementation of a DEPSC-approved 6.5% interim base rate increase, net of the partial deferral of the interim base rate increase (see Note 2, *Rate and Regulatory Matters – Tidewater*); and
  - o Higher customer demand;
- TESI's revenues increased \$0.3 million, primarily due to the acquisition of the wastewater assets of the Plantations, which TESI began serving in October 2013;
- White Marsh's revenues increased \$0.1 million, primarily due to higher additional service revenues;
- USA-PA's revenues increased \$0.1 million, primarily from scheduled increases in the fixed fees paid under contract with the City of Perth Amboy; and
- USA's revenues decreased \$0.2 million, primarily due to lower additional services revenues earned under our contract to operate the Avalon water utility, sewer utility and storm water system.

### *Operation and Maintenance Expense*

Operation and maintenance expenses for the six months ended June 30, 2014 decreased \$0.6 million, primarily related to the following factors:

- Employee benefit expenses decreased \$1.4 million due primarily to lower postretirement employee benefit plan costs resulting from improved performance in 2013 on our investment of retirement plan funds and a higher discount rate used for the actuarially determined 2014 expense;
- Severe winter weather resulted higher water main break costs of \$0.3 million in our Middlesex System;
- Labor costs increased \$0.4 million, primarily related to higher overtime resulting from severe winter weather in our Middlesex System; and
- Operation and maintenance expenses for all other categories increased \$0.1 million.

### *Depreciation*

Depreciation expense for the six months ended June 30, 2014 increased \$0.2 million from the same period in 2013 due to a higher level of utility plant in service.

### *Other Taxes*

Other taxes for the six months ended June 30, 2014 decreased \$0.1 million from the same period in 2013, primarily due to lower revenue related taxes on lower taxable revenues in our Middlesex system.

### *Other Income, net*

Other Income, net for the six months ended June 30, 2014 decreased \$0.1 million from the same period in 2013, primarily due to increased potential project related costs at our TESI subsidiary.

### *Interest Charges*

Interest charges for the six months ended June 30, 2014 decreased \$0.1 million from the same period in 2013, primarily due to lower average interest rates on long-term debt and lower average amounts of long-term debt outstanding.

### *Income Taxes*

Income taxes for the six months ended June 30, 2014 increased \$0.4 million from the same period in 2013, primarily due to increased operating income in 2014 as compared to 2013 and a higher effective tax rate, resulting from Middlesex's subsidiaries who pay state income taxes contributing a higher percentage of 2014 consolidated pre-tax income.

### *Net Income and Earnings Per Share*

Net income for the six months ended June 30, 2014 increased \$0.2 million from the same period in 2013. Basic earnings per share were \$0.49 and \$0.48 for the six months ended June 30, 2014 and 2013, respectively. Diluted earnings per share were \$0.49 and \$0.47 for the six months ended June 30, 2014 and 2013, respectively.

## **Liquidity and Capital Resources**

### *Operating Cash Flows*

Cash flows from operations are largely based on four factors: weather, adequate and timely rate increases, effective cost management and customer growth. The effect of those factors on net income is discussed in "Results of Operations."

For the six months ended June 30, 2014, cash flows from operating activities decreased \$2.4 million to \$13.8 million. The decrease in cash flows from operating activities primarily resulted from the timing of vendor payments and employee benefit plan contributions partially offset by the timing of income tax payments. The \$13.8 million of net cash flow from operations enabled us to fund all of our utility plant expenditures internally for the period.

*Capital Expenditures and Commitments*

To fund our capital program, we use internally generated funds, short-term and long-term debt borrowings and, when market conditions are favorable, proceeds from sales of common stock under our Amended and Restated Dividend Reinvestment and Common Stock Purchase Plan (DRP) and common stock offerings. See below for a more detailed discussion regarding the funding of our capital program.

The capital investment program for 2014 is currently estimated to be \$26.6 million. Through June 30, 2014, we have expended \$8.5 million and expect to incur approximately \$18.1 million for capital projects for the remainder of 2014.

We currently project that we may expend approximately \$59.0 million for capital projects in 2015 and 2016. The actual amount and timing of capital expenditures is dependent on project scheduling and refinement of engineering estimates for certain capital projects.

To fund our capital program for the remainder of 2014, we plan on utilizing:

- Internally generated funds
- Proceeds from the sale of common stock through the DRP
- Funds available and held in trust under existing New Jersey State Revolving Fund (SRF) loans (currently, \$3.8 million). SRF programs provide low cost financing for projects that meet certain water quality and system improvement benchmarks.
- Short-term borrowings, if necessary, through \$60.0 million of available lines of credit with several financial institutions. As of June 30, 2014, the outstanding borrowings under these credit lines were \$28.0 million.

**Recent Accounting Pronouncements** – See Note 1 of the Notes to Unaudited Condensed Consolidated Financial Statements for a discussion of recent accounting pronouncements.

### **Item 3. Quantitative and Qualitative Disclosures of Market Risk**

We are exposed to market risk associated with changes in interest rates and commodity prices. The Company is subject to the risk of fluctuating interest rates in the normal course of business. Our policy is to manage interest rates through the use of fixed rate long-term debt and, to a lesser extent, short-term debt. The Company's interest rate risk related to existing fixed rate, long-term debt is not material due to the term of the majority of our First Mortgage Bonds, which have final maturity dates ranging from 2018 to 2047. Over the next twelve months, approximately \$5.5 million of the current portion of 39 existing long-term debt instruments will mature. Applying a hypothetical change in the rate of interest charged by 10% on those borrowings, would not have a material effect on our earnings.

Our risks associated with commodity price increases for chemicals, electricity and other commodities are reduced through contractual arrangements and the ability to recover price increases through rates. Non-performance by these commodity suppliers could have a material adverse impact on our results of operations, financial position and cash flows.

We are exposed to credit risk for both our Regulated and Non-Regulated business segments. Our Regulated operations serve residential, commercial, industrial and municipal customers while our Non-Regulated operations engage in business activities with developers, government entities and other customers. Our primary credit risk is exposure to customer default on contractual obligations and the associated loss that may be incurred due to the non-payment of customer accounts receivable balances. Our credit risk is managed through established credit and collection policies which are in compliance with applicable regulatory requirements and involve monitoring of customer exposure and the use of credit risk mitigation measures such as letters of credit or prepayment arrangements. Our credit portfolio is diversified with no significant customer or industry concentrations. In addition, our Regulated businesses are generally able to recover all prudently incurred costs including uncollectible customer accounts receivable expenses and collection costs through rates.

The Company's postretirement benefit plan assets are exposed to fluctuating market prices of debt and equity securities. Changes to the Company's postretirement benefit plan assets' value can impact the Company's postretirement benefit plan expense, funded status and future minimum funding requirements. Our risk is reduced through our ability to recover postretirement benefit plan costs through rates.

### **Item 4. Controls and Procedures**

#### *Disclosure Controls and Procedures*

As required by Rule 13a-15 under the Securities and Exchange Act of 1934 (the Exchange Act), an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was conducted by the Company's Chief Executive Officer along with the Company's Chief Financial Officer. Based upon that evaluation, the Company's Chief Executive Officer and the Company's Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective as of the end of the period covered by this Report. There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in Company reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in Company reports filed under the Exchange Act is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding disclosure.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

None.

**Item 1A. Risk Factors**

The information about risk factors does not differ materially from those set forth in Part I, Item 1A. of the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

Exhibit designated with a dagger (†) is a management contract.

(†)10.12(g)	Change in Control Termination Agreement between Middlesex Water Company and Jay L. Kooper.
10.33	Uncommitted Line of Credit Letter Agreement and Master Promissory Note between registrant and Bank of America, N.A.
10.34	Uncommitted Line of Credit Letter Agreement between registrant's wholly-owned subsidiary Utility Services Affiliate (Perth Amboy) Inc. and Bank of America, N.A.
10.43	Copy of Loan Agreement by and Between New Jersey Environmental Infrastructure Trust and Middlesex Water Company dated as of May 1, 2014 (Series VV).
10.44	Copy of Loan Agreement by and Between New Jersey Environmental Infrastructure Trust and Middlesex Water Company dated as of May 1, 2014 (Series WW).
31.1	Section 302 Certification by Dennis W. Doll pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.
31.2	Section 302 Certification by A. Bruce O'Connor pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.
32.1	Section 906 Certification by Dennis W. Doll pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.2	Section 906 Certification by A. Bruce O'Connor pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.LAB	XBRL Labels Linkbase Document
101.PRE	XBRL Presentation Linkbase Document
101.DEF	XBRL Definition Linkbase Document

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MIDDLESEX WATER COMPANY

By: /s/A. Bruce O'Connor  
A. Bruce O'Connor  
Vice President, Treasurer and  
Chief Financial Officer  
(Principal Accounting Officer)

Date: August 4, 2014

## CHANGE IN CONTROL TERMINATION AGREEMENT

This Change in Control Termination Agreement (the "Agreement") is entered into as of March 17, 2014, between Middlesex Water Company, a New Jersey corporation, with its principal place of business located at 1500 Ronson Road, P.O. Box 1500, Iselin, New Jersey 08830-0452, (the "Company"), and Jay L. Kooper, residing at 40 Tremont Terrace, Livingston, New Jersey 07039 (referred to as "You" in this Agreement).

**Recitals**

A. The Company considers it essential to the best interests of its shareholders to foster the continuous employment of key management personnel. In this connection, the Board of Directors of the Company (the "Board") recognizes that, as is the case with many publicly held Companies, the possibility of a Change in Control may exist. This possibility, and the uncertainty and questions that it may raise among management, may result in the departure or distraction of management personnel to the detriment of the Company and its shareholders.

B. The Board has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company's management, including You, to the assigned duties without distraction in the face of circumstances arising from the possibility of a Change in Control of the Company.

C. To induce You to remain in the employ of the Company, while simultaneously representing the best interests of the Company's shareholders, and in consideration of your agreement set forth below, the Company agrees that You shall receive the severance benefits set forth in this Agreement in the event your employment with the Company is terminated by the Company, or is terminated by You for "Good Reason," as defined herein, in connection with a "Change in Control of the Company" (as defined in Section 2 below). This Agreement supersedes any other specific written agreements that may have been entered into between yourself and the Company concerning termination of employment.

Therefore, in consideration of your continued employment and the parties' agreement to be bound by the terms contained in this Agreement, the parties agree as follows:

1. **Term of Agreement.** This Agreement shall commence as of March 17, 2014 and shall continue in effect through December 31, 2014. However, commencing on December 31, 2014, and each December 31 afterwards, the term of this Agreement shall automatically be extended for one (1) additional year unless, no later than the preceding November 1st, the Company shall have given notice that it does not wish to extend this Agreement. Notwithstanding the foregoing, if a Change in Control of the Company shall be proposed to occur, or have occurred, during the original or any extended term of this Agreement, this Agreement shall continue in effect until your termination of employment with the Company or its successor or, when all amounts due under this Agreement following a termination have been paid, whichever is later.

2. **Change In Control.** No benefits shall be payable under this Agreement unless there shall have been a Change in Control of the Company, as set forth herein. For purposes of this Agreement, a "Change in Control" of the Company shall be deemed to occur if any party or group acquires beneficial ownership of 20 percent or more of the voting shares of the Company; or if shareholder approval is obtained for a transaction involving the acquisition of the Company through the purchase or exchange of the stock or assets of the Company by merger or otherwise; or if one-third or more of the Board elected in a 12-month period or less are so elected without the approval of a majority of the Board as constituted at the beginning of such period; or a liquidation or dissolution of Company.

3. **Termination Following Change In Control.** If any of the events described in Section 2 above constituting a Change in Control of the Company shall have occurred, then unless the termination is (A) because of your death, Disability or Retirement, (B) by the Company for Cause, or (C) by You other than for Good Reason, on the subsequent termination of your employment during the term of this Agreement, You shall be entitled to the severance benefits provided in Section 4.3 below if such termination occurs on or before the third (3<sup>rd</sup>) anniversary of the Change in Control date .

3.1 **Disability; Retirement.** If, as a result of your incapacity due to physical or mental illness, You shall have been absent from the full-time performance of your duties with the Company for 6 consecutive months, and within 30 days after written notice of termination is given You shall not have returned to the full-time performance of your duties, your employment may be terminated for "Disability." Termination of your employment by the Company or You due to your "Retirement" shall mean termination in accordance with the Company's retirement policy, including early retirement, generally applicable to its salaried employees or, in accordance with any retirement arrangement established with your consent with respect to You.

3.2 **Cause.** Termination by the Company of your employment for "Cause" shall mean termination as a result of:

3.2.1 The willful and continued failure by You to substantially perform your duties with the Company as such employment was performed by You prior to the Change in Control (other than any such failure resulting from your Disability or any such actual or anticipated failure after the issuance by You of a Notice of Termination for Good Reason as defined herein) after a written demand for substantial performance is delivered to You by the Board, which demand specifically identifies the manner in which the Board believes that You have not substantially performed your duties; or

3.2.2 The willful act by You in conduct that is demonstrably and materially injurious to the Company, and which the Board deems to cause or will cause substantial economic damage to the Company or injury to the business reputation of the Company, monetarily or otherwise. For purposes of this Section, no act, or failure to act, on your part shall be deemed "willful" unless done, or omitted to be done, by You not in good faith and without a reasonable belief that your action or omission was in the best interest of the Company. Notwithstanding the foregoing, You shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to You a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice to You and an opportunity for You, together with your counsel, to be heard before the Board), finding that in the good faith opinion of the Board You were guilty of conduct set forth above in clauses 3.2.1 or 3.2.2 of this Section and specifying the particulars in detail.

3.3 **Good Reason.** You shall be entitled to receive severance benefits as provided in this Agreement if You terminate your employment with the Company for "Good Reason." For purposes of this Agreement, "Good Reason" shall mean, without your consent, the occurrence in connection with a Change in Control of the Company of any of the following circumstances unless, in the case of Sections 3.3.1, 3.3.5, 3.3.6, 3.3.7, or 3.3.8, the circumstances are fully corrected prior to the Date of Termination specified in the Notice of Termination, as defined in Sections 3.5 and 3.4, respectively, given in respect of them. If You terminate your employment with the Company for Good Reason, as provided below, your employment with the Company shall be considered to have been involuntarily terminated by the Company:

3.3.1 The assignment to You of any significant employment duties which are inconsistent with your status and position (i) prior to the Change in Control where such change is a direct result of any pending Change in Control; or (ii) as such status exists immediately prior to the Change in Control of the Company, or (iii) which are a substantial adverse alteration in the nature or status of your responsibilities from those in effect immediately prior to the Change in Control of the Company whichever is applicable;

3.3.2 A reduction by the Company in your annual base salary as in effect on the initial date of this Agreement, or as same may be increased from time to time irrespective of future Company policies including any across-the-board salary reductions similarly affecting all key employees of the Company;

3.3.3 Your relocation, without your consent, to an employment location not within twenty-five (25) miles of your present office or job location, except for required travel on the Company's business to an extent substantially consistent with your present business travel obligations;

3.3.4 The failure by the Company, without your consent, to pay to You any part of your current compensation, or to pay to You any part of an installment of deferred compensation under any deferred compensation program of the Company, within fourteen (14) days of the date the compensation is due;

3.3.5 The failure by the Company to continue in effect any bonus to which You were entitled, or any compensation plan in which You participate (i) prior to the Change in Control where such change is a direct result of any pending Change in Control, or (ii) immediately prior to the Change in Control of the Company that is material to your total compensation, including but not limited to the Company's Restricted Stock Plan, 401(k) Plan, and Benefit Plans, or any substitute plans adopted prior to the Change in Control of the Company, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to the plan, or the failure by the Company to continue your participation in it (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount of benefits provided and the level of your participation relative to other participants, as existed at the time of the Change in Control;

3.3.6 The failure by the Company to continue to provide You with (i) benefits substantially similar to those enjoyed by You under any of the Company's life insurance, medical, health and accident, or disability plans in which You were participating at the time of the Change in Control of the Company was in effect for the employees of the Company generally at the time of the Change in Control, (ii) the failure to continue to provide You with a Company automobile or allowance in lieu of it at the time of the Change in Control of the Company, (iii) the taking of any action by the Company that would directly or indirectly materially reduce any of such benefits or deprive You of any material fringe benefit enjoyed by You at the time of the Change in Control of the Company, or (iv) the failure by the Company to provide You with the number of paid vacation days to which You are entitled on the basis of years of service with the Company in accordance with the Company's normal vacation policy or other vacation allowance provided to you by written agreement in effect at the time of the Change in Control of the Company;

3.3.7 The failure of the Company to obtain a satisfactory agreement from any successor to assume and agree to perform this Agreement, as contemplated in Section 5 of this Agreement; or

3.3.8 Any purported termination of your employment that is not effected pursuant to a Notice of Termination satisfying the requirements of Section 3.4 below (and, if applicable, the requirements of Section 3.2 above); for purposes of this Agreement, no such purported termination shall be effective.

3.4 **Notice of Termination.** Any purported termination of your employment by the Company or by You shall be communicated by written Notice of Termination to the other party to this Agreement in accordance with Section 6 of this Agreement. For purposes of this Agreement, a "Notice of Termination" shall mean a notice that shall indicate the specific termination provision in this Agreement relied on, and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of your employment under the provision so indicated. Your rights to terminate your employment pursuant to this Section shall not be affected by your incapacity due to Disability. Your continued employment shall not constitute consent to, or a waiver of rights with respect to, any circumstance constituting Good Reason under this Agreement. In the event You deliver Notice of Termination based on circumstances set forth in Sections 3.3.1, 3.3.5, 3.3.6, 3.3.7, or 3.3.8 above, which are fully corrected prior to the Date of Termination set forth in your Notice of Termination, the Notice of Termination shall be deemed withdrawn and of no further force or effect.

3.5 **Date of Termination, etc.** "Date of Termination" shall mean (A) if your employment is terminated for Disability, 30 days after Notice of Termination is given (provided that You shall not have returned to the full-time performance of your duties during such 30-day period), and (B) if your employment is terminated pursuant to Section 3.2 or 3.3 above or for any other reason (other than Disability), the date specified in the Notice of Termination (which, in the case of a termination pursuant to Section 3.2 above shall not be less than 30 days, and in the case of a termination pursuant to Section 3.3 above shall not be less than 15 nor more than 60 days, respectively, from the date the Notice of Termination is given). However, if within 15 days after any Notice of Termination is given, or, if later, prior to the Date of Termination (as determined without regard to this provision), the party receiving the Notice of Termination notifies the other party that a dispute exists concerning the termination, then the Date of Termination shall be the date on which the dispute is finally determined, either by mutual written agreement of the parties, by a binding arbitration award, or by a final judgment, order, or decree of a court of competent jurisdiction (which is not appealable or with respect to which the time for appeal has expired and no appeal has been perfected). The Date of Termination shall be extended by a notice of dispute only if the notice is given in good faith and the party giving the notice pursues the resolution of the dispute with reasonable diligence. Notwithstanding the pendency of any such dispute, the Company will continue to pay You your full compensation in effect when the notice giving rise to the dispute was given (including, but not limited to, base salary) and continue You as a participant in all compensation, benefit, and insurance plans in which You were participating when the notice giving rise to the dispute was given, until the dispute is finally resolved in accordance with this Section. Amounts paid under this Section are in addition to all other amounts due under this Agreement and shall not be offset against or reduce any other amounts due under this Agreement.

4. **Compensation on Termination or During Disability.** Following a Change in Control of the Company, as defined by Section 2, on termination of your employment or during a period of Disability You shall be entitled to the following benefits:

4.1 During any period that You fail to perform your full-time duties with the Company as a result of incapacity due to Disability, You shall continue to receive your base salary at the rate in effect at the commencement of any such period, together with all amounts payable to You under any compensation plan of the Company during the period, until this Agreement is terminated pursuant to section 3.1 above. Thereafter, or in the event your employment shall be terminated by the Company or by You for Retirement, or by reason of your death, your benefits shall be determined under the Company's retirement, insurance, and other compensation programs then in effect in accordance with the terms of those programs.

4.2 If your employment shall be terminated by the Company for Cause or by You other than for Good Reason, Disability, death, or Retirement, the Company shall pay You your full base salary through the Date of Termination at the rate in effect at the time Notice of Termination is given, plus all other amounts and benefits to which You are entitled under any compensation plan of the Company at the time the payments are due. The Company shall have no obligations to You under this Agreement.

4.3 On or before the third anniversary of the Change in Control, if your employment by the Company shall be terminated (a) by the Company other than for Cause, Retirement or Disability, or (b) by You for Good Reason (as defined in Section 3.3 herein), then You shall be entitled to the benefits provided below:

4.3.1 The Company shall pay You your full salary through the Date of Termination at the rate in effect at the time Notice of Termination is given, plus all other amounts and benefits to which You are entitled under any compensation plan of the Company, at the time the payments are due, except as otherwise provided below.

4.3.2 In lieu of any further salary payments to You for periods subsequent to the Date of Termination, the Company shall pay to You, as severance pay the following: (i) a lump sum severance payment equal to three (3) times the average of your Compensation for the five (5) years prior to the occurrence of the circumstance giving rise to the Notice of Termination (or if employed less than 5 years, the average annualized compensation of the period worked to date), plus (ii) the amounts in the forms set forth in paragraphs 4.3.3, 4.3.4 and 4.3.5 (the "Severance Payments"). In addition to the Severance Payments, the Company shall pay to You an additional amount equal to the amount of the Excise Tax, if any, that is due or determined to be due under Section 4999 of the Internal Revenue Code of 1986, as amended, resulting from the Severance Payments or any other payments under this Agreement or any other agreement between You and the Company and an amount sufficient to pay the taxes on any such Excise Taxes (the "Gross-up").

4.3.3 The Company shall continue coverage for You and your dependents under any health or welfare benefit plan under which You and your dependents were participating prior to the Change in Control for a period ending on the earlier to occur of (i) the date You become covered by a new employer's health and welfare benefit plan, (ii) the date You become covered by Medicare, or (iii) the date which is thirty-six (36) months from the Date of Termination. The coverage for your dependents shall end earlier than (i), (ii) or (iii) if required by the health or welfare benefit plan due to age eligibility.

4.3.4 The Company shall pay to You any deferred compensation, including, but not limited to deferred bonuses, allocated or credited to You or your account as of the Date of Termination.

4.3.5 Outstanding stock options or Restricted Stock grants, if any, granted to You under the Company's Stock Plans which are not vested on Termination shall immediately vest.

4.3.6 Where You shall prevail in any action against the Company to recover benefits hereunder, the Company shall also pay to You all reasonable legal and accounting fees and expenses incurred by You as a result of the termination, including all such fees and expenses incurred by You as a result of the termination, (including all such fees and expenses, if any, incurred in contesting or disputing any termination or in seeking to obtain or enforce any right or benefit provided by this Agreement or in connection with any tax audit or proceeding to the extent attributable to the application of Code Section 4999 to any payment or benefit provided under this Agreement) or any other agreement with the Company.

4.3.7 The amount of Severance Payments and any Gross-up due to You under this or any other relevant agreement with the Company shall be determined by a third party agreed to by You and the Company. If You cannot agree on a third party, then both third parties shall determine the amounts due under this Agreement. If the third parties do not agree on the amount to be paid to You, then either party may submit the calculation of the amounts which are in dispute to Arbitration in accordance with this Agreement. The payments provided for in Paragraphs 4.3.2, 4.3.4 and 4.3.5 above, shall be made no later than the thirtieth (30<sup>th</sup>) day following the Date of Termination. However, if the amounts of the payments cannot be finally determined on or before that day, the Company shall pay to You on that day an estimate, as determined in good faith by the Company, of the minimum amount of such payments and shall pay the remainder of those payments (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code) as soon as the amount can be determined but in no event later than the 30th day after the Date of Termination. In the event that the amount of the estimated payments exceeds the amount subsequently determined to have been due, the excess shall constitute a loan by the Company to You payable on the 30th day after demand by the Company (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code).

4.4 For purposes of this Agreement, "Compensation" shall mean the gross earnings reported on Form W-2 during a calendar year (which may include but is not limited to the value of the personal use of an automobile, any third-party sick pay, and any fees paid to You for serving as a Director of the Company or its subsidiaries); awards under the Company's Restricted Stock Plan or other equity awards; and Company contributions to your 401(k) account.

4.5 You shall not be required to mitigate the amount of any payment provided for in this Section 4 by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for in this Section 4 be reduced by any compensation earned by You as the result of employment by another employer, by retirement benefits, by offset against any amount claimed to be owed by You to the Company, or otherwise except as specifically provided in this Section 4.

