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NJ PACE LLC

Business Plan

Property Assessed Clean Energy Financing Program



A New Approach to Financing Community-Wide
Energy Conservation, Renewables, and Resiliency Improvements
For Commercial and Industrial Properties in New Jersey

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NJ PACE LLC IS A SUBSIDIARY OF
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Table of Contents

I. Executive Summary	4
The Opportunity.....	4
Corporate Structure	5
Success Factors	6
Financial Plan.....	7
2. Business Overview	10
What is PACE?	10
Company Profile.....	12
Ownership Structure	13
Roles in the PACE Industry in New Jersey	13
3. Industry Analysis.....	15
Market Overview.....	15
The PACE Opportunity in New Jersey.....	15
Target Customers.....	17
Meeting Customer Needs.....	17
5. SWOT Analysis.....	18
Strengths	18
Weaknesses	18
Opportunities.....	19
Threats	19
6. Competition.....	21
Direct Competitors	21
Indirect Competitors	22
Competitive Advantages.....	22
7. Marketing Plan	25
Marketing Strategy.....	25
Operational Implementation	27
8. Operations Plan.....	28
Project Finance	29
Operational Development Plan	29
9. Management Team.....	33
Management Team Members.....	33
Management Team Gaps.....	36
Board Members (in addition to the key executives listed above)	36

Advisory Council Members37

10. Financial Plan..... 38

Revenue Model.....38

PACE Fee Revenues38

Funding Requirements & Use of Funds41

Financial Operations Summary42

Investor Returns43

Appendices

- A. Financial Proformas
- B. Rolling Out PACE in New Jersey
- C. For-profit / Nonprofit Legal Structure
- D. Confidentiality and Disclaimers

DISCLAIMER/FORWARD LOOKING STATEMENTS

Recipients are cautioned that this Business Plan of NJ PACE LLC contains forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. These statements involve known and unknown risks, uncertainties, and other factors that may cause actual results, levels of activity, performance, or achievements to be materially and adversely different from any future results, levels of activity, performance, or achievements expressed or implied by these forward-looking statements.

The projected returns to be realized are based on a variety of assumptions that are inherently subject to significant economic, business, political, tax, market and other uncertainties, all of which are difficult or impossible to predict. There can be no assurance that any of our projections, or our assumptions, estimates or analyses underlying our projections, will be consistent with actual results.

I. Executive Summary

The Opportunity

New Jersey was the 29th state to pass legislation for 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 study¹ 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:

- ❖ 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.
- ❖ 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.
- ❖ PACE funds 100% of the project with no upfront costs, at market rates.
- ❖ In the case of solar, property owners can take advantage of investment tax credits (ITCs), accelerated depreciation and Solar Renewable Energy Credits (SRECs),

¹ <http://www.rockefellerfoundation.org/app/uploads/United-States-Building-Energy-Efficiency->

Benefits for Investors:

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

Benefits to Municipalities and their constituents:

- ❖ Contractors close more deals, creating jobs and economic development.
- ❖ The local community is able to cut emissions and reduce its carbon footprint
- ❖ Upgrades to the existing building stock improves their competitive value and adds value to the community
- ❖ A municipality's ability to offer PACE becomes a tool to attract and retain ratables, at no cost to the municipality or the taxpayer

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 second 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 permit direct private financing of projects (versus bond financing), and the bill reduces state involvement in the program, which will contribute to the widest and fastest implementation of PACE.

Corporate Structure

“New Jersey PACE” is a DBA of The Center for Regenerative Community Solutions (CRCS), a NJ 501(c)(3) Nonprofit Corporation.

NJ PACE LLC 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, effective, community-oriented, collaborative and committed to sustainability, resiliency and economic development.

Positioning: We stand for an open market in the PACE arena. Other firms may seek to get a contract as the "exclusive" PACE provider in town; as a matter of principle we prefer the competitive approach, providing an open market platform that will process eligible PACE transactions from any source, ensuring the most robust PACE implementation. We are a trusted advisor in the PACE world, and we can provide financing if property owners don't have their own.

