

New Jersey Innovation Evergreen Fund: Tax Credit Auction Roundtable

(NJIEF session 1 of 2)

January 2022



About the NJ Economic Recovery Act

Governor Phil Murphy signed the **New Jersey Economic Recovery Act of 2020 (ERA)** into law on January 7, 2021.

The ERA creates a package of **tax incentive, financing, and grant programs** that will build a stronger, fairer New Jersey economy.

The ERA is both a broad-based **recovery bill and reform bill** that will better position New Jersey to recover from economic crisis caused by the COVID-19 pandemic, while remaining true to the NJEDA's commitments to transparency and accountability.

Visit the NJEDA's website at www.njeda.com/economicrecoveryact to learn more about each of the programs within the ERA, or to provide general ERA feedback.

Executive Order No. 63

Pursuant to Governor Murphy's Executive Order No. 63, the NJEDA is providing opportunities for groups and stakeholders to engage with the NJEDA in crafting rules around the New Jersey Innovation Evergreen Fund.

We welcome constructive input on how to ensure new programs created through the ERA are structured and administered in a manner that drives opportunities for all residents and communities.

The NJEDA will begin the session with a presentation to summarize the information – opportunity for public feedback will be available following the NJEDA's presentation. It is expected that the entirety of the session will take up to 90 minutes.

Recording of Public Feedback Sessions

Members of the public can submit written feedback on the New Jersey Innovation Evergreen Fund via www.njeda.com/program-specific-feedback through January 14th

Both New Jersey Innovation Evergreen Fund (“NJIEF”) public feedback sessions will be recorded and posted on www.njeda.com/program-specific-feedback so that members of the public unable to participate in a virtual session have the opportunity to review.

Public Feedback Policy

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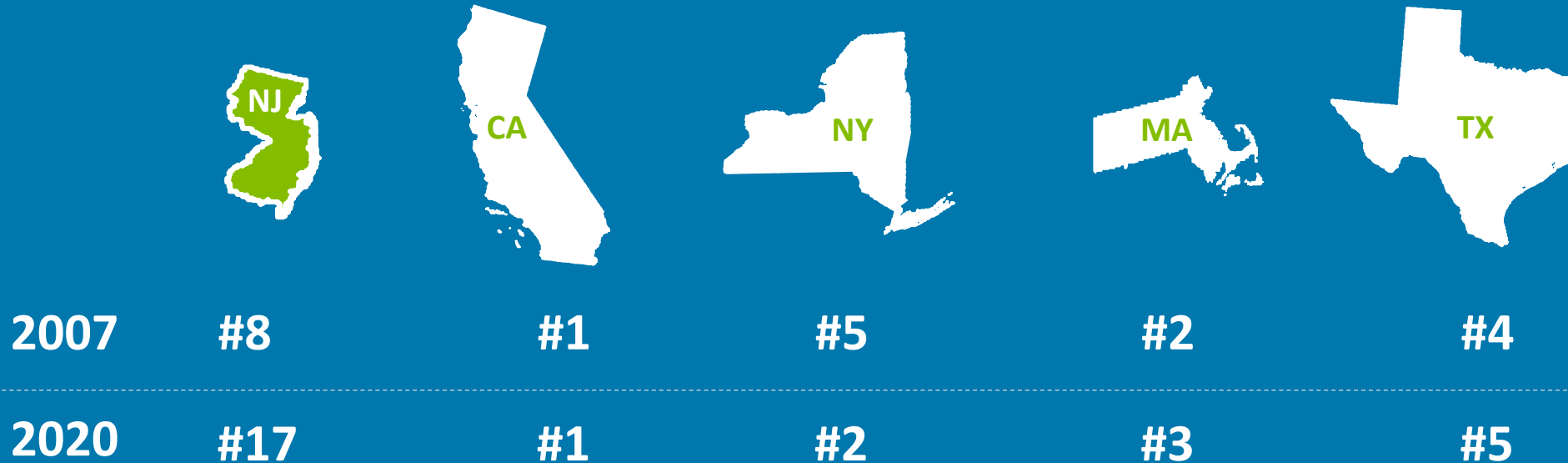
Venture Capital Investment

