

## **Appendix B – Auction Application and Review Process**

### **Overview**

The NJEDA will raise capital for the New Jersey Innovation Evergreen Fund by auctioning \$60 million of tax credits annually (for up to 5 years) to corporations registered to do business in New Jersey. Auction bids will be evaluated and scored according to the price (“Purchase Offer”) and strategic commitment(s) the corporate tax credit purchasers make to support the State’s broader innovation ecosystem. The actual price paid for the tax credits will only consider the purchase offer.

The tax credit auction is built to both raise capital and increase engagement into New Jersey’s innovation ecosystem, notably, with established mid- to large-sized corporations. To help foster engagement and collaboration, all applicants are required to make a strategic commitment to support New Jersey’s innovation ecosystem. These Strategic Commitments are oriented to categorically support aspects of the New Jersey innovation ecosystem such as investing into people (develop talent), developing the ecosystem (commit to hold start-up events and programs), providing investment (provide resources, access to customer channels or distribution networks, monetary support) and marketing (promote Evergreen and provides public relations support around the support of innovation in New Jersey). Other examples appear in the corporate tax credit bidder pamphlet (Appendix G). Ultimately, the strategic commitment is an open-ended proposition put forward by the bidder as a unique contribution. These strategic commitments will be evaluated in conjunction with the purchase offer to determine each corporate tax credit bidder score.

The following provides an overview of the auction component of the Program. The process includes an approach to marketing the program, how to execute the program application period, application review process, closing process and post-closing/monitoring process.

### **Auction Process**

The Authority may execute up to one competitive auction per calendar year. The Authority may not conduct a tax credit auction if the Fund maintains more than \$15 million of unallocated capital. This measure will support discipline in management of State revenue. Allocated capital will include reserves for follow-on investment, administration of innovation ecosystem support programs, management fees and organizational expenses of the qualified venture firm. Staff will assess multiple factors to determine auction timing, including, but not limited to, availability of funds, competing and coordinating resources, market feedback, etc.

The auction will be run as a competitive process. Bid submissions will be reviewed by an EDA staff committee according to an established scoring rubric (contained, herein). All criteria will be communicated to the market in advance of the auction. Thirty days in advance of the application open, the Q&A period will begin, with a non-fillable form application posted to the Evergreen site. Once the formal application launches (Day 1 noted below), potential purchasers will have two months to submit their application. The Q&A period will close two weeks after the auction opens to allow open market questions and equal dissemination of information. All applications are due two months after the

application opens, along with a refundable deposit equal to 10% of the purchase price. Once the application closes, NJEDA staff will review the applications for completeness and request any missing documents, if needed. Once all missing documents are received, staff will score and rank the bids. Staff will communicate the bid spread to the purchasers. At this time, applicants are permitted to alter and resubmit their bids to increase financial and strategic offerings to remain competitive and uptake any unallocated credits. Bids may not be lowered or rescinded. The final rescore will determine the rank order of bid allocation in the event of pro-ration. In the event of an auction over-allocation, EDA will pro-rate the bids according to the process detailed, herein.

Award recommendations will be presented for Authority Board approval and announcement. A written notice will be sent to all bidders indicating approval, after which purchase agreements will be executed and funds transferred. If a corporate bidder does not wish to (or is unable to) follow through on their submitted bid application, the credits can be reassigned by the authority to the next-highest scoring bidder (without need of re-auction). As a penalty for not closing on the commitment, the withdrawing bidder is not permitted to participate in the following year auction. Once all final bids are submitted, they will be re-evaluated and scored.

Post-closing operations will commence and include ongoing monitoring of strategic commitment adherence and participation in the New Jersey Innovation Evergreen Fund Advisory Board.

**Summary Timeline**

Auction Timeline for Corporate Bidders	
<ul style="list-style-type: none"> <li>• Example application posted to website</li> <li>• <u>Q&amp;A period opens</u>, with questions answered on a rolling basis and posted to website</li> </ul>	Day -30
<ul style="list-style-type: none"> <li>• Online Application launches</li> </ul>	Day 1
<ul style="list-style-type: none"> <li>• Q&amp;A period closes</li> </ul>	Day 14
<ul style="list-style-type: none"> <li>• All applications due – any missing documents are communicated to the bidder</li> </ul>	Day 60
<ul style="list-style-type: none"> <li>• All missing docs are due and NJEDA staff ranks bids</li> </ul>	Day 70
<ul style="list-style-type: none"> <li>• Bid Feedback to Purchasers who can revise initial bids</li> </ul>	Day 75
<ul style="list-style-type: none"> <li>• Final Bids Due</li> </ul>	Day 85
<ul style="list-style-type: none"> <li>• Bid scoring completed</li> </ul>	Day 90
<ul style="list-style-type: none"> <li>• Bids presented to Board</li> </ul>	Day 100
<ul style="list-style-type: none"> <li>• NJEDA staff transmits approvals to taxation</li> </ul>	Day 115
<ul style="list-style-type: none"> <li>• Following taxation review, and bid contracts executed, Purchaser wires total amount (sans initial 10% deposit)</li> </ul>	Day 130