4.6 In addition to all other amounts payable to You under this Section 4, You shall be entitled to receive all qualified benefits payable to You under the Company's 401(k) Plan, Defined Benefit Plan and any other plan or agreement relating to retirement benefits, in accordance with the terms of those Plans, to the extent you were a participant in such Plan or Plans as of the date of a Change in Control .

#### 5. **Successors; Binding Agreement.**

5.1 The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation, or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain the assumption and agreement prior to the effectiveness of any succession shall be a breach of this Agreement and shall entitle You to compensation from the Company in the same amount and on the same terms as You would have been entitled to under this Agreement if You had terminated your employment for Good Reason following a Change in Control of the Company, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Date of Termination.

5.2 This Agreement shall inure to the benefit of, and be enforceable by, your personal or legal representatives, executors, administrators, heirs, distributees, and legatees. If You should die while any amount would still be payable to You if You had continued to live, all such amounts, unless otherwise provided in this Agreement, shall be paid in accordance with the terms of this Agreement to your legatee or other designee or, if there is no such designee, to your estate.

6. **Notice.** For the purpose of this Agreement, all notices and other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered or certified mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth on the first page of this Agreement, provided that all notices to the Company shall be directed to the attention of the Board with a copy to the President of the Company, or to such other address as either party may have furnished to the other in writing in accordance this Agreement, except that notice of a change of address shall be effective only on receipt.

#### 7. **Miscellaneous**

7.1 No provision of this Agreement may be modified, waived, or discharged unless the waiver, modification, or discharge is agreed to in writing and signed by You and such officer as may be specifically designated by the Board.

7.2 No waiver by either party to this Agreement at any time of any breach by the other party of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

7.3 No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter of this Agreement have been made by either party that are not expressly set forth in this Agreement.

7.4 Nothing in this Agreement is intended to reduce any benefits payable to You under any other agreement You may have with the Company or in any Company plan in which You may participate.

7.5 The validity, interpretation, construction, and performance of this Agreement shall be governed by the law of New Jersey without reference to its conflict of laws principles.

7.6 All references to sections of the Exchange Act or the Code shall be deemed also to refer to any successor provisions to such sections. Any payments provided for shall be paid net of any applicable withholding or deduction required under federal, state or local law.

7.7 The obligations of the Company under Section 4 shall survive the expiration of the term of this Agreement.

8. **Validity.** The validity or enforceability of any provision of this Agreement shall not affect the validity or unenforceability of any other provision of this Agreement, which shall remain in full force and effect.

9. **Counterparts.** This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

10. **Arbitration.** Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in New Jersey in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction. However, You shall be entitled to seek specific performance of your right to be paid until the Date of Termination during the pendency of any dispute or controversy arising under or in connection this Agreement.

11. **Entire Agreement.** This Agreement sets forth the entire understanding of the parties with respect to its subject matter and supersedes all prior written or oral agreements or understandings with respect to the subject matter.

In witness whereof, the parties have executed this Agreement as of the day and year first above written.

**MIDDLESEX WATER COMPANY**

By: /s/Dennis W. Doll  
Dennis W. Doll  
President & CEO

**ATTEST:**

/s/A. Bruce O'Connor  
A. Bruce O'Connor  
Vice President, Chief Financial Officer & Treasurer

/s/Jay L. Kooper  
Jay L. Kooper

(Bank of America Letterhead)

Effective as of May 28, 2014

May 19, 2014

Middlesex Water Company  
1500 Ronson Road  
Iselin, New Jersey 08830

Attention: Mr. Bruce O'Connor, Vice President and Chief Financial Officer

Re: Extension of Maturity Date

Dear Mr. O'Connor:

Reference is made to the Master Promissory Note, dated February 2, 2009 (the "Note"), in the original maximum principal amount of Twenty Five Million and 00/100 Dollars (\$25,000,000), executed by Middlesex Water Company, a New Jersey corporation (the "Borrower") and delivered to Bank of America, N.A. (the "Bank"), and the Uncommitted Line of Credit Letter Agreement, dated February 2, 2009, between the Borrower and Bank (the "Letter Agreement"). The Note, Letter Agreement, and any and all other documents, instruments, and agreements executed in connection therewith are referred to herein as the "Loan Documents". Capitalized terms used herein shall have the meaning ascribed to them in the Loan Documents.

The Borrower has requested that the Note, the Letter Agreement and all documents, instruments, agreements and amendments that evidence, govern or secure the Note (together with the Note, and the Loan Documents) be modified for the purpose of extending the Maturity Date (as such term is defined in the Loan Documents) and the Bank has agreed to such extension.

The Bank agrees that the Maturity Date as set forth in the Note shall be extended from May 28, 2014 to May 27, 2015.

Upon (a) the execution and delivery of this Letter Agreement by the Borrower and (b) receipt by the Bank of any unpaid payments under the Loan Documents, if any, through but not including the date of the execution and delivery of this letter and the extension set forth in this letter shall be effective and enforceable against the Borrower. Nothing herein contained or implied shall be construed as a waiver of any other provision of the Loan Documents or any other document executed in connection with the Loan Documents or a waiver of any presently existing or future default in the non-payment of principal and/or interest or any other amounts due under the Loan Documents.

The Borrower hereby warrants and represents that the representations and warranties contained in the Loan Documents continue to be true and correct and that no event of default, and no event which with the giving of notice or lapse of time or both would become an event of default, has occurred or is continuing under the Loan Documents. The Borrower acknowledges that as of the date hereof there are no offsets, defenses, claims, counterclaims, charges or deductions of any nature against amounts due and owing under the Note or against the Bank or any of its officers, directors or employers.

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The Borrower hereby ratifies and confirms all respects and without condition all of the terms and provisions of the Loan Documents, as modified herein, as applicable, and each agrees that said terms and provisions, except to the extent expressly modified herein, continue in full force and effect.

This letter shall be binding upon the Borrower and each endorser and guarantor of the Loan Documents and their respective successors, heirs and assigns and shall inure to the benefit of the Bank and its successors and assigns. This Agreement shall take effect as a sealed instrument and shall be governed by the laws of the State of New Jersey

In no event shall this letter agreement constitute or be construed as a waiver or release of the obligations of any maker, guarantor, endorser or other person liable for the Borrower's obligations under the Note, and the obligations of such parties shall remain in full force and effect.

If this letter extending the Maturity Date is acceptable, please acknowledge below and return the acknowledged copy to me.

If you have any questions, please contact me.

Sincerely,

**BANK OF AMERICA, N.A.**

By: /s/Dilcia P. Hill  
Name: Dilcia P. Hill  
Title: Vice President

This letter is agreed to by:

**WITNESS:**

**MIDDLESEX WATER COMPANY**

By: /s/Jay Kooper  
Name: Jay Kooper  
Title Vice President, General Counsel &  
Secretary

By: /s/A. Bruce O'Connor  
Name: A. Bruce O'Connor  
Title VP, Treasurer & CFO

(Bank of America Letterhead)

Effective as of May 28, 2014

May 19, 2014

Utility Services Affiliates (Perth Amboy) Inc.  
1500 Ronson Road  
Iselin, New Jersey 08830

Attention: Mr. Bruce O'Connor, Vice President and Chief Financial Officer

Re: Extension of Maturity Date

Dear Mr. O'Connor:

Reference is made to the Master Promissory Note, dated July 18, 2008 (the "Note"), in the original maximum principal amount of Three Million and 00/100 Dollars (\$3,000,000), executed by Utility Services Affiliates (Perth Amboy) Inc., a New Jersey corporation (the "Borrower") and delivered to Bank of America, N.A. (the "Bank"), and the Uncommitted Line of Credit Letter Agreement, dated July 18, 2008, between the Borrower and Bank (the "Letter Agreement"). The obligations to the Bank are guaranteed by Middlesex Water Company (the "Guarantor") under Continuing and Unconditional Guaranty, dated July 22, 2008 (the "Guaranty"). The Note, Letter Agreement, and any and all other documents, instruments, and agreements executed in connection therewith are referred to herein as the "Loan Documents". Capitalized terms used herein shall have the meaning ascribed to them in the Loan Documents.

The Borrower has requested that the Note, the Letter Agreement and all documents, instruments, agreements and amendments that evidence, govern or secure the Note (together with the Note, and the Loan Documents) be modified for the purpose of extending the Maturity Date (as such term is defined in the Loan Documents) and the Bank has agreed to such extension.

The Bank agrees that the Maturity Date as set forth in the Note shall be extended from May 28, 2014 to May 27, 2015.

Upon (a) the execution and delivery of this Letter Agreement by the Borrower and the Guarantor (b) receipt by the Bank of any unpaid payments under the Loan Documents, if any, through but not including the date of the execution and delivery of this letter and the extension set forth in this letter shall be effective and enforceable against the Borrower and the Guarantor. Nothing herein contained or implied shall be construed as a waiver of any other provision of the Loan Documents or any other document executed in connection with the Loan Documents or a waiver of any presently existing or future default in the non-payment of principal and/or interest or any other amounts due under the Loan Documents.

Each of the Borrower and the Guarantor hereby warrants and represents that the representations and warranties contained in the Loan Documents continue to be true and correct and that no event of default, and no event which with the giving of notice or lapse of time or both would become an event of default, has occurred or is continuing under the Loan Documents. The Borrower acknowledges that as of the date hereof there are no offsets, defenses, claims, counterclaims, charges or deductions of any nature against amounts due and owing under the Note or against the Bank or any of its officers, directors or employers.

---

The Borrower and the Guarantor hereby ratify and confirm all respects and without condition all of the terms and provisions of the Loan Documents, as modified herein, as applicable, and each agrees that said terms and provisions, except to the extent expressly modified herein, continue in full force and effect.

This letter shall be binding upon the Borrower and each endorser and guarantor of the Loan Documents (including the Guarantor) and their respective successors, heirs and assigns and shall inure to the benefit of the Bank and its successors and assigns. This Agreement shall take effect as a sealed instrument and shall be governed by the laws of the State of New Jersey

In no event shall this letter agreement constitute or be construed as a waiver or release of the obligations of any maker, guarantor, endorser or other person liable for the Borrower's obligations under the Note, and the obligations of such parties shall remain in full force and effect.

If this letter extending the Maturity Date is acceptable, please acknowledge below and return the acknowledged copy to me.

If you have any questions, please contact me.

Sincerely,

**BANK OF AMERICA, N.A.**

By: /s/Dilcia P. Hill  
Name: Dilcia P. Hill  
Title: Vice President

This letter is agreed to by:

**WITNESS:**

**UTILITY SERVICE AFFILIATES  
(PERTH AMBOY) INC.**

By: /s/Jay Kooper  
Name: Jay Kooper  
Title Vice President, General Counsel &  
Secretary

By: /s/A. Bruce O'Connor  
Name: A. Bruce O'Connor  
Title VP, Treasurer & CFO

**MIDDLESEX WATER COMPANY**

By: /s/A. Bruce O'Connor  
Name: A. Bruce O'Connor  
Title: VP, Treasurer & CFO

**LOAN AGREEMENT**

**BY AND BETWEEN**

**THE STATE OF NEW JERSEY,**

**ACTING BY AND THROUGH THE NEW JERSEY  
DEPARTMENT OF ENVIRONMENTAL PROTECTION**

**AND**

**MIDDLESEX WATER COMPANY**

**DATED AS OF MAY 1, 2014**

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**NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE FUND LOAN AGREEMENT**

**THIS LOAN AGREEMENT**, made and entered into as of May 1, 2014 by and between THE STATE OF NEW JERSEY, acting by and through the New Jersey Department of Environmental Protection, and the Borrower (capitalized terms used in this Loan Agreement shall have, unless the context otherwise requires, the meanings ascribed thereto in Section 1.01 hereof);

**WITNESSETH THAT:**

**WHEREAS**, the Borrower has, in accordance with the Regulations, made timely application to the State for a Loan to finance a portion of the Costs of the Project;

**WHEREAS**, the State has approved the Borrower's application for a Loan from Federal Funds, if and when received by and available to the State, and moneys from repayments of loans previously made from such Federal Funds, in the amount of the loan commitment set forth in Exhibit A-2 attached hereto and made a part hereof to finance a portion of the Costs of the Project;

**WHEREAS**, the New Jersey State Legislature has approved an appropriations act that authorizes an expenditure of said proceeds, Federal Funds or related moneys to finance a portion of the Costs of the Project;

**WHEREAS**, the Borrower, in accordance with the Business Corporation Law and all other applicable law, will issue a Borrower Bond to the State evidencing said Loan at the Loan Closing; and

**WHEREAS**, in accordance with the New Jersey Environmental Infrastructure Trust Act, P.L. 1985, c. 334, as amended, and the Regulations, the Borrower has been awarded a Trust Loan for a portion of the Costs of the Project plus, if applicable to the Borrower, capitalized interest on the Trust Loan and certain costs of issuance.

**NOW, THEREFORE**, for and in consideration of the award of the Loan by the State, the Borrower agrees to complete the Project and to perform under this Loan Agreement in accordance with the conditions, covenants and procedures set forth herein and attached hereto as part hereof, as follows:

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## ARTICLE I

### DEFINITIONS

#### SECTION 1.01. Definitions.

(a) The following terms as used in this Loan Agreement shall, unless the context clearly requires otherwise, have the following meanings:

**“Administrative Fee”** means an annual fee of up to one percent (1.0%) of the initial principal amount of the Loan or such lesser amount, if any, as may be authorized by any act of the New Jersey State Legislature and as the State may approve from time to time.

**“Authorized Officer”** means, in the case of the Borrower, any person or persons authorized pursuant to a resolution of the board of directors of the Borrower to perform any act or execute any document relating to the Loan, the Borrower Bond or this Loan Agreement.

**“Bond Counsel”** means a law firm appointed or approved by the State, as the case may be, having a reputation in the field of municipal law whose opinions are generally acceptable by purchasers of municipal bonds.

**“Borrower”** means the corporation that is a party to and is described in Schedule A to this Loan Agreement, and its successors and assigns.

**“Borrower Bond”** means the general obligation bond, note, debenture or other evidence of indebtedness authorized, executed, attested and delivered by the Borrower to the State and authenticated on behalf of the Borrower to evidence the Loan, a specimen of which is attached hereto as Exhibit D and made a part hereof.

**“Borrowers”** means any other Local Government Unit or Private Entity (as such terms are defined in the Regulations) authorized to construct, operate and maintain Environmental Infrastructure Facilities that have entered into Loan Agreements with the State pursuant to which the State will make Loans to such recipients from Federal Funds.

**“Business Corporation Law”** means the "New Jersey Business Corporation Act", constituting Chapter 263 of the Pamphlet Laws of 1968 of the State (codified at N.J.S.A. 14A:1-1 *et seq.*), as the same may from time to time be amended and supplemented.

**“Code”** means the Internal Revenue Code of 1986, as the same may from time to time be amended and supplemented, including any regulations promulgated thereunder, any successor code thereto and any administrative or judicial interpretations thereof.

**“Costs”** means those costs that are eligible, reasonable, necessary, allocable to the Project and permitted by generally accepted accounting principles, including Allowances and Building Costs (as defined in the Regulations), as shall be determined on a project-specific basis in accordance with the Regulations as set forth in Exhibit B hereto, as the same may be amended by subsequent eligible costs as evidenced by a certificate of an authorized officer of the State.

**“Department”** means the New Jersey Department of Environmental Protection.

**“Environmental Infrastructure Facilities”** means Water Supply Facilities (as such term is defined in the Regulations).

**“Environmental Infrastructure System”** means the Environmental Infrastructure Facilities of the Borrower, including the Project, described in Exhibit A-1 attached hereto and made a part hereof for which the Borrower is borrowing the Loan under this Loan Agreement.

**“Event of Default”** means any occurrence or event specified in Section 5.01 hereof.

**“Excess Project Funds”** shall have the meaning set forth in Section 3.03A hereof.

**“Federal Funds”** means those funds awarded to the State pursuant to the Clean Water Act (33 U.S.C. §1251 *et seq.*) or the Safe Drinking Water Act (42 U.S.C. §300f *et seq.*), as the same may from time to time be amended and supplemented.

**“Loan”** means the loan made by the State to the Borrower to finance or refinance a portion of the Costs of the Project pursuant to this Loan Agreement. For all purposes of this Loan Agreement, the principal amount of the Loan at any time shall be the amount of the loan commitment set forth in Exhibit A-2 attached hereto and made a part hereof (such amount being also specified as the initial aggregate principal amount of the Borrower Bond) less any amount of such principal amount that has been repaid by the Borrower under this Loan Agreement and less any adjustment made for low bid or final building costs pursuant to the provisions of N.J.A.C. 7:22-3.26 and the appropriations act of the New Jersey State Legislature authorizing the expenditure of moneys to finance a portion of the Costs of the Project.

**“Loan Agreement”** means this Loan Agreement, including Schedule A and the Exhibits attached hereto, as it may be supplemented, modified or amended from time to time in accordance with the terms hereof.

**“Loan Agreements”** means any other loan agreements entered into by and between the State and one or more of the Borrowers pursuant to which the State will make Loans to such Borrowers from Federal Funds.

**“Loan Closing”** means the date upon which the Borrower shall deliver its Borrower Bond, as previously authorized, executed, attested and, if applicable, authenticated, to the State.

**“Loan Repayments”** means the sum of (i) the repayments of the principal amount of the Loan payable by the Borrower pursuant to Section 3.03(a) of this Loan Agreement and (ii) any late charges incurred hereunder, but shall not include the Administrative Fee.

**“Loan Term”** means the term of this Loan Agreement provided in Sections 3.01 and 3.03 hereof and in Exhibit A-2 attached hereto and made a part hereof.

**“Loans”** means the loans made by the State to the Borrowers under the Loan Agreements from moneys from Federal Funds.

**“Prime Rate”** means the prevailing commercial interest rate announced by the Trustee from time to time in the State as its prime lending rate.

**“Project”** means the Environmental Infrastructure Facilities of the Borrower described in Exhibit A-1 attached hereto and made a part hereof, which constitutes a project for which the State is permitted to make a loan to the Borrower pursuant to the Regulations, all or a portion of the Costs of which is financed or refinanced by the State through the making of the Loan under this Loan Agreement and which may be identified under either the Drinking Water or Clean Water Project Lists with the Project Number specified in Exhibit A-1 attached hereto.

**“Regulations”** means the rules and regulations, as applicable, now or hereafter promulgated under N.J.A.C. 7:22-3 *et seq.*, 7:22-4 *et seq.*, 7:22-5 *et seq.*, 7:22-6 *et seq.*, 7:22-7 *et seq.*, 7:22-8 *et seq.*, 7:22-9 *et seq.* and 7:22-10 *et seq.*, as the same may from time to time be amended and supplemented.

**“State”** means the State of New Jersey, acting, unless otherwise specifically indicated, by and through the Department, and its successors and assigns.

**“Trust”** means the New Jersey Environmental Infrastructure Trust, a public body corporate and politic with corporate succession duly created and validly existing under and by virtue of P.L. 1985, c. 334, as amended (N.J.S.A. 58:11B-1 *et seq.*).

**“Trust Loan”** means the loan made to the Borrower by the Trust pursuant to the Trust Loan Agreement.

**“Trust Loan Agreement”** means the loan agreement by and between the Borrower and the Trust dated as of May 1, 2014 to finance or refinance a portion of the Costs of the Project.

(b) In addition to the capitalized terms defined in subsection (a) of this Section 1.01, certain additional capitalized terms used in this Loan Agreement shall, unless the context clearly requires otherwise, have the meanings ascribed to such additional capitalized terms in Schedule A attached hereto and made a part hereof.

(c) Except as otherwise defined herein or where the context otherwise requires, words importing the singular number shall include the plural number and vice versa, and words importing persons shall include firms, associations, corporations, agencies and districts. Words importing one gender shall include the other gender.

## ARTICLE II

### REPRESENTATIONS AND COVENANTS OF BORROWER

**SECTION 2.01. Representations of Borrower.** The Borrower represents for the benefit of the State as follows:

(a) Organization and Authority.

(i) The Borrower is a corporation duly created and validly existing under and pursuant to the Constitution and statutes of the State of New Jersey, including the Business Corporation Law.

(ii) The acting officers of the Borrower who are contemporaneously herewith performing or have previously performed any action contemplated in this Loan Agreement either are or, at the time any such action was performed, were the duly appointed or elected officers of such Borrower empowered by applicable New Jersey law and, if applicable, authorized by resolution of the Borrower to perform such actions. To the extent any such action was performed by an officer no longer the duly acting officer of such Borrower, all such actions previously taken by such officer are still in full force and effect.

(iii) The Borrower has full legal right and authority and all necessary licenses and permits required as of the date hereof to own, operate and maintain its Environmental Infrastructure System, to carry on its activities relating thereto, to execute, attest and deliver this Loan Agreement and the Borrower Bond, to authorize the authentication of the Borrower Bond, to sell the Borrower Bond to the State, to undertake and complete the Project and to carry out and consummate all transactions contemplated by this Loan Agreement.

(iv) The proceedings of the Borrower's board of directors approving this Loan Agreement and the Borrower Bond, authorizing the execution, attestation and delivery of this Loan Agreement and the Borrower Bond, authorizing the sale of the Borrower Bond to the State, authorizing the authentication of the Borrower Bond on behalf of the Borrower and authorizing the Borrower to undertake and complete the Project, including, without limitation, the Borrower Bond Resolution (collectively, the "Proceedings"), have been duly and lawfully adopted in accordance with the Business Corporation Law and other applicable New Jersey law at a meeting or meetings that were duly called and held in accordance with the Borrower By-Laws and at which quorums were present and acting throughout.

(v) By official action of the Borrower taken prior to or concurrent with the execution and delivery hereof, including, without limitation, the Proceedings, the Borrower has duly authorized, approved and consented to all necessary action to be taken by the Borrower for: (A) the execution, attestation, delivery and performance of this Loan Agreement and the transactions contemplated hereby; (B) the issuance of the Borrower Bond and the sale thereof to the State upon the terms set forth herein; and (C) the execution, delivery and due performance of any and all other certificates, agreements and instruments that may be required to be executed, delivered and performed by the Borrower in order to carry out, give effect to and consummate the transactions contemplated by this Loan Agreement.

(vi) This Loan Agreement and the Borrower Bond have each been duly authorized by the Borrower and duly executed, attested and delivered by Authorized Officers of the Borrower, and the Borrower Bond has been duly sold by the Borrower to the State, duly authenticated by the Trust or paying agent, if applicable, under the Borrower Bond Resolution and duly issued by the Borrower in accordance with the terms of the Borrower Bond Resolution; and assuming that the State has all the requisite power and authority to authorize, execute, attest and deliver, and has duly authorized, executed, attested and delivered, this Loan Agreement, and assuming further that this Loan Agreement is the legal, valid and binding obligation of the State, enforceable against the State in accordance with its terms, each of this Loan Agreement and the Borrower Bond constitutes a legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its respective terms, except as the enforcement thereof may be affected by bankruptcy, insolvency or other laws or the application by a court of legal or equitable principles affecting creditors' rights; and the information contained under "Description of Loan" in Exhibit A-2 attached hereto and made a part hereof is true and accurate in all respects.

(b) Full Disclosure. There is no fact that the Borrower has not disclosed to the State in writing on the Borrower's application for the Loan or otherwise that materially adversely affects or (so far as the Borrower can now foresee) that will materially adversely affect the properties, activities, prospects or condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System, or the ability of the Borrower to make all Loan Repayments or otherwise to observe and perform its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond.

(c) Pending Litigation. There are no proceedings pending or, to the knowledge of the Borrower, threatened against or affecting the Borrower in any court or before any governmental authority or arbitration board or tribunal that, if adversely determined, would materially adversely affect (i) the undertaking or completion of the Project, (ii) the properties, activities, prospects or condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System, (iii) the ability of the Borrower to make all Loan Repayments, (iv) the authorization, execution, attestation or delivery of this Loan Agreement or the Borrower Bond, (v) the issuance of the Borrower Bond and the sale thereof to the State, (vi) the adoption of the Borrower Bond Resolution, or (vii) the Borrower's ability otherwise to observe and perform its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond, which proceedings have not been previously disclosed in writing to the State either in the Borrower's application for the Loan or otherwise.

