



April 2011

Building futures

NJEFA

Case in Point

Richard Stockton College of NJ Solar Project

By Sheryl Stitt, Director of Communications, NJEFA

The Richard Stockton College of New Jersey is undertaking a solar renewable energy project through Solar Photovoltaic, Solar Thermal and Demand Side Management at its North Residential Complex. To help finance the project, Stockton was awarded a grant of \$3,464,599, through the American Recovery and Reinvestment Act and the NJ State Energy Program. Of that amount, \$3,191,000 will be paid to a competitively selected energy services provider working under the provisions of a Power Purchase Agreement, a Sub-Lease, and a Construction Services Contract between Stockton and the provider.

Under the project's structure, Stockton will buy all of the generated electricity at a fixed rate for 15 years. In addition to building, owning and operating the solar array, the provider will complete two smaller projects; solar thermal hot water heating and installation of remote controlled thermostats, which will become the property and responsibility of the College after being commissioned. The provider will own the photovoltaic Solar Renewable

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Solar Renewable Energy Opportunities for New Jersey Colleges and Universities

By Ryan Scerbo, Esq., and William Mayer, Esq., Partners, DeCotiis, FitzPatrick & Cole, LLP

Solar in New Jersey

Solar development is exploding in New Jersey. Presently, New Jersey ranks second only to California for the highest number of solar installations among all states. This impressive statistic is not due to the amount of sunshine in New Jersey; rather it is a direct result of New Jersey's robust regulatory program supporting solar renewable energy financing and development. When combined with certain Federal tax benefits, New Jersey's incentives can make solar development extremely attractive.

Specifically, the New Jersey legislature has implemented laws that require electricity supply companies to either (1) provide a percentage of energy sales, calculated in megawatt hours (MWhs), or installed capacity, calculated in megawatts (MWs), from solar renewable energy sources, or (2) pay a predetermined penalty. These requirements are known as the Renewable Portfolio Standards (RPS). The required percentages of solar renewable energy mandated under the RPS increases incrementally on an annual basis, beginning from a base year, until an ultimate RPS target of nearly 5,000 MW of installed solar electric generation is reached by 2026.

To comply with the solar electric generation portion of New Jersey's RPS regulations, electricity supply companies must either construct their own solar electric generation facilities or purchase Solar Renewable Energy Certificates (SRECs) generated by solar electric generation facilities owned and operated by a third party. An SREC represents the environmental benefits or attributes of one MWh of solar electric generation. SRECs are the largest economic drivers of solar projects in New Jersey.

In addition to SRECs, private and public higher educational institutions should be aware of certain tax benefits that are available. First, there are significant federal tax benefits available to a private solar developer who is treated as the "owner" of the solar project for federal tax purposes. These benefits include (1)

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a federal Energy Credit equal to 30% of the capital costs of the solar project, which offsets the developer's federal income taxes dollar for dollar or, in lieu of the Energy Credit, a cash grant to the developer from the United States Treasury Department equal to 30% of the capital costs of the solar project (provided the project is started before December 31, 2011); and (2) a special depreciation allowance that permits a solar developer to claim a depreciation deduction in an amount equal to 100% of the cost of the solar project (reduced by 50% of the amount of any Energy Credit taken or grant in lieu thereof) in the year it is placed in service if it is placed in service in 2011, or 50% of such cost if it is placed in service in 2012, with the balance of such cost depreciated over the next four years.

Also, the sale or use of energy to or by a governmental entity or nonprofit is generally subject to New Jersey's 7% Sales Tax. However, receipts from the sale of electricity are exempt if the electricity is generated by a facility located on the user's property and is consumed by the one on-site end user on the user's property.

The two federal tax benefits and the New Jersey Sales Tax exemption, when combined with SRECs, generate significant economic value for solar projects in New Jersey. Understanding these benefits, utilizing that knowledge to create a public or private procurement, and structuring the transaction in a manner to maximize the tax benefits, will assist the public or private institution in obtaining a competitive PPA price for energy.

Contracting for Solar Opportunities

Many governmental and public and private educational institutions, including colleges and universities, are capitalizing on New Jersey's growing solar market. One of the most popular methods such entities are employing to develop solar opportunities is the Power Purchase Agreement (PPA) structure.

Under a PPA structure, a private solar developer is responsible for permitting, designing, financing, installing, operating and maintaining a solar electric generation project on or adjacent to a host facility, and providing the host with electricity from the solar project at a price per kilowatt hour (kWh) lower than the rate the host is currently paying to its local utility.

State colleges and universities must use a public procurement process when seeking PPA opportunities. The key to ensuring a successful procurement is utilizing a well crafted and informative set of procurement documents. By issuing clear procurement documents with specific parameters and requirements applicable to all respondents, a state college or university can receive proposals that can be easily compared and are responsive to the school's needs.

Many entities focus only on the PPA price offered for each kWh of electricity to be provided by the solar developer. Proposals, however, can vary widely on a myriad of important details besides PPA price. For instance, if a procurement does not specifically require all respondents to include such protections as construction performance bonds, guaranteed electricity outputs and construction completion timeframes, proposals can pose significant risks to the procuring entity.