## **Evaluation / Scoring**

Upon submission of an auction bid application, NJEDA staff will review the application materials for completeness. Required information will include, without limitation: company identification information, primary contact information, purchase offer (including requested amount of tax credits, bid price, total value), strategic commitment (including supporting documentation and associated list of documents to verify completion of the commitment.), business registration certificate), CEO certification, legal debarment, and NJ tax clearance certificate. Sister agency checks will be performed on all applicants.

Staff will ensure applications comply with program regulations. Eligible applications must consider, at minimum:

- Tax credit requests of at least \$500,000 (face value)
- A purchase offer price to be paid of at least 75 percent of face value
- Valid Strategic Commitment
- A refundable deposit for 10% of the tax credit purchase offer, not to exceed \$500,000
- Affirmative Evergreen Advisory Board commitment if approved

A valid strategic commitment will specifically identify the objective of the commitment, details of how the strategic commitment will be achieved and milestones to indicate when the commitment is achieved, including the forms of documentation that will be provided to EDA staff to verify achievement. As part of the application, bidders will indicate the attributable cost of the strategic bid as this will be a requirement in scoring, as well as, compliance). Given the open-ended nature of possible strategic commitments, the specific list of verification will be memorialized in the execute tax credit purchase agreement. Additional clarification is noted in the strategic commitment section below.

Following submission, EDA staff will inform the potential purchaser's primary contact if there is a discrepancy or lapse in the application information. Only complete applications will be eligible for consideration. Missing documents may be submitted during the 10 business-day period following notification by staff.

## **Purchase Offer**

The purchase offer is comprised of two components: the amount offered per dollar of tax credit (with a minimum floor of 75 percent of face value), and the volume of request (with a minimum floor of \$500,000). This floor is mandated in legislation, and in addition to requiring strong purchase offers. The Evergreen Program minimum floor is closely aligned with the minimum transfer prices utilized in other ERA tax credit incentive programs.

The applicant must submit a refundable deposit of 10% of the purchase offer at the time of application. The amount will be applied to the final amount paid. If the approved applicant does not close the transaction the 10% deposit will be returned but the applicant may be banned from participating the following year. An example of a purchase offer evaluation is below:

<i>Purchase offer Value</i>	<b>Example</b>
<i>Purchase offer Price (cents/dollar)</i>	0.75
<i>Amount of Tax Credits Requested (pre-discount)</i>	\$10,000,000
<i>Total Purchase offer</i>	\$7,500,000
	0.75

### **Strategic Commitment Evaluation**

All Evergreen Program tax credit auction bids must include a strategic commitment, whereby, tax credit purchasers offer strategic support to strengthen the State's innovation ecosystem. The strategic commitment is submitted in tandem with the purchaser offer for tax credits. The corporate bidder determines the components of its strategic commitment, which can include, but is not limited to, people (develop talent), ecosystem (commit to hold start-up events and programs), investment (provide resources, access to customer channels or distribution networks, monetary support) and marketing (promotes the Program and provides public relations support around the support of innovation in New Jersey). A tax credit purchaser must specify and quantify the cost of each component of its strategic commitment in its tax credit bid, including, but not limited to, mentorship hours, internship offerings, customer and distribution pipeline access as specific considerations within the aforementioned bid categories. The score of the financial and strategic commitment components will make up the total bid score. All bids need to substantiate the strategic commitment's estimated cost to the corporation and explanation of the potential benefit to the innovation economy through documentation.

