New Jersey Green Bank
A SUBSIDIARY OF THE NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY

MEMORANDUM

TO: NJGB Board Members

FROM: Timothy Sullivan, Chair

DATE: April 3, 2025

SUBJECT: NJGB State Debt Product Policies and Specifications

Request:

The Members are asked to approve:

1. The adoption of the New Jersey Green Bank's ("NJGB") State Debt Product Policies and Specifications ("Initial State Debt Product Specifications") for its pilot debt product (the "Debt Product"), which will guide how the NJGB will issue loans and accept and review applications for debt financing; and
2. Utilization of up to $40,000,000 of funds appropriated to the NJGB by the New Jersey State Legislature pursuant to a supplemental appropriation to the annual appropriations act contained in L. 2023, c.66 and up to $50,000,000 of Regional Greenhouse Gas Initiative ("RGGI") funds transferred to the NJGB from the New Jersey Economic Development Authority's ("NJEDA") 2020-2022 allocation pursuant to a Memorandum of Understanding ("MOU") executed by the NJEDA and the NJGB in January 2025 for transactions executed in accordance with these Initial Debt Product Specifications.

Any material changes to these Initial State Debt Product Specifications shall require further approval of the NJGB Board and will be posted to the NJGB Website.

Background:

As stated in the NJGB By-Laws approved by both the NJEDA and the NJGB Boards, the purpose of the NJGB is to "make equity investments, provide credit enhancements, and offer loans or other financial assistance to attract private capital to enable the State to reach its energy goals, while providing measurable benefits to Environmental Justice Communities ("EJCs")." The intent of this Board memo is to provide more detail on how the NJGB will deploy capital through these Initial State Debt Product Specifications to accelerate the State's efforts to transition to a clean energy economy and meet the ongoing challenges of climate change.

In February 2025, the New Jersey Green Bank board approved the NJGB Debt Product Policies and Specifications, a pilot product that would offer loan financing to eligible borrowers utilizing up to $101,992,500 from the federally funded NCIF competition. The NJGB Debt Product Policies and Specifications is being paused until federal funds are again available to deploy. The NJGB State Debt Product Policies and Specifications will also offer loan financing to eligible borrowers but will instead utilize state appropriated funding and RGGI funding. This product will be active and will receive applications until federal funding is again available to deploy.

<u>Product Details:</u>

The NJGB has $90,000,000 of both RGGI funds and state appropriated funds to deploy into eligible projects for debt financing. The NJGB will give parties interested in accessing NJGB financial support the option through these Initial State Debt Product Specifications to seek the following types of debt financing:

1. Senior debt – debt that holds the highest repayment priority order among lenders in a transaction; senior debt support that the NJGB will provide could take the form of term loans, revolving credit facilities (e.g., to allow for continuous redeployment into a pipeline of projects), construction loans, and bridge loans to finance a project's expected future federal or State incentive payments, amongst other such purposes
2. Subordinate debt – debt that is junior to senior debt in repayment priority for a transaction and typically carries higher interest rates than senior debt to reflect this additional risk
3. Mezzanine financing – financing designed to fill in financing gaps between debt and equity in a transaction; mezzanine financing may incorporate equity features (e.g., equity participation rights) and, like subordinate debt, typically carries a higher interest rate than senior debt due to its lower repayment priority

Applicants will indicate which of these three (3) types of debt financing they are interested in during the application process and all proposed debt transactions will be scored relative to the Loan Review Criteria outlined in Appendix B attached hereto.

Eligible Borrowers:

Loans will only be made to Eligible Borrowers who pass underwriting, legal, and sister agency reviews and reach or exceed a score of one hundred (100) points according to the NJGB's Loan Review Criteria, which can be found in Appendix B, Table 1. Direct lending is limited to commercial entities, government, academia, and nonprofit institutions; however, NJGB is able to provide financial support to businesses that directly service the residential market. In all cases, the NJGB will finance up to a maximum of ninety (90%) percent of a project's total costs.