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 17 projects, and New Jersey PACE retains two mid-level professionals to handle processing. New Jersey PACE and NJ PACE LLC reach a break-even milestone in the eighteenth month of operation. At this point, NJ PACE LLC completes its first syndication of PACE Certificates through the issuance of a Bond Issue, and investors receive back a portion of their initial investment by the end of that year. The final two payments are distributed in the third and fourth year, returning three times their original investment in four 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 going solely to 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 1-1 summarizes the Proforma Cashflows of the first five years of operations of both entities. All figures are approximate and subject to change.

Table 1-1: Summary Proforma Financials

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	total
Towns	5	11	17	23	29	85
Projects	4	21	45	69	87	226
NJ PACE LLC						
Revenue	660,489	204,978	637,400	1,047,355	1,457,311	4,007,532
Expenses	539,000	163,000	49,000	49,000	49,000	849,000
Cumulative Net Operating Income	121,489	163,467	751,866	1,750,221	3,158,532	3,158,532
New Jersey PACE						
Revenue	607,489	706,478	1,304,900	1,994,855	2,519,811	7,133,532
Expenses	604,000	670,350	1,269,945	1,120,261	1,054,419	4,718,974
Cumulative Net Operating Income	3,489	39,617	74,572	949,166	2,414,558	2,414,558

To achieve these projections, NJ PACE LLC requires \$653,000 in start-up funding. This amount is included as revenue to the LLC in Year 1 (in Table 1-1), along with projected additional revenues from operations.

NJ PACE LLC will loan CRCS sufficient funds to immediately scale up the nonprofit New Jersey PACE processing platform described here.

NJ PACE LLC is anticipating a return of three times the original investment to be paid back within four 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 approximately the first eighteen months of operations, as follows:

TABLE 1-2: LLC USE OF FUNDS	
Administrative and general overhead expenses	\$12,000
Legal Fees (retainer for securitization program)	\$25,000
Seminars, presentations and meetings	\$6,000
Educational materials	\$6,000
Subtotal	\$49,000
Advances to CRCS over years 1 and 2	\$604,000
Total (Investor Equity)	\$653,000

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

TABLE 1-3: NEW JERSEY PACE OPERATING BUDGET	
Executive compensation	\$264,000
General, administrative, & miscellaneous	\$48,000
Legal Fees (program documents and corporate)	\$47,000
Travel, Conferences, Seminars & Educational Materials	\$22,000
Professional services —IT	\$30,000
— Engineering	\$38,000
— CFO	\$34,000
— Grant Writing	\$12,000
Marketing, Advertising, Collateral, PR	\$109,000
Total	\$604,000

The distributions to the Investor come from the profits generated by the LLC. Please see Chapter 10, Proforma Financial Projections for a complete presentation of the resulting distributions.

Concurrently with the release of this plan for informational purposes, NJ PACE LLC will be seeking accredited investors who are not only seeking to realize a superior short-term return but also wish to have a positive social impact on community and economic development in the state of New Jersey.

Measurable Impact

Here are some of the social impacts, based on the Rockefeller Foundation and other studies:

- ❖ Every \$10 million spent on PACE projects results in 150 new local year-jobs
- ❖ \$10 million invested in energy conservation retrofits adds \$25 million to the local economy and as much as \$2.5 million in additional tax revenue
- ❖ \$20 million spent on renewable energy systems adds a megawatt of renewable electrical generation and eliminates 600 tons of CO₂ emissions

According to a 2011 study conducted by ECONorthwest for PACENow:

“If one viewed the PACE program as a jobs stimulus program (akin to those pursued at public expense under American Recovery and Reinvestment Act of 2009), the cost per job at \$67,000 is quite modest. In fact, of course, in the PACE program the only significant role of government is to authorize a financing mechanism to overcome what some believe to be non-economic impediments to credit access.”

NOTE: There is a further discussion of the for-profit/nonprofit structure in Appendix C.