(d) Compliance with Existing Laws and Agreements. (i) The authorization, execution, attestation and delivery of this Loan Agreement and the Borrower Bond by the Borrower, (ii) the authentication of the Borrower Bond by the Trust or paying agent under the Borrower Bond Resolution, as the case may be, and the sale of the Borrower Bond to the State, (iii) the adoption of the Borrower Bond Resolution, (iv) the observation and performance by the Borrower of its duties, covenants, obligations and agreements hereunder and thereunder, (v) the consummation of the transactions provided for in this Loan Agreement, the Borrower Bond Resolution and the Borrower Bond, and (vi) the undertaking and completion of the Project will not (A) other than the lien, charge or encumbrance created hereby, by the Borrower Bond, by the Borrower Bond Resolution and by any other outstanding debt obligations of the Borrower that are at parity with the Borrower Bond as to lien on, and source and security for payment thereon from, the revenues of the Borrower's Environmental Infrastructure System, result in the creation or imposition of any lien, charge or encumbrance upon any properties or assets of the Borrower pursuant to, (B) result in any breach of any of the terms, conditions or provisions of, or (C) constitute a default under, any existing resolution, outstanding debt or lease obligation, trust agreement, indenture, mortgage, deed of trust, loan agreement or other instrument to which the Borrower is a party or by which the Borrower, its Environmental Infrastructure System or any of its properties or assets may be bound, nor will such action result in any violation of the provisions of the charter or other document pursuant to which the Borrower was established or any laws, ordinances, injunctions, judgments, decrees, rules, regulations or existing orders of any court or governmental or administrative agency, authority or person to which the Borrower, its Environmental Infrastructure System or its properties or operations is subject.

(e) No Defaults. No event has occurred and no condition exists that, upon the authorization, execution, attestation and delivery of this Loan Agreement and the Borrower Bond, the issuance of the Borrower Bond and the sale thereof to the State, the adoption of the Borrower Bond Resolution or the receipt of the amount of the Loan, would constitute an Event of Default hereunder. The Borrower is not in violation of, and has not received notice of any claimed violation of, any term of any agreement or other instrument to which it is a party or by which it, its Environmental Infrastructure System or its properties may be bound, which violation would materially adversely affect the properties, activities, prospects or condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System or the ability of the Borrower to make all Loan Repayments, to pay all other amounts due hereunder or otherwise to observe and perform its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond.

(f) Governmental Consent. The Borrower has obtained all permits and approvals required to date by any governmental body or officer for the authorization, execution, attestation and delivery of this Loan Agreement and the Borrower Bond, for the issuance of the Borrower Bond and the sale thereof to the State, for the adoption of the Borrower Bond Resolution, for the making, observance and performance by the Borrower of its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond and for the undertaking or completion of the Project and the financing or refinancing thereof, including, but not limited to, if required, the approval by the New Jersey Board of Public Utilities (the "BPU") of the issuance by the Borrower of the Borrower Bond to the State and any other approvals required therefor by the BPU; and the Borrower has complied with all applicable provisions of law requiring any notification, declaration, filing or registration with any governmental body or officer in connection with the making, observance and performance by the Borrower of its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond or with the undertaking or completion of the Project and the financing or refinancing thereof. No consent, approval or authorization of, or filing, registration or qualification with, any governmental body or officer that has not been obtained is required on the part of the Borrower as a condition to the authorization, execution, attestation and delivery of this Loan Agreement and the Borrower Bond, the issuance of the Borrower Bond and the sale thereof to the State, the undertaking or completion of the Project or the consummation of any transaction herein contemplated.

(g) Compliance with Law. The Borrower:

(i) is in compliance with all laws, ordinances, governmental rules and regulations to which it is subject, the failure to comply with which would materially adversely affect (A) the ability of the Borrower to conduct its activities or to undertake or complete the Project, (B) the ability of the Borrower to make the Loan Repayments and to pay all other amounts due hereunder, or (C) the condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System; and

(ii) has obtained all licenses, permits, franchises or other governmental authorizations presently necessary for the ownership of its properties or for the conduct of its activities that, if not obtained, would materially adversely affect (A) the ability of the Borrower to conduct its activities or to undertake or complete the Project, (B) the ability of the Borrower to make the Loan Repayments and to pay all other amounts due hereunder, or (C) the condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System.

(h) Use of Proceeds. The Borrower will apply the proceeds of the Loan from the State as described in Exhibit B attached hereto and made a part hereof (i) to finance or refinance a portion of the Costs of the Borrower's Project; and (ii) where applicable, to reimburse the Borrower for a portion of the Costs of the Borrower's Project, which portion was paid or incurred in anticipation of reimbursement by the State and is eligible for such reimbursement under and pursuant to the Regulations, the Code and any other applicable law. All of such costs constitute Costs for which the State is authorized to make Loans to the Borrower pursuant to the Regulations.

**SECTION 2.02. Particular Covenants of Borrower.**

(a) Promise to Pay. The Borrower unconditionally and irrevocably promises in accordance with the terms of and to the extent provided in the Borrower Bond Resolution, to make punctual payment of the principal of the Loan and the Borrower Bond, and all other amounts due under this Loan Agreement and the Borrower Bond according to their respective terms.

(b) Performance Under Loan Agreement; Rates. The Borrower covenants and agrees (i) to comply with all applicable state and federal laws, rules and regulations in the performance of this Loan Agreement; (ii) to maintain its Environmental Infrastructure System in good repair and operating condition; (iii) to cooperate with the State in the observance and performance of the respective duties, covenants, obligations and agreements of the Borrower and the State under this Loan Agreement; and (iv) to establish, levy and collect rents, rates and other charges for the products and services provided by its Environmental Infrastructure System, which rents, rates and other charges shall be at least sufficient to comply with all covenants pertaining thereto contained in, and all other provisions of, any bond resolution, trust indenture or other security agreement, if any, relating to any bonds, notes or other evidences of indebtedness issued or to be issued by the Borrower, including without limitation rents, rates and other charges, together with other available moneys, sufficient to pay the principal of, and interest if any on, the Borrower Bond, plus all other amounts due hereunder.

(c) Revenue Obligation; No Prior Pledges. The Borrower shall not be required to make payments under this Loan Agreement except from the revenues of its Environmental Infrastructure System and from such other funds of such Environmental Infrastructure System legally available therefor and from any other sources pledged to such payment pursuant to subsection (a) of this Section 2.02. In no event shall the Borrower be required to make payments under this Loan Agreement from any revenues or receipts not derived from its Environmental Infrastructure System or pledged pursuant to subsection (a) of this Section 2.02. Except for (i) loan repayments required with respect to the Trust Loan, (ii) the debt service on any future bonds or notes of the Borrower issued at parity with the Borrower Bond under the Borrower Bond Resolution, and (iii) the debt service on any bonds, notes or evidences of indebtedness of the Borrower at parity with the Borrower Bond under the Borrower Bond Resolution and currently outstanding or issued on the date hereof, the revenues derived by the Borrower from its Environmental Infrastructure System, after the payment of all costs of operating and maintaining the Environmental Infrastructure System, are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the obligation of the Borrower to make Loan Repayments under this Loan Agreement and the Borrower Bond, and all corporate or other action on the part of the Borrower to that end has been and will be duly and validly taken.

(d) Completion of Project and Provision of Moneys Therefor. The Borrower covenants and agrees (i) to exercise its best efforts in accordance with prudent environmental infrastructure utility practice to complete the Project and to accomplish such completion on or before the estimated Project completion date set forth in Exhibit G hereto and made a part hereof; (ii) to comply with the terms and provisions contained in Exhibit G hereto; and (iii) to provide from its own fiscal resources all moneys, in excess of the total amount of loan proceeds it receives under the Loan and Trust Loan, required to complete the Project.

(e) See Section 2.02(e) as set forth in Schedule A attached hereto, made a part hereof and incorporated in this Section 2.02(e) by reference as if set forth in full herein.

(f) Reserved.

(g) Operation and Maintenance of Environmental Infrastructure System. The Borrower covenants and agrees that it shall, in accordance with prudent environmental infrastructure utility practice, (i) at all times operate the properties of its Environmental Infrastructure System and any business in connection therewith in an efficient manner, (ii) maintain its Environmental Infrastructure System in good repair, working order and operating condition, and (iii) from time to time make all necessary and proper repairs, renewals, replacements, additions, betterments and improvements with respect to its Environmental Infrastructure System so that at all times the business carried on in connection therewith shall be properly and advantageously conducted.

(h) Records and Accounts.

(i) The Borrower shall keep accurate records and accounts for its Environmental Infrastructure System (the "System Records") separate and distinct from its other records and accounts (the "General Records"). Such System Records shall be audited annually by an independent or certified public accountant, which may be part of the annual audit of the General Records of the Borrower. Such System Records and General Records shall be made available for inspection by the State at any reasonable time upon prior written notice, and a copy of such annual audit(s) therefor, including all written comments and recommendations of such accountant, shall be furnished to the State within 150 days of the close of the fiscal year being so audited or, with the consent of the State, such additional period as may be provided by law.

(ii) Within 30 days following receipt of any Loan proceeds, including without limitation the "Allowance for Administrative Costs" or the "Allowance for Planning and Design" set forth in Exhibit B hereto, the Borrower shall allocate such proceeds to an expenditures in a manner that satisfies the requirements of Treasury Regulation §1.148-6(d) and transmit a copy of each such allocation to the State. No portion of the Allowance for Administrative Costs will be allocated to a cost other than a cost described in N.J.A.C. 7:22-5.11(a) 3, 4 or 6. No portion of the Allowance for Planning and Design will be allocated to a cost other than a cost described N.J.A.C. 7:22-5.12, or other costs of the Borrower's Environmental Infrastructure System which are "capital expenditures," within the meaning of Treasury Regulations §1.150-1. The Borrower shall retain records of such allocations for at least until the date that is three years after the scheduled maturity date of the Loan. The Borrower shall make such records available to the State within 15 days of any request by the State.

(i) Inspections; Information. The Borrower shall permit the State and any party designated by the State, at any and all reasonable times during construction of the Project and thereafter upon prior written notice, to examine, visit and inspect the property, if any, constituting the Project and to inspect and make copies of any accounts, books and records, including (without limitation) its records regarding receipts, disbursements, contracts, investments and any other matters relating thereto and to its financial standing, and shall supply such reports and information as the State may reasonably require in connection therewith.

(j) Insurance. The Borrower shall maintain or cause to be maintained, in force, insurance policies with responsible insurers or self-insurance programs providing against risk of direct physical loss, damage or destruction of its Environmental Infrastructure System at least to the extent that similar insurance is usually carried by utilities constructing, operating and maintaining Environmental Infrastructure Facilities of the nature of the Borrower's Environmental Infrastructure System, including liability coverage, all to the extent available at reasonable cost but in no case less than will satisfy all applicable regulatory requirements.

(k) Costs of Project. The Borrower certifies that the building cost of the Project, as listed in Exhibit B hereto and made a part hereof, is a reasonable and accurate estimation thereof, and it will supply to the State a certificate from a licensed professional engineer authorized to practice in the State stating that such building cost is a reasonable and accurate estimation and that the useful life of the Project exceeds the maturity date of the Borrower Bond.

(l) Delivery of Documents. Concurrently with the delivery of this Loan Agreement (as previously authorized, executed and attested) at the Loan Closing, the Borrower will cause to be delivered to the State each of the following items:

(i) an opinion of the Borrower's bond counsel substantially in the form of Exhibit E hereto; provided, however, that the State may permit portions of such opinion to be rendered by general counsel to the Borrower and may permit variances in such opinion from the form set forth in Exhibit E if such variances are acceptable to the State;

(ii) counterparts of this Loan Agreement as previously executed and attested by the parties hereto;

(iii) copies of those resolutions finally adopted by the board of directors of the Borrower and requested by the State, including, without limitation, (A) the resolution of the Borrower authorizing the execution, attestation and delivery of this Loan Agreement, (B) the Borrower Bond Resolution, as amended and supplemented as of the date of the Loan Closing, authorizing the execution, attestation, authentication, sale and delivery of the Borrower Bond to the State, (C) the resolution of the Borrower confirming the details of the sale of the Borrower Bond to the State, each of said resolutions of the Borrower being certified by an Authorized Officer of the Borrower as of the date of the Loan Closing, (D) the resolution of the BPU approving the issuance by the Borrower of the Borrower Bond to the State and setting forth any other approvals required therefor by the BPU, if applicable, and (E) any other Proceedings; and

(iv) the certificates of insurance coverage as required pursuant to the terms of Section 3.06(c) hereof and such other certificates, documents, opinions and information as the State may require in Exhibit F hereto, if any.

(m) Execution and Delivery of Borrower Bond. Concurrently with the delivery of this Loan Agreement at the Loan Closing, the Borrower shall also deliver to the State the Borrower Bond, as previously executed, attested and, if applicable, authenticated.

(n) Notice of Material Adverse Change. The Borrower shall promptly notify the State of any material adverse change in the properties, activities, prospects or condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System, or in the ability of the Borrower to make all Loan Repayments and otherwise to observe and perform its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond.

(o) Continuing Representations. The representations of the Borrower contained herein shall be true at the time of the execution of this Loan Agreement and at all times during the term of this Loan Agreement.

(p) Additional Covenants and Requirements. (i) No later than the Loan Closing and, if necessary, in connection with the making of the Loan, additional covenants and requirements have been included in Exhibit F hereto and made a part hereof. Such covenants and requirements may include, but need not be limited to, the maintenance of specified levels of Environmental Infrastructure System rates, the issuance of additional debt of the Borrower, and the transfer of revenues and receipts from the Borrower's Environmental Infrastructure System. The Borrower agrees to observe and comply with each such additional covenant and requirement, if any, included in Exhibit F hereto. (ii) Additional defined terms, covenants, representations and requirements have been included in Schedule A attached hereto and made a part hereof. Such additional defined terms, covenants, representations and requirements are incorporated in this Loan Agreement by reference thereto as if set forth in full herein and the Borrower hereby agrees to observe and comply with each such additional term, covenant, representation and requirement included in Schedule A as if the same were set forth in their entirety where reference thereto is made in this Loan Agreement.

## ARTICLE III

### LOAN TO BORROWER; AMOUNTS PAYABLE; GENERAL AGREEMENTS

**SECTION 3.01. Loan; Loan Term.** The State hereby agrees to make the Loan as described in Exhibit A-2 hereof and to disburse proceeds of the Loan to the Borrower in accordance with Section 3.02 and Exhibit C hereof, and the Borrower hereby agrees to borrow and accept the Loan from the State upon the terms set forth in Exhibit A-2 attached hereto and made a part hereof; provided, however, that the State shall be under no obligation to make the Loan if (a) at the Loan Closing, the Borrower does not deliver to the State a Borrower Bond and such other documents required under Section 2.02(l) hereof, or (b) an Event of Default has occurred and is continuing under this Loan Agreement. Although the State intends to disburse proceeds of the Loan to the Borrower at the times and up to the amounts set forth in Exhibit C to pay a portion of the Costs of the Project, due to unforeseen circumstances there may not be sufficient Federal Funds on deposit on any date to make the disbursement in such amount. Nevertheless, the Borrower agrees that the aggregate principal amount set forth in Exhibit A-2 hereto shall constitute the initial principal amount of the Loan (as the same may be adjusted downward in accordance with the definition thereof), and the State shall have no obligation thereafter to loan any additional amounts to the Borrower.

The Borrower shall have no legal or equitable interest in the Federal Funds received by and available to the State or in moneys from repayments of loans previously made from Federal Fund by the State.

The Borrower shall use the proceeds of the Loan strictly in accordance with Section 2.01(h) hereof.

The payment obligations created under this Loan Agreement and the obligations to pay the principal of and other amounts due under the Borrower Bond are each direct, general, irrevocable and unconditional obligations of the Borrower payable from any source legally available to the Borrower in accordance with the terms of and to the extent provided in the Borrower Bond Resolution.

#### **SECTION 3.02. Disbursement of Loan Proceeds.**

(a) The State shall disburse Federal Funds earmarked for the Loan to the Borrower in accordance with the terms hereof. Before each and every disbursement of the proceeds of the Loan by the State to the Borrower, the Borrower shall in accordance with the procedures set forth in the Regulations submit to the State a requisition executed by an Authorized Officer of the Borrower.

(b) The State shall not be under any obligation to disburse any Loan proceeds to the Borrower under this Loan Agreement, unless:

(i) the Loan Closing shall have occurred on the date established therefor by the State;

(ii) there shall be Federal Funds from time to time to fund the Loan, as determined solely by the State;

(iii) in accordance with the “New Jersey Environmental Infrastructure Trust Act”, P.L. 1985, c. 334, as amended (N.J.S.A. 58:11B-1 *et seq.*), and the Regulations, the Borrower shall have timely applied for, shall have been awarded and, prior to or simultaneously with the Loan Closing, shall have closed a Trust Loan for a portion of the Allowable Costs (as defined in such Regulations) of the Project in an amount not in excess of the amount of Allowable Costs of the Project financed by the Loan from the State, plus the amount of: (i) capitalized interest during the Project construction period, if any, (ii) the cost of funding reserve capacity for the Project, if any, and (iii) certain issuance expenses related thereto, including, if applicable, a municipal bond insurance policy premium;

(iv) the Borrower shall have on hand moneys to pay for the greater of (A) that portion of the total Costs of the Project that is not eligible to be funded from the Loan or the Trust Loan, or (B) that portion of the total Costs of the Project that exceeds the actual amounts of the loan commitments made by the State and the Trust, respectively, for the Loan and the Trust Loan; and

(v) no Event of Default nor any event that, with the passage of time or service of notice or both, would constitute an Event of Default shall have occurred and be continuing hereunder.

**SECTION 3.03. Amounts Payable.**

(a) The Borrower shall repay the Loan at zero-interest in principal installments payable to the Trust semiannually on the Principal Payment Dates, in accordance with the schedule set forth in Exhibit A-2 attached hereto and made a part hereof, as the same may be amended or modified by the State, in particular, without limitation, to make any adjustments to the amount of the Loan in accordance with the definition thereof; provided, however, that the amount of any reduction in the principal amount of the Loan pursuant to N.J.A.C. 7:22-3.26 shall be credited to the principal payments set forth in Exhibit A-2 in inverse order of their maturity. The obligations of the Borrower under the Borrower Bond shall be deemed to be amounts payable under this Section 3.03. Each payment made to the Trust pursuant to the Borrower Bond shall be deemed to be a credit against the corresponding obligation of the Borrower under this Section 3.03, and any such payment made to the Trust shall fulfill the Borrower’s obligation to pay such amount hereunder and under the Borrower Bond. Each payment made to the Trust pursuant to this Section 3.03 shall be applied to the principal of the Loan.

(b) In addition to the principal payments on the Loan required by subsection (a) of this Section 3.03, the Borrower shall pay a late charge for any such payment that is received by the Trust later than the tenth (10th) day following its due date in an amount equal to the greater of twelve percent (12%) per annum or the Prime Rate plus one half of one percent per annum on such late payment from its due date to the date actually paid; provided, however, that such late charge payable on the Loan shall not be in excess of the maximum interest rate permitted by law.

(c) In addition to the Loan Repayments payable under subsections (a) and (b) of this Section 3.03, the Borrower shall pay one-half of the Administrative Fee, if any, to the Trust semiannually on each February 1 and August 1, commencing August 1, 2014, as further described in Exhibit B hereto.

(d) Upon thirty (30) days prior written notice to the Borrower, an Authorized Officer of the State may, in the sole discretion of such Authorized Officer, prescribe the particular method by which payments pursuant to, and in satisfaction of, this Section 3.03 shall be made by the Borrower. Such method as prescribed by an Authorized Officer of the State may include, without limitation, the automatic debit by the State or the Trustee of the respective amounts of such payments, as required by this Section 3.03, from an account that shall be identified by the Borrower in writing and recorded on file with the State. In the absence of any such written notice to the Borrower by an Authorized Officer of the State pursuant to this subsection (d), the Borrower shall implement the payments required pursuant to, and in satisfaction of, this Section 3.03 either via electronic transfer of immediately available funds or via check.

**SECTION 3.03A. Loan Proceeds after Completion of Project Draws.**

(a) If, on the date which is thirty (30) days following the final date on which a disbursement of Loan proceeds is scheduled to be made pursuant to the original draw schedule contained in Exhibit C hereto, any amounts remain on deposit in the Borrower's Project Loan Account, the Borrower shall provide to the Trust and the Department a certificate of an Authorized Officer of the Borrower (i) stating that the Borrower has not yet completed the Project, (ii) stating that the Borrower intends to complete the Project, (iii) setting forth the amount of remaining Loan Proceeds required to complete the Project, and (iv) providing a revised draw schedule, in a form similar to Exhibit C hereto and approved by the Department.

(b) If, on the date which is thirty (30) days following the final date on which a disbursement of Loan proceeds is scheduled to be made pursuant to a revised draw schedule certified to the Trust and the Department in accordance with Section 3.03A(a) hereof, any amounts remain on deposit in the Borrower's Project Loan Account, the Borrower shall provide to the Trust and the Department a certificate of an Authorized Officer of the Borrower (i) stating that the Borrower has not yet completed the Project, (ii) stating that the Borrower intends to complete the Project, (iii) setting forth the amount of remaining Loan Proceeds required to complete the Project, and (iv) providing a revised draw schedule, in a form similar to Exhibit C hereto and approved by the Department.

(c) If (i) the Borrower fails to provide the certificate described in paragraphs (a) or (b) of this Section 3.03A, when due, or (ii) a certificate provided pursuant to paragraphs (a) or (b) of this Section 3.03A states that the Borrower does not require all or any portion of the amount on deposit in the Project Loan Account for completion of the Project, or (iii) on the date which is thirty (30) days following the final date on which a disbursement of Loan proceeds is scheduled to be made pursuant to a revised draw schedule certified to the Trust and the Department in accordance with Section 3.03A(b) hereof, any amounts remain on deposit in the Borrower's Project Loan Account, then such amounts on deposit in the Project Loan Account, which are amounts that have not been certified by an Authorized Officer of the Borrower as being required to complete the Project ("Excess Project Funds"), be applied by the State as a prepayment of the Borrower's Loan Repayments, and shall be applied to the principal payments (including premium, if any) on the Loan in inverse order of their maturity.

**SECTION 3.04. Unconditional Obligations.** The obligation of the Borrower to make the Loan Repayments and all other payments required hereunder and the obligation to perform and observe the other duties, covenants, obligations and agreements on its part contained herein shall be absolute and unconditional, and shall not be abated, rebated, set-off, reduced, abrogated, terminated, waived, diminished, postponed or otherwise modified in any manner or to any extent whatsoever while any Loan Repayments remain unpaid, for any reason, regardless of any contingency, act of God, event or cause whatsoever, including (without limitation) any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, the taking by eminent domain or destruction of or damage to the Project or Environmental Infrastructure System, commercial frustration of the purpose, any change in the laws of the United States of America or of the State or any political subdivision of either or in the rules or regulations of any governmental authority, any failure of the State to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Project or this Loan Agreement, or any rights of set-off, recoupment, abatement or counterclaim that the Borrower might otherwise have against the State, the Trust or any other party or parties; provided, however, that payments hereunder shall not constitute a waiver of any such rights. The Borrower shall not be obligated to make any payments required to be made by any other Borrowers under separate Loan Agreements.

**SECTION 3.05. Loan Agreement to Survive Loan.** The Borrower acknowledges that its duties, covenants, obligations and agreements set forth in Sections 3.06(a) and (b) hereof shall survive the payment in full of the Loan.

**SECTION 3.06. Disclaimer of Warranties and Indemnification.**

(a) The Borrower acknowledges and agrees that: (i) the State does not make any warranty or representation, either express or implied, as to the value, design, condition, merchantability or fitness for particular purpose or fitness for any use of the Environmental Infrastructure System or the Project or any portions thereof or any other warranty or representation with respect thereto; (ii) in no event shall the State or its agents be liable or responsible for any incidental, indirect, special or consequential damages in connection with or arising out of this Loan Agreement or the Project or the existence, furnishing, functioning or use of the Environmental Infrastructure System or the Project or any item or products or services provided for in this Loan Agreement; and (iii) to the fullest extent permitted by law, the Borrower shall indemnify and hold the State harmless against, and the Borrower shall pay any and all, liability, loss, cost, damage, claim, judgment or expense of any and all kinds or nature and however arising and imposed by law, which the State may sustain, be subject to or be caused to incur by reason of any claim, suit or action based upon personal injury, death or damage to property, whether real, personal or mixed, or upon or arising out of contracts entered into by the Borrower, the Borrower's ownership of the Environmental Infrastructure System or the Project, or the acquisition, construction or installation of the Project.