Eligible Borrowers are defined as:

- Private, for-profit entities
- Non-profit entity
- Academic institutions
- Municipalities
- Counties
- Municipal, county, regional or state redevelopment agencies
- Municipal, county, regional or state independent authorities

Eligible Projects:

To be eligible for NJGB debt financing, an Eligible Borrower must propose projects or a portfolio of projects that meet the following requirements ("Eligible Projects"):

- The proposed project(s) must be located in New Jersey.
- Shall reduce or avoid greenhouse gas ("GHG") emissions and/or criteria pollutants, demonstrated by providing supplemental emissions reduction calculations with third party verification.
- Supports only commercial technologies, defined as technologies that have been deployed for commercial purposes at least three (3) times for a period of at least five (5) years each in the United States for the same general purpose as the project ("Commercial Technologies").
- A minimum one million dollars ($1,000,000) in NJGB debt support and a maximum of twenty million dollars ($20,000,000) of NJGB debt support.
- Have a minimum proforma debt service coverage ratio of one (1.0).
- Have an equity commitment from a sponsor, defined as a party with greater than fifty (50%) percent ownership in a single project ("Sponsor"), that has not received financing that exceeds a maximum of ten (10%) percent of total NJGB assets under management across one (1) or more NJGB Debt Product applications. Such commitment shall be demonstrated by an executed term sheet.
- All construction work must be in accordance with NJ prevailing wage and affirmative action requirements.
- Fall into one of the following categories related to the State's climate goals:

    - Zero-emission vehicles
    - Zero-emission vehicle charging or fueling infrastructure
    - Solar generation, including transmission, interconnection and associated site remediation costs
    - Onshore and offshore wind generation
    - Offshore wind supply chain development
    - Electric battery storage

- Existing building retrofits
- Geothermal energy
- New net-zero building development

To prioritize opportunities utilizing net zero energy sources and carbon-free feedstocks, projects that are not eligible for NJGB financing include but are not limited to natural gas projects and combustion-based waste-to-energy projects.

The eligibility criteria for projects outlined above incorporates the criteria for eligible uses of RGGI according to the 2020-2022 RGGI Strategic Funding Plan (e.g., that projects shall result in a measurable reduction of the emission of GHGs).

Debt Pricing and Terms:

The interest rate associated with each NJGB debt transaction will be priced according to the following methodology:

Interest Rate = Secured Overnight Financing Rate ("SOFR")[1] + Liquidity Premium + Risk Premium

The liquidity premium for each transaction will initially be fixed at fifty (50) basis points.[2]

Appendix B describes the initial Loan Review Criteria that will be used to determine the risk premium. Potential applicants should consult the NJGB website and its posted Frequently Asked Questions to determine current Loan Review Criteria and scoring.

The term for each NJGB loan will be flexible to meet the length specified in a proposed transaction but not be longer than ten (10) years and not to exceed 80% of the total project capitalization. The tenor of the loan shall be based on the proforma earnings before interest, depreciation and amortization for debt service maintaining a minimum of 1x debt service coverage ratio (DCSR) for the project. The actual DSCR to be determined based on the credit profile of the borrower or off taker.

NJGB Availability of Funds and Portfolio Concentration

The funding of any Eligible Project is subject to the NJGB having capital available to finance the transaction. For this pilot State Debt Product, the NJGB will deploy both RGGI and State-appropriated funds. The NJGB will start with deploying all of its $50,000,000 of 2020-2022 RGGI funds in accordance with the product specifications described above, which are consistent

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[1] The SOFR rate is a benchmark interest rate that is regularly updated by the Federal Reserve Bank of New York. More information on the SOFR rate can be found here: https://www.newyorkfed.org/markets/reference-rates/sofr.
[2] The liquidity spread accounts for the NJGB committing cash to assets with less liquidity through debt financing. An example of this spread being priced into debt financing for clean energy transactions at the federal level can be found here: https://www.energy.gov/lpo/articles/pricing-lpo-financing-program.

with the MOU the NJGB executed with NJEDA in January 2025 as well as the Global Warming Response Act, the Rules promulgated thereunder, and Strategic Funding Plan guiding the use of 2020-2022 RGGI funds. Once all these RGGI funds have been obligated, the NJGB will begin deployment from its $40,000,000 State appropriation.

