

MEMORANDUM

TO: Members of the Authority

FROM: Tim Sullivan
Chief Executive Officer

DATE: November 16, 2023

RE: Emerging Developers Grant Program

SUMMARY

The Members are asked to approve:

1. The creation of the Emerging Developers Program - a \$20 million pilot program funded by the FY23 Appropriations Act (P.L. 2022, c.49) which will be deposited into the Economic Recovery Fund (“ERF”) to award grants of up to \$250,000 to assist small-scale developers with up to 50% of their pre-development soft costs.
2. Delegation to the Authority’s Chief Executive Officer to approve individual applications for the Emerging Developers Program in accordance with the terms set forth in the attached product specifications.
3. Utilize 5% of the total funding (\$1 million) for the Authority’s administrative fees associated to operating this program, of which up to \$250,000 of the \$1 million will be used for the hiring of temporary staff if necessary.
4. Delegation to Authority staff (Chief Executive Officer) to accept up to \$50 million in any other governmental (Federal, State, County, Municipal, Independent Authority, Board or Commission) funding and/or unrestricted gifts or grants that would be used to fund the Emerging Developer Grant Program.

BACKGROUND

Governor Murphy’s Economic Plan has guided New Jersey Economic Development Authority (“Authority”, “EDA”) efforts since 2018, and has led to a renewed focus on assisting communities to create vibrant and inclusive cities and neighborhoods that both build a stronger and fairer New Jersey. The pilot program will align with the mission of creating a stronger and fairer economy by assisting small-scale developers to break through barriers associated to developing real estate in New Jersey. The FY2023 Budget appropriated a total of \$65 million to real estate project funding,

of which \$20 million was intended to bolster and grow small emerging developers and allows for the creation of Emerging Developers Grant Program. Access to capital for small-scale developers in the real estate development industry continues to be a challenge. These barriers are due to predatory lending, excessive carrying costs, and predevelopment expenses a developer may encounter; these predevelopment costs are necessary for the developer to incur before they can seek short term construction financing. These deterrents in the development industry have created financial setbacks and limited portfolios for emerging development entities that do not have the

capital to cover soft costs. Soft costs typically account for 30% of a real estate development budget based on the required administrative and executional aspect of the early-stage development process.

Program Details:

The Emerging Developers Program will be created to support emerging developers for only soft costs during their pre-development phase of a project. This program will help emerging developers gain access to capital and build additional capacity to expand their existing portfolio that may otherwise cause a financial burden if it were not for the assistance of this grant.

Site control will be required at time of application, as it demonstrates an equity injection took place to acquire the asset. Following acquisition of the asset, administrative expenses classified as professional services and regulatory fees are necessary investments. Soft costs provide the blueprint to any real estate initiative and while intangible to the asset, they're critically important in pre-development.

This grant program will fund small-scale developers that have completed at least two, but no more than five commercial and/or mixed-use properties of similar scope. The creation of this program will help overcome various difficulties that continue to be a constant burden to emerging developers and therefore limit opportunities to expand their portfolios. The intent of this program aims to:

- Create a stronger and fairer economy
- Drive economic growth and equity
- Reduce the financial burden of predatory lending by providing additional capital to assist with soft costs
- Attract developers who may take advantage of greater opportunities
- Enhance the ability to seek favorable financing with less debt due to the assistance of the grant
- Collaborate with other State agencies within the state to synergize this initiative to provide additional resources
- Initiate and maintain relationships with banks that will work alongside the developer to increase their portfolio
- Decrease the need for hard-debt lending
- Create local jobs in communities throughout the State
- Expand the developer's capacity by introducing other State agencies that may assist with other initiatives that may or may not be related to the request of this grant

This program will utilize a \$20 million appropriation to assist small-scale developers which will be deposited into ERF. ERF (N.J.S.A § 34:1B-7.13(a)(5) and a(13)), grants NJEDA the authority to

2

provide “financial assistance to assist municipalities, municipal entities, counties, county entities, regional entities, State instrumentalities, and not-for-profit local economic and community development entities to execute programs and initiatives to stimulate community and economic development,” as well as to create “a fund to provide grants or competition prizes, either directly or through a not-for-profit entity, that is consistent with economic development priorities as defined by the authority's board.”

This program will meet one of the major economic development priorities adopted by the Authority's Board in December 2021 and laid out in the Governor Murphy's Economic Plan: “Investing in Communities”. Providing funding to assist emerging development entities as they cultivate their real estate portfolios will foster the vision of providing equitable opportunities in an inclusive economy. This grant should also set the stage for government agencies to understand the importance of supporting emerging developers as they enter a more prominent stage of real estate

development and develop a relationship with state entities. This will allow these awardees to grow and eventually become experienced enough to build their portfolio to tap into other state incentives and resources, which may improve the quality of lives while building stronger communities.

Development Entity Eligibility:

Non-profit and for-profit entities are eligible to apply for this grant. Development Entities, which are the entities responsible for overseeing a real estate development project and coordinating the activities related to the project, including, but not limited to, project design, project financing, and permitting and local approvals shall be eligible applicants. The Development Entity identified at the time of application is the sole recipient of grant funds and responsible for all terms of the grant agreement. The Development Entity will serve as the primary point of contact with the Authority and submit requests for reimbursement of only eligible soft costs.