(b) It is mutually agreed by the Borrower and the State that the State and its commissioners, officers, agents, servants or employees shall not be liable for, and shall be indemnified and saved harmless by the Borrower in any event from, any action performed under this Loan Agreement and any claim or suit of whatsoever nature, except in the event of loss or damage resulting from their own negligence or willful misconduct.

(c) In connection with its obligation to provide the insurance required under Section 2.02(j) hereof: (i) the Borrower shall include, or cause to be included, the State and its employees and officers as additional “named insureds” on (A) any certificate of liability insurance procured by the Borrower (or other similar document evidencing the liability insurance coverage procured by the Borrower) and (B) any certificate of liability insurance procured by any contractor or subcontractor for the Project, and from the later of the date of the Loan Closing or the date of the initiation of construction of the Project until the date the Borrower receives the written certificate of Project completion from the State, the Borrower shall maintain said liability insurance covering the State and said employees and officers in good standing; and (ii) the Borrower shall include the State as an additional “named insured” on any certificate of insurance providing against risk of direct physical loss, damage or destruction of the Environmental Infrastructure System, and during the Loan Term the Borrower shall maintain said insurance covering the State in good standing.

The Borrower shall provide the State with a copy of each of any such original, supplemental, amendatory or reissued certificates of insurance (or other similar documents evidencing the insurance coverage) required pursuant to this Section 3.06(c).

**SECTION 3.07. Option to Prepay Loan Repayments.** The Borrower may prepay the Loan Repayments, in whole or in part, upon not less than ninety (90) days’ prior written notice to the State; provided, however, that, with respect to any prepayment other than those required by Section 3.03A hereof, any such full or partial prepayment may only be made (i) if the Borrower is not then in arrears on its Trust Loan, (ii) if the Borrower is contemporaneously making a full or partial prepayment of the Trust Loan such that, after the prepayment of the Loan and the Trust Loan, the Trust gives its consent required under Section 3.07(iii) of the Trust Loan Agreement, and (iii) upon the prior written approval of the State. Prepayments shall be applied to the principal payments on the portion of the Loan to be prepaid in inverse order of their maturity.

**SECTION 3.08. Priority of Loan and Trust Loan.**

(a) The Borrower hereby agrees that, to the extent allowed by law, including, without limitation, the appropriations act of the New Jersey State Legislature authorizing the expenditure of Trust bond proceeds to finance a portion of the Costs of the Project, or the Borrower Bond Resolution, any loan repayments then due and payable on the Borrower’s Trust Loan, including, without limitation, any administrative fees and any late payment charges then due and payable under the Trust Loan Agreement, shall be satisfied by the Trust before any Loan Repayments then due and payable hereunder on the Loan shall be satisfied by the Trust. The Borrower agrees not to interfere with any such action by the Trust.

(b) The Borrower hereby acknowledges that in the event the Borrower fails or is unable to pay promptly to the Trust in full any loan repayments on the Trust Loan, then any Loan Repayments paid by the Borrower on the Loan under this Loan Agreement and received by the Trust during the time of any such loan repayment deficiency under the Trust Loan Agreement shall be applied by the Trust *first* to satisfy such Trust Loan Agreement loan repayment deficiency as a credit against the obligations of the Borrower to make loan repayments of that portion of interest under the Trust Loan Agreement that is allocable to the amounts payable on Exhibit A-2 of the Trust Loan Agreement under the heading “bond interest”, *second*, to the extent available, to make loan repayments of principal under the Trust Loan Agreement and payments of principal on the bond or note issued by the Borrower to the Trust pursuant to the Trust Loan Agreement, *third*, to the extent available, to the payment of the administrative fee payable under the Trust Loan Agreement and to make payments of that portion of interest under the bond or note issued by the Borrower to the Trust that is allocable to the administrative fee payable under the Trust Loan Agreement, *fourth*, to the extent available, to the payment of late charges payable under the Trust Loan Agreement and to make payments of that portion of interest under the bond issued by the Borrower to the Trust that is allocable to the late charges payable under the Trust Loan Agreement, and *finally*, to the extent available, to make Loan Repayments on the Loan.

**SECTION 3.09. Approval of the New Jersey State Treasurer.** The Borrower and the State hereby acknowledge that prior to or simultaneously with the Loan Closing the New Jersey State Treasurer, in satisfaction of the requirements of Section 9a of the Act, issued the “Certificate of the New Jersey State Treasurer Regarding the Approval of the Trust Loan and the Fund Loan” (the “Treasurer’s Certificate”). Pursuant to the terms of the Treasurer’s Certificate, the New Jersey State Treasurer approved the Loan and the terms and conditions thereof as established by the provisions of this Loan Agreement.

ARTICLE IV

ASSIGNMENT OF LOAN AGREEMENT AND BORROWER BOND

**SECTION 4.01. Assignment and Transfer by State.** The Borrower hereby approves and consents to any assignment or transfer of this Loan Agreement and the Borrower Bond that the State deems to be necessary in connection with the environmental infrastructure loan program of the State under the Regulations.

**SECTION 4.02. Assignment by Borrower.** Neither this Loan Agreement nor the Borrower Bond may be assigned by the Borrower for any reason, unless the following conditions shall be satisfied: (i) the State shall have approved said assignment in writing; (ii) the assignee shall have expressly assumed in writing the full and faithful observance and performance of the Borrower's duties, covenants, obligations and agreements under this Loan Agreement and, to the extent permitted under applicable law, the Borrower Bond; and (iii) immediately after such assignment, the assignee shall not be in default in the observance or performance of any duties, covenants, obligations or agreements of the Borrower under this Loan Agreement or the Borrower Bond.

## ARTICLE V

### EVENTS OF DEFAULT AND REMEDIES

**SECTION 5.01. Events of Default.** If any of the following events occur, it is hereby defined as and declared to be and to constitute an “Event of Default”:

(a) failure by the Borrower to pay, or cause to be paid, any Loan Repayment required to be paid hereunder when due, which failure shall continue for a period of fifteen (15) days;

(b) failure by the Borrower to make, or cause to be made, any required payments of principal, redemption premium, if any, and interest on any bonds, notes or other obligations of the Borrower issued under the Borrower Bond Resolution (other than the Loan and the Borrower Bond) or otherwise secured by all or a portion of the property pledged under the Borrower Bond Resolution, after giving effect to the applicable grace period;

(c) failure by the Borrower to pay, or cause to be paid, any late charges incurred hereunder or any portion thereof when due or to observe and perform any duty, covenant, obligation or agreement on its part to be observed or performed under this Loan Agreement, other than as referred to in subsection (a) of this Section 5.01 or other than the obligations of the Borrower contained in Section 2.02(d)(ii) hereof and in Exhibit F hereto, which failure shall continue for a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, is given to the Borrower by the State, unless the State shall agree in writing to an extension of such time prior to its expiration; provided, however, that if the failure stated in such notice is correctable but cannot be corrected within the applicable period, the State may not unreasonably withhold its consent to an extension of such time up to 120 days from the delivery of the written notice referred to above if corrective action is instituted by the Borrower within the applicable period and diligently pursued until the Event of Default is corrected;

(d) any representation made by or on behalf of the Borrower contained in this Loan Agreement, or in any instrument furnished in compliance with or with reference to this Loan Agreement or the Loan, is false or misleading in any material respect;

(e) a petition is filed by or against the Borrower under any federal or State bankruptcy or insolvency law or other similar law in effect on the date of this Loan Agreement or thereafter enacted, unless in the case of any such petition filed against the Borrower such petition shall be dismissed within thirty (30) days after such filing and such dismissal shall be final and not subject to appeal; or the Borrower shall become insolvent or bankrupt or shall make an assignment for the benefit of its creditors; or a custodian (including, without limitation, a receiver, liquidator or Trust of the Borrower or any of its property shall be appointed by court order or take possession of the Borrower or its property or assets if such order remains in effect or such possession continues for more than thirty (30) days;

(f) the Borrower shall generally fail to pay its debts as such debts become due; and

(g) failure of the Borrower to observe or perform such additional duties, covenants, obligations, agreements or conditions as are required by the State and specified in Exhibit F attached hereto and made a part hereof.

**SECTION 5.02. Notice of Default.** The Borrower shall give the State prompt telephonic notice of the occurrence of any Event of Default referred to in Section 5.01(e) or (f) hereof and of the occurrence of any other event or condition that constitutes an Event of Default at such time as any senior administrative or financial officer of the Borrower becomes aware of the existence thereof.

**SECTION 5.03. Remedies on Default.** Whenever an Event of Default referred to in Section 5.01 hereof shall have occurred and be continuing, the State shall have the right to take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due hereunder or to enforce the observance and performance of any duty, covenant, obligation or agreement of the Borrower hereunder.

In addition, if an Event of Default referred to in Section 5.01(a) hereof shall have occurred and be continuing, the State shall, to the extent allowed by applicable law, have the right to declare all Loan Repayments and all other amounts due hereunder (including, without limitation, payments under the Borrower Bond) to be immediately due and payable, and upon notice to the Borrower the same shall become due and payable without further notice or demand.

**SECTION 5.04. Attorneys' Fees and Other Expenses.** The Borrower shall on demand pay to the State the reasonable fees and expenses of attorneys and other reasonable expenses (including, without limitation, the reasonably allocated costs of in-house counsel and legal staff) incurred by the State in the collection of Loan Repayments or any other sum due hereunder or in the enforcement of the observation or performance of any other duties, covenants, obligations or agreements of the Borrower upon an Event of Default.

**SECTION 5.05. Application of Moneys.** Any moneys collected by the State pursuant to Section 5.03 hereof shall be applied (a) *first* to pay any attorneys' fees or other fees and expenses owed by the Borrower pursuant to Section 5.04 hereof, (b) *second*, to the extent available, to pay principal due and payable on the Loan (to the extent permitted by Section 3.08(b) hereof), (c) *third*, to the extent available, to pay any other amounts due and payable hereunder, and (d) *fourth*, to the extent available, to pay principal on the Loan and other amounts payable hereunder as such amounts become due and payable.

**SECTION 5.06. No Remedy Exclusive; Waiver; Notice.** No remedy herein conferred upon or reserved to the State is intended to be exclusive, and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Loan Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right, remedy or power accruing upon any Event of Default shall impair any such right, remedy or power or shall be construed to be a waiver thereof, but any such right, remedy or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the State to exercise any remedy reserved to it in this Article V, it shall not be necessary to give any notice other than such notice as may be required in this Article V.

**SECTION 5.07. Retention of State's Rights.** Notwithstanding any assignment or transfer of this Loan Agreement pursuant to the provisions hereof, or anything else to the contrary contained herein, the State shall have the right upon the occurrence of an Event of Default to take any action, including (without limitation) bringing an action against the Borrower at law or in equity, as the State may, in its discretion, deem necessary to enforce the obligations of the Borrower to the State pursuant to Section 5.03 hereof.

ARTICLE VI

MISCELLANEOUS

**SECTION 6.01. Notices.** All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed given when hand delivered or mailed by registered or certified mail, postage prepaid, to the Borrower at the address specified in Exhibit A-1 attached hereto and made a part hereof and to the State and the Trust at the following addresses:

(a) State:

New Jersey Department of Environmental Protection  
Municipal Finance and Construction Element  
401 East State Street – 3rd Floor  
Trenton, New Jersey 08625-0425  
Attention: Assistant Director

New Jersey Department of the Treasury  
Office of Public Finance  
State Street Square – 5th Floor  
Trenton, New Jersey 08625-0002  
Attention: Director

(b) Trustee:

U.S. Bank National Association  
21 South Street, 3<sup>rd</sup> Floor  
Morristown, New Jersey 07960  
Attention: Corporate Trust Department

Any of the foregoing parties may designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent by notice in writing given to the others.

**SECTION 6.02. Binding Effect.** This Loan Agreement shall inure to the benefit of and shall be binding upon the State and the Borrower and their respective successors and assigns.

**SECTION 6.03. Severability.** In the event any provision of this Loan Agreement shall be held illegal, invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate, render unenforceable or otherwise affect any other provision hereof.

**SECTION 6.04. Amendments, Supplements and Modifications.** This Loan Agreement may not be amended, supplemented or modified without the prior written consent of the State and the Borrower.

**SECTION 6.05. Execution in Counterparts.** This Loan Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

**SECTION 6.06. Applicable Law and Regulations.** This Loan Agreement shall be governed by and construed in accordance with the laws of the State of New Jersey, including the Regulations, which Regulations are, by this reference thereto, incorporated herein as part of this Loan Agreement.

**SECTION 6.07. Consents and Approvals.** Whenever the written consent or approval of the State shall be required under the provisions of this Loan Agreement, such consent or approval may only be given by the State.

**SECTION 6.08. Captions.** The captions or headings in this Loan Agreement are for convenience only and shall not in any way define, limit or describe the scope or intent of any provisions or sections of this Loan Agreement.

**SECTION 6.09. Further Assurances.** The Borrower shall, at the request of the State, authorize, execute, attest, acknowledge and deliver such further resolutions, conveyances, transfers, assurances, financing statements and other instruments as may be necessary or desirable for better assuring, conveying, granting, assigning and confirming the rights, security interests and agreements granted or intended to be granted by this Loan Agreement and the Borrower Bond.

IN WITNESS WHEREOF, the State and the Borrower have caused this Loan Agreement to be executed, sealed and delivered as of the date first above written.

**THE STATE OF NEW JERSEY  
ACTING BY AND THROUGH THE  
NEW JERSEY DEPARTMENT OF  
ENVIRONMENTAL PROTECTION**

[SEAL]

By: /s/Michele N. Siekerka  
**Michele N. Siekerka, Esq.**  
**Acting Deputy Commissioner**  
**Department of Environmental**  
**Protection**

ATTEST:

/s/Eugene J. Chebra  
**Eugene J. Chebra, P.E.**  
**Assistant Director**  
**Municipal Finance and Construction Element,**  
**Department of Environmental Protection**

**MIDDLESEX WATER COMPANY**

[SEAL]

By: /s/A. Bruce O'Connor  
**A. Bruce O'Connor,**  
**Vice President, Treasurer and**  
**Chief Financial Officer**

ATTEST:

/s/Jay L. Kooper  
**Jay L. Kooper,**  
**Vice President, General Counsel and**  
**Secretary**

[signature page]

## SCHEDULE A

### Certain Additional Loan Agreement Provisions

In addition to the terms defined in subsection (a) of Section 1.01 of this Loan Agreement, certain additional capitalized terms used in this Loan Agreement shall, unless the context clearly requires otherwise, have the meanings ascribed to such additional capitalized terms in this Schedule A.

#### Additional Definitions:

**“Borrower”** means Middlesex Water Company, a corporation duly created and validly existing under the laws of the State of New Jersey.

**“Borrower Bond Resolution”** means an indenture of the Borrower dated as of April 1, 1927 and entitled “INDENTURE OF MORTGAGE”, as amended and supplemented from time to time, in particular by a supplemental indenture detailing the terms of the Borrower Bond dated as of May 1, 2014 and entitled “FORTY-SEVENTH SUPPLEMENTAL INDENTURE”, pursuant to which the Borrower Bond has been issued.

**“Principal Payment Dates”** means February 1 and August 1 of each year, commencing on August 1, 2014.

#### SECTION 2.02(e):

Disposition of Environmental Infrastructure System. The Borrower shall not permit the disposition of all or substantially all of its Environmental Infrastructure System, directly or indirectly, including, without limitation, by means of sale, lease, abandonment, sale of stock, statutory merger or otherwise (collectively, a "Disposition"), except on ninety (90) days' prior written notice to the State, and, in any event, shall not permit a Disposition unless the Borrower shall, in accordance with Section 4.02 hereof, assign this Loan Agreement and the Borrower Bond and its rights and interests hereunder and thereunder to the purchaser or lessee of the Environmental Infrastructure System, and such purchaser or lessee shall assume all duties, covenants, obligations and agreements of the Borrower under this Loan Agreement and the Borrower Bond.

EXHIBIT A-1

**Description of Project and Environmental Infrastructure System**

A-1

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EXHIBIT A-1

1) Name and Address of Local Unit:

Middlesex Water Company  
1500 Ronson Road  
Island, New Jersey 08830-0452

Attention: Richard M. Risoldi, Vice President- Operations

2) Description of the Project:

The proposed project for Middlesex Water Company, "MWC" will involve cleaning/relining and spot replacement of water mains, hydrants, service lines, and valves. Approximately forty five thousand feet of 6, 8, 10 and 12-inch diameter water mains will be relined. The project will occur in the Colonia and Iselin sections of Woodbridge Township, and other spot locations of the MWC service area as needed in Middlesex County, New Jersey.

3) Description of the Water Treatment System:

The Middlesex Water Company is an investor-owned water utility that provides water service to retail customers primarily in eastern Middlesex County. Water services are now furnished to approximately 58,000 retail customers located in an area of approximately 55 square miles of New Jersey in Woodbridge Township, the Boroughs of Metuchen and Carteret, portions of Edison Township and the Borough of South Plainfield and the City of South Amboy in Middlesex County, and a portion of the Township of Clark in Union County.

The Middlesex Water Company obtains water from both surface and groundwater sources; however, the principal source of supply is the Delaware and Raritan Canal, owned by the State of New Jersey and operated as a water resource by the New Jersey Water Supply Authority.

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**EXHIBIT A-2**

**Description of Loan**

See Schedule to Specimen Borrower Bond (Exhibit D hereto)

EXHIBIT B

**Basis for Determination of Allowable Project Costs**

EXHIBIT B

Basis for the Determination of Allowable Costs

The determination of the costs allowable for assistance from the New Jersey Environmental Infrastructure Financing Program is presented below:

Cost Classification	Application Amount	Allowable Amount
1. Administrative Expenses	\$ 99,000	\$ 92,158
2. Other Costs	\$ 0	\$ 0
3. Engineering Fees	\$ 160,000	\$ 160,000
4. Building Costs	\$ 3,300,000	\$ 3,071,919
5. Contingencies	\$ 165,000	\$ 153,596
6. Allowance for Planning and Design	\$ 276,000	\$ 276,000
7. Sub-Total	\$ 4,000,000	\$ 3,753,673
8. DEP Fee (Financed Portion (50%))		\$ 37,537
9. Total Project Costs	\$ 4,000,000	\$ 3,791,210
A. Fund Loan (75% of Sub-Total)		\$ 2,815,255
B. Trust Loan (25% of Sub-Total)		\$ 938,418
C. DEP Fee (Financed Portion (50%))		\$ 37,537

As a result of the review by the New Jersey Department of Environmental Protection (“Department”), various line items may have been revised resulting in a change of the allowable costs for this project. The basis for the determination of the allowable costs is as follows:

1. Administrative Expenses:

The total amount requested for this line item on the application was \$99,000. The allowable administrative expense is authorized to be 3% of the total allowable building costs (Line Item No. 4). Therefore, the amount for the administrative line item is  $\$3,071,919 \times 0.03 = \$92,158$ .

Allowable Administrative Expenses are \$92,158.

2. Other Costs:

The amount requested for this line item on the application was \$0. Therefore, the total allowable amount for this line item is \$ 0.

Allowable Other Costs are \$0.

3. Engineering Fees:

The amount requested for this line item on the application was \$160,000. Middlesex Water Company will utilize “in house” engineering and inspection personnel.

Allowable Engineering Fees are \$160,000.

4. Building Costs:

The amount requested for this line item on the application was \$3,300,000. The allowable amount based on the low bid received is \$3,071,919, consisting of Contract No.1 of \$2,585,387.20 and Contract No.2 of \$486,532.

Green Project Reserve (GPR) Funding:

Green Infrastructure - \$0.  
Energy Efficiency- \$0.  
Water Efficiency - \$0.  
Green Innovative - \$0.

Allowable Building Costs are \$3,071,919.

5. Contingencies:

The amount requested for this line item on the application was \$165,000. The allowable amount is authorized to be 5% of the allowable building cost. Therefore, the allowable amount for this line item is  $\$3,071,919 \times 0.05 = \$153,596$ .

Allowable Contingencies are \$153,596.

6. Allowance for Planning and Design:

The amount requested for this line item on the application was \$276,000. The allowable amount for this line item based on the allowable building costs and the planning and design allowance as per N.J.A.C. 7:22-5.12 is as follows:

$\$250,000 + 0.12(\$3,071,919 - \$1,000,000) = \$498,630$ . At the request of the applicant the amount was reduced to \$276,000.

Allowable Planning and Design Allowance is \$276,000.

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7. Sub-Total:

The total amount applied for was \$4,000,000. The subtotal line item amount is \$3,753,673.

8. DEP Fee:

This item represents the DEP Loan Surcharge or Loan Origination Fee imposed by DEP as a portion of the cost of the project of the borrower. This DEP Loan Surcharge or Loan Origination Fee is a portion of the cost of the project that has been incurred for engineering and environmental services provided by DEP for the borrower in connection with, and as a condition precedent to, the inclusion of the project of the borrower in the 2014 Financing Program of the Trust, 50% of which will be financed for the Borrower as part of the Trust Loan made by the Trust to the Borrower from the proceeds of the Trust bonds sold as part of the 2014 Financing Program, 50% of which will be imposed as an annual administrative fee upon the Borrower by DEP (pursuant to the terms of the Fund Loan agreement and invoices evidencing such obligation to be submitted to the Borrower by or on behalf of DEP), and paid semi-annually by the Borrower to DEP in eight (8) equal installments commencing September 1, 2014 (regardless of the date of commencement of Fund Loan principal amortization). Upon the issuance of the Trust bonds, the Trust shall direct the Trustee for the Trust bonds to transfer to DEP from the Project Fund that portion (50%) of the DEP Loan Surcharge or Loan Origination Fee financed thereby and allocable to the Borrower. The DEP's authority to assess a Loan Surcharge or Loan Origination Fee was established pursuant to P.L. 2002, c.34 approved on July 1, 2002.

DEP Fee =  $\$3,753,673 \times 2\% = \underline{\$75,074}$

$\underline{\$75,074} \times 0.50 = \underline{\$37,537}$  (financed through the Trust Loan and paid to DEP upon closing of the Trust Loan)

$\underline{\$75,074} \times 0.50 = \underline{\$37,537}$  (paid as an annual administrative fee to DEP in 8 equal semiannual installments, commencing September 1, 2014).

9. Total Project Costs:

The total project costs are (loan amount + DEP Fee) \$3,791,210.

I. Disbursement to Borrower is \$3,753,673.

Fund Share is \$2,815,255 (75%)

Trust Share is \$938,418 (25%)

II. Disbursement to Department is \$37,537.

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EXHIBIT C

Estimated Disbursement Schedule

C-1

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EXHIBIT C

1. Disbursement Schedule

The following is a schedule of the estimated disbursements for this loan. Disbursements to the Borrower for any given month shall not exceed the amounts indicated below plus any undisbursed from the previous months.

Year	Month	Fund Share (75%) Borrower Disbursement (\$)	Trust Share (25%) Borrower Disbursement (\$)	Trust Share Department Disbursement (\$)	Total
2014	May			*37,537	\$ *37,537
	May	1,500,000	500,000		\$ 2,000,000
	June	415,500	138,500		\$ 554,000
	July	271,875	90,625		\$ 362,500
	August	271,875	90,625		\$ 362,500
	September	217,500	72,500		\$ 290,000
	October	138,505	46,168		\$ 184,673
	November				
	Total	\$ 2,815,255	\$ 938,418	\$ 37,537	\$ 3,791,210

\* This represents that portion (50%) of the DEP Loan Surcharge or Loan Origination Fee that has been financed for the Borrower through the Trust Loan. No action is required on the part of the borrower. The Trust will make a single transfer to DEP, through the Trust's Trustee, on behalf of each Borrower in 2014 Financing Program for purposes of implementing this disbursement.

## 2. Project Schedule

The Borrower shall expeditiously initiate and complete the project in accordance with the project schedule which was submitted as part of the loan application repeated below. Failure to promptly initiate and complete the Project may result in the imposition of sanctions under N.J.A.C. 7:22-3.40 through 3.44 and N.J.A.C. 7:22-4.40 through 4.44. In addition, failure to promptly award all subagreement(s) for building the Project within 12 months of the date of this loan may result in a limitation on allowable costs as provided by N.J.A.C. 7:22-5.4(d) 4. This limitation provides that costs incurred under contracts awarded after 12 months from the date of this loan are unallowable unless a specific extension has been granted by the Department, in the case of a Fund Loan, and the Trust, in the case of a Trust Loan.