In the event that federal NCIF funds are available to deploy, the NJGB will pause the State Debt Product during the period in which the NJGB's NCIF subgrant is available to accommodate the required accelerated deployment horizon for these funds. All applicants with eligible projects who have made an application submission to the NJGB State Debt Product before such a pause will be offered financing from either RGGI funding or State-appropriated funding.

Application:

Applications will be accepted on a rolling basis after the NJGB's Debt Product Application is opened to the public. The application will remain open as long as the NJGB has funding available, subject to the availability of funds limitations described above. Specific Application requirements can be found in Appendix A.

Disbursement Process:

Loan amount, conditions, and repayment terms will be determined at the time of application approval. Closing documents will detail the funding disbursement process. For construction projects, following the execution of closing documents, loan funds will be disbursed incrementally as Eligible Project expenses are incurred and may be prorated with other funding sources, if applicable, with construction retainage withheld until project completion.

Reporting:

For the duration of the term of any transaction receiving NJGB debt financing, borrowers will be required to provide requested reporting information about the project on a quarterly basis. NJGB staff will provide borrowers with a form ("NJGB Reporting Form") to submit with the requested reporting information. The NJGB Reporting Form will incorporate all the information that the NJGB needs to track on an ongoing basis- including but not limited to quarterly unaudited financials and annual audited financials. Through the NJGB Reporting Form, NJGB staff will collect information on emissions reductions and construction milestones, among other categories.

Pursuant to the RGGI MOU that the NJGB entered into with the NJEDA in January 2025, the NJGB will report to NJEDA on a quarterly basis on the status of the funds with any information required by NJEDA so that it can confirm the funds are being used consistent with its allowable RGGI activities.

Diversity, Equity, and Inclusion:

To ensure all communities benefit from NJGB financing, the NJGB will track deployment of funds into projects benefitting EJCs. Additionally, the NJGB is in the process of establishing an Environmental Justice Advisory Committee that, amongst other responsibilities, will help the NJGB source potential transactions that benefit these communities.

Appeals:

Entities whose applications are denied will have the right to appeal. Appeals must be filed within the timeframe set in the declination letter (which must be at least 10 business days). The Director of Legal Affairs will designate Hearing Officers who will review the applications, the appeals, and any other relevant documents or information. The Hearing Officer will recommend a final agency decision for the NJGB Board to adopt.

Fees:

The NJGB will charge a $1,000 nonrefundable fee to applicants upon submission of Application Part 1 and any legal fees that the NJGB may incur to execute the transaction. Additionally, borrowers will be responsible for a closing fee of 0.5% of the NJGB's total financing amount at the time of the closing of the NJGB's loan.

Recommendation:

The Members are asked to approve:

1. The adoption of these Initial State Debt Product Specifications for the NJGB's pilot State Debt Product, which will guide how the NJGB will issue loans and accept and review applications for debt financing; and
2. Utilization of up to $40,000,000 of funds appropriated to the NJGB by the New Jersey State Legislature pursuant to a supplemental appropriation to the annual appropriations act contained in L. 2023, c.66 and up to $50,000,000 of RGGI funds transferred to the NJGB from the NJEDA's 2020-2022 allocation pursuant to an MOU executed by the NJEDA and the NJGB in January 2025 for transactions executed in accordance with these Initial State Debt Product Specifications.

Tim Sullivan
Board Chair, New Jersey Green Bank

Prepared by: Kerry McNeilly and Ryan Klaus

Attachments:

Appendix A – NJGB Proposed Debt Product Specifications
Appendix B – NJGB Loan Review Criteria

Appendix A: NJGB Proposed Debt Product Specifications

<table>
<tr><td>NJGB Overview and Financing Vehicles</td><td>On April 10, 2024, the NJEDA Board approved the creation of the New Jersey Green Bank, a financial organization designed to advance progress towards the State’s climate goals through investments and financial assistance, as a subsidiary of the NJEDA. As stated in the NJGB By-Laws approved by the NJEDA Board and subsequently approved by the NJGB Board on May 28, 2024, the purpose of the NJGB is to “make equity investments, provide credit enhancements, and offer loans or other financial assistance to attract private capital to enable the State to reach its energy goals, while providing measurable benefits to Environmental Justice Communities.”</td></tr>
<tr><td>Debt Product Types</td><td>The NJGB will give parties interested in accessing NJGB financial support the option to seek the following types of debt financing:

