Recycle Those Old Computers and Televisions
By Dorothy Mello Laguzza

As of January 15, 2008, New Jersey joins California, Connecticut, Washington, Maryland, Maine, North Carolina, Minnesota and Oregon as states that have enacted laws to control electronic waste or “e-waste” and encourage the recycling of certain electronic products. The new law, called the Electronic Waste Recycling Act (“Act”), prohibits the deposit into landfills or garbage cans of desktop or personal computers, computer monitors, portable computers or televisions after January 1, 2010. These everyday devices are laden with lead, mercury, cadmium, lithium and other...

Financial and Environmental Benefits of Solar Photovoltaic Systems to Owners of Real Estate
By Catherine E. Bostock

Owners and operators of commercial and industrial buildings are well aware of the rising costs of energy. However, tax incentives and other governmental incentives for the use of renewable power, and specifically solar power, can result in cost savings and revenue generation for building owners and operators. Jeffrey M. Miller, a partner at Quad State Solar, Inc., one of the region’s preeminent solar photovoltaic (PV) system integrators and an industrial real estate broker and Senior Vice President at SBWE, Inc. in Hasbrouck Heights, New Jersey, agreed to fill me in on recent developments in...

Guaranteed Cleanup Cost Contracts a Keystone for Contaminated Property Deals
By Gordon C. Duus

Often the hardest issue to negotiate in a real estate transaction involving a contaminated property is which of the parties gets stuck if the environmental cleanup costs are much higher than the current estimate. Many deals used to die over this issue either because the parties to the transaction could not get comfortable with the risk or because they could not get their normally more conservative lender comfortable with the risk. Now Guaranteed Cleanup Cost Contracts (“GCCC”) – in which the environmental consultant agrees to complete the cleanup for no more than an agreed upon guaranteed cleanup cost – are used to close many of these deals. If the guaranteed cleanup cost is exceeded, the environmental consultant or an environmental insurance company pays the cost overruns. By laying this risk off on...

NJDEP Steps Up Efforts to Collect Natural Resource Damages in New Jersey
By Gerard M. Giordano

In 2007, the New Jersey Department of Environmental Protection (“NJDEP”) filed more than 100 lawsuits against companies seeking compensation for restoration of damages to natural resources caused by the companies’ discharge of chemicals to the environment. NJDEP also sought compensation for the public’s loss of use of those natural resources.

On May 22, Cole Schotz will present a free breakfast seminar, “Environmental Land Use Permits in New Jersey in 2008.” See information on page 7. If you would like to reserve a space for the seminar, contact Alan Levine at alevine@coleschotz.com.
the solar sector and how they benefit the owners of real estate.

What is new in solar and why is now the time to get involved?
By now, we all recognize the impact of global climate change and the damage it is doing to our world. We also know that America needs to establish its energy independence – the price of oil reached record highs just recently, of $110 a barrel. Furthermore, economic development around the globe is putting pressure on available fossil fuel resources.

The sun is one renewable energy source that can address all of these issues, providing 34 quadrillion BTUs of free energy each day to rooftops across the United States.

While solar energy represents less than 1/10 of one percent of all the electricity generated in the U.S., investment tax credits (ITC) and accelerated depreciation have helped to drive a new surge, which has already resulted in a dramatic increase in solar PV since 2005.

The technology itself has also improved dramatically in recent years. New solar thermal designs provide reliable clean energy that’s accessible and increasingly affordable.

What is involved in a solar installation?
The solar PV system, which can be roof, ground or pole mounted, is fully scalable to the needs and resources of businesses and investors large and small. The installed solar panels convert sunlight into electricity, which is then available to the building’s occupant, lowering operational costs. For example, SunPower (Nasdaq: SPWR) manufactures high performance panels that convert sunlight to electricity at a rate of 22% -- that’s 50% higher than conventional panels. The useful life of these systems is 40+ years. Their recommended maintenance cost is generally zero as there are no moving parts and the warranty on the panels is typically 25 years.

Where does New Jersey stand compared to the rest of the country when it comes to solar energy?
New Jersey is second in the U.S. next to California in the development of solar projects. New Jersey has been ahead of the curve with the adoption of an aggressive mandated Renewable Portfolio Standard, which