The strategic commitment scoring rubric is built to evaluate a myriad of potential open-ended scenarios put forward by corporate bidders. Categorically, it is anticipated that bids will be classified to benefit people, ecosystem & space, investment or marketing. A strategic commitment is scored based on ten criteria:

1. **External partners** (government agencies, corporations, municipalities, universities, trade groups, etc.) involved with the initiative - One of the main goals of the Evergreen program is ecosystem-building and the creation of a more robust innovation landscape in New Jersey. By partnering with existing entities that have a lasting and important role within New Jersey, it is expected that the value of the strategic commitment will multiply.
  - a. 1 point for no external partners
  - b. 2 points for 1 or 2 external partners (in addition to the bidder)
  - c. 3 points for 3+ external partners (in addition to the bidder)
  - d. An additional 2 points are achievable for those who are **working with established entities in the New Jersey innovation sector** (such examples are, trade-groups, entrepreneurship development programs, and annual pitch events).

2. **Educational Institutions** – A strategic commitment that offers internships, apprenticeships, or on the job training to students at several NJ schools versus prioritizing a single campus has a larger reach and impacts more communities.
  - a. 1 point for <2 institutions
  - b. 2 points for 2-3 institutions
  - c. 3 points for 4+ institutions
3. **Opportunity Zone Outreach** - Commitments that are geographically focused on opportunity zones show a focus on underserved communities in New Jersey. As part of the Governor’s Economic Development plan diversity, equity and inclusion are all key to building a stronger, fairer New Jersey.
  - a. 1 point for <2 opportunity zones
  - b. 2 points for 2-3 opportunity zones
  - c. 3 points for 4+ opportunity zones
4. **Duration of the strategic commitment** - A short term strategic commitment is useful, but a longer term commitment will have a more lasting impact to support a more robust innovation ecosystem.
  - a. 1 point for <1 year
  - b. 2 points for 1-2 years
  - c. 3 points for 3+ years
5. **Frequency of the strategic commitment** – Commitments have an opportunity to create a larger impact over multiple iterations versus fewer iterations. A strategic commitment that occurs multiple times has a potentially larger impact than those accomplished in a single instance.
  - a. 1 point for <1 time/year
  - b. 2 points for 2-3 times/year
  - c. 3 points for 4+ times/year
6. **Staff members involved in this initiative** – A greater allocation of staff by the corporate bidder shows that a strategic commitment is more meaningful to the company—allocated staff time also helps to support success of the strategic commitment.
  - a. 1 point for staff time of 10 hours monthly
  - b. 2 points for staff time of 40 hours monthly
  - c. 3 points for staff time of 100 hours monthly

7. **Investment Target** – A greater dollar investment into businesses in New Jersey (with no existing common ownership or control by the corporate bidder) indicates a more practical commitment to support innovation in New Jersey, regardless of the form of investment (grants, equity, loans).
  - a. 1 point for <\$50,000
  - b. 2 points for \$50,000-\$125,000
  - c. 3 points for \$125,000+
8. **Marketing Self-Valuation**– A greater attributable spend toward marketing New Jersey’s innovation ecosystem indicates corporate buy-in to the program. The marketing self-valuation should be expressed in the application with rationale as to the assigned value.
  - a. 1 point for <\$10,000
  - b. 2 points for \$10-\$20,000
  - c. 3 points for \$20,000+
9. **Strategic Commitment Ratio** –The strategic commitment ratio can be calculated by dividing the strategic commitment value (\$ cost of the strategic commitment) by the purchase offer. A greater ratio indicates higher strategic buy-in and significant value toward the innovation economy. (e.g., if a strategic commitment is worth \$1M and a purchase offer is for \$4M, \$1M/\$4M is 0.25)
  - a. 1 point for <0.1
  - b. 2 points for 0.1-0.3
  - c. 3 points for 0.3+
10. An additional point is achievable for those that have **never previously been approved for auction participation**. The objective is to support those new to the program and expand participation over time.

In all cases, offering up a greater commitment increases the score of the bid. For example, including an external partner is more beneficial than not including an external partner, putting forth a 2-year commitment to internships is more valuable and will score higher than putting forth a 1-year commitment, etc.

Objectively, the strategic commitment may represent one third of the total bid score (including the purchase offer, as discussed below). The maximum strategic score achievable is 0.5 in order to demonstrate the importance of the strategic commitment as a component of auction participation, while still placing an emphasis on fiscal responsibility to maximize the financial outcome of the auction. In order to achieve this scaling, the strategic commitment raw score is divided by 60 to get the strategic commitment final score. The strategic score can impact the amount of tax credits awarded but is scaled

such that the strategic commitment score does not overshadow the purchase offer score (which ranges between 0.75-1.00).

In cases where a Purchaser puts forth multiple strategic commitments, the commitments are scored separately. The separate scores are combined through a weighted average based on the financial value of each portion of the commitment.

For example, if a purchaser puts forth two separate strategic commitments, one self-valued at \$300,000 to internships and one self-valued \$40,000 commitment to a pitch night, the final strategic score is calculated as follows:

**Strategic Commitment A:** \$300,000 commitment with a strategic score of 0.303

**Strategic Commitment B:** \$40,000 commitment with a strategic score of 0.242

**Strategic Final Score** =  $(\$300,000 * 0.303) + (\$40,000 * 0.242) / \$340,000 = 0.296$

The weighted average ensures that the larger commitment makes up a greater proportion of the total score.

### **Total Bid Score**

The purchase offer score and the strategic commitment score will be added together to create a final overall score for each applicant. In the example below, the bidder achieved a strategic commitment score of 0.45 and put forward a purchase offer of 75 per cent of face value. The total bid score equals 1.2.



Rank order of applicant scores will be used to determine priority for tax credit awards and potential proration scenarios.

### **Oversubscription and Proration**

In the event the requested amount of tax credits exceeds the \$60 million of credits available in a single auction, awards will be prorated. All qualified bids are ranked in sequential order from the highest overall total bid score to the lowest overall total bid score. A percentile rank is calculated to determine how the applicants compare to the wider field. All qualified applicants receive a \$500,000 minimum, along with a prorated amount of tax credits based on their total score, their tax credit request, and percent of total amount requested. The percentage allocation is decreasing in equal increments. Rank matters because the higher ranked applicants will receive a greater proportion of their requested amount of tax credits, while the lower ranked applicants will receive a smaller award as percentage of the total requested.

#### *Example*

In this example, four bidders requested \$68M of tax credits.

**Bidder A:** Requested **\$40M** with a total score of **1.32**

**Bidder B:** Requested **\$15M** with a total score of **1.3**

**Bidder C:** Requested **\$12M** with a total score of **1.25**

**Bidder D:** Requested **\$1M** with a total score of **1.2**

**Bounds = 1.32 and 1.2**

The spread between the highest and lowest rank becomes the bounds (1.32 and 1.2) for the calculation. The spread is broken down into equal parts using the Goal Seek function in Excel and the total percentage allocation is divided amongst these steps. As per the formula, each step equals roughly 6.93%.

A bidder with a raw score of 1.30 (two “steps” below the maximum ask) will receive 86.15% (100% - 6.93% - 6.93%) of their request, not including the minimum allocation of \$500,000.

				Percent of Allocation received (outside minimum)
1.33				
1.32	A	6.93%		100.00%
1.31		6.93%		
1.3	B	6.93%		86.15%
1.29		6.93%		
1.28		6.93%		
1.27		6.93%		
1.26		6.93%		
1.25	C	6.93%		51.52%
1.24		6.93%		
1.23		6.93%		
1.22		6.93%		
1.21		6.93%		
1.2	D	6.93%		16.88%
1.19				

This same process is applied for each bidder such that while the top ranked bid (Bidder A) receives the entirety of their ask, the bottom bidder (Bidder D) is significantly prorated, receiving \$84,415 in addition to the \$500,000 minimum.

This example shows the methodology for how this process will work for four bidders – were there to be a different number of bidders and a different spread, the calculation would have to be updated accordingly.



	Original Request	Request (subtracting \$500K minimum)	Percent of Allocation received (outside minimum)	Final Prorated Amount	Final Award +\$500K minimum
A	\$ 40,000,000.00	\$ 39,500,000.00	100.00%	\$ 39,500,000.00	\$ 40,000,000.00
B	\$ 15,000,000.00	\$ 14,500,000.00	86.15%	\$ 12,491,341.99	\$ 12,991,341.99
C	\$ 12,000,000.00	\$ 11,500,000.00	51.52%	\$ 5,924,242.42	\$ 6,424,242.42
D	\$ 1,000,000.00	\$ 500,000.00	16.88%	\$ 84,415.58	\$ 584,415.58
	\$ 68,000,000.00	\$ 66,000,000.00		\$ 58,000,000.00	\$ 60,000,000.00

**Undersubscription**

In case of undersubscription to the auction, remaining tax credits will be made available to bidders who indicated interest in additional allocation at time of application. Those specific bidders will be contacted and can purchase the remainder of tax credits without having to re-up their strategic commitment. Priority is assigned by total final bid score with the credits offered at the lowest clearing price bid. This mechanism offers an incentive to the highest bidder(s) and secure a strong bid from all parties.

In the case of the Fund still holding unallocated tax credits after the auction process has concluded, remaining funds will be carried over to future auctions.