1. Senior debt – debt that holds the highest repayment priority order among lenders in a transaction; senior debt support that the NJGB will provide could take the form of term loans, revolving credit facilities (e.g., to allow for continuous redeployment into a pipeline of projects), construction loans, and bridge loans to finance a project’s expected future federal or State incentive payments, amongst other such purposes
2. Subordinate debt – debt that is behind senior debt in repayment priority for a transaction and typically carries higher interest rates than senior debt to reflect this additional risk
3. Mezzanine financing – financing designed to fill in financing gaps between debt and equity in a transaction; mezzanine financing may incorporate equity features (e.g., equity participation rights) and, like subordinate debt, typically carries a higher interest rate than senior debt due to its lower repayment priority</td></tr>
<tr><td>Eligibility Requirements</td><td>To be eligible for NJGB debt financing, an Eligible Borrower must propose projects or a portfolio of projects that meet the following requirements:

• Proposed project(s) are located in New Jersey.
• Shall reduce or avoid GHG emissions and/or criteria pollutants, demonstrated by providing supplemental emissions reduction calculations with third party verification.
• Would support only Commercial Technologies, defined as technologies that have been deployed for commercial purposes at least three (3) times for a period of at least five (5) years each in the United States for the same general purpose as the project, activity, or technology
• Require a minimum one million dollars ($1,000,000) and a maximum of twenty million dollars ($20,000,000) in NJGB debt support
• Have a minimum proforma debt service coverage ratio of one (1.0)</td></tr>
</table>

- Have an equity commitment from a Sponsor, defined as a party with greater than fifty (50%) percent ownership in a single project, that has not received financing that exceeds a maximum of ten (10%) percent of total NJGB assets under management across one (1) or more NJGB Debt Product applications. Such commitment shall be demonstrated in an executed term sheet.
- All construction work must be conducted in accordance with NJ prevailing wage and affirmative action requirements.
- Fall into one of the following categories related to the State's climate goals:

    - Zero-emission vehicles
    - Zero-emission vehicle charging or fueling infrastructure
    - Solar generation, including transmission, interconnection and associated site remediation costs
    - Onshore and offshore wind generation
    - Offshore wind supply chain development
    - Electric battery storage
    - Existing building retrofits
    - Geothermal energy
    - New net-zero building development

Eligible existing building retrofit projects must reduce operating emissions and/or improve energy efficiency of the building over the lifetime of the project, including but not limited to:

- Installing building management systems or energy load controls
- Conducting weatherization or building envelope (e.g., façade, doors, windows, insulation) upgrades
- Installing heat recovery equipment
- Replacing lighting with more efficient equipment and/or controls
- Replacing fossil fuel powered appliances (e.g., hot water heaters, clothes dryers, kitchen equipment) and/or space heating systems (e.g., furnaces, boilers) with electric alternatives (e.g., electric heat pumps)

To prioritize opportunities utilizing net zero energy sources and carbon-free feedstocks, projects that are ineligible for NJGB financing include but are not limited to projects installing or replacing in-kind natural gas feeds in any capacity and combustion-based waste-to-energy projects.

Additionally, consumer lending can only be accommodated in cases where the NJGB provides financial support to entities that are able to directly service the residential market. In all cases, the NJGB will finance up to a maximum of eighty (80%) percent of a project's total costs.