Solar PPA procurements in New Jersey have yielded varying PPA prices. These wide ranging PPA prices are likely the result of a combination of factors, including the availability and cost for materials, competition among installers, SREC market concerns, procurement document requirements (e.g., guarantees, performance bonds, time frames for installation), the type of solar installation preferred (e.g., roof, ground, carport) and the quality and size of the site (e.g., location, age of roofs, available roof space, need for structural improvements, orientation).

Conclusion

Colleges and universities throughout the State are exploring and implementing solar PPA opportunities. Any educational institution interested in procuring a solar PPA should consider retaining experienced legal and technical professionals to assist them in determining whether a solar project is viable at their facilities.

As a resource to its clients, NJEFA invites experts from various fields to contribute articles to "Building futures" that may be of value to New Jersey's colleges and universities. NJEFA would like to thank Ryan Scerbo, Esq., and William Mayer, Esq., from DeCotiis, FitzPatrick & Cole, LLP, Teaneck, New Jersey, for the preparation of this article. ■

NJEFA's Equipment Leasing Program—A low-cost alternative

Does your institution have financing needs for small purchases such as computers, telephones or other IT needs? How about equipment for dining facilities, libraries, research laboratories, or HVAC and other energy-related equipment? If so, the New Jersey Educational Facilities Authority's (NJEFA) Equipment Leasing Program might be an attractive low-cost option for financing such purchases.

Generally, colleges and universities turn to conventional lenders at taxable rates to finance equipment needs that are typically less than \$10 million. NJEFA's Equipment Leasing Program was created specifically for New Jersey's colleges



Thomas Edison State College's Academic Center

NJEFA's Equipment Leasing Program was created specifically for New Jersey's colleges and universities to provide a low-cost, tax-exempt financing alternative for institutional equipment purchases.



Kean University's Rogers Hall

and universities to provide a low-cost, tax-exempt financing alternative for institutional equipment purchases.

NJEFA's Program is able to capture cost savings that benefit colleges for a number of reasons. First, the Authority selects legal counsel through a competitive RFP process for each transaction and provides efficiency of scale by requiring counsel to utilize standardized documents. Second, the Program is structured so that the Authority issues an RFP and obtains competitive bids from potential Lessors on each lease transaction, ensuring competitive market rates at the time of a financing. Lastly, the Program is structured in a way to meet colleges' needs to access capital quickly and a lease financing through NJEFA can typically be completed within 30-60 days.

The Authority recently completed two college lease transactions for Thomas Edison State College (TESC) and Kean University that resulted in competitive lease terms that benefited both institutions. TESC's lease financing provided \$700,000 for capital improvements at the College's Academic Center that included replacement of workstations and replacement and updates to its information technology systems. The lease carried a 5-year term and an interest rate of 2.37%. On a larger scale, Kean University financed \$15 million through the Authority's Program to acquire and install HVAC equipment at several of the University's student residence buildings. Kean's lease carried a 10-year term and an interest rate of 2.82%.

For more information about NJEFA's Equipment Lease Program and how it might benefit your institution, contact NJEFA's Director of Risk Management, Katherine Newell, Esq., at knewell@njefa.com or call 609-987-0880.

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Energy Credits (S-RECs) and the College will enter into interconnection and net metering agreements with its local utility company.

As a case in point for the potential benefits of pursuing solar opportunities through the Power Purchase Agreement structure, once complete, Stockton's utilization of solar energy is expected to save the College nearly \$300,000 annually in operating costs.

Since 1988, NJEFA has financed and refinanced the construction of Stockton's North Residential Complex. As Owner and Lessor of the Complex, NJEFA's Board adopted a resolution at its meeting on April 26, 2011, consenting to installation of the solar power equipment provided for under the project.

For more information on Stockton's solar energy project contact the College's Associate VP for Operations, Donald Moore at Donald.moore@Stockton.edu or call 609-626-3543. ■

Announcements



Barbara L. Cannon, Deputy Executive Director

At its meeting in March, NJEFA Members and staff paid tribute to Deputy Executive Director, Barbara L. Cannon, who retired from the Authority on April 1, 2011. During Cannon's 8-year tenure, she served as the Authority's liaison with New

Jersey's higher education community and was coordinator for its outreach activities. She also managed the Authority's

Investor Relations Program and served as NJEFA's Ethics Liaison Officer, Director of Human Resources and EEO/Affirmative Action Officer.

Cannon's service to the Authority continued a long and distinguished career in public service that included her election to three terms or twelve years as Mayor of Old Bridge, New Jersey; her election to three terms as Councilwoman of Old Bridge, where she also served as Council Vice President and President; and her service as Chairwoman of Governor Christine Todd Whitman's Property Tax Commission; among others.



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Editor

Sheryl A. Stitt

Building futures is a publication of the New Jersey Educational Facilities Authority. For further information, please contact NJEFA at:

103 College Road East
Princeton, NJ 08540

(p) 609.987.0880

www.njefa.com

2011 Board Calendar

January 25

February 22

March 22

April 26

May 24

*Meeting dates
subject to change.*