Venture capital serves two critical functions, it helps

- ▶ commercialize, test, and scale research and ideas that can truly transform the economy
- ▶ attract and retain budding entrepreneurs

PROXIMITY and **ACCESS** to funding is a key value driver for the development of an entrepreneurial ecosystem

NATIONAL RANKING OF VENTURE CAPITAL INVESTMENT



2020 Investment Landscape

State	Median Valuation (MM)	VC Funding (Series A-E)	Total Exit Value 2020	Multiple of Exits vs. Investments
New Jersey	\$10	\$ 1.2 B	\$55.4 B	47.4 x
California	\$11.49	\$ 48.3 B	\$239.6 B	4.96 x
New York	\$10.5	\$ 11.1 B	\$ 78.3 B	7.08 x
Massachusetts	\$14.89	\$ 12 B	\$ 101.4 B	8.43 x
Texas	\$10.73	\$ 3 B	\$49.3 B	16.4 x

**INVESTMENTS IN
NEW JERSEY WERE
MADE UP OF**

219
INVESTORS

ACROSS

30+
COUNTRIES

AND

35+
STATES

**ONLY 6 INVESTORS WERE
FROM NEW JERSEY**

SOURCE: "VC Funding" provided by Crunchbase. "Median Round Valuation" and "Exit Value" data provided by Pitchbook. Exit values consider all of IPO, Secondary Offering, Buyout, Secondary Buyout, Investor Buyout by Mgt., Merger/Acquisition, Merger of Equals, Reverse Merger, Dividend Recap, Share Repurchase, Bankruptcy.

Investors are doubling down across NJ's targeted industries

BlockFi

BlockFi raised \$350MM in Series D in 2017. Investors included, Paradigm (Crypto Fund), Bracket Capital, and more

jet

Investors included Catapult VC, Alibaba Capital Partners, Palm Drive Capital, Bain Capital Ventures, and more
Acquired by Walmart (2016) for \$3.5B

Misfits Market

Raised \$200MM (2021) from Series C funding investors included Accel and D1 Capital Partners, and more

audible

Investors included Intel, KPCB, AT&T, New York Life, and more. **Acquired by Amazon for \$280MM (2008).**

Celgene

Investors included Asseily Ventures, CHL Medical Partners, Edelson Tech Partners, BB Biotech, and Ridgeback Capital. **Acquired by Bristol Myers Squibb for \$80B (2019).**

EAGLE CREEK RENEWABLE ENERGY

Raised \$100MM in venture funding and was **acquired by Ontario Power Generation (2018) for \$298MM**



What is the New Jersey Innovation Evergreen Fund?

Established under the Economic Recovery Act of 2020, the New Jersey Innovation Evergreen Fund (NJIEF) will partner with the private sector to raise and invest funds in New Jersey-based companies. The NJIEF directly addresses our state's major shortfalls in venture capital funding and creates the conditions necessary for our entrepreneurs to succeed by...

CREATING a connection between corporate partners, venture managers, and start-ups in New Jersey

FOCUSING on job creation and ecosystem building

TARGETING the State's priority sectors

INCREASING funding and support for start-ups

Program **expires in December 2026** after which program will be self-sustainable

“

The New Jersey Innovation Evergreen Fund is a bold new idea that will connect New Jersey startups with the funding they need to grow and foster a vibrant innovation ecosystem while generating new revenues for the State.

— GOVERNOR
PHIL MURPHY

Why Evergreen Now?

The Evergreen Innovation Fund will...



PROVIDE A WAY TO CONNECT FUNDERS AND STRATEGIC PARTNERS TOGETHER

Large corporate citizens, early-stage businesses and qualified venture capital investors can come together to support a symbiotic cycle of innovation in the state.