<u>EVENT</u>	<u>DATE</u>
<u>Advertisement:</u> Water main relining	October 9, 2013
<u>Bid Receipt:</u> Water main relining	January 9, 2014
<u>Award:</u> Water main relining	February 10, 2014
<u>Issuance of Notice to Proceed:</u> Water main relining	March 10, 2014
<u>Completion of Construction:</u> Water main relining	October 10, 2014
<u>Initiation of Operation:</u> Water main relining	October 10, 2014
<u>Project Performance Certification:</u> Water main relining	October 12, 2015

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EXHIBIT D

**Specimen Borrower Bond**

D-1

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EXHIBIT E

**Opinions of Borrower's Bond Counsel and General Counsel**

EXHIBIT F

**Additional Covenants and Requirements**

None.

F-1

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EXHIBIT G

**General Administrative Requirements for the  
State Environmental Infrastructure Financing Program**

G-1

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**LOAN AGREEMENT**

**BY AND BETWEEN**

**NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST**

**AND**

**MIDDLESEX WATER COMPANY**

**DATED AS OF MAY 1, 2014**

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**NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST LOAN AGREEMENT**

**THIS LOAN AGREEMENT**, made and entered into as of May 1, 2014, by and between the NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST, a public body corporate and politic with corporate succession, and the Borrower (capitalized terms used in this Loan Agreement shall have, unless the context otherwise requires, the meanings ascribed thereto in Section 1.01 hereof);

**WITNESSETH THAT:**

**WHEREAS**, the Trust, in accordance with the Act, the Bond Resolution and a financial plan approved by the State Legislature in accordance with Sections 22 and 22.1 of the Act, will issue its Trust Bonds on or prior to the Loan Closing for the purpose of making the Loan to the Borrower and the Loans to the Borrowers from the proceeds of the Trust Bonds to finance a portion of the Costs of Environmental Infrastructure Facilities;

**WHEREAS**, the Borrower has, in accordance with the Act and the Regulations, made timely application to the Trust for a Loan to finance a portion of the Costs of the Project;

**WHEREAS**, the State Legislature, in accordance with Sections 20 and 20.1 of the Act, has in the form of an appropriations act approved a project priority list that includes the Project and that authorizes an expenditure of proceeds of the Trust Bonds to finance a portion of the Costs of the Project;

**WHEREAS**, the Trust has approved the Borrower's application for a Loan from available proceeds of the Trust Bonds to finance a portion of the Costs of the Project;

**WHEREAS**, in accordance with the applicable Bond Act (as defined in the Fund Loan Agreement), and the Regulations, the Borrower has been awarded a Fund Loan for a portion of the Costs of the Project; and

**WHEREAS**, the Borrower, in accordance with the Act, the Regulations, the Business Corporation Law and all other applicable law, will issue a Borrower Bond to the Trust evidencing said Loan at the Loan Closing.

**NOW, THEREFORE**, for and in consideration of the award of the Loan by the Trust, the Borrower agrees to complete the Project and to perform under this Loan Agreement in accordance with the conditions, covenants and procedures set forth herein and attached hereto as part hereof, as follows:

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## ARTICLE I

### DEFINITIONS

#### SECTION 1.01. Definitions.

(a) The following terms as used in this Loan Agreement shall, unless the context clearly requires otherwise, have the following meanings:

**“Act”** means the “New Jersey Environmental Infrastructure Trust Act”, constituting Chapter 334 of the Pamphlet Laws of 1985 of the State (codified at N.J.S.A. 58:11B-1 *et seq.*), as the same may from time to time be amended and supplemented.

**“Administrative Fee”** means that portion of Interest on the Loan or Interest on the Borrower Bond payable hereunder as an annual fee of up to four-tenths of one percent (.40%) of the initial principal amount of the Loan or such lesser amount, if any, as may be authorized by any act of the State Legislature and as the Trust may approve from time to time.

**“Authorized Officer”** means, in the case of the Borrower, any person or persons authorized pursuant to a resolution of the board of directors of the Borrower to perform any act or execute any document relating to the Loan, the Borrower Bond or this Loan Agreement.

**“Bond Counsel”** means a law firm appointed or approved by the Trust, as the case may be, having a reputation in the field of municipal law whose opinions are generally acceptable by purchasers of municipal bonds.

**“Borrower”** means the corporation that is a party to and is described in Schedule A to this Loan Agreement, and its successors and assigns

**“Borrower Bond”** means the general obligation bond, note, debenture or other evidence of indebtedness, authorized, executed, attested and delivered by the Borrower to the Trust and, if applicable, authenticated on behalf of the Borrower to evidence the Loan, a specimen of which is attached hereto as Exhibit D and made a part hereof.

**“Borrowers”** means any other Local Government Unit or Private Entity (as such terms are defined in the Regulations) authorized to construct, operate and maintain Environmental Infrastructure Facilities that have entered into Loan Agreements with the Trust pursuant to which the Trust will make Loans to such recipients from moneys on deposit in the Project Fund, excluding the Project Loan Account.

**“Business Corporation Law”** means the “New Jersey Business Corporation Act”, constituting Chapter 263 of the Pamphlet Laws of 1968 of the State (codified at N.J.S.A. 14A:1-1, *et seq.*), as the same may from time to time be amended and supplemented.

**“Code”** means the Internal Revenue Code of 1986, as the same may from time to time be amended and supplemented, including any regulations promulgated thereunder, any successor code thereto and any administrative or judicial interpretations thereof.

**“Costs”** means those costs that are eligible, reasonable, necessary, allocable to the Project and permitted by generally accepted accounting principles, including Allowances and Building Costs (as defined in the Regulations), as shall be determined on a project-specific basis in accordance with the Regulations as set forth in Exhibit B hereto, as the same may be amended by subsequent eligible costs as evidenced by a certificate of an authorized officer of the Trust.

**“Debt Service Reserve Fund”** means the Debt Service Reserve Fund, if any, as defined in the Bond Resolution.

**“Department”** means the New Jersey Department of Environmental Protection

**“Environmental Infrastructure Facilities”** means Water Supply Facilities (as such terms are defined in the Regulations).

**“Environmental Infrastructure System”** means the Environmental Infrastructure Facilities of the Borrower, including the Project, described in Exhibit A-1 attached hereto and made a part hereof for which the Borrower is borrowing the Loan under this Loan Agreement.

**“Event of Default”** means any occurrence or event specified in Section 5.01 hereof.

**“Excess Project Funds”** shall have the meaning set forth in Section 3.03A hereof.

**“Fund Loan”** means the loan made to the Borrower by the State, acting by and through the Department, pursuant to the Fund Loan Agreement dated as of May 1, 2014 by and between the Borrower and the State, acting by and through the Department, to finance or refinance a portion of the Costs of the Project.

**“Fund Loan Agreement”** means the loan agreement dated as of May 1, 2014 by and between the Borrower and the State, acting by and through the Department, regarding the terms and conditions of the Fund Loan.

**“Interest on the Loan”** or **“Interest on the Borrower Bond”** means the sum of (i) the Interest Portion, (ii) the Administrative Fee, and (iii) any late charges incurred hereunder.

**“Interest Portion”** means that portion of Interest on the Loan or Interest on the Borrower Bond payable hereunder that is necessary to pay the Borrower’s proportionate share of interest on the Trust Bonds (i) as set forth in Exhibit A-2 hereof under the column heading entitled “Interest”, or (ii) with respect to any prepayment of Trust Bond Loan Repayments in accordance with Section 3.07 or 5.03 hereof, to accrue on any principal amount of Trust Bond Loan Repayments to the date of the optional redemption or acceleration, as the case may be, of the Trust Bonds allocable to such prepaid or accelerated Trust Bond Loan Repayment.

**“Loan”** means the loan made by the Trust to the Borrower to finance or refinance a portion of the Costs of the Project pursuant to this Loan Agreement, as further described in Schedule A attached hereto.

**“Loan Agreement”** means this Loan Agreement, including Schedule A and the Exhibits attached hereto, as it may be supplemented, modified or amended from time to time in accordance with the terms hereof and of the Bond Resolution.

**“Loan Agreements”** means any other loan agreements entered into by and between the Trust and one or more of the Borrowers pursuant to which the Trust will make Loans to such Borrowers from moneys on deposit in the Project Fund, excluding the Project Loan Account, financed with the proceeds of the Trust Bonds.

**“Loan Closing”** means the date upon which the Trust shall issue and deliver the Trust Bonds and the Borrower shall deliver its Borrower Bond, as previously authorized, executed, attested and, if applicable, authenticated, to the Trust.

**“Loan Repayments”** means the sum of (i) Trust Bond Loan Repayments, (ii) the Administrative Fee, and (iii) any late charges incurred hereunder.

**“Loan Term”** means the term of this Loan Agreement provided in Sections 3.01 and 3.03 hereof and in Exhibit A-2 attached hereto and made a part hereof.

**“Loans”** means the loans made by the Trust to the Borrowers under the Loan Agreements from moneys on deposit in the Project Fund, excluding the Project Loan Account.

**“Master Program Trust Agreement”** means that certain Master Program Trust Agreement, dated as of November 1, 1995, by and among the Trust, the State, United States Trust Company of New York, as Master Program Trustee thereunder, The Bank of New York (NJ), in several capacities thereunder, and First Fidelity Bank, N.A. (predecessor to Wachovia Bank, National Association), in several capacities thereunder, as supplemented by that certain Agreement of Resignation of Outgoing Master Program Trustee, Appointment of Successor Master Program Trustee and Acceptance Agreement, dated as of November 1, 2001, by and among United States Trust Company of New York, as Outgoing Master Program Trustee, State Street Bank and Trust Company, N.A. (predecessor to U.S. Bank Trust National Association), as Successor Master Program Trustee, and the Trust, as the same may be amended and supplemented from time to time in accordance with its terms.

**“Official Statement”** means the Official Statement relating to the issuance of the Trust Bonds.

**“Preliminary Official Statement”** means the Preliminary Official Statement relating to the issuance of the Trust Bonds.

**“Prime Rate”** means the prevailing commercial interest rate announced by the Trustee from time to time in the State as its prime lending rate.

**“Project”** means the Environmental Infrastructure Facilities of the Borrower described in Exhibit A-1 attached hereto and made a part hereof, which constitutes a project for which the Trust is permitted to make a loan to the Borrower pursuant to the Act, the Regulations and the Bond Resolution, all or a portion of the Costs of which is financed or refinanced by the Trust through the making of the Loan under this Loan Agreement and which may be identified under either the Drinking Water or Clean Water Project Lists with the Project Number specified in Exhibit A-1 attached hereto.

**“Project Fund”** means the Project Fund as defined in the Bond Resolution.

**“Project Loan Account”** means the project loan account established on behalf of the Borrower in the Project Fund in accordance with the Bond Resolution to finance all or a portion of the Costs of the Project.

**“Regulations”** means the rules and regulations, as applicable, now or hereafter promulgated under N.J.A.C. 7:22-3 *et seq.*, 7:22-4 *et seq.*, 7:22-5 *et seq.*, 7:22-6 *et seq.*, 7:22-7 *et seq.*, 7:22-8 *et seq.*, 7:22-9 *et seq.* and 7:22-10 *et seq.*, as the same may from time to time be amended and supplemented.

**“State”** means the State of New Jersey.

**“Trust”** means the New Jersey Environmental Infrastructure Trust, a public body corporate and politic with corporate succession duly created and validly existing under and by virtue of the Act.

**“Trust Bond Loan Repayments”** means the repayments of the principal amount of the Loan plus the payment of any premium associated with prepaying the principal amount of the Loan in accordance with Section 3.07 hereof plus the Interest Portion.

**“Trust Bonds”** means bonds authorized by Section 2.03 of the Bond Resolution, together with any refunding bonds authenticated, if applicable, and delivered pursuant to Section 2.04 of the Bond Resolution, in each case issued in order to finance (i) the portion of the Loan deposited in the Project Loan Account, (ii) the portion of the Loans deposited in the balance of the Project Fund, (iii) any capitalized interest related to such bonds, (iv) a portion of the costs of issuance related to such bonds, and (v) that portion of the Debt Service Reserve Fund (to the extent the Trust establishes a Debt Service Reserve Fund pursuant to the Bond Resolution), if any, allocable to the Loan or Loans, as the case may be, a portion of which includes the funding of reserve capacity, if applicable, for the Environmental Infrastructure Facilities of the Borrower or Borrowers, as the case may be, or to refinance any or all of the above.

**“Trustee”** means, initially, U.S. Bank National Association, the Trustee appointed by the Trust and its successors as Trustee under the Bond Resolution, as provided in Article X of the Bond Resolution.

(b) In addition to the capitalized terms defined in subsection (a) of this Section 1.01, certain additional capitalized terms used in this Loan Agreement shall, unless the context clearly requires otherwise, have the meanings ascribed to such additional capitalized terms in Schedule A attached hereto and made a part hereof.

(c) Except as otherwise defined herein or where the context otherwise requires, words importing the singular number shall include the plural number and vice versa, and words importing persons shall include firms, associations, corporations, agencies and districts. Words importing one gender shall include the other gender.

## ARTICLE II

### REPRESENTATIONS AND COVENANTS OF BORROWER

**SECTION 2.01. Representations of Borrower.** The Borrower represents for the benefit of the Trust, the Trustee and the holders of the Trust Bonds as follows:

(a) Organization and Authority.

(i) The Borrower is a corporation duly created and validly existing under and pursuant to the Constitution and statutes of the State, including the Business Corporation Law.

(ii) The acting officers of the Borrower who are contemporaneously herewith performing or have previously performed any action contemplated in this Loan Agreement either are or, at the time any such action was performed, were the duly appointed or elected officers of such Borrower empowered by applicable State law and, if applicable, authorized by resolution of the Borrower to perform such actions. To the extent any such action was performed by an officer no longer the duly acting officer of such Borrower, all such actions previously taken by such officer are still in full force and effect.

(iii) The Borrower has full legal right and authority and all necessary licenses and permits required as of the date hereof to own, operate and maintain its Environmental Infrastructure System, to carry on its activities relating thereto, to execute, attest and deliver this Loan Agreement and the Borrower Bond, to authorize the authentication of the Borrower Bond, to sell the Borrower Bond to the Trust, to undertake and complete the Project and to carry out and consummate all transactions contemplated by this Loan Agreement.

(iv) The proceedings of the Borrower's board of directors approving this Loan Agreement and the Borrower Bond, authorizing the execution, attestation and delivery of this Loan Agreement and the Borrower Bond, authorizing the sale of the Borrower Bond to the Trust, authorizing the authentication of the Borrower Bond on behalf of the Borrower and authorizing the Borrower to undertake and complete the Project, including, without limitation, the Borrower Bond Resolution (collectively, the "Proceedings"), have been duly and lawfully adopted in accordance with the Business Corporation Law and other applicable State law at a meeting or meetings that were duly called and held in accordance with the Borrower By-Laws and at which quorums were present and acting throughout.

(v) By official action of the Borrower taken prior to or concurrent with the execution and delivery hereof, including, without limitation, the Proceedings, the Borrower has duly authorized, approved and consented to all necessary action to be taken by the Borrower for: (A) the execution, attestation, delivery and performance of this Loan Agreement and the transactions contemplated hereby; (B) the issuance of the Borrower Bond and the sale thereof to the Trust upon the terms set forth herein; (C) the approval of the inclusion, if such inclusion is deemed necessary in the sole discretion of the Trust, in the Preliminary Official Statement and the Official Statement of all statements and information relating to the Borrower set forth in "APPENDIX B" thereto (the "Borrower Appendices") and any amendment thereof or supplement thereto; and (D) the execution, delivery and due performance of any and all other certificates, agreements and instruments that may be required to be executed, delivered and performed by the Borrower in order to carry out, give effect to and consummate the transactions contemplated by this Loan Agreement, including, without limitation, the designation of the Borrower Appendices portion of the Preliminary Official Statement, if any, as "deemed final" for the purposes and within the meaning of Rule 15c2-12 ("Rule 15c2-12") of the Securities and Exchange Commission ("SEC") promulgated under the Securities Exchange Act of 1934, as amended or supplemented, including any successor regulation or statute thereto.

(vi) This Loan Agreement and the Borrower Bond have each been duly authorized by the Borrower and duly executed, attested and delivered by Authorized Officers of the Borrower, and the Borrower Bond has been duly sold by the Borrower to the Trust, duly authenticated by the trustee or paying agent, if applicable, under the Borrower Bond Resolution and duly issued by the Borrower in accordance with the terms of the Borrower Bond Resolution; and assuming that the Trust has all the requisite power and authority to authorize, execute, attest and deliver, and has duly authorized, executed, attested and delivered, this Loan Agreement, and assuming further that this Loan Agreement is the legal, valid and binding obligation of the Trust, enforceable against the Trust in accordance with its terms, each of this Loan Agreement and the Borrower Bond constitutes a legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its respective terms, except as the enforcement thereof may be affected by bankruptcy, insolvency or other laws or the application by a court of legal or equitable principles affecting creditors' rights; and the information contained under "Description of Loan" in Exhibit A-2 attached hereto and made a part hereof is true and accurate in all respects.

(b) Full Disclosure. There is no fact that the Borrower has not disclosed to the Trust in writing on the Borrower's application for the Loan or otherwise that materially adversely affects or (so far as the Borrower can now foresee) that will materially adversely affect the properties, activities, prospects or condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System, or the ability of the Borrower to make all Loan Repayments and any other payments required under this Loan Agreement or otherwise to observe and perform its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond.

(c) Pending Litigation. There are no proceedings pending or, to the knowledge of the Borrower, threatened against or affecting the Borrower in any court or before any governmental authority or arbitration board or tribunal that, if adversely determined, would materially adversely affect (i) the undertaking or completion of the Project, (ii) the properties, activities, prospects or condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System, (iii) the ability of the Borrower to make all Loan Repayments or any other payments required under this Loan Agreement, (iv) the authorization, execution, attestation or delivery of this Loan Agreement or the Borrower Bond, (v) the issuance of the Borrower Bond and the sale thereof to the Trust, (vi) the adoption of the Borrower Bond Resolution, or (vii) the Borrower's ability otherwise to observe and perform its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond, which proceedings have not been previously disclosed in writing to the Trust either in the Borrower's application for the Loan or otherwise.

(d) Compliance with Existing Laws and Agreements. (i) The authorization, execution, attestation and delivery of this Loan Agreement and the Borrower Bond by the Borrower, (ii) the authentication of the Borrower Bond by the trustee or paying agent under the Borrower Bond Resolution, as the case may be, and the sale of the Borrower Bond to the Trust, (iii) the adoption of the Borrower Bond Resolution, (iv) the observation and performance by the Borrower of its duties, covenants, obligations and agreements hereunder and thereunder, (v) the consummation of the transactions provided for in this Loan Agreement, the Borrower Bond Resolution and the Borrower Bond, and (vi) the undertaking and completion of the Project will not (A) other than the lien, charge or encumbrance created hereby, by the Borrower Bond, by the Borrower Bond Resolution and by any other outstanding debt obligations of the Borrower that are at parity with the Borrower Bond as to lien on, and source and security for payment thereon from, the revenues of the Borrower's Environmental Infrastructure System, result in the creation or imposition of any lien, charge or encumbrance upon any properties or assets of the Borrower pursuant to, (B) result in any breach of any of the terms, conditions or provisions of, or (C) constitute a default under, any existing resolution, outstanding debt or lease obligation, trust agreement, indenture, mortgage, deed of trust, loan agreement or other instrument to which the Borrower is a party or by which the Borrower, its Environmental Infrastructure System or any of its properties or assets may be bound, nor will such action result in any violation of the provisions of the charter or other document pursuant to which the Borrower was established or any laws, ordinances, injunctions, judgments, decrees, rules, regulations or existing orders of any court or governmental or administrative agency, authority or person to which the Borrower, its Environmental Infrastructure System or its properties or operations is subject.

(e) No Defaults. No event has occurred and no condition exists that, upon the authorization, execution, attestation and delivery of this Loan Agreement and the Borrower Bond, the issuance of the Borrower Bond and the sale thereof to the Trust, the adoption of the Borrower Bond Resolution or the receipt of the amount of the Loan, would constitute an Event of Default hereunder. The Borrower is not in violation of, and has not received notice of any claimed violation of, any term of any agreement or other instrument to which it is a party or by which it, its Environmental Infrastructure System or its properties may be bound, which violation would materially adversely affect the properties, activities, prospects or condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System or the ability of the Borrower to make all Loan Repayments, to pay all other amounts due hereunder or otherwise to observe and perform its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond.

(f) Governmental Consent. The Borrower has obtained all permits and approvals required to date by any governmental body or officer for the authorization, execution, attestation and delivery of this Loan Agreement and the Borrower Bond, for the issuance of the Borrower Bond and the sale thereof to the Trust, for the adoption of the Borrower Bond Resolution, for the making, observance and performance by the Borrower of its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond and for the undertaking or completion of the Project and the financing or refinancing thereof, including, but not limited to, if required, the approval by the New Jersey Board of Public Utilities (the "BPU") of the issuance by the Borrower of the Borrower Bond to the Trust, as required by Section 9a of the Act, and any other approvals required therefor by the BPU; and the Borrower has complied with all applicable provisions of law requiring any notification, declaration, filing or registration with any governmental body or officer in connection with the making, observance and performance by the Borrower of its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond or with the undertaking or completion of the Project and the financing or refinancing thereof. No consent, approval or authorization of, or filing, registration or qualification with, any governmental body or officer that has not been obtained is required on the part of the Borrower as a condition to the authorization, execution, attestation and delivery of this Loan Agreement and the Borrower Bond, the issuance of the Borrower Bond and the sale thereof to the Trust, the undertaking or completion of the Project or the consummation of any transaction herein contemplated.

(g) Compliance with Law. The Borrower:

(i) is in compliance with all laws, ordinances, governmental rules and regulations to which it is subject, the failure to comply with which would materially adversely affect (A) the ability of the Borrower to conduct its activities or to undertake or complete the Project, (B) the ability of the Borrower to make the Loan Repayments and to pay all other amounts due hereunder, or (C) the condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System; and

(ii) has obtained all licenses, permits, franchises or other governmental authorizations presently necessary for the ownership of its properties or for the conduct of its activities that, if not obtained, would materially adversely affect (A) the ability of the Borrower to conduct its activities or to undertake or complete the Project, (B) the ability of the Borrower to make the Loan Repayments and to pay all other amounts due hereunder, or (C) the condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System.

(h) Use of Proceeds. The Borrower will apply the proceeds of the Loan from the Trust as described in Exhibit B attached hereto and made a part hereof (i) to finance or refinance a portion of the Costs of the Borrower's Project; and (ii) where applicable, to reimburse the Borrower for a portion of the Costs of the Borrower's Project, which portion was paid or incurred in anticipation of reimbursement by the Trust and is eligible for such reimbursement under and pursuant to the Regulations, the Code and any other applicable law. All of such costs constitute Costs for which the Trust is authorized to make Loans to the Borrower pursuant to the Act and the Regulations.

(i) Official Statement. The descriptions and information set forth in the Borrower Appendices, if any, contained in the Official Statement relating to the Borrower, its operations and the transactions contemplated hereby, as of the date of the Official Statement, were and, as of the date of delivery hereof, are true and correct in all material respects, and did not and do not contain any untrue statement of a material fact or omit to state a material fact that is necessary to make the statements contained therein, in light of the circumstances under which they were made, not misleading.

(j) Preliminary Official Statement. As of the date of the Preliminary Official Statement, the descriptions and information set forth in the Borrower Appendices, if any, contained in the Preliminary Official Statement relating to the Borrower, its operations and the transactions contemplated hereby (i) were “deemed final” by the Borrower for the purposes and within the meaning of Rule 15c2-12 and (ii) were true and correct in all material respects, and did not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements contained therein, in light of the circumstances under which they were made, not misleading.

**SECTION 2.02. Particular Covenants of Borrower.**

(a) Promise to Pay. The Borrower unconditionally and irrevocably promises in accordance with the terms of and to the extent provided in the Borrower Bond Resolution, to make punctual payment of the principal and redemption premium, if any, of the Loan and the Borrower Bond, the Interest on the Loan, the Interest on the Borrower Bond and all other amounts due under this Loan Agreement and the Borrower Bond according to their respective terms.

