

I. Executive Summary

The Opportunity

New Jersey was the 29th state to introduce PACE (Property Assessed Clean Energy) financing, a mechanism that enables energy efficiency and renewable energy projects to be financed in a way that benefits property owners, contractors, the public, and investors.

A Rockefeller Foundation study estimated that \$280 billion could be invested in the U.S. through PACE over the next 10 years. Given New Jersey's aging commercial and industrial building stock, and given that many building owners have delayed improvements since the 2008 recession, NJ has billions of dollars in pent-up demand for the kinds of projects for which PACE is ideally suited.

What is PACE?

PACE is a financing program for clean energy improvements. A property owner asks the municipality to attach a voluntary "special assessment" to the property to pay for energy efficiency and renewable energy improvements. The PACE loan is repaid using the municipal property tax collection mechanism. Private investors make the loans, at no cost to taxpayers or the municipality. A municipality must establish a PACE program, though the municipality typically hires an organization to administer the program.

Benefits for Property Owners:

1. PACE saves property owners money; in the case of energy improvements, projects are typically cash-flow positive from day 1. Project costs are spread over the useful life of the equipment, up to 30 years, which allows energy savings to exceed payments on an annual basis.
2. The obligation is attached to the property, not the owner, in an off-balance sheet transaction. The owner is only responsible for making payments while they own the building. In the event of a sale of the property, the remainder of the obligation is transferred to the new owner.
3. PACE funds 100% of the project with no upfront costs, at market rates.
4. In the case of solar, property owners can take advantage of investment tax credits (ITCs), accelerated depreciation and Solar Renewable Energy Credits (SRECs),

Benefits for Investors:

1. PACE loans are senior to the mortgage, and are treated like a tax lien in default.
2. We are at an early stage in the recognition of this "new asset class," with rates in the range of 5-7.5%.

3. The real source of profits is the financing of PACE loans. To date, approximately \$600 million has been financed and securitized across several states (though none in New Jersey).

Social Benefits:

1. Contractors close more deals, creating jobs and economic development.
2. The local environment is able to reduce its carbon footprint; the upgrades to the existing building stock improves their competitive value, thereby allowing for a higher rate of local business retention and attraction.

While PACE legislation originally passed in NJ in 2012, the statute had issues that are being clarified in amending legislation expected to be signed into law in the first quarter of 2015. This amending PACE legislation includes hurricane- and flood-resistant construction and shelters (referred to here as resiliency improvements or resiliency projects). With sea level rise and higher flood insurance rates, resiliency projects could become a significant part of improvements offered through PACE financing. The amending legislation will also permit direct private financing of projects (versus bond financing).

Corporate Structure

“New Jersey PACE” is a DBA of The Center for Regenerative Community Solutions (CRCS), a NJ 501(c)(3) Nonprofit Corporation. *New Jersey PACE* is used herein to refer to the nonprofit PACE program, and *CRCS* as the parent entity.

NJ PACE LLC, on the other hand, is a for-profit subsidiary of CRCS, created for the purpose of financing those projects submitted to New Jersey PACE without their own financing.

New Jersey PACE is designed as a statewide, open-market program that assists municipalities with establishing and administering local PACE programs. It will provide the education and connections between property owners, contractors, and municipalities to make PACE work — efficiently, effectively, and transparently. As a program administrator, New Jersey PACE will solicit, receive and process applications for PACE projects. New Jersey PACE is committed to growing the PACE market in NJ.

NJ PACE LLC is a for-profit subsidiary created to arrange or provide financing for projects submitted to the non-profit, New Jersey PACE, that do not have financing provided by the owner or by a third party. NJ PACE LLC will provide financing for these projects and collect a financing fee for each financing. NJ PACE LLC has several investment firms interested in buying PACE special assessments, and we have a letter of commitment from a prominent and experienced boutique in the PACE field.

NJ PACE LLC has a unique advantage over other entities operating in this space, and that is its access to an immediate and substantial deal flow through its relationship with New

Jersey PACE. NJ PACE LLC will have broad and unfettered access to the market and to the many contractors and property owners who have not been able to obtain suitable financing for projects. Since the recession in 2008, there has been pent-up demand for the clean energy projects for which PACE is ideally suited.

This structure, in which the non-profit parent company [New Jersey PACE/CRCS] maintains ownership of the for-profit [NJ PACE LLC], was developed based on a lessons-learned approach obtained from observations of how other established PACE programs have operated throughout the country so far.

Success Factors

New Jersey PACE is uniquely qualified to succeed as a PACE administrator, facilitating relationships between municipalities, property owners, contractors and investors based on the following:

Knowledge and Experience: For over 2 years, we've built our program based on research about PACE programs in other states. Our team has experience with municipalities, program management, administration, marketing, financing, and investment banking, as well as real estate, construction and energy efficiency.

Brand: The name, New Jersey PACE, is synonymous with PACE in New Jersey. Our reputation is: the original and long-standing PACE advocate in New Jersey, local, knowledgeable, trust-worthy, experienced, community-oriented, collaborative and committed to sustainability, resiliency and economic development.

Positioning: We provide an open market platform that will process eligible PACE transactions from any source, ensuring a competitive, robust PACE marketplace. We can provide financing, as well.