	The eligibility criteria for projects outlined above incorporates the criteria for eligible uses of RGGI according to the 2020-2022 RGGI Strategic Funding Plan (e.g., that projects shall result in a measurable reduction of the emission of GHGs). Information provided by the Applicant will be used to assign transactions that meet the above eligibility requirements a score out of two hundred (200) points based on the Loan Review Criteria attached in Appendix B. If NJGB staff's scoring of the transaction reaches or exceeds one hundred (100) points, then the prospective borrower is eligible to receive a term sheet for the proposed transaction.
Pricing Methodology	The interest rate associated with each NJGB debt transaction will be priced according to the following methodology: *Interest Rate = SOFR + Liquidity Premium + Risk Premium* The liquidity premium for each transaction will initially be fixed at fifty (50) basis points. Appendix B describes the initial Loan Review Criteria that will be used to determine the risk premium. Potential applicants should consult the NJGB website and its posted Frequently Asked Questions to determine current Loan Review Criteria and scoring.
Term Length	The term for each NJGB loan will be flexible to meet the length specified in a proposed transaction but not be longer than ten (10) years and not to exceed 80% of the total project capitalization. The tenor of the loan shall be based on the proforma earnings before interest, depreciation and amortization for debt service maintaining a minimum of 1x debt service coverage ratio (DCSR) for the project. The actual DSCR to be determined based on the credit profile of the borrower or off taker.
NJGB Availability of Funds and Portfolio Concentration	The funding of any Eligible Project is subject to the NJGB having capital available to finance the transaction. For this pilot State Debt Product, the NJGB will deploy both RGGI and State-appropriated funds. The NJGB will start with deploying all its $50,000,000 of 2020-2022 RGGI funds in accordance with the product specifications described above, which are consistent with the MOU the NJGB executed with NJEDA in January 2025 as well as the Global Warming Response Act, the Rules promulgated thereunder, and Strategic Funding Plan guiding the use of 2020-2022 RGGI funds. Once all these RGGI funds have been obligated, will begin deployment from its $40,000,000 State appropriation.
Application	Applications will be accepted on a rolling basis after the NJGB's Debt Product Application is opened to the public. The application will remain open as long as the NJGB has funding available, subject to the availability of funds limitations described above.

	Information submitted by parties interested in applying for NJGB debt financing will include but not be limited to the following: • The project's primary point of contact information • A detailed executive summary about the project • Comprehensive project financing information • Proposed transaction details • Organization information • Formation documents • Applicant Federal Employer Identification Number ("FEIN") • Applicant New Jersey Tax ID Number • Tax Clearance Certificate • Religious Affiliation Questionnaire (if applicable) • Cannabis Questionnaire • Prevailing Wage and Affirmative Action Disclaimer • Legal Questionnaire, Proceedings, Certification of Legal Questionnaire, and Authorization to Release Information • Certification of Non-Involvement in Prohibited Activities in Russia or Belarus Pursuant to P.L. 2022, C.3 • Certification of Application • Fee Acknowledgement
Disbursement	Loan amount, conditions, and repayment terms will be determined at the time of application approval. Closing documents will detail the funding disbursement process. For construction projects, following the execution of closing documents, loan funds will be disbursed incrementally as Eligible Project expenses are incurred and may be prorated with other funding sources, if applicable, with construction retainage withheld until project completion.
Reporting	For the duration of the term of any transaction receiving NJGB debt financing, borrowers will be required to provide requested reporting information about the project on a quarterly basis. NJGB staff will provide borrowers with a form to submit with the requested reporting information. The NJGB Reporting Form will incorporate all the information that the NJGB needs to track on an ongoing basis - including but not limited to quarterly unaudited financials and annual audited financials. Through the NJGB Reporting Form, NJGB staff will collect information on emissions reductions and construction milestones, among other categories. Pursuant to the RGGI MOU that the NJGB entered into with the NJEDA in January 2025, the NJGB will report to NJEDA on a quarterly basis on the status of the funds with any information required by NJEDA so that it can confirm the funds are being used consistent with its allowable RGGI activities.

Appendix B – New Jersey Green Bank Loan Review Criteria

The interest rate associated with each NJGB debt transaction will be priced according to the following methodology:

Interest Rate = Secured Overnight Financing Rate + Liquidity Premium + Risk Premium

The Liquidity Premium for each transaction will initially be fixed at fifty (50) basis points.

The Risk Premium will be determined by the total points a transaction scores according to the NJGB's Loan Review Criteria. Specifically, Table 1 highlights how a transaction's total score translates to the basis points assessed as a risk premium.