FOSTER INNOVATION THROUGH ACTIVE ENGAGEMENT

Host networking events and annual meetings to promote collaboration and networking among entrepreneurs, university partners and investors.



BUILD ALONGSIDE A PHYSICAL PRESENCE AT “THE HUB”

Accessible via public transportation and will be built-out with various conference and coworking spaces to drive business growth and innovation.

INNOVATION CAN OCCUR ANYWHERE, BUT IT MAY HAVE THE GREATEST CHANCE OF SUCCESS WHEN BORN AND FOSTERED WITH THE COLLABORATION OF INTERESTED PARTNERS.

Key Features of the Evergreen Program

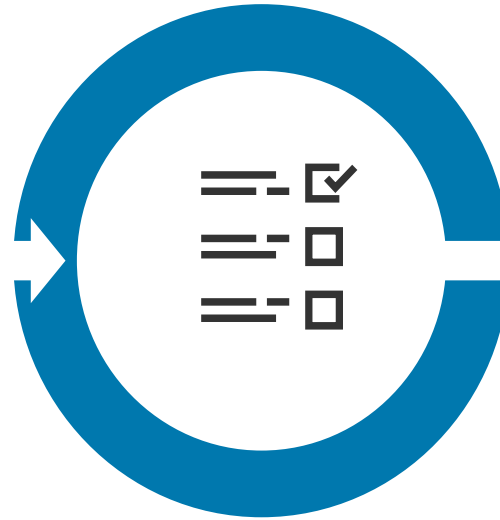
“Focus of this session”



STEP 1 | RAISING \$500M TO CAPITALIZE THE NJIEF

- Public money, raised through tax credit auctions, will be matched by private funds, putting the fund at over \$500M
- Auctions will run once a year and sell \$60M of corporate tax credits

“Focus of session two, this afternoon”



STEP 2 | SELECTING QUALIFIED VENTURE FUNDS

- State to partner with institutional investors that can be formally approved for access to the NJIEF



STEP 3 | Selecting Qualified Investments

- A qualified venture fund can access up to \$10M per year in matching funds from Evergreen to invest into NJ-based companies

STEP 1: Raising \$500M // THE AUCTION

What does the bidding process look like?

- 1** Corporations bid on tax credits **and** put forth a strategic commitment into the state
Minimum bid: \$500K
Auction Floor: \$0.75
- 2** Bids are reviewed by NJEDA staff for initial evaluation
- 3** Bidders will be able to increase their submission for a best and final offer
- 4** Awards will be allocated on availability based on value of the combined bid.

What is a strategic commitment?

A strategic commitment is part of the corporate bid and is **a commitment to support New Jersey's innovation ecosystem**. It can take the following forms*:

- **PEOPLE** (develop talent)
- **ECOSYSTEM** (commit to holding start-up events and programs)
- **INVESTMENT** (provide resources, access to customer channels or distribution networks, monetary support)
- **MARKETING** (promotes Evergreen and provides public relations message around the support of innovation in New Jersey.)

*Additional Examples: <https://www.njeda.com/evergreen-corporate-tax-credit-bidder-january-2022/>

Strategic Commitment

What are examples of a strategic commitment?*

Investing in People: Corporate Partners offer their employees as advisors or mentors to startups

Example: serve as mentors/advisors either through one-on-one mentoring, workshops, or office hours

- Bid contingent on number X of employees participating, and X time committed per year

Marketing: Corporate Partners promote participation in the Evergreen Fund and building New Jersey's innovation economy through public relations channels

Example: Provide evidence of marketing collaboration done per year through defined channels (e.g. social media, internal/external corporate events, trade shows)

- Bid contingent on number X of posts, X press releases, X events

Investment: Corporate Partners offer either a monetary investment or time commitment to startups

Example: Establish use cases/trials of portfolio company products

- Bid contingent on spending \$X or establishing X number of pilots

Ecosystem and Space: Corporate Partners offer space or programming to build New Jersey's innovation economy

Example: Start an incubator or accelerator in the corporate partner's industry with NJ businesses

- Bid contingent on providing X of lab/office spaces, with X number of tenants per year

*Additional Examples: <https://www.njeda.com/evergreen-corporate-tax-credit-bidder-january-2022/>

Benefits to Corporate Partners



STEP 2: Qualifying Venture Firms

How will the EDA select venture firms to participate in the process?