Statewide Operation: We are a NJ-based firm offering non-exclusive, professional administration, due diligence and standardized documents to every municipality, state-wide.

Marketing: Our marketing channels include affiliations with key state-wide organizations that municipalities depend on, like Sustainable Jersey and the New Jersey League of Municipalities, as well as industry associations in banking, architecture, engineering, construction, and real estate. We also have extensive political and professional connections.

Operational Systems: We have experience in developing and adapting best-in-class online administrative systems appropriate to the needs of a PACE program in New Jersey. We already have some of these systems in place.

NJ PACE LLC is uniquely qualified to succeed in providing financing to property owners, based on the following:

Deal Flow: Access to a steady stream of projects whose owners have signaled to New Jersey PACE their need for financing.

"First Mover Advantage:" Having been first in the New Jersey market will allow us to capture much of the demand for PACE, especially in the initial years.

Brand: Attractiveness to a major financial institution to provide a warehouse line and to work with NJ PACE LLC in securitizing its portfolios of PACE loans.

Financial Plan

The key assumptions behind the Proforma Analyses are very conservative. We estimate only five municipalities adopting a PACE program in the first year, producing only four projects. The second year grows by 6 towns and 21 projects, and New Jersey PACE retains two mid-level professionals. New Jersey PACE and NJ PACE LLC reach a break-even milestone in May of 2016. NJ PACE LLC completes its first syndication of PACE Certificates through the issuance of a Bond Issue midyear, and investors receive all of their investment (plus interest) by year's end. The final two payments (plus interest) are distributed by the end of the third year, 36 months after initial closing, returning three times the original investment in 3 years.

There are three sources of revenue that will be used to operate New Jersey PACE and NJ PACE LLC: 1) an Administrative Fee (for processing) going solely to New Jersey PACE, 2) a Financing Fee being split between New Jersey PACE and NJ PACE LLC, and 3) Syndication Fees being split between New Jersey PACE and NJ PACE LLC.

There is an Application Fee but it is relatively small and may not be imposed uniformly over the next five years; therefore, it is not included in the financial projections.

Table 1 summarizes the Proforma Cashflows of the first five years of operations of both entities. All figures are approximate and subject to change.

Table 1: Summary Proforma Financials

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>total</u>
Towns	5	11	17	23	29	85
Projects	4	21	45	69	87	226
NJ PACE LLC						
Revenue	\$ 496,955	\$ 286,799	\$ 792,999	\$ 1,276,731	\$ 1,715,531	\$ 4,569,015
Expenses	467,000	54,000	54,000	54,000	54,000	683,000
Cum. N. O. Income	29,955	232,799	1,001,753	2,224,485	3,886,015	3,886,015
New Jersey PACE						
Revenue	552,955	772,766	1,069,749	1,655,481	2,113,781	6,164,732
Expenses	413,000	468,000	653,000	713,000	773,000	3,020,000
Net Optg Income	139,955	441,721	861,470	1,803,951	3,144,732	3,144,732

To achieve these projections, NJ PACE LLC requires \$467,000 in start-up funding. This amount is included as income on the Revenue line under Year 1 (in Table 1).

NJ PACE LLC will then loan CRCS/New Jersey PACE sufficient funds to immediately scale up the nonprofit processing platform described here. NJ PACE LLC is offering a return of three times the original investment to be paid back within three years. The exact formula for the distribution and priority of investor returns will be negotiated and set forth in the Member’s Agreement for that class; however, Management intends to covenant that all funds not required for actual Program operations shall be used to retire the Required Investment. The required Investment will be entirely utilized by the two entities during the first twelve months of operations, as follows:

Admin. & Gen.	\$12,000
Legal	\$36,000
Misc.	\$6,000
Loan to CRCS (NP)	\$413,000
Total (Investor Equity)	\$467,000

The loan from NJ PACE LLC to CRCS/New Jersey PACE will be expended as follows:

Execs - 3 @ \$75k	\$225,000
Mktg/Sls - Web Presentations Ads	\$60,000
Legal (Corporate)	\$35,000
Off. - Ins Spls Rent 6 mo.	\$24,000
Tec.Rev./project \$8,000	\$32,000
Travel, Confs, Smnrs	\$18,000
Contingency 4.60%	\$19,000
Total - 1st Year	\$413,000

The distributions to the Investor come from the profits generated by both entities, and are separated for book-keeping purposes only. Please see Chapter 9, Proforma Financial Projections for a complete presentation of the resulting distributions.

Below is a Summary of the procedures to be utilized by the entities in allocating various cashflows among themselves — and ultimately to the Investor.

TABLE 4: ENTITY AND INVESTOR DISTRIBUTIONS		
<u>LLC Financing Fee Income (at Sale of Certificates)</u>		
to Investor	50.00%	until Investment Return* plus Interest is met
to CRCS	50.00%	
<u>LLC Syndication Income (at Syndication Closings)</u>		
to Investor	80.00%	until Investment Return* plus Interest is met
to CRCS	20.00%	
Investment Return	\$1,401,000	based on 3 x Investment
Investment Payback in	3	years

NJ PACE LLC is seeking accredited investors, who not only wish to realize a superior short-term investment but also wish to have a positive social impact on community and economic development in the state of New Jersey.