

# Garden State C-PACE

October 20 , 2022

Pre-decisional – Subject to change

# Agenda

## Discussion Topic Preview

### **C-PACE Background**

- C-PACE Overview
- C-PACE Benefits

### **Garden State C-PACE Specifics**

- Types of Eligible Improvements
- General Program Requirements
- Project Application Process

### **NJEDA's Role in Garden State C-PACE**

### **Next Steps / Timing**

### **Open Discussion Period**

# Discussion Topics (preview)

Please provide any additional written comments to: [Gardenstatecpace@njeda.com](mailto:Gardenstatecpace@njeda.com)

## Topic 1: New Construction

### Background:

- The C-PACE statute contemplates that NJEDA will expand the program to include new construction with 90 days of initial Program launch.
- Existing C-PACE programs have taken varying approaches for handling new construction projects.

### Questions:

- How should the program determine the overall portion of a new construction financing capital stack that can be financed under the Garden State C-PACE Program?
- What other issues, if any, are raised by new construction as opposed to retrofit financing, that NJEDA should ensure they address in implementing the new construction supplement to the Program?

## Topic 2: Municipality Outreach

### Background:

- The statute does not address the subject of municipality outreach. However, it is a critical step in the ability to implement C-PACE Projects under the Program

### Questions:

- What will be the most effective ways to recruit NJ municipalities to opt-in to the Garden State C-PACE program?
- How can NJEDA, as administrator of the Program, most effectively provide support to municipalities participating in the program?

# What is C-PACE?

*C-PACE (Commercial Property Assessed Clean Energy) is a mechanism by which the local unit of government in a state that assesses and collects property taxes uses that authority to treat a Property Owner's obligation to repay a construction loan as a special assessment.*

## C-PACE requires state legislation

- State legislation authorizes the local government property taxing units to use their assessment power in this way
- **Public purpose** must be clearly articulated that will be met
- Local government **bears no responsibility for the debt**

## Assessments operate similar to property taxes

- Generally speaking, assessment is **billed and collected** and, if necessary enforced the same way **as are property taxes**
- As with property taxes, **will continue to attach** to subject property, surviving any and all transfers of the property, even through bankruptcy, foreclosure sales
- C-PACE loans **are not subject to acceleration** like regular commercial loans

## C-PACE offers lenders extremely strong repayment security

- Lien is paramount, **first priority**
- In some states it may be on exactly the same level of priority as property tax; others it is **behind property tax and other municipal charges**

# C-PACE Benefits

## STAKEHOLDER BENEFITS



### Borrowers

- Get **longer term financing**
- Lower **interest rates**
- Smaller debt service payments make it much easier for **projects to pencil out**
- No recourse to business owners—**no personal guarantees**
- Changes the conversation in context of **voluntary transfer of property**
- Off-balance sheet accounting treatment



### Municipalities

- Opportunities, without a funding outlay, to:
- Support measures that will **reduce** greenhouse gas and criteria pollutants emitted by their C&I sector
  - Support **resiliency measures** that could be of critical importance to local businesses
  - Enhance the tax base due to property improvements and **new construction projects**
  - Boost local economic development



### Mortgage Holders

- Increasing comfort level with consenting to C-PACE loans
- They see the **enhancement of the value of their collateral**
- Lack of ability to accelerate C-PACE loans is critical
- Unique feature means that the magnitude of C-PACE payment defaults remain manageable
- Mortgage lenders are **entering the market!**



### Contractors

- Helps contractors better convert leads to deals for energy upgrades by giving property owners access to up to 100% up-front financing for up to 30 years
- Allows for **deeper energy efficiency, renewable energy, and resiliency improvements** because of **increased affordability** for borrowers











### Capital Providers

- Offers capital providers **extremely strong loan security** position similar to a tax lien on a property, which sits in a senior position to other encumbrances on the property
- Garden State Program is **“open platform”** — meaning that any capital provider that meets certain basic requisites may participate