A qualified venture firm may include a venture capital fund, a family office fund, or a corporate investor fund.

Venture firms must meet minimum criteria, including:

1. An equity capitalization, net assets, or written commitments of more than \$10M in the form of cash or cash equivalents
2. More than two principals or persons employed to direct the qualified investment of capital who have at least five years of money management experience



EDA will evaluate the following minimum criteria when qualifying a venture firm:

1. Management structure
2. Investment strategy
3. The location of a venture firm

How will qualified venture firms access capital from the NJIEF?

Once a venture firm is qualified into the program, it is eligible to access capital from the fund for up to two qualified investments, not exceeding \$5M in initial investment each calendar year.

Benefits to Venture Funds



STEP 3: Investing in NJ Companies

Qualified venture funds will have access to capital for up to two qualified investments each calendar year into high growth businesses.

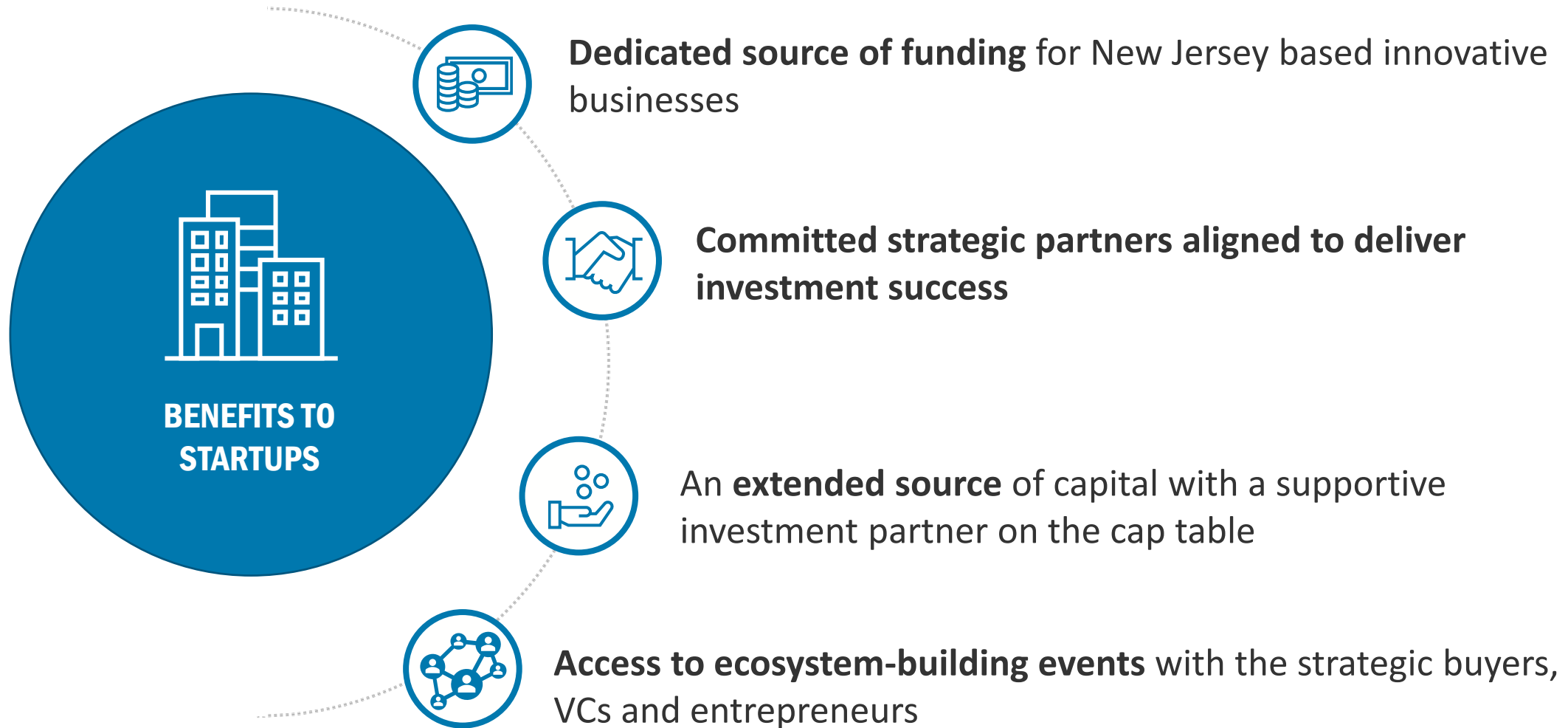
Qualified Investments must be made in one of the following industries:

- Advanced Transportation and Logistics
- Advanced Manufacturing
- Aviation
- Autonomous and zero-emission vehicle R&D
- Clean Energy
- Film and digital media
- Finance and Insurance
- Hemp processing
- Information and Technology
- Life Sciences
- Non-Retail Food and Beverage
- Other disruptive industries
- Professional services

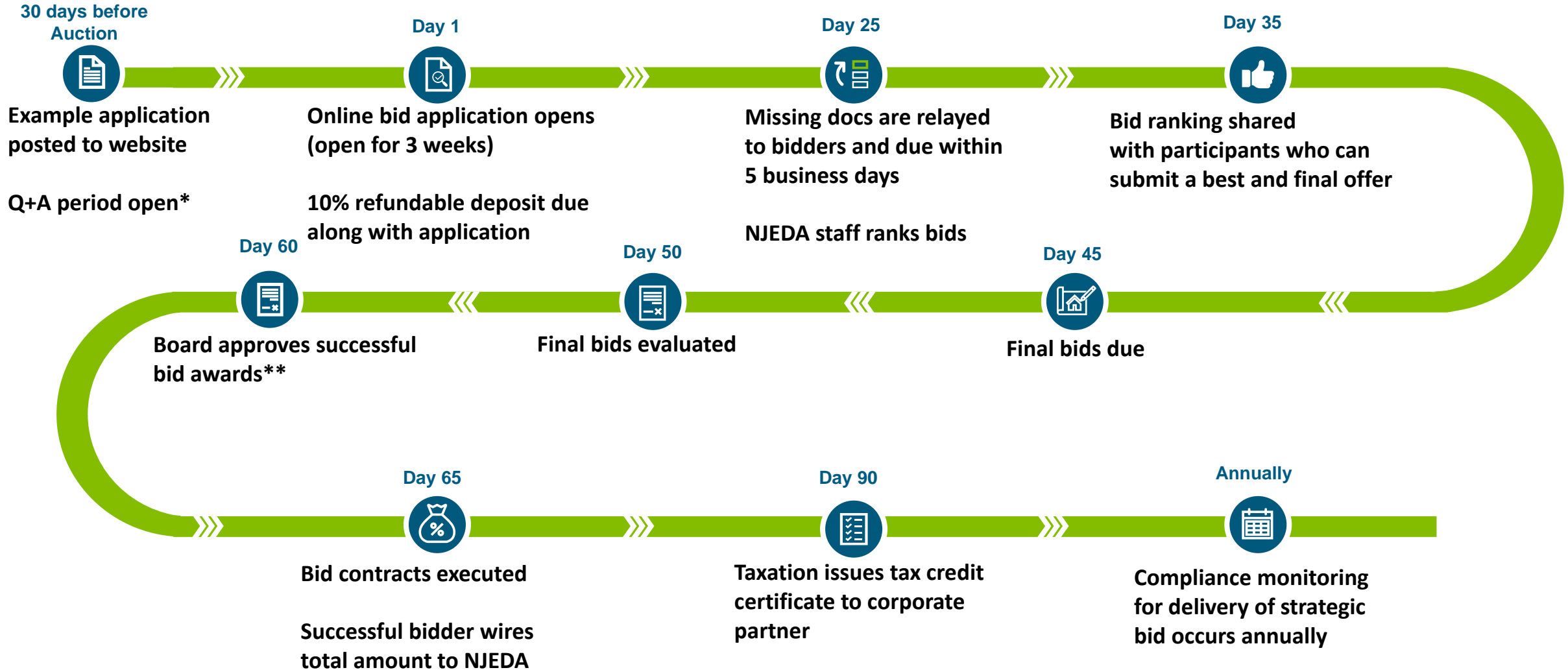
*Initial investment cap is extended to \$6.25M for qualifying businesses such as companies certified by the state as women- or minority-owned, companies that use intellectual property developed at a NJ university at the core of their business model, or a NJ university spin-off business.