Table 1. Risk Rating Assignment Grid

Risk Rating	Total Points	Risk Premium (basis points, bps)
Strong	Greater than 190	0
	180 - 190	100-150
	170 to 179	155-200
Satisfactory	160 to 169	205-250
	150 to 159	255-300
Acceptable	140 to 149	305-350
	130 to 139	355-400
Watch	120 to 129	405-450
	110 to 119	455-500
	100 to 109	505-550
Doubtful	<100	N/A

Transactions will be scored out of two hundred (200) points and will be evaluated in three (3) main categories: Risk Management, Predictability of Project Net Cash Flows, and Leverage and Coverage. Definitions of the categories and total point allocations can be found in Table 2. The maximum risk premium an Eligible Project (scoring the minimum 100 points) can have is 550 basis points. For each additional point scored above 100 points, the risk premium reduces by 5 basis points. For example, an Eligible Project scoring 186 points would have a corresponding risk premium of 120 basis points.

Table 2: Loan Review Criteria Category Definition and Point Allocation

Category	Criteria	Definition	Total Possible Points
Risk Management	Operating Track Record	Loan seeking entity has experience operating clean energy projects at scale	20
	Sponsor Commitment	Sponsor involved in the project is willing to support the project with their own equity contribution	20
	Security Interest	The project borrower has collateral coverage should the borrower stop making loan payments for any reason (Good = 100% collateral coverage)	30
	Repayment Priority	Based on where NJGB sits in the capital stack and the debt's repayment priority (Good = NJGB's participation is senior and first in line for repayment or NJGB participation is pari-passu with other co-lenders but not subordinate to other lenders)	30
Predictability of Project Net Cash Flows	Offtake Agreements or Other Contracted Revenue	Evaluating expected financial performance of transaction and likelihood of loan repayment based on existing offtake agreements or other similar confirmed future cash flows	40
Leverage and Coverage	Debt Service Coverage Ratio ("DSCR")	Measures an entity's ability to service its debt obligations. Ratio of net operating income divided by total debt service (Good ratio ≥ 1.3x)	40
	Debt to Total Capitalization Ratio	Measures an entity's total leverage (Good ratio ≤ 0.5)	20

Building on these definitions, a detailed evaluation matrix that will be applied to all transactions can be found in Table 3.

Table 3. Loan Scoring Criteria Evaluation Matrix

Criteria	Definition	Points	100% Point Allocation	75% Point Allocation	50% Point Allocation	0% Point Allocation
Risk	Operating Track Record	20	Operating track record greater than 10 years	Operating track record greater than 5 years but less than 10 years	Operating track record of up to 5 years	No operating track record
	Sponsor Commitment	20	Operator maintains greater than 10% equity contribution to total project capitalization	Operator maintains an equity contribution of between 5 and 10% of total project capitalization	Operator maintains an equity contribution of between 2 and 5% of total project capitalization	Operator maintains less than 2% equity contribution to total project capitalization

	Security Interest	30	100% collateral coverage	75%+ collateral coverage	50%+ collateral coverage	<50% collateral coverage
	Repayment Priority	30	NJGB participation is senior and first in line for repayment OR NJGB participation is pari-passu with other co-lenders but not subordinate to other lenders	N/A	NJGB participation is behind other senior lenders in repayment priority but not last in line for repayment among lenders	NJGB participation is last in line for repayment among lenders
Predictability of Net Cash Flows	Evaluating expected financial performance of transaction and borrower's ability to make payments on loan	40	Eligible Borrower has offtake agreement(s) or contracted revenue for entire loan term at the time of application	Eligible Borrower has offtake agreement(s) or contracted revenue for up to 75% of loan term at the time of application	Eligible Borrower has offtake agreement(s) or contracted revenue for up to 50% of loan term at the time of application	Eligible Borrower has no offtake agreements or contracted revenue at the time of application
Leverage and Coverage	Debt Service Coverage Ratio (DSCR)	40	> 1.3	1.2-1.3	1.1-1.2	<1.1
	Debt to Total Capitalizati-on Ratio	20	< 50%	50-65%	65-80%	+80%

Table 4. Interest Rate Reduction Scenarios

Criteria	**Definition**	**Interest Rate Reduction (if qualification met)**
Warrants	>20% warrants coverage	2%
	15-20% warrants coverage	1.5%
	10-15% warrants coverage	1%
	5-10% warrants coverage	0.5%