# Garden State C-PACE Eligible Projects

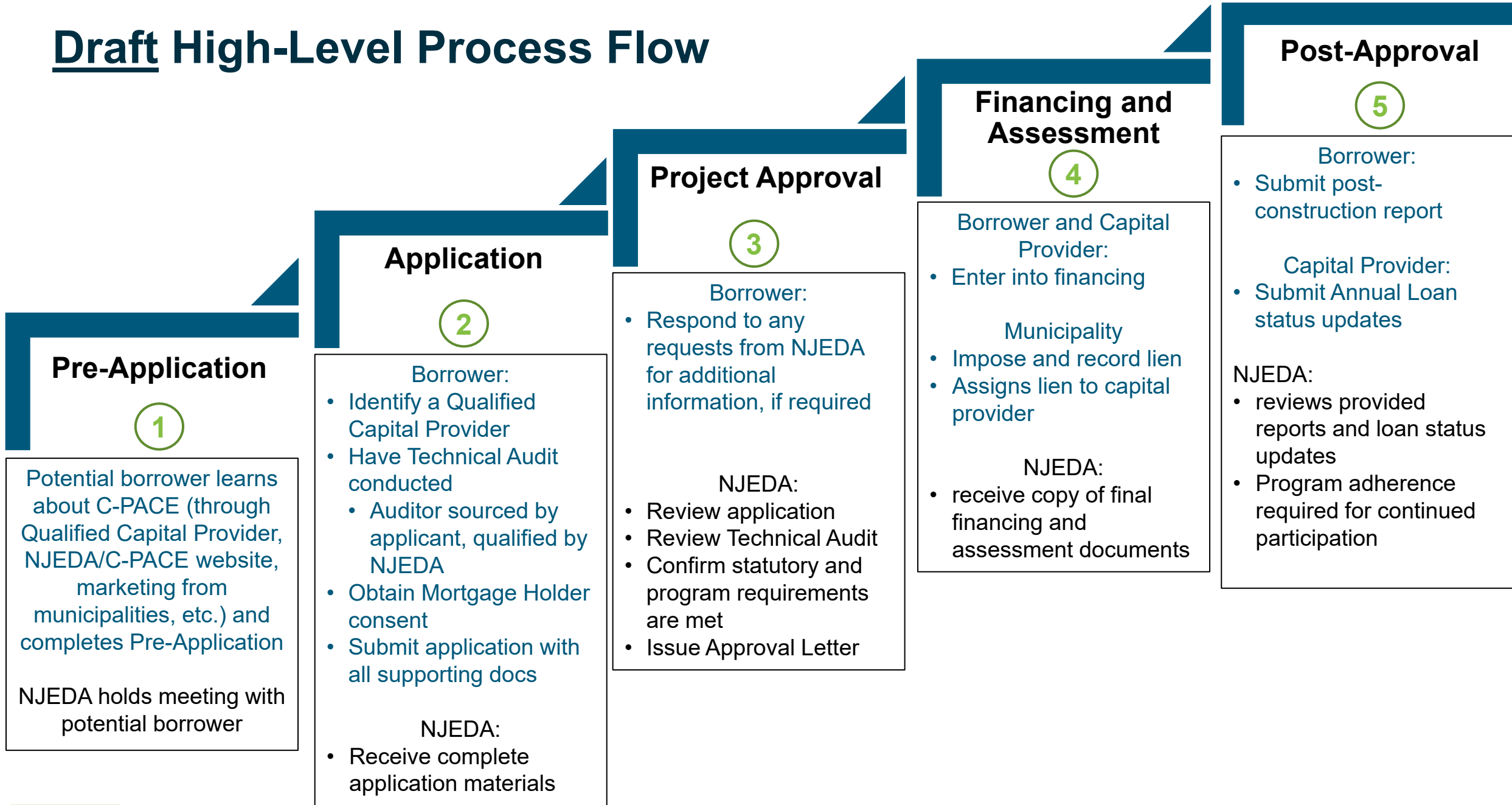
*Eligible Projects must be affixed to an Eligible Property and must be for the acquisition, construction, installation or modification of one or more of the following types of improvements*