The Development Entity at the time of application must identify a specific project and be at least 51% owner of the corresponding real estate or real estate special purpose entity. The largest equity owner of the Development Entity will be analyzed to the extent of their existing portfolio and prior work completed. Projects including the development of various residential properties inclusive of single family and multifamily units, mixed use properties, and commercial development will be considered as part of the Development Entity's experience. Our analysis will include projects that have reached completion and are currently owner/tenant occupied. Development Entity's with only a purchase and sales agreement or a lease are not eligible. The Development Entity will be responsible with adhering to the terms and conditions listed in the grant agreement.

The Development Entity cannot have more than five employees at time of application as per their last WR30 filed or any other payroll documentation to verify this information.

One award will be provided per Development Entity. Developer Entities that have common majority ownership are ineligible for more than one grant.

The program is created for profit and non-profit emerging developers that have demonstrated they have more than two and up to five completed residential/commercial projects. The Development Entity must provide an organizational chart at time of application of both the special purpose entity that owns the real estate of the identified project (if the Development Entity does not own the real estate directly) and the Developer Entity. Formation documents for both the Developer Entity and

3

special purpose entity (if applicable) are required at time of application. The Developer Entity will be required to submit documents at time of application that consist of (but are not limited to) a project portfolio of past projects, resume of each key employee or officer, preliminary budget of estimated soft costs, and all other documentation required by the application to demonstrate eligibility.

Eligible soft costs may include (but are not limited to):

- Architectural and design fees
- Construction drawings and specifications
- Engineering fees and surveys
- Municipal zoning and Inspection fees
- Insurance costs
- Professional fees
- Legal fees
- Accounting fees
- Project management fees
- Market/feasibility study
- Appraisal
- Phase I environmental review

- Property taxes (no delinquent property taxes, must be current)
- Loan interest (if applicable)
- Utilities
- Asbestos, mold, lead based evaluations (not including remediation)
- Application fees for zoning and planning approvals

*Costs associated with the ***purchase*** of the site/property are not eligible for reimbursement.

Construction costs are **not** eligible under this product. This includes remediations services, construction, equipment installation, or any other work done under a construction contract.

As construction cannot have commenced and construction is not a condition of this program, the grant for eligible pre-development soft costs is not made in connection with any potential future construction.

All applicants (that is, all Developer Entities) must be in good standing with the New Jersey Department of Labor and Workforce Development, New Jersey Department of Environmental Protection, and NJEDA prior to approval. A current tax clearance certificate is required prior to approval to demonstrate the applicant is in substantial good standing with the New Jersey Division of Taxation, unless the applicant is not required to register with the Division of Taxation.

Applications will be accepted on a rolling basis or until funds are exhausted. All applications will be reviewed for completeness in the order that they are received by the Authority. The Authority will perform a review of all submitted applications. Applicants will be given fifteen business days to submit additional due diligence and cure any deficiencies. If the application remains incomplete after the fifteen-day period, the application will be considered withdrawn and will be closed.

4

Construction cannot have commenced prior to the application to be eligible for this program.

Fees and Administrative Expense:

A fee of \$1,000 is required per application. Staff proposes utilizing \$19 million for awards and an amount of 5% (\$1.0 million) for administrative expenses, of which up to \$250,000 will be allocated for to hire temporary staff based on application demand.

Awards and Disbursements:

Awards will be eligible for up to \$200,000, except that projects in a designated Opportunity Zone or GRM will be eligible for the max award of \$250,000. Only one award per eligible Development Entity is allowed.

The Authority will disburse grants only to the Development Entity. The disbursements will be based on receipts/invoices that the Developer will submit. As the invoices and receipts are reviewed, 50% of each invoice/receipts for eligible work will be reimbursed. The Development Entity shall be responsible for assuring the compliance of all terms and conditions of this grant and assumes the sole and absolute responsibility for any payments due to anyone else, including municipal, county, or business partners.

Grants will reimburse up to 50% of the grantee's eligible pre-development soft costs once they have executed their grant agreement. Only soft costs that are incurred up to one year prior to the grant application and until one year following the date of execution of the grant agreement will be eligible for reimbursement. The grant agreement must be signed within 30 days of final approval.

Diversity and Inclusion:

The Emerging Developers Program will offer a bonus for projects that are in a designated Opportunity Zones census tract in New Jersey or in a Government Restricted Municipality which would increase the maximum amount of an award up to \$250,000.00 from a maximum award of \$200,000. There are 169 designated Opportunity Zones census tracts. The Economic Recovery Act of 2020 designated three cities as Government Restricted Municipalities; they consist of Trenton, Paterson, and Atlantic City. Additional funding towards supporting developers with projects located in these two designations will improve economic conditions in distressed communities to ensure opportunities for investments are equitable and inclusive.

Additional Funding

Staff is also requesting delegated authority for the Chief Executive Officer to accept up to \$50 million in any future governmental (Federal, State, county, municipal, independent authority, board or commission) funding and/or unrestricted gifts or grants that would be used to fund the Emerging Developers Grant Program. Should governmental requirements required by law restrict the ability for the Authority to utilize any of the parameters described in the memo, staff will revisit the program requirements with the Board for modification and alignment with governmental requirements. If governmental requirements are in addition to parameters described in the memo, staff is seeking delegated authority to add these requirements.

5

Recommendation:

The members are asked to approve:

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Tim Sullivan, CEO

Prepared by: Jenell Johnson

Attachment: Exhibit A – Developers Grant Program Specifications