(b) Performance Under Loan Agreement; Rates. The Borrower covenants and agrees (i) to comply with all applicable state and federal laws, rules and regulations in the performance of this Loan Agreement; (ii) to maintain its Environmental Infrastructure System in good repair and operating condition; (iii) to cooperate with the Trust in the observance and performance of the respective duties, covenants, obligations and agreements of the Borrower and the Trust under this Loan Agreement; and (iv) to establish, levy and collect rents, rates and other charges for the products and services provided by its Environmental Infrastructure System, which rents, rates and other charges shall be at least sufficient to comply with all covenants pertaining thereto contained in, and all other provisions of, any bond resolution, trust indenture or other security agreement, if any, relating to any bonds, notes or other evidences of indebtedness issued or to be issued by the Borrower, including without limitation rents, rates and other charges, together with other available moneys, sufficient to pay the principal of and Interest on the Borrower Bond, plus all other amounts due hereunder.

(c) Borrower Bond; No Prior Liens. Except for (i) the Borrower Bond, (ii) any bonds or notes at parity with the Borrower Bond and currently outstanding or issued on the date hereof, (iii) any future bonds or notes of the Borrower issued under the Borrower Bond Resolution at parity with the Borrower Bond, and (iv) any Permitted Encumbrances (as defined in the Borrower Bond Resolution), the assets of the Borrower that are subject to the Borrower Bond Resolution are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the Borrower Bond, and all corporate or other action on the part of the Borrower to that end has been and will be duly and validly taken.

(d) Completion of Project and Provision of Moneys Therefor. The Borrower covenants and agrees (i) to exercise its best efforts in accordance with prudent environmental infrastructure utility practice to complete the Project and to accomplish such completion on or before the estimated Project completion date set forth in Exhibit G hereto and made a part hereof; (ii) to comply with the terms and provisions contained in Exhibit G hereto; and (iii) to provide from its own fiscal resources all moneys, in excess of the total amount of loan proceeds it receives under the Loan and Fund Loan, required to complete the Project.

(e) See Section 2.02(e) as set forth in Schedule A attached hereto, made a part hereof and incorporated in this Section 2.02(e) by reference as if set forth in full herein.

(f) Exclusion of Interest from Federal Gross Income and Compliance with Code.

(i) The Borrower covenants and agrees that it shall not take any action or omit to take any action that would result in the loss of the exclusion of the interest on any Trust Bonds now or hereafter issued from gross income for purposes of federal income taxation as that status is governed by Section 103(a) of the Code.

(ii) The Borrower shall not directly or indirectly use or permit the use of any proceeds of the Trust Bonds (or amounts replaced with such proceeds) or any other funds or take any action or omit to take any action that would cause the Trust Bonds (assuming solely for this purpose that the proceeds of the Trust Bonds loaned to the Borrower represent all of the proceeds of the Trust Bonds) to be “arbitrage bonds” within the meaning of Section 148(a) of the Code.

(iii) The Borrower shall not directly or indirectly use or permit the use of any proceeds of the Trust Bonds to pay the principal of or the interest or redemption premium on or any other amount in connection with the retirement or redemption of any issue of state or local governmental obligations (“refinancing of indebtedness”), unless the Borrower shall (A) establish to the satisfaction of the Trust, prior to the issuance of the Trust Bonds, that such refinancing of indebtedness will not adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Trust Bonds, and (B) provide to the Trust an opinion of Bond Counsel to that effect in form and substance satisfactory to the Trust.

(iv) The Borrower shall not directly or indirectly use or permit the use of any proceeds of the Trust Bonds to reimburse the Borrower for an expenditure with respect to a Costs of the Borrower’s Project paid by the Borrower prior to the issuance of the Trust Bonds, unless (A) the allocation by the Borrower of the proceeds of the Trust Bonds to reimburse such expenditure complies with the requirements of Treasury Regulations §1.150-2 necessary to enable the reimbursement allocation to be treated as an expenditure of the proceeds of the Trust Bonds for purposes of applying Sections 103 and 141-150, inclusive, of the Code, or (B) such proceeds of the Trust Bonds will be used for refinancing of indebtedness that was used to pay Costs of the Borrower’s Project or to reimburse the Borrower for expenditures with respect to Costs of the Borrower’s Project paid by the Borrower prior to the issuance of such indebtedness in accordance with a reimbursement allocation for such expenditures that complies with the requirements of Treasury Regulations §1.150-2.

(v) The Borrower shall not directly or indirectly use or permit the use of any proceeds of the Trust Bonds to pay any costs which are not Costs of the Borrower's Project that constitute a "capital expenditure" within the meaning of Treasury Regulations §1.150-1.

(vi) The Borrower shall not use the proceeds of the Trust Bonds (assuming solely for this purpose that the proceeds of the Trust Bonds loaned to the Borrower represent all of the proceeds of the Trust Bonds) in any manner that would cause the Trust Bonds to be considered "federally guaranteed" within the meaning of Section 149(b) of the Code or "hedge bonds" within the meaning of Section 149(g) of the Code.

(vii) The Borrower shall not issue any debt obligations that (A) are sold at substantially the same time as the Trust Bonds and finance or refinance the Loan made to the Borrower, (B) are sold pursuant to the same plan of financing as the Trust Bonds and finance or refinance the Loan made to the Borrower, and (C) are reasonably expected to be paid out of substantially the same source of funds as the Trust Bonds and finance or refinance the Loan made to the Borrower.

(viii) Neither the Borrower nor any "related party" (within the meaning of Treasury Regulations §1.150-1) shall purchase Trust Bonds in an amount related to the amount of the Loan.

(ix) The Borrower will not issue or permit to be issued obligations that will constitute an "advance refunding" of the Borrower Bond within the meaning of Section 149(d)(5) of the Code without the express written consent of the Trust, which consent may only be delivered by the Trust after the Trust has received notice from the Borrower of such contemplated action no later than sixty (60) days prior to any such contemplated action, and which consent is in the sole discretion of the Trust.

(x) See Section 2.02(f)(xi) as set forth in Schedule A attached hereto, made a part hereof and incorporated in this Section 2.02(f)(xi) by reference as if set forth in full herein.

(xi) No "gross proceeds" of the Trust Bonds held by the Borrower (other than amounts in a "bona fide debt service fund") will be held in a "commingled fund" (as such terms are defined in Treasury Regulations §1.148-1(b)).

(xii) Based upon all of the objective facts and circumstances in existence on the date of issuance of the Trust Bonds used to finance the Project, (A) within six months of the date of issuance of the Trust Bonds used to finance the Project, the Borrower will incur a substantial binding obligation to a third party to expend on the Project at least five percent (5%) of the "net sale proceeds" (within the meaning of Treasury Regulations §1.148-1) of the Loan used to finance the Project (treating an obligation as not being binding if it is subject to contingencies within the control of the Borrower, the Trust or a "related party" (within the meaning of Treasury Regulations §1.150-1)), (B) completion of the Project and the allocation to expenditures of the "net sale proceeds" of the Loan used to finance the Project will proceed with due diligence, and (C) all of the proceeds of the Loan used to finance the Project (other than amounts deposited into the Debt Service Reserve Fund (to the extent the Trust establishes a Debt Service Reserve Fund pursuant to the Bond Resolution) allocable to that portion of the Loan used to finance reserve capacity, if any) and investment earnings thereon will be spent prior to the period ending three (3) years subsequent to the date of issuance of the Trust Bonds used to finance the Project. Accordingly, the proceeds of the Loan deposited in the Project Loan Account used to finance the Project will be eligible for the 3-year arbitrage temporary period since the expenditure test, time test and due diligence test, as set forth in Treasury Regulations §1.148-2(e)(2), will be satisfied.

(xiii) The weighted average maturity of the Loan does not exceed 120% of the average reasonably expected economic life of the Project financed or refinanced with the Loan, determined in the same manner as under Section 147(b) of the Code. Accordingly, the term of the Loan will not be longer than is reasonably necessary for the governmental purposes of the Loan within the meaning of Treasury Regulations §1.148-1(c)(4).

(xiv) The Borrower shall, within 30 days of date the Borrower concludes that no additional proceeds of the Loan will be required to pay costs of the Project, provide to the Trust a certificate of the Borrower evidencing such conclusion.

For purposes of this subsection and subsection (h) of this Section 2.02, quoted terms shall have the meanings given thereto by Section 148 of the Code, including, particularly, Treasury Regulations §§1.148-1 through 1.148-11, inclusive, as supplemented or amended, to the extent applicable to the Trust Bonds, and any successor Treasury Regulations applicable to the Trust Bonds.

(g) Operation and Maintenance of Environmental Infrastructure System. The Borrower covenants and agrees that it shall, in accordance with prudent environmental infrastructure utility practice, (i) at all times operate the properties of its Environmental Infrastructure System and any business in connection therewith in an efficient manner, (ii) maintain its Environmental Infrastructure System in good repair, working order and operating condition, and (iii) from time to time make all necessary and proper repairs, renewals, replacements, additions, betterments and improvements with respect to its Environmental Infrastructure System so that at all times the business carried on in connection therewith shall be properly and advantageously conducted.

(h) Records and Accounts.

(i) The Borrower shall keep accurate records and accounts for its Environmental Infrastructure System (the "System Records") separate and distinct from its other records and accounts (the "General Records"). Such System Records shall be audited annually by an independent certified public accountant, which may be part of the annual audit of the General Records of the Borrower. Such System Records and General Records shall be made available for inspection by the Trust at any reasonable time upon prior written notice, and a copy of such annual audit(s) therefor, including all written comments and recommendations of such accountant, shall be furnished to the Trust within 150 days of the close of the fiscal year being so audited or, with the consent of the Trust, such additional period as may be provided by law.

(ii) Within 30 days following receipt of any Loan proceeds, including without limitation the “Allowance for Administrative Costs” or the “Allowance for Planning and Design” set forth in Exhibit B hereto, the Borrower shall allocate such proceeds to an expenditures in a manner that satisfies the requirements of Treasury Regulation §1.148-6(d) and transmit a copy of each such allocation to the Trust. No portion of the Allowance for Administrative Costs will be allocated to a cost other than a cost described in N.J.A.C. 7:22-5.11(a) 3, 4 or 6. No portion of the Allowance for Planning and Design will be allocated to a cost other than a cost described N.J.A.C. 7:22-5.12, or other costs of the Borrower’s Environmental Infrastructure System which are “capital expenditures,” within the meaning of Treasury Regulations §1.150-1. The Borrower shall retain records of such allocations for at least until the date that is three years after the scheduled maturity date of the Trust Bonds. The Borrower shall make such records available to the Trust within 15 days of any request by the Trust.

(iii) Unless otherwise advised in writing by the Trust, in furtherance of the covenant of the Borrower contained in subsection (f) of this Section 2.02 not to cause the Trust Bonds to be arbitrage bonds, the Borrower shall keep, or cause to be kept, accurate records of each investment it makes in any “nonpurpose investment” acquired with, or otherwise allocated to, “gross proceeds” of the Trust Bonds not held by the Trustee and each “expenditure” it makes allocated to “gross proceeds” of the Trust Bonds. Such records shall include the purchase price, including any constructive “payments” (or in the case of a “payment” constituting a deemed acquisition of a “nonpurpose investment” (e.g., a “nonpurpose investment” first allocated to “gross proceeds” of the Trust Bonds after it is actually acquired because it is deposited in a sinking fund for the Trust Bonds)), the “fair market value” of the “nonpurpose investment” on the date first allocated to the “gross proceeds” of the Trust Bonds, nominal interest rate, dated date, maturity date, type of property, frequency of periodic payments, period of compounding, yield to maturity, amount actually or constructively received on disposition (or in the case of a “receipt” constituting a deemed disposition of a “nonpurpose investment” (e.g., a “nonpurpose investment” that ceases to be allocated to the “gross proceeds” of the Trust Bonds because it is removed from a sinking fund for the Trust Bonds)), the “fair market value” of the “nonpurpose investment” on the date it ceases to be allocated to the “gross proceeds” of the Trust Bonds, the purchase date and disposition date of the “nonpurpose investment” and evidence of the “fair market value” of such property on the purchase date and disposition date (or deemed purchase or disposition date) for each such “nonpurpose investment”. The purchase date, disposition date and the date of determination of “fair market value” shall be the date on which a contract to purchase or sell the “nonpurpose investment” becomes binding, i.e., the trade date rather than the settlement date. For purposes of the calculation of purchase price and disposition price, brokerage or selling commissions, administrative expenses or similar expenses shall not increase the purchase price of an item and shall not reduce the amount actually or constructively received upon disposition of an item, except to the extent such costs constitute “qualified administrative costs”.

(iv) Within thirty (30) days of the last day of the fifth and each succeeding fifth “bond year” (which, unless otherwise advised by the Trust, shall be the five-year period ending on the date five years subsequent to the date immediately preceding the date of issuance of the Trust Bonds and each succeeding fifth “bond year”) and within thirty (30) days of the date the last bond that is part of the Trust Bonds is discharged (or on any other periodic basis requested in writing by the Trust), the Borrower shall (A) calculate, or cause to be calculated, the “rebate amount” as of the “computation date” or “final computation date” attributable to any “nonpurpose investment” made by the Borrower and (B) remit the following to the Trust: (1) an amount of money that when added to the “future value” as of the “computation date” of any previous payments made to the Trust on account of rebate equals the “rebate amount”, (2) the calculations supporting the “rebate amount” attributable to any “nonpurpose investment” made by the Borrower allocated to “gross proceeds” of the Trust Bonds, and (3) any other information requested by the Trust relating to compliance with Section 148 of the Code (e.g., information related to any “nonpurpose investment” of the Borrower for purposes of application of the “universal cap”).

(v) The Borrower covenants and agrees that it will account for “gross proceeds” of the Trust Bonds, investments allocable to the Trust Bonds and expenditures of “gross proceeds” of the Trust Bonds in accordance with Treasury Regulations §1.148-6. All allocations of “gross proceeds” of the Trust Bonds to expenditures will be recorded on the books of the Borrower kept in connection with the Trust Bonds no later than 18 months after the later of the date the particular Costs of the Borrower’s Project is paid or the date the portion of the project financed by the Trust Bonds is placed in service. All allocations of proceeds of the Trust Bonds to expenditures will be made no later than the date that is 60 days after the fifth anniversary of the date the Trust Bonds are issued or the date 60 days after the retirement of the Trust Bonds, if earlier. Such records and accounts will include the particular Costs paid, the date of the payment and the party to whom the payment was made.

(vi) From time to time as directed by the Trust, the Borrower shall provide to the Trust a written report demonstrating compliance by the Borrower with the provisions of Section 2.02(f) of this Loan Agreement, each such written report to be submitted by the Borrower to the Trust in the form of a full and complete written response to a questionnaire provided by the Trust to the Borrower. Each such questionnaire shall be provided by the Trust to the Borrower not less than fourteen (14) days prior to the date established by the Trust for receipt from the Borrower of the full and complete written response to the questionnaire.

(i) Inspections; Information. The Borrower shall permit the Trust and the Trustee and any party designated by any of such parties, at any and all reasonable times during construction of the Project and thereafter upon prior written notice, to examine, visit and inspect the property, if any, constituting the Project and to inspect and make copies of any accounts, books and records, including (without limitation) its records regarding receipts, disbursements, contracts, investments and any other matters relating thereto and to its financial standing, and shall supply such reports and information as the Trust and the Trustee may reasonably require in connection therewith.

(j) Insurance. The Borrower shall maintain or cause to be maintained, in force, insurance policies with responsible insurers or self-insurance programs providing against risk of direct physical loss, damage or destruction of its Environmental Infrastructure System at least to the extent that similar insurance is usually carried by utilities constructing, operating and maintaining Environmental Infrastructure Facilities of the nature of the Borrower's Environmental Infrastructure System, including liability coverage, all to the extent available at reasonable cost but in no case less than will satisfy all applicable regulatory requirements.

(k) Costs of Project. The Borrower certifies that the building cost of the Project, as listed in Exhibit B hereto and made a part hereof, is a reasonable and accurate estimation thereof, and it will supply to the Trust a certificate from a licensed professional engineer authorized to practice in the State stating that such building cost is a reasonable and accurate estimation and that the useful life of the Project exceeds the maturity date of the Borrower Bond.

(l) Delivery of Documents. Concurrently with the delivery of this Loan Agreement (as previously authorized, executed and attested) at the Loan Closing, the Borrower will cause to be delivered to the Trust and the Trustee each of the following items:

(i) an opinion of the Borrower's bond counsel substantially in the form of Exhibit E hereto; provided, however, that the Trust may permit portions of such opinion to be rendered by general counsel to the Borrower and may permit variances in such opinion from the form set forth in Exhibit E if, in the opinion of the Trust, such variances are not to the material detriment of the interests of the holders of the Trust Bonds;

(ii) counterparts of this Loan Agreement as previously executed and attested by the parties hereto;

(iii) copies of those resolutions finally adopted by the board of directors of the Borrower and requested by the Trust, including, without limitation, (A) the resolution of the Borrower authorizing the execution, attestation and delivery of this Loan Agreement, (B) the Borrower Bond Resolution, as amended and supplemented as of the date of the Loan Closing, authorizing the execution, attestation, authentication, sale and delivery of the Borrower Bond to the Trust, (C) the resolution of the Borrower, if any, confirming the details of the sale of the Borrower Bond to the Trust, (D) the resolution of the Borrower, if any, declaring its official intent to reimburse expenditures for the Costs of the Project from the proceeds of the Trust Bonds, each of said resolutions of the Borrower being certified by an Authorized Officer of the Borrower as of the date of the Loan Closing, (E) the resolution of the BPU approving the issuance by the Borrower of the Borrower Bond to the Trust and setting forth any other approvals required therefor by the BPU, if applicable, and (F) any other Proceedings;

(iv) if the Loan is being made to reimburse the Borrower for all or a portion of the Costs of the Borrower's Project or to refinance indebtedness or reimburse the Borrower for the repayment of indebtedness previously incurred by the Borrower to finance all or a portion of the Costs of the Borrower's Project, an opinion of Bond Counsel, in form and substance satisfactory to the Trust, to the effect that such reimbursement or refinancing will not adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Trust Bonds; and

(v) the certificates of insurance coverage as required pursuant to the terms of Section 3.06(d) hereof and such other certificates, documents, opinions and information as the Trust may require in Exhibit F hereto, if any.

(m) Execution and Delivery of Borrower Bond. Concurrently with the delivery of this Loan Agreement at the Loan Closing, the Borrower shall also deliver to the Trust the Borrower Bond, as previously executed, attested and, if applicable, authenticated, upon the receipt of a written certification of the Trust that a portion of the net proceeds of the Trust Bonds shall be deposited in the Project Loan Account simultaneously with the delivery of the Borrower Bond.

(n) Notice of Material Adverse Change. The Borrower shall promptly notify the Trust of any material adverse change in the properties, activities, prospects or condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System, or in the ability of the Borrower to make all Loan Repayments and otherwise to observe and perform its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond.

(o) Continuing Representations. The representations of the Borrower contained herein shall be true at the time of the execution of this Loan Agreement and at all times during the term of this Loan Agreement.

(p) Continuing Disclosure Covenant. To the extent that the Trust, in its sole discretion, determines, at any time prior to the termination of the Loan Term, that the Borrower is a material "obligated person", as the term "obligated person" is defined in Rule 15c2-12, with materiality being determined by the Trust pursuant to criteria established, from time to time, by the Trust in its sole discretion and set forth in a bond resolution or official statement of the Trust, the Borrower hereby covenants that it will authorize and provide to the Trust, for inclusion in any preliminary official statement or official statement of the Trust, all statements and information relating to the Borrower deemed material by the Trust for the purpose of satisfying Rule 15c2-12 as well as Rule 10b-5 promulgated pursuant to the Securities Exchange Act of 1934, as amended or supplemented, including any successor regulation or statute thereto ("Rule 10b-5"), including certificates and written representations of the Borrower evidencing its compliance with Rule 15c2-12 and Rule 10b-5; and the Borrower hereby further covenants that the Borrower shall execute and deliver the Continuing Disclosure Agreement, in substantially the form attached hereto as Exhibit H, with such revisions thereto prior to execution and delivery thereof as the Trust shall determine to be necessary, desirable or convenient, in its sole discretion, for the purpose of satisfying Rule 15c2-12 and the purposes and intent thereof, as Rule 15c2-12, its purposes and intent may hereafter be interpreted from time to time by the SEC or any court of competent jurisdiction; and pursuant to the terms and provisions of the Continuing Disclosure Agreement, the Borrower shall thereafter provide on-going disclosure with respect to all statements and information relating to the Borrower in satisfaction of the requirements set forth in Rule 15c2-12 and Rule 10b-5, including, without limitation, the provision of certificates and written representations of the Borrower evidencing its compliance with Rule 15c2-12 and Rule 10b-5.

(q) Additional Covenants and Requirements. (i) No later than the Loan Closing and, if necessary, in connection with the Trust's issuance of the Trust Bonds or the making of the Loan, additional covenants and requirements have been included in Exhibit F hereto and made a part hereof. Such covenants and requirements may include, but need not be limited to the maintenance of specified levels of Environmental Infrastructure System rates, the issuance of additional debt of the Borrower, the use by or on behalf of the Borrower of certain proceeds of the Trust Bonds as such use relates to the exclusion from gross income for federal income tax purposes of the interest on any Trust Bonds, the transfer of revenues and receipts from the Borrower's Environmental Infrastructure System, compliance with Rule 15c2-12, Rule 10b-5 and any other applicable federal or state securities laws, and matters in connection with the appointment of the Trustee under the Bond Resolution and any successors thereto. The Borrower hereby agrees to observe and comply with each such additional covenant and requirement, if any, included in Exhibit F hereto as if the same were set forth herein in its entirety. (ii) Additional defined terms, covenants, representations and requirements have been included in Schedule A attached hereto and made a part hereof. Such additional defined terms, covenants, representations and requirements are incorporated in this Loan Agreement by reference thereto as if set forth in full herein and the Borrower hereby agrees to observe and comply with each such additional term, covenant, representation and requirement included in Schedule A as if the same were set forth in its entirety where reference thereto is made in this Loan Agreement.

## ARTICLE III

### LOAN TO BORROWER; AMOUNTS PAYABLE; GENERAL AGREEMENTS

**SECTION 3.01. Loan; Loan Term.** The Trust hereby agrees to make the Loan as described in Exhibit A-2 hereof and to disburse proceeds of the Loan to the Borrower in accordance with Section 3.02 and Exhibit C hereof, and the Borrower hereby agrees to borrow and accept the Loan from the Trust upon the terms set forth in Exhibit A-2 attached hereto and made a part hereof; provided, however, that the Trust shall be under no obligation to make the Loan if (a) at the Loan Closing, the Borrower does not deliver to the Trust a Borrower Bond and such other documents required under Section 2.02(l) hereof, or (b) an Event of Default has occurred and is continuing under the Bond Resolution or this Loan Agreement. Although the Trust intends to disburse proceeds of the Loan to the Borrower at the times and up to the amounts set forth in Exhibit C to pay a portion of the Costs of the Project, due to unforeseen circumstances there may not be a sufficient amount on deposit in the Project Fund on any date to make the disbursement in such amount. Nevertheless, the Borrower agrees that the amount actually deposited in the Project Loan Account at the Loan Closing plus the Borrower's allocable share of (i) certain costs of issuance and underwriter's discount for all Trust Bonds issued to finance the Loan; (ii) capitalized interest during the Project construction period, if applicable; and (iii) that portion of the Debt Service Reserve Fund (to the extent the Trust establishes a Debt Service Reserve Fund pursuant to the Bond Resolution) attributable to the cost of funding reserve capacity for the Project, if applicable, shall constitute the initial principal amount of the Loan (as the same may be adjusted downward in accordance with the definition thereof), and neither the Trust nor the Trustee shall have any obligation thereafter to loan any additional amounts to the Borrower.

The Borrower shall use the proceeds of the Loan strictly in accordance with Section 2.01(h) hereof.

The payment obligations created under this Loan Agreement and the obligations to pay the principal of the Borrower Bond, Interest on the Borrower Bond and other amounts due under the Borrower Bond are direct, general irrevocable and unconditional obligations of the Borrower payable from any source legally available to the Borrower in accordance with the terms of and to the extent provided in the Borrower Bond Resolution.

### **SECTION 3.02. Disbursement of Loan Proceeds.**

(a) The Trustee, as the agent of the Trust, shall disburse the amounts on deposit in the Project Loan Account to the Borrower upon receipt of a requisition executed by an Authorized Officer of the Borrower, and approved by the Trust, in a form meeting the requirements of Section 5.02(3) of the Bond Resolution.

(b) The Trust and Trustee shall not be required to disburse any Loan proceeds to the Borrower under this Loan Agreement, unless:

(i) the proceeds of the Trust Bonds shall be available for disbursement, as determined solely by the Trust;

(ii) in accordance with the Bond Act, and the Regulations, the Borrower shall have timely applied for, shall have been awarded and, prior to or simultaneously with the Loan Closing, shall have closed a Fund Loan for a portion of the Allowable Costs (as defined in such Regulations) of the Project in an amount not in excess of the amount of Allowable Costs of the Project financed by the Loan from the Trust;

(iii) the Borrower shall have on hand moneys to pay for the greater of (A) that portion of the total Costs of the Project that is not eligible to be funded from the Fund Loan or the Loan, or (B) that portion of the total Costs of the Project that exceeds the actual amounts of the loan commitments made by the State and the Trust, respectively, for the Fund Loan and the Loan; and

(iv) no Event of Default nor any event that, with the passage of time or service of notice or both, would constitute an Event of Default shall have occurred and be continuing hereunder.

**SECTION 3.03. Amounts Payable.**

(a) The Borrower shall repay the Loan in installments payable to the Trustee as follows:

(i) the principal of the Loan shall be repaid annually on the Principal Payment Dates, in accordance with the schedule set forth in Exhibit A-2 attached hereto and made a part hereof, as the same may be amended or modified by any credits applicable to the Borrower as set forth in the Bond Resolution;

(ii) the Interest Portion described in clause (i) of the definition thereof shall be paid semiannually on the Interest Payment Dates, in accordance with the schedule set forth in Exhibit A-2 attached hereto and made a part hereof, as the same may be amended or modified by any credits applicable to the Borrower as set forth in the Bond Resolution; and

(iii) the Interest Portion described in clause (ii) of the definition thereof shall be paid upon the date of optional redemption or acceleration, as the case may be, of the Trust Bonds allocable to any prepaid or accelerated Trust Bond Loan Repayment.

The obligations of the Borrower under the Borrower Bond shall be deemed to be amounts payable under this Section 3.03. Each Loan Repayment, whether satisfied through a direct payment by the Borrower to the Trustee or (with respect to the Interest Portion) through the use of Trust Bond proceeds and income thereon on deposit in the Interest Account (as defined in the Bond Resolution) to pay interest on the Trust Bonds, shall be deemed to be a credit against the corresponding obligation of the Borrower under this Section 3.03 and shall fulfill the Borrower's obligation to pay such amount hereunder and under the Borrower Bond. Each payment made to the Trustee pursuant to this Section 3.03 shall be applied *first* to the Interest Portion then due and payable, *second* to the principal of the Loan then due and payable, *third* to the payment of the Administrative Fee, and *finally* to the payment of any late charges hereunder.

(b) The Interest on the Loan described in clause (iii) of the definition thereof shall (i) consist of a late charge for any Trust Bond Loan Repayment that is received by the Trustee later than the tenth (10th) day following its due date and (ii) be payable immediately thereafter in an amount equal to the greater of twelve percent (12%) per annum or the Prime Rate plus one half of one percent per annum on such late payment from its due date to the date it is actually paid; provided, however, that the rate of Interest on the Loan, including, without limitation, any late payment charges incurred hereunder, shall not exceed the maximum interest rate permitted by law.

(c) The Borrower shall receive, as a credit against its semiannual payment obligations of the Interest Portion, the amounts certified by the Trust pursuant to Section 5.10 of the Bond Resolution. Such amounts shall represent the Borrower's allocable share of the interest earnings on certain funds and accounts established under the Bond Resolution, calculated in accordance with Section 5.10 of the Bond Resolution.

(d) In accordance with the provisions of the Bond Resolution, the Borrower shall receive, as a credit against its Trust Bond Loan Repayments, the amounts set forth in the certificate of the Trust filed with the Trustee pursuant to Section 5.02(4) of the Bond Resolution.

(e) The Interest on the Loan described in clause (ii) of the definition thereof shall be paid by the Borrower in the amount of one-half of the Administrative Fee, if any, to the Trustee semiannually on each February 1 and August 1, commencing August 1, 2014.

(f) The Borrower hereby agrees to pay to the Trust at the Loan Closing a "Security Review Fee" in the amount necessary to reimburse the Trust for all of its costs and expenses incurred in connection with reviewing the additional security securing the Trust Loan as set forth in Exhibit F hereto, if any, including without limitation the fees and expenses of any professional advisers hired by the Trust in connection therewith.

(g) Upon thirty (30) days prior written notice to the Borrower, an Authorized Officer of the Trust may, in the sole discretion of such Authorized Officer, prescribe the particular method by which payments pursuant to, and in satisfaction of, this Section 3.03 shall be made by the Borrower. Such method as prescribed by an Authorized Officer of the Trust may include, without limitation, the automatic debit by the Trust or the Trustee of the respective amounts of such payments, as required by this Section 3.03, from an account that shall be identified by the Borrower in writing and recorded on file with the Trust and the Trustee. In the absence of any such written notice to the Borrower by an Authorized Officer of the Trust pursuant to this subsection (g), the Borrower shall implement the payments required pursuant to, and in satisfaction of, this Section 3.03 either via electronic transfer of immediately available funds or via check.

**SECTION 3.03A. Amounts on Deposit in Project Loan Account After Completion of Project Draws.**

(a) If, on the date which is thirty (30) days following the final date on which a disbursement of Loan proceeds is scheduled to be made pursuant to the original draw schedule contained in Exhibit C hereto, any amounts remain on deposit in the Borrower's Project Loan Account, the Borrower shall provide to the Trust and the Department a certificate of an Authorized Officer of the Borrower (i) stating that the Borrower has not yet completed the Project, (ii) stating that the Borrower intends to complete the Project, (iii) setting forth the amount of remaining Loan Proceeds required to complete the Project, and (iv) providing a revised draw schedule, in a form similar to Exhibit C hereto and approved by the Department.

(b) If, on the date which is thirty (30) days following the final date on which a disbursement of Loan proceeds is scheduled to be made pursuant to a revised draw schedule certified to the Trust and the Department in accordance with Section 3.03A(a) hereof, any amounts remain on deposit in the Borrower's Project Loan Account, the Borrower shall provide to the Trust and the Department a certificate of an Authorized Officer of the Borrower (i) stating that the Borrower has not yet completed the Project, (ii) stating that the Borrower intends to complete the Project, (iii) setting forth the amount of remaining Loan Proceeds required to complete the Project, and (iv) providing a revised draw schedule, in a form similar to Exhibit C hereto and approved by the Department.

(c) If, on the date which the Borrower has completed the Project, any amounts remain on deposit in the Borrower's Project Loan Account, the Borrower must within thirty (30) days following such date provide to the Trust and the Department a certificate (i) stating that the Project is complete and (ii) setting forth the remaining costs, if any, of the Project for which a disbursement of Loan will be required.

(d) If (i) the Borrower fails to provide the certificate described in paragraphs (a), (b) or (c) of this Section 3.03A, when due, or (ii) a certificate provided pursuant to paragraphs (a), (b) or (c) of this Section 3.03A states that the Borrower does not require all or any portion of the amount on deposit in the Project Loan Account for completion of the Project, or (iii) on the date which is thirty (30) days following the final date on which a disbursement of Loan proceeds is scheduled to be made pursuant to a revised draw schedule certified to the Trust and the Department in accordance with Section 3.03A(b) hereof, any amounts remain on deposit in the Borrower's Project Loan Account, then such amounts on deposit in the Project Loan Account, which are amounts that have not been certified by an Authorized Officer of the Borrower as being required to complete the Project ("Excess Project Funds"), shall be applied as follows::

1. If Trust Bonds can be redeemed within sixty (60) days of the date the Borrower is required to provide the certificate described in paragraphs (a), (b) or (c) of this Section 3.03A, the Excess Project Funds shall be used by the Trust within such sixty (60) day period to redeem Trust Bonds, including payment of any pre-payment premium. The Trust Bonds shall be redeemed in inverse order of their maturity. The amount of any maturity redeemed shall not exceed the same proportion as the Loan bears to all Loans made from proceeds of the Trust Bonds rounded down to whole denominations or any integral multiple. The aggregate amount of Trust Bonds so redeemed shall not be less than the amount of nonqualified bonds allocable to the Borrower under Treasury Regulations §1.142-12. The Excess Project Funds used to redeem Trust Bonds shall be applied by the Trust as a prepayment of the Borrower's Loan Repayments with respect to the redeemed bonds. Any excess shall be held by Trust invested at a yield which does not exceed the yield on the Trust Bonds.

2. If Trust Bonds cannot be redeemed within sixty (60) days of the date the Borrower is required to provide the certificate described in paragraphs (a), (b) or (c) of this Section 3.03A, the Trust shall, within such sixty (60) day period, (A) deposit all of the Excess Project Funds in a defeasance escrow established to defease Trust Bonds in inverse order of their maturity, in the same proportion as the Loan bears to all Loans made from proceeds of the Trust Bonds, (B) provide the notice to the Internal Revenue Service required pursuant to Treasury Regulations §1.142-2(c)(2), or any successor income tax regulations, and (C) apply the Excess Project Funds as a prepayment of the Borrower's Loan Repayments for the defeased Trust Bonds. The aggregate amount of Trust Bonds so defeased shall not be less than the amount of nonqualified bonds allocable to the Borrower under Treasury Regulations §1.142-12.

**SECTION 3.04. Unconditional Obligations.** The obligation of the Borrower to make the Loan Repayments and all other payments required hereunder and the obligation to perform and observe the other duties, covenants, obligations and agreements on its part contained herein shall be absolute and unconditional, and shall not be abated, rebated, set-off, reduced, abrogated, terminated, waived, diminished, postponed or otherwise modified in any manner or to any extent whatsoever while any Trust Bonds remain outstanding or any Loan Repayments remain unpaid, for any reason, regardless of any contingency, act of God, event or cause whatsoever, including (without limitation) any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, the taking by eminent domain or destruction of or damage to the Project or Environmental Infrastructure System, commercial frustration of the purpose, any change in the laws of the United States of America or of the State or any political subdivision of either or in the rules or regulations of any governmental authority, any failure of the Trust or the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Project, this Loan Agreement or the Bond Resolution, or any rights of set-off, recoupment, abatement or counterclaim that the Borrower might otherwise have against the Trust, the Trustee or any other party or parties; provided, however, that payments hereunder shall not constitute a waiver of any such rights. The Borrower shall not be obligated to make any payments required to be made by any other Borrowers under separate Loan Agreements or the Bond Resolution.

The Borrower acknowledges that payment of the Trust Bonds by the Trust, including payment from moneys drawn by the Trustee from the Debt Service Reserve Fund (to the extent the Trust establishes a Debt Service Reserve Fund pursuant to the Bond Resolution), does not constitute payment of the amounts due under this Loan Agreement and the Borrower Bond. If at any time the amount in the Debt Service Reserve Fund shall be less than the Debt Service Reserve Requirement as the result of any transfer of moneys from the Debt Service Reserve Fund to the Debt Service Fund (as all such terms are defined in the Bond Resolution) as the result of a failure by the Borrower to make any Trust Bond Loan Repayments required hereunder, the Borrower agrees to replenish (i) such moneys so transferred and (ii) any deficiency arising from losses incurred in making such transfer as the result of the liquidation by the Trust of Investment Securities (as defined in the Bond Resolution) acquired as an investment of moneys in the Debt Service Reserve Fund, by making payments to the Trust in equal monthly installments for the lesser of six (6) months or the remaining term of the Loan at an interest rate to be determined by the Trust necessary to make up any loss caused by such deficiency.

The Borrower acknowledges that payment of the Trust Bonds from moneys that were originally received by the Trustee from repayments by the Borrowers of loans made to the Borrowers by the State, acting by and through the Department, pursuant to loan agreements dated as of May 1, 2014 by and between the Borrowers and the State, acting by and through the Department, to finance or refinance a portion of the Costs of the Environmental Infrastructure Facilities of the Borrowers, and which moneys were upon such receipt by the Trustee deposited in the Trust Bonds Security Account (as defined in the Bond Resolution) does not constitute payment of the amounts due under this Loan Agreement and the Borrower Bond.

**SECTION 3.05. Loan Agreement to Survive Bond Resolution and Trust Bonds.** The Borrower acknowledges that its duties, covenants, obligations and agreements hereunder shall survive the discharge of the Bond Resolution applicable to the Trust Bonds and shall survive the payment of the principal and redemption premium, if any, of and the interest on the Trust Bonds until the Borrower can take no action or fail to take any action that could adversely affect the exclusion from gross income of the interest on the Trust Bonds for purposes of federal income taxation, at which time such duties, covenants, obligations and agreements hereunder shall, except for those set forth in Sections 3.06(a) and (b) hereof, terminate.

**SECTION 3.06. Disclaimer of Warranties and Indemnification.**

(a) The Borrower acknowledges and agrees that (i) neither the Trust nor the Trustee makes any warranty or representation, either express or implied, as to the value, design, condition, merchantability or fitness for particular purpose or fitness for any use of the Environmental Infrastructure System or the Project or any portions thereof or any other warranty or representation with respect thereto; (ii) in no event shall the Trust or the Trustee or their respective agents be liable or responsible for any incidental, indirect, special or consequential damages in connection with or arising out of this Loan Agreement or the Project or the existence, furnishing, functioning or use of the Environmental Infrastructure System or the Project or any item or products or services provided for in this Loan Agreement; and (iii) to the fullest extent permitted by law, the Borrower shall indemnify and hold the Trust and the Trustee harmless against, and the Borrower shall pay any and all, liability, loss, cost, damage, claim, judgment or expense of any and all kinds or nature and however arising and imposed by law, which the Trust and the Trustee may sustain, be subject to or be caused to incur by reason of any claim, suit or action based upon personal injury, death or damage to property, whether real, personal or mixed, or upon or arising out of contracts entered into by the Borrower, the Borrower's ownership of the Environmental Infrastructure System or the Project, or the acquisition, construction or installation of the Project.

(b) It is mutually agreed by the Borrower, the Trust and the Trustee that the Trust and its officers, agents, servants or employees shall not be liable for, and shall be indemnified and saved harmless by the Borrower in any event from, any action performed under this Loan Agreement and any claim or suit of whatsoever nature, except in the event of loss or damage resulting from their own negligence or willful misconduct. It is further agreed that the Trustee and its directors, officers, agents, servants or employees shall not be liable for, and shall be indemnified and saved harmless by the Borrower in any event from, any action performed pursuant to this Loan Agreement, except in the event of loss or damage resulting from their own negligence or willful misconduct.

(c) The Borrower and the Trust agree that all claims shall be subject to and governed by the provisions of the New Jersey Contractual Liability Act, N.J.S.A. 59:13-1 *et seq.* (except for N.J.S.A. 59:13-9 thereof), although such Act by its express terms does not apply to claims arising under contract with the Trust.

(d) In connection with its obligation to provide the insurance required under Section 2.02(j) hereof: (i) the Borrower shall include, or cause to be included, the Trust and its directors, employees and officers as additional “named insureds” on (A) any certificate of liability insurance procured by the Borrower (or other similar document evidencing the liability insurance coverage procured by the Borrower) and (B) any certificate of liability insurance procured by any contractor or subcontractor for the Project, and from the later of the date of the Loan Closing or the date of the initiation of construction of the Project until the date the Borrower receives the written certificate of Project completion from the Trust, the Borrower shall maintain said liability insurance covering the Trust and said directors, employees and officers in good standing; and (ii) the Borrower shall include the Trust as an additional “named insured” on any certificate of insurance providing against risk of direct physical loss, damage or destruction of the Environmental Infrastructure System, and during the Loan Term the Borrower shall maintain said insurance covering the Trust in good standing.

The Borrower shall provide the Trust with a copy of each of any such original, supplemental, amendatory or reissued certificates of insurance (or other similar documents evidencing the insurance coverage) required pursuant to this Section 3.06(d).

**SECTION 3.07. Option to Prepay Loan Repayments.** The Borrower may prepay the Trust Bond Loan Repayments, in whole or in part (but if in part, in the amount of \$100,000 or any integral multiple thereof), upon prior written notice to the Trust and the Trustee not less than ninety (90) days in addition to the number of days’ advance notice to the Trustee required for any optional redemption of the Trust Bonds, and upon payment by the Borrower to the Trustee of amounts that, together with investment earnings thereon, will be sufficient to pay the principal amount of the Trust Bond Loan Repayments to be prepaid plus the Interest Portion described in clause (ii) of the definition thereof on any such date of redemption; provided, however, that, with respect to any prepayment other than those required by Section 3.03A hereof, any such full or partial prepayment may only be made (i) if the Borrower is not then in arrears on its Fund Loan, (ii) if the Borrower is contemporaneously making a full or partial prepayment of the Fund Loan such that, after the prepayment of the Loan and the Fund Loan, the Trust, in its sole discretion, determines that the interests of the owners of the Trust Bonds are not adversely affected by such prepayments, and (iii) upon the prior written approval of the Trust. In addition, if at the time of such prepayment the Trust Bonds may only be redeemed at the option of the Trust upon payment of a premium, the Borrower shall add to its prepayment of Trust Bond Loan Repayments an amount, as determined by the Trust, equal to such premium allocable to the Trust Bonds to be redeemed as a result of the Borrower’s prepayment. Prepayments shall be applied first to the Interest Portion that accrues on the portion of the Loan to be prepaid until such prepayment date as described in clause (ii) of the definition thereof and then to principal payments (including premium, if any) on the Loan in inverse order of their maturity.

**SECTION 3.08. Priority of Loan and Fund Loan.**

(a) The Borrower hereby acknowledges that, to the extent allowed by law or the Borrower Bond Resolution, any Loan Repayments then due and payable on the Loan shall be satisfied by the Trustee before any loan repayments on the Borrower's Fund Loan shall be satisfied by the Trustee. The Borrower agrees not to interfere with any such action by the Trustee.

(b) The Borrower hereby acknowledges that in the event the Borrower fails or is unable to pay promptly to the Trust in full any Trust Bond Loan Repayments under this Loan Agreement when due, then any (i) Administrative Fee paid hereunder, (ii) late charges paid hereunder, and (iii) loan repayments paid by the Borrower on its Fund Loan under the related loan agreement therefor, any of which payments shall be received by the Trustee during the time of any such Trust Bond Loan Repayment deficiency, shall be applied by the Trustee *first* to satisfy such Trust Bond Loan Repayment deficiency as a credit against the obligations of the Borrower to make payments of the Interest Portion under the Loan and the Borrower Bond, *second*, to the extent available, to make Trust Bond Loan Repayments of principal hereunder and payments of principal under the Borrower Bond, *third*, to the extent available, to pay the Administrative Fee, *fourth*, to the extent available, to pay any late charges hereunder, *fifth*, to the extent available, to satisfy the repayment of the Borrower's Fund Loan under its related loan agreement therefor, and *finally*, to the extent available, to satisfy the repayment of the administrative fee under any such related loan agreement.

(c) The Borrower hereby further acknowledges that any loan repayments paid by the Borrower on its Fund Loan under the related loan agreement therefor shall be applied according to the provisions of the Master Program Trust Agreement.

**SECTION 3.09. Approval of the New Jersey State Treasurer.** The Borrower and the Trust hereby acknowledge that prior to or simultaneously with the Loan Closing the New Jersey State Treasurer, in satisfaction of the requirements of Section 9a of the Act, issued the "Certificate of the New Jersey State Treasurer Regarding the Approval of the Trust Loan and the Fund Loan" (the "Treasurer's Certificate"). Pursuant to the terms of the Treasurer's Certificate, the New Jersey State Treasurer approved the Loan and the terms and conditions thereof as established by the provisions of this Loan Agreement.

## ARTICLE IV

### ASSIGNMENT OF LOAN AGREEMENT AND BORROWER BOND

#### SECTION 4.01. Assignment and Transfer by Trust.

(a) The Borrower hereby expressly acknowledges that, other than the provisions of Section 2.02(d)(ii) hereof, the Trust's right, title and interest in, to and under this Loan Agreement and the Borrower Bond have been assigned to the Trustee as security for the Trust Bonds as provided in the Bond Resolution, and that if any Event of Default shall occur, the Trustee or any Bond Insurer (as such term may be defined in the Bond Resolution), if applicable, pursuant to the Bond Resolution, shall be entitled to act hereunder in the place and stead of the Trust. The Borrower hereby acknowledges the requirements of the Bond Resolution applicable to the Trust Bonds and consents to such assignment and appointment. This Loan Agreement and the Borrower Bond, including, without limitation, the right to receive payments required to be made by the Borrower hereunder and to compel or otherwise enforce observance and performance by the Borrower of its other duties, covenants, obligations and agreements hereunder, may be further transferred, assigned and reassigned in whole or in part to one or more assignees or subassignees by the Trustee at any time subsequent to their execution without the necessity of obtaining the consent of, but after giving prior written notice to, the Borrower.

The Trust shall retain the right to compel or otherwise enforce observance and performance by the Borrower of its duties, covenants, obligations and agreements under Section 2.02(d)(ii) hereof; provided, however, that in no event shall the Trust have the right to accelerate the Borrower Bond in connection with the enforcement of Section 2.02(d)(ii) hereof.

(b) The Borrower hereby approves and consents to any assignment or transfer of this Loan Agreement and the Borrower Bond that the Trust deems to be necessary in connection with any refunding of the Trust Bonds or the issuance of additional bonds under the Bond Resolution or otherwise, all in connection with the pooled loan program of the Trust.

**SECTION 4.02. Assignment by Borrower.** Neither this Loan Agreement nor the Borrower Bond may be assigned by the Borrower for any reason, unless the following conditions shall be satisfied: (i) the Trust and the Trustee shall have approved said assignment in writing; (ii) the assignee shall have expressly assumed in writing the full and faithful observance and performance of the Borrower's duties, covenants, obligations and agreements under this Loan Agreement and, to the extent permitted under applicable law, the Borrower Bond; (iii) immediately after such assignment, the assignee shall not be in default in the observance or performance of any duties, covenants, obligations or agreements of the Borrower under this Loan Agreement or the Borrower Bond; and (iv) the Trust shall have received an opinion of Bond Counsel to the effect that such assignment will not adversely affect the security of the holders of the Trust Bonds or the exclusion of the interest on the Trust Bonds from gross income for purposes of federal income taxation under Section 103(a) of the Code.

## ARTICLE V

### EVENTS OF DEFAULT AND REMEDIES

**SECTION 5.01. Events of Default.** If any of the following events occur, it is hereby defined as and declared to be and to constitute an “Event of Default”:

(a) failure by the Borrower to pay, or cause to be paid, any Trust Bond Loan Repayment required to be paid hereunder when due, which failure shall continue for a period of fifteen (15) days;

(b) failure by the Borrower to make, or cause to be made, any required payments of principal, redemption premium, if any, and interest on any bonds, notes or other obligations of the Borrower issued under the Borrower Bond Resolution (other than the Loan and the Borrower Bond) or otherwise secured by all or a portion of the property pledged under the Borrower Bond Resolution, after giving effect to the applicable grace period;

(c) failure by the Borrower to pay, or cause to be paid, the Administrative Fee or any late charges incurred hereunder or any portion thereof when due or to observe and perform any duty, covenant, obligation or agreement on its part to be observed or performed under this Loan Agreement, other than as referred to in subsection (a) of this Section 5.01 or other than the obligations of the Borrower contained in Section 2.02(d)(ii) hereof and in Exhibit F hereto, which failure shall continue for a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, is given to the Borrower by the Trustee, unless the Trustee shall agree in writing to an extension of such time prior to its expiration; provided, however, that if the failure stated in such notice is correctable but cannot be corrected within the applicable period, the Trustee may not unreasonably withhold its consent to an extension of such time up to 120 days from the delivery of the written notice referred to above if corrective action is instituted by the Borrower within the applicable period and diligently pursued until the Event of Default is corrected;

(d) any representation made by or on behalf of the Borrower contained in this Loan Agreement, or in any instrument furnished in compliance with or with reference to this Loan Agreement or the Loan, is false or misleading in any material respect;

(e) a petition is filed by or against the Borrower under any federal or state bankruptcy or insolvency law or other similar law in effect on the date of this Loan Agreement or thereafter enacted, and/or any proceeding with respect to such petition and/or pursuant to any such law shall occur or be pending (including, without limitation, the operation and administration of the Borrower pursuant to any plan of reorganization approved and implemented under any such law), unless in the case of any such petition filed against the Borrower or any such proceeding such petition and such proceeding shall be dismissed within thirty (30) days after such filing and such dismissal shall be final and not subject to appeal or the further jurisdiction of any court; or the Borrower shall become insolvent or bankrupt or shall make an assignment for the benefit of its creditors; or a custodian (including, without limitation, a receiver, liquidator or trustee of the Borrower or any of its property) shall be appointed by court order or take possession of the Borrower or its property or assets if such order remains in effect or such possession continues for more than thirty (30) days;

(f) the Borrower shall generally fail to pay its debts as such debts become due; and

(g) failure of the Borrower to observe or perform such additional duties, covenants, obligations, agreements or conditions as are required by the Trust and specified in Exhibit F attached hereto and made a part hereof.