<b>Energy Efficiency</b>		An improvement to reduce energy through conservation or a more efficient use of electricity, natural gas, propane, or other forms of energy (e.g., air sealing, ventilation, insulation, efficient lighting, energy-efficient heating/cooling)
<b>Renewable Energy Systems</b>		An improvement by which electrical, mechanical, or thermal energy is produced (e.g., hydrogen, solar energy, geothermal energy, biomass, wind energy)
<b>Electric Vehicle Charging Infrastructure</b>		Equipment designed to deliver electric energy to a battery electric vehicle or a plug-in hybrid vehicle
<b>Energy Storage</b>		Technology that can absorb energy, store it for a period, and thereafter dispatch the energy, including battery electric storage, thermal storage, pumped hydropower, and such other forms of energy storage
<b>Water Conservation</b>		An improvement that reduces water consumption, increases the efficiency of water use, or reduces water loss
<b>Flood Resistant Construction</b>		An improvement that mitigates the likelihood of flood damage (e.g., break-away walls, building elevation alterations)
<b>Hurricane Resistant Construction</b>		An improvement that enables a component of a structure to be in compliance with the standards for a “wind-borne debris region”
<b>Stormwater Management Systems</b>		Efforts to convey stormwater, control or reduce stormwater runoff and associated pollutants/flooding, induce/control the infiltration of groundwater recharge of stormwater, or eliminate illicit non-stormwater discharges into stormwater conveyances

# Garden State C-PACE General Requirements

Requirement	Description
<b>Eligible Property</b>	<ul style="list-style-type: none"> <li>• A parcel of real property</li> <li>• Located within a Participating Municipality</li> <li>• Must be either:               <ul style="list-style-type: none"> <li>• industrial, agricultural, or commercial property;</li> <li>• residential property containing five or more dwelling units</li> <li>• common areas of condominiums and other planned real estate developments</li> <li>• property owned by a tax-exempt or nonprofit entity, including, but not limited to, schools, hospitals, institutions of higher education, or religious institutions</li> </ul> </li> <li>• Not subject to any bankruptcy proceedings, defaults on any mortgage loans, or overdue tax payments, charges, and assessments</li> </ul>
<b>Eligible Owner</b>	<ul style="list-style-type: none"> <li>• The legal or beneficial owner of an Eligible Property or duly authorized by the legal or beneficial owner(s)</li> <li>• Not subject to any bankruptcy proceedings</li> </ul>
<b>Eligible Costs</b>	<ul style="list-style-type: none"> <li>• Direct Costs</li> <li>• Indirect Costs</li> <li>• Financing Costs of Capital Provider</li> <li>• Program Fees</li> </ul>
<b>C-PACE Financing Terms</b>	<ul style="list-style-type: none"> <li>• Assessment Amount: Debt-to-Value Ratio may not exceed 90%</li> <li>• Term: Shall not exceed the Weighted Average Useful Life (WAUL) of the improvements or thirty (30) years</li> <li>• Must obtain Mortgage Holder Consent</li> <li>• Terms solely determined and negotiated between the Eligible Owner and Capital Provider</li> <li>• No minimum Savings-to-Investment Ratio (SIR) threshold               <ul style="list-style-type: none"> <li>• SIR calculation may be required for certain projects, but the value will not impact NJEDA's project approval decision</li> </ul> </li> </ul>

# Draft High-Level Process Flow





# What is NJEDA's role?

## NJEDA

NJEDA wears two hats: **programmatic** and **transaction-specific**

### Programmatic

- Legislation requires that NJEDA **design the program** in full detail, consistent with the legislation, and **then launch it!**
- Designing Program includes preparing Program Guidelines and other key documents used at program and project/loan levels and then publishing them on the NJEDA website
  - Also benchmarking with other programs and engaging stakeholders
- Following launch: recruitment and qualification of capital providers, technical reviewers, and municipalities.

### Transaction-Specific

- NJEDA's key role **post-launch: review and approval of Property Owner applications** based on statutory requirements and C-PACE Guidelines to use the C-PACE program to facilitate loan arrangements
- Approach to technical and financial review of proposed projects:
  - require borrower/property owners conduct technical review of proposed project
  - rely on certifications from technical reviewers and capital providers regarding specific technical and financial characteristics of the project

# Next Steps / Timing

**Current Status: C-PACE documents have been drafted and are undergoing legal and policy reviews**

1

## Public Comment

NJEDA will make C-PACE documents available for public comment (e.g., Program Guidelines, Pre-Application, legal agreements, etc.)

Anticipate availability in Q4 2022

2

## Participant Engagement

Prior to the Program's official launch, interested participants will have an opportunity to express interest in participating in the Program

3

## "Phase 1" Program Launch

After incorporating comments, NJEDA will roll out the program

Program requires NJEDA Board approval, to include:

- OAG review
- Gov Office review
- Standard NJEDA Board approval process

4

## "Phase 2" Program Launch

Following the initial Program launch, NJEDA will expand the program to include new construction and refinancing projects.

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