UP TO
\$5M
in initial
Investment*

Benefits to Startups



Corporate Auction Timetable



* Q+A period is rolling and open until Day 7 of auction. All questions must be resolved through this formal mechanism.

** Bidders may appeal Board action

Please Note

NJEDA staff will summarize the information and provide context.

To access a copy of the slide presentation please visit www.njeda.com/program-specific-feedback.

For this presentation, please note the following:

Text highlighted in light green indicates areas where the NJEDA has exercised discretion to add clarity to the legislation.

Non-highlighted text is written into law which NJEDA does not have discretion to change.

Program Attributes

1

ELIGIBILITY

2

AWARD SIZE

3

REVIEW OF BIDS

4

ADDITIONAL PROGRAM INFORMATION

5

PROGRAM DEPOSIT

Auction Eligibility

To be awarded a tax credit under the program, a potential purchaser shall:

1. Specify the requested amount of tax credits, which shall not be less than \$500,000
2. Specify the percentage amount the potential purchaser will pay in exchange for the requested amount of tax credits, which shall not be less than 75 percent of the requested dollar amount of tax credits
3. Commit to serve on the New Jersey Innovation Evergreen Advisory Board for one year from time of approval
4. Specify the number, description, duration, and financial cost to the potential purchaser to provide mentorship, networking, and collaboration opportunities to qualified businesses that receive funding under the program

Evergreen Advisory Board



Program Attributes

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Award Size

TAX CREDITS

Up to \$60M of tax credits will be available annually for your financial and strategic commitments.



Tax credits are **valid for year in which bid application closes and for the next seven privilege periods.**



The Authority may **pro rate** the amount of tax credits allocated to each tax credit purchaser if the amount of tax credits requested for purchase exceeds the total amount available for purchase.

The prorated award size is based on the requested allocation and valuation of the bids.



At bid application, bidders are offered the possibility **to increase requested allocation** if any of the \$60M pool remains. If yes, those specific bidders will be contacted, starting with the highest scores first, to purchase the remainder of tax credits without having to re-up their strategic commitment.

Proration Mechanism

If more than \$60M of eligible bids are received, **bids will be prorated** based upon a formula determined by the authority.

All **bids will be ranked** such that bidders with higher scores will receive a **greater proportion** of their **requested** amount of tax credits.

A percentile rank is calculated to determine how the bidders compare to each other. **All qualified applicants receive a prorated amount of tax credits based on their percentile rank.**

This mechanism ensures that the tax credit auction is transparent and efficient, with priority given to the higher scoring bids.

Proration Example

Bidder A

Request: \$25M
Total Score: 1.30

Bidder B

Request: \$25M
Total Score: 1.10

Bidder C

Request: \$25M
Total Score: 0.90

In this scenario, there are \$75M of requests but only \$60M of tax credits available.

As per proration, Bidder A will receive \$25M while Bidder C will receive between \$10M - \$15M of their ask.

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Auction Bid Application

- ❑ **Common application** (contact info, bank details, legal questionnaire, etc.)
- ❑ Evergreen-specific information:
 - **Financial Bid:** price, number of credits requested
 - **Strategic Commitment:** applicant self-valuation, details of offering, duration of commitment, benefits to innovation ecosystem, names of affiliated employees and partner organizations, etc.
 - Both the financial and strategic bid **work together** toward the final score and ranking
- ❑ Supporting documentation (including but not limited to):
 - NJ Business Registration
 - NJ Tax Clearance Certificate
 - Strategic Commitment break-out (including proof of self-valuation using documents such as lease agreements, payroll of executives, invoice for estimated event costs, etc.)
 - Evergreen Advisory Board Representative
- ❑ Completed bid application will include a **refundable deposit equivalent to 10% of your entire financial bid, up to \$500K**

Bid Application Review Policies

Following initial submission of the bids, EDA staff will **evaluate and rank bids** prior to communicating the bids back to the bidders in an anonymized fashion (taking pro-ration into consideration) so that participants have one week to refine/increase their bids. Bids may not be withdrawn or adjusted down. Strategic commitments are not simultaneously pro-rated, so even if the financial bid is decreased, the bidder will still be responsible for the entirety of the strategic commitment.

Bids are binding. In case a corporate bidder doesn't follow through on their wire transfer post-approval, the credits can be reassigned by the authority to the next-highest scoring bidder (without need of re-auction). As a penalty for rescinding on a bid, the corporate bidder will be ineligible to bid in the future.

Board approval leads to contractual document execution.

- Funds transferred within 30 days
- Compliance is required according to executed purchase agreement

Program Attributes

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Additional Program Information - Compliance

- There is a **completeness check, legal certification, and ongoing compliance** associated with every bid.
- **The Qualified Purchaser must achieve at least 80% of a strategic commitment component. In the event this is not achieved, the Qualified Purchaser is allowed 1 year to cure the shortfall. Failure to cure will result in the Qualified Purchaser paying the value of the unmet strategic commitment component up to the amount of the tax credit discount received.** The strategic commitment enables a company to participate in the discounted purchase of tax credits. Their non-compliance has detracted from the Ecosystem in which another company may have provided benefit. Second, the failed bidder is compensating the State for the lapse in their bid and paying for the strategic commitment an alternative qualifying bidder might have provided.
- **To prevent undue financial advantage, a corporation that bids and receives tax credits through Evergreen is not able to receive any investment through the program** in that year, even to an affiliated entity (investment arm, venture arm, etc.). This restriction is removed after the year of tax credit bid application and allocation.

Program Attributes

1 | ELIGIBILITY

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Program Deposit

- **A deposit for 10% of the tax credit bid up to \$500K will be required at time of bid application.** This amount is **refundable** and will be counted towards the amount paid for the tax credits, assuming a successful bid is submitted.
- In cases of proration, if the final offer is below 10% of the initial ask, a refund for the amount in excess of the tax credit purchase will be returned to the bidder.

NJEDA-Specific Feedback Questions

Financial Bids:

- To help maximize uptake of the credits, can you offer insight on how your corporation would evaluate the amount of and pricing of credits?
- Would the timing of the auction matter relative to your fiscal year end?
- If there were an excess of tax credits, is it likely that you would request extra credits?

Strategic Commitment:

- How might the strategic commitment impact your decision to apply and your bid?
- What types of strategic commitments are most compelling to you?
- How do you already contribute in some of these ways in the state of New Jersey and how do you quantify your contributions?

Process:

- What functional unit or personnel at your company should be involved in this process?
- If you are affiliated with a venture firm or have a venture arm, is it more likely that you bid on tax credits or become a qualified venture firm each year?
- Would 10% of the tax credit bid (up to \$500K) refundable deposit deter your company from program participation?

Evergreen Advisory Board:

- How do you anticipate being able to add value to the advisory board?
- What other engagement would you like to see for tax credit bidders/awardees?

Public Feedback Policy Reminder

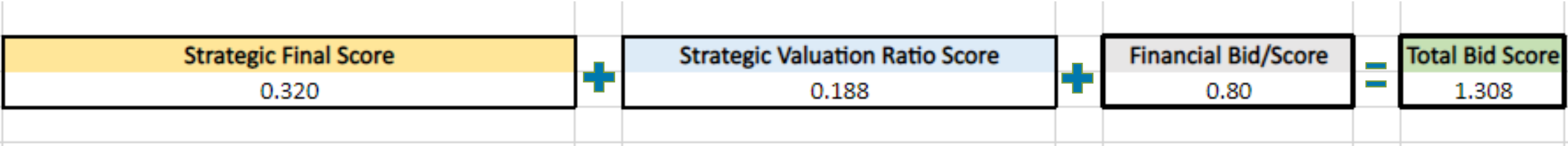
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Example Bid Scoring Calculation



Score based on the points awarded according to the strategic commitment scoring matrix.

Ratio of the monetized self-valuation of strategic commitment to the financial bid. This value proxies for the significance of the strategic commitment. (0.188 reflects a \$1.5M strategic commitment for a \$8M financial bid)

Reflects the discounted price the bidder is willing to pay for tax credits. (Ex. 0.80 means the bid is \$0.80 for \$1 of tax credit)

Example Strategic Commitment Scoring

Example Strategic Bid Scoring Matrix

General Scoring Categories	Documentation Needed			
How many external partners (government agencies, corporations, municipalities, universities, etc.) are involved with this initiative?	Letter of partnership from all external parties agreeing to work in tandem with corporation	No outside partnerships	X-Y partnerships	Z+ partnerships
Over how many years does the strategic commitment take place?	Forward-looking timeline of anticipated key dates of commitment	<X year	X-Y years	Z+ years
How many staff members from your company will be involved in this initiative?	Strategic commitment plan with intended staffing time noted	<X staff	X-Y staff	Z+ staff
If offering a service (internships, externships, apprenticeships, mentorship), how many NJ schools/universities will be targeted with this initiative?	Strategic commitment plan with intended reach noted	<X universities	X-Y universities	Z+ universities
If approved, will this be the applicant's first time receiving tax credits from the Evergreen program?	Pulled from application	Yes		

Scoring conceptualized

Partnerships

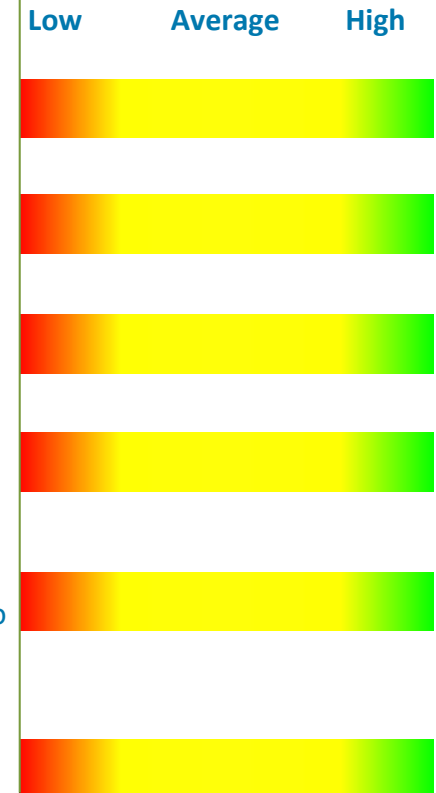
Time

Staff

Reach

Relative cost (cost of strategic commitment relative to company revenue)

Total cost



Strategic Commitment will be evaluated by an internal NJEDA committee



Visit NJEDA.com/EconomicRecoveryAct for more information.



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