**SECTION 5.02. Notice of Default.** The Borrower shall give the Trustee and the Trust prompt telephonic notice of the occurrence of any Event of Default referred to in Section 5.01(d) or (e) hereof and of the occurrence of any other event or condition that constitutes an Event of Default at such time as any senior administrative or financial officer of the Borrower becomes aware of the existence thereof.

**SECTION 5.03. Remedies on Default.** Whenever an Event of Default referred to in Section 5.01 hereof shall have occurred and be continuing, the Borrower acknowledges the rights of the Trustee and of any Bond Insurer to direct any and all remedies in accordance with the terms of the Bond Resolution, and the Borrower also acknowledges that the Trust shall have the right to take, or to direct the Trustee to take, any action permitted or required pursuant to the Bond Resolution and to take whatever other action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due hereunder or to enforce the observance and performance of any duty, covenant, obligation or agreement of the Borrower hereunder.

In addition, if an Event of Default referred to in Section 5.01(a) hereof shall have occurred and be continuing, the Trust shall, to the extent allowed by applicable law and to the extent and in the manner set forth in the Bond Resolution, have the right to declare, or to direct the Trustee to declare, all Loan Repayments and all other amounts due hereunder (including, without limitation, payments under the Borrower Bond) together with the prepayment premium, if any, calculated pursuant to Section 3.07 hereof to be immediately due and payable, and upon notice to the Borrower the same shall become due and payable without further notice or demand.

**SECTION 5.04. Attorneys' Fees and Other Expenses.** The Borrower shall on demand pay to the Trust or the Trustee the reasonable fees and expenses of attorneys and other reasonable expenses (including, without limitation, the reasonably allocated costs of in-house counsel and legal staff) incurred by either of them in the collection of Trust Bond Loan Repayments or any other sum due hereunder or in the enforcement of the observation or performance of any other duties, covenants, obligations or agreements of the Borrower upon an Event of Default.

**SECTION 5.05. Application of Moneys.** Any moneys collected by the Trust or the Trustee pursuant to Section 5.03 hereof shall be applied (a) *first* to pay any attorneys' fees or other fees and expenses owed by the Borrower pursuant to Section 5.04 hereof, (b) *second*, to the extent available, to pay the Interest Portion then due and payable, (c) *third*, to the extent available, to pay the principal due and payable on the Loan, (d) *fourth*, to the extent available, to pay the Administrative Fee, any late charges incurred hereunder or any other amounts due and payable under this Loan Agreement, and (e) *fifth*, to the extent available, to pay the Interest Portion and the principal on the Loan and other amounts payable hereunder as such amounts become due and payable.

**SECTION 5.06. No Remedy Exclusive; Waiver; Notice.** No remedy herein conferred upon or reserved to the Trust or the Trustee is intended to be exclusive, and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Loan Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right, remedy or power accruing upon any Event of Default shall impair any such right, remedy or power or shall be construed to be a waiver thereof, but any such right, remedy or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Trust or the Trustee to exercise any remedy reserved to it in this Article V, it shall not be necessary to give any notice other than such notice as may be required in this Article V.

**SECTION 5.07. Retention of Trust's Rights.** Notwithstanding any assignment or transfer of this Loan Agreement pursuant to the provisions hereof or of the Bond Resolution, or anything else to the contrary contained herein, the Trust shall have the right upon the occurrence of an Event of Default to take any action, including (without limitation) bringing an action against the Borrower at law or in equity, as the Trust may, in its discretion, deem necessary to enforce the obligations of the Borrower to the Trust pursuant to Section 5.03 hereof.

## ARTICLE VI

### MISCELLANEOUS

**SECTION 6.01. Notices.** All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed given when hand delivered or mailed by registered or certified mail, postage prepaid, to the Borrower at the address specified in Exhibit A-1 attached hereto and made a part hereof and to the Trust and the Trustee at the following addresses:

(a) Trust:

New Jersey Environmental Infrastructure Trust  
3131 Princeton Pike  
Building 4, Suite 216  
Lawrenceville, New Jersey 08648-2201  
Attention: Executive Director

(b) Trustee:

U.S. Bank National Association  
21 South Street, 3<sup>rd</sup> Floor  
Morristown, New Jersey 07960  
Attention: Corporate Trust Department

Any of the foregoing parties may designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent by notice in writing given to the others.

**SECTION 6.02. Binding Effect.** This Loan Agreement shall inure to the benefit of and shall be binding upon the Trust and the Borrower and their respective successors and assigns.

**SECTION 6.03. Severability.** In the event any provision of this Loan Agreement shall be held illegal, invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate, render unenforceable or otherwise affect any other provision hereof.

**SECTION 6.04. Amendments, Supplements and Modifications.**

(a) Except as otherwise provided in this Section 6.04, this Loan Agreement may not be amended, supplemented or modified without the prior written consent of the Trust and the Borrower and without the satisfaction of all conditions set forth in Section 11.12 of the Bond Resolution. Notwithstanding the conditions set forth in Section 11.12 of the Bond Resolution, (i) Section 2.02(p) hereof may be amended, supplemented or modified upon the written consent of the Trust and the Borrower and without the consent of the Trustee, any Bond Insurer or any holders of the Trust Bonds, and (ii) Exhibit H hereto may be amended, supplemented or modified prior to the execution and delivery thereof as the Trust, in its sole discretion, shall determine to be necessary, desirable or convenient for the purpose of satisfying Rule 15c2-12 and the purpose and intent thereof as Rule 15c2-12, its purpose and intent may hereafter be interpreted from time to time by the SEC or any court of competent jurisdiction, and such amendment, supplement or modification shall not require the consent of the Borrower, the Trustee, any Bond Insurer or any holders of the Trust Bonds.

**SECTION 6.05. Execution in Counterparts.** This Loan Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

**SECTION 6.06. Applicable Law and Regulations.** This Loan Agreement shall be governed by and construed in accordance with the laws of the State, including the Act and the Regulations, which Regulations are, by this reference thereto, incorporated herein as part of this Loan Agreement.

**SECTION 6.07. Consents and Approvals.** Whenever the written consent or approval of the Trust shall be required under the provisions of this Loan Agreement, such consent or approval may only be given by the Trust unless otherwise provided by law or by rules, regulations or resolutions of the Trust or unless expressly delegated to the Trustee and except as otherwise provided in Section 6.09 hereof.

**SECTION 6.08. Captions.** The captions or headings in this Loan Agreement are for convenience only and shall not in any way define, limit or describe the scope or intent of any provisions or sections of this Loan Agreement.

**SECTION 6.09. Benefit of Loan Agreement; Compliance with Bond Resolution.** This Loan Agreement is executed, among other reasons, to induce the purchase of the Trust Bonds. Accordingly, all duties, covenants, obligations and agreements of the Borrower herein contained are hereby declared to be for the benefit of and are enforceable by the Trust, the holders of the Trust Bonds and the Trustee. The Borrower covenants and agrees to observe and comply with, and to enable the Trust to observe and comply with, all duties, covenants, obligations and agreements contained in the Bond Resolution.

**SECTION 6.10. Further Assurances.** The Borrower shall, at the request of the Trust, authorize, execute, attest, acknowledge and deliver such further resolutions, conveyances, transfers, assurances, financing statements and other instruments as may be necessary or desirable for better assuring, conveying, granting, assigning and confirming the rights, security interests and agreements granted or intended to be granted by this Loan Agreement and the Borrower Bond.

IN WITNESS WHEREOF, the Trust and the Borrower have caused this Loan Agreement to be executed, sealed and delivered as of the date first above written.

**NEW JERSEY ENVIRONMENTAL  
INFRASTRUCTURE TRUST**

[SEAL]

By: /s/Warren H. Victor  
**Warren H. Victor**  
**Chairman**

ATTEST:

/s/ David E. Zimmer  
**David E. Zimmer**  
**Assistant Secretary**

**MIDDLESEX WATER COMPANY**

[SEAL]

By: /s/A. Bruce O'Connor  
**A. Bruce O'Connor,**  
**Vice President, Treasurer and**  
**Chief Financial Officer**

ATTEST:

/s/Jay L. Kooper  
**Jay L. Kooper,**  
**Vice President, General Counsel and**  
**Secretary**

[signature page]

## SCHEDULE A

### Certain Additional Loan Agreement Provisions

In addition to the terms defined in subsection (a) of Section 1.01 of this Loan Agreement, certain additional capitalized terms used in this Loan Agreement shall, unless the context clearly requires otherwise, have the meanings ascribed to such additional capitalized terms in this Schedule A.

#### Additional Definitions:

**“Borrower”** means Middlesex Water Company, a corporation duly created and validly existing under the laws of the State of New Jersey.

**“Bond Resolution”** means the “Environmental Infrastructure Trust Bond Resolution, Series 2014B”, as adopted by the Board of Directors of the Trust on or about April 10, 2014, authorizing the issuance of the Trust Bonds, and all further amendments and supplements thereto adopted in accordance with the provisions thereof.

**“Borrower Bond Resolution”** means an indenture of the Borrower dated as of April 1, 1927 and entitled “INDENTURE OF MORTGAGE”, as amended and supplemented from time to time, in particular by a supplemental indenture detailing the terms of the Borrower Bond dated as of May 1, 2014 and entitled “FORTY-EIGHTH SUPPLEMENTAL INDENTURE”, pursuant to which the Borrower Bond has been issued.

**“Interest Payment Dates”** means February 1 and August 1 of each year, commencing on August 1, 2014.

**“Loan”** means the loan made by the Trust to the Borrower to finance or refinance a portion of the Cost of the Project pursuant to this Loan Agreement. For all purposes of this Loan Agreement, the amount of the Loan at any time shall be the initial aggregate principal amount of the Borrower Bond (which amount equals the amount actually deposited in the Project Loan Account at the Loan Closing plus the Borrower's allocable share of certain costs of issuance, and underwriter's discount for all Trust Bonds issued to finance the Loan), less any amount of such principal amount that has been repaid by the Borrower under this Loan Agreement and less any adjustment made pursuant to the provisions of the Bond Resolution, including, without limitation, Section 5.02(4) thereof, N.J.A.C. 7:22-4.26 and the appropriations act of the State Legislature authorizing the expenditure of Trust Bond proceeds to finance a portion of the Costs of the Project.

**“Principal Payment Dates”** means August 1 of each year, commencing on August 1, 2015.

**SECTION 2.02(e)**

Disposition of Environmental Infrastructure System. The Borrower shall not permit the disposition of all or substantially all of its Environmental Infrastructure System, directly or indirectly, including, without limitation, by means of sale, lease, abandonment, sale of stock, statutory merger or otherwise (collectively, a “Disposition”), except on ninety (90) days' prior written notice to the Trust, and, in any event, shall not permit a Disposition unless the following conditions are met: (i) the Borrower shall, in accordance with Section 4.02 hereof, assign this Loan Agreement and the Borrower Bond and its rights and interests hereunder and thereunder to the purchaser or lessee of the Environmental Infrastructure System, and such purchaser or lessee shall assume all duties, covenants, obligations and agreements of the Borrower under this Loan Agreement and the Borrower Bond; and (ii) the Trust shall by appropriate action determine, in its sole discretion, that such sale, lease, abandonment or other disposition will not adversely affect (A) the Trust's ability to meet its duties, covenants, obligations and agreements under the Bond Resolution, (B) the value of this Loan Agreement or the Borrower Bond as security for the payment of Trust Bonds and the interest thereon, or (C) the excludability from gross income for federal income tax purposes of the interest on Trust Bonds then outstanding or that could be issued in the future.

**SECTION 2.02(f)(x)**

The Borrower will not have a reserve or replacement fund (within the meaning of Section 148(d)(1) of the Code) allocable to the Borrower Bond evidencing the Loan.

EXHIBIT A-1

**Description of Project and Environmental Infrastructure System**

A-1

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EXHIBIT A-1

1) Name and Address of Local Unit:

Middlesex Water Company  
1500 Ronson Road  
Island, New Jersey 08830-0452

Attention: Richard M. Risoldi, Vice President- Operations

2) Description of the Project:

The proposed project for Middlesex Water Company, "MWC" will involve cleaning/relining and spot replacement of water mains, hydrants, service lines, and valves. Approximately forty five thousand feet of 6, 8, 10 and 12-inch diameter water mains will be relined. The project will occur in the Colonia and Iselin sections of Woodbridge Township, and other spot locations of the MWC service area as needed in Middlesex County, New Jersey.

3) Description of the Water Treatment System:

The Middlesex Water Company is an investor-owned water utility that provides water service to retail customers primarily in eastern Middlesex County. Water services are now furnished to approximately 58,000 retail customers located in an area of approximately 55 square miles of New Jersey in Woodbridge Township, the Boroughs of Metuchen and Carteret, portions of Edison Township and the Borough of South Plainfield and the City of South Amboy in Middlesex County, and a portion of the Township of Clark in Union County.

The Middlesex Water Company obtains water from both surface and groundwater sources; however, the principal source of supply is the Delaware and Raritan Canal, owned by the State of New Jersey and operated as a water resource by the New Jersey Water Supply Authority.

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**EXHIBIT A-2**

**Description of Loan**

See Schedule to Specimen Borrower Bond (Exhibit D hereto)

EXHIBIT B

**Basis for Determination of Allowable Project Costs**

EXHIBIT B

Basis for the Determination of Allowable Costs

The determination of the costs allowable for assistance from the New Jersey Environmental Infrastructure Financing Program is presented below:

Cost Classification	Application Amount	Allowable Amount
1. Administrative Expenses	\$ 99,000	\$ 92,158
2. Other Costs	\$ 0	\$ 0
3. Engineering Fees	\$ 160,000	\$ 160,000
4. Building Costs	\$ 3,300,000	\$ 3,071,919
5. Contingencies	\$ 165,000	\$ 153,596
6. Allowance for Planning and Design	\$ 276,000	\$ 276,000
7. Sub-Total	\$ 4,000,000	\$ 3,753,673
8. DEP Fee (Financed Portion (50%))		\$ 37,537
9. Total Project Costs	\$ 4,000,000	\$ 3,791,210
A. Fund Loan (75% of Sub-Total)		\$ 2,815,255
B. Trust Loan (25% of Sub-Total)		\$ 938,418
C. DEP Fee (Financed Portion (50%))		\$ 37,537

As a result of the review by the New Jersey Department of Environmental Protection (“Department”), various line items may have been revised resulting in a change of the allowable costs for this project. The basis for the determination of the allowable costs is as follows:

1. Administrative Expenses:

The total amount requested for this line item on the application was \$99,000. The allowable administrative expense is authorized to be 3% of the total allowable building costs (Line Item No. 4). Therefore, the amount for the administrative line item is  $\$3,071,919 \times 0.03 = \$92,158$ .

Allowable Administrative Expenses are \$92,158.

2. Other Costs:

The amount requested for this line item on the application was \$0. Therefore, the total allowable amount for this line item is \$ 0.

Allowable Other Costs are \$0.

3. Engineering Fees:

The amount requested for this line item on the application was \$160,000. Middlesex Water Company will utilize “in house” engineering and inspection personnel.

Allowable Engineering Fees are \$160,000.

4. Building Costs:

The amount requested for this line item on the application was \$3,300,000. The allowable amount based on the low bid received is \$3,071,919, consisting of Contract No.1 of \$2,585,387.20 and Contract No.2 of \$486,532.

Green Project Reserve (GPR) Funding:

Green Infrastructure - \$0.  
Energy Efficiency- \$0.  
Water Efficiency - \$0.  
Green Innovative - \$0.

Allowable Building Costs are \$3,071,919.

5. Contingencies:

The amount requested for this line item on the application was \$165,000. The allowable amount is authorized to be 5% of the allowable building cost. Therefore, the allowable amount for this line item is  $\$3,071,919 \times 0.05 = \$153,596$ .

Allowable Contingencies are \$153,596.

6. Allowance for Planning and Design:

The amount requested for this line item on the application was \$276,000. The allowable amount for this line item based on the allowable building costs and the planning and design allowance as per N.J.A.C. 7:22-5.12 is as follows:

$\$250,000 + 0.12(\$3,071,919 - \$1,000,000) = \$498,630$ . At the request of the applicant the amount was reduced to \$276,000.

Allowable Planning and Design Allowance is \$276,000.

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7. Sub-Total:

The total amount applied for was \$4,000,000. The subtotal line item amount is \$3,753,673.

8. DEP Fee:

This item represents the DEP Loan Surcharge or Loan Origination Fee imposed by DEP as a portion of the cost of the project of the borrower. This DEP Loan Surcharge or Loan Origination Fee is a portion of the cost of the project that has been incurred for engineering and environmental services provided by DEP for the borrower in connection with, and as a condition precedent to, the inclusion of the project of the borrower in the 2014 Financing Program of the Trust, 50% of which will be financed for the Borrower as part of the Trust Loan made by the Trust to the Borrower from the proceeds of the Trust bonds sold as part of the 2014 Financing Program, 50% of which will be imposed as an annual administrative fee upon the Borrower by DEP (pursuant to the terms of the Fund Loan agreement and invoices evidencing such obligation to be submitted to the Borrower by or on behalf of DEP), and paid semi-annually by the Borrower to DEP in eight (8) equal installments commencing September 1, 2014 (regardless of the date of commencement of Fund Loan principal amortization). Upon the issuance of the Trust bonds, the Trust shall direct the Trustee for the Trust bonds to transfer to DEP from the Project Fund that portion (50%) of the DEP Loan Surcharge or Loan Origination Fee financed thereby and allocable to the Borrower. The DEP's authority to assess a Loan Surcharge or Loan Origination Fee was established pursuant to P.L. 2002, c.34 approved on July 1, 2002.

DEP Fee = \$3,753,673 x 2% = \$75,074

\$75,074 x 0.50 = \$37,537 (financed through the Trust Loan and paid to DEP upon closing of the Trust Loan)

\$75,074 x 0.50 = \$37,537 (paid as an annual administrative fee to DEP in 8 equal semiannual installments, commencing September 1, 2014).

9. Total Project Costs:

The total project costs are (loan amount + DEP Fee) \$3,791,210.

I. Disbursement to Borrower is \$3,753,673.

Fund Share is \$2,815,255 (75%)

Trust Share is \$938,418 (25%)

II. Disbursement to Department is \$37,537.

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EXHIBIT C

Estimated Disbursement Schedule

C-1

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EXHIBIT C

1. Disbursement Schedule

The following is a schedule of the estimated disbursements for this loan. Disbursements to the Borrower for any given month shall not exceed the amounts indicated below plus any undisbursed from the previous months.

Year	Month	Fund Share (75%) Borrower Disbursement (\$)	Trust Share (25%) Borrower Disbursement (\$)	Trust Share Department Disbursement (\$)	Total
2014	May			*37,537	\$ *37,537
	May	1,500,000	500,000		\$ 2,000,000
	June	415,500	138,500		\$ 554,000
	July	271,875	90,625		\$ 362,500
	August	271,875	90,625		\$ 362,500
	September	217,500	72,500		\$ 290,000
	October	138,505	46,168		\$ 184,673
	November				
	Total	\$ 2,815,255	\$ 938,418	\$ 37,537	\$ 3,791,210

\* This represents that portion (50%) of the DEP Loan Surcharge or Loan Origination Fee that has been financed for the Borrower through the Trust Loan. No action is required on the part of the borrower. The Trust will make a single transfer to DEP, through the Trust's Trustee, on behalf of each Borrower in 2014 Financing Program for purposes of implementing this disbursement.

## 2. Project Schedule

The Borrower shall expeditiously initiate and complete the project in accordance with the project schedule which was submitted as part of the loan application repeated below. Failure to promptly initiate and complete the Project may result in the imposition of sanctions under N.J.A.C. 7:22-3.40 through 3.44 and N.J.A.C. 7:22-4.40 through 4.44. In addition, failure to promptly award all subagreement(s) for building the Project within 12 months of the date of this loan may result in a limitation on allowable costs as provided by N.J.A.C. 7:22-5.4(d) 4. This limitation provides that costs incurred under contracts awarded after 12 months from the date of this loan are unallowable unless a specific extension has been granted by the Department, in the case of a Fund Loan, and the Trust, in the case of a Trust Loan.

<u>EVENT</u>	<u>DATE</u>
<u>Advertisement:</u> Water main relining	October 9, 2013
<u>Bid Receipt:</u> Water main relining	January 9, 2014
<u>Award:</u> Water main relining	February 10, 2014
<u>Issuance of Notice to Proceed:</u> Water main relining	March 10, 2014
<u>Completion of Construction:</u> Water main relining	October 10, 2014
<u>Initiation of Operation:</u> Water main relining	October 10, 2014
<u>Project Performance Certification:</u> Water main relining	October 12, 2015

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EXHIBIT D

**Specimen Borrower Bond**

D-1

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EXHIBIT E

**Opinions of Borrower's Bond Counsel and General Counsel**

EXHIBIT F

**Additional Covenants and Requirements**

Qualified Private Activity Bonds:

(a) No portion of the proceeds of the Trust Bonds loaned to the Local Unit will be used to finance issuance costs (within the meaning of Section 147(g) of the Code).

(b) Assuming for this purpose that (i) the Trust has used two percent (2%) of the proceeds of the Trust Bonds to finance issuance costs (within the meaning of Section 147(g) of the Code), (ii) the proceeds of the Trust Bonds loaned to the Local Unit represent all of the remaining proceeds of the Trust Bonds, (iii) the Trust Bonds are issued as qualified bonds (within the meaning of Section 141(e) of the Code) that meet the requirements of Section 142(a)(4) of the Code, and (iv) interest on the Trust Bonds is otherwise excluded from the gross income of the holders thereof for federal income tax purposes under the Code, the Local Unit shall not, directly or indirectly, use or permit the use of any proceeds of the Trust Bonds in a manner that would adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Trust Bonds.

EXHIBIT G

**General Administrative Requirements for the  
State Environmental Infrastructure Financing Program**

G-1

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**SECTION 302 CERTIFICATION PURSUANT TO RULES 13a-14  
AND 15d-14 OF THE SECURITIES EXCHANGE ACT OF 1934**

I, Dennis W. Doll, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Middlesex Water Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Dennis W. Doll  
Dennis W. Doll  
Chief Executive Officer

Date: August 4, 2014

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**SECTION 302 CERTIFICATION PURSUANT TO RULES 13a-14  
AND 15d-14 OF THE SECURITIES EXCHANGE ACT OF 1934**

I, A. Bruce O'Connor, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Middlesex Water Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ A. Bruce O'Connor  
A. Bruce O'Connor  
Chief Financial Officer

Date: August 4, 2014

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**SECTION 906 CERTIFICATION PURSUANT TO 18 U.S.C. §1350**

I, Dennis W. Doll, hereby certify that, to the best of my knowledge, the periodic report being filed herewith containing financial statements fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)) and that information contained in said periodic report fairly presents, in all material respects, the financial condition and results of operations of Middlesex Water Company for the period covered by said periodic report.

/s/ Dennis W. Doll  
Dennis W. Doll  
Chief Executive Officer

Date: August 4, 2014

A signed original of this written statement required by Section 906 has been provided to Middlesex Water Company and will be retained by Middlesex Water Company and furnished to the Securities and Exchange Commission or its staff upon request.

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**SECTION 906 CERTIFICATION PURSUANT TO 18 U.S.C. §1350**

I, A. Bruce O'Connor, hereby certify that, to the best of my knowledge, the periodic report being filed herewith containing financial statements fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)) and that information contained in said periodic report fairly presents, in all material respects, the financial condition and results of operations of Middlesex Water Company for the period covered by said periodic report.

/s/ A. Bruce O'Connor

A. Bruce O'Connor  
Chief Financial Officer

Date: August 4, 2014

A signed original of this written statement required by Section 906 has been provided to Middlesex Water Company and will be retained by Middlesex Water Company and furnished to the Securities and Exchange Commission or its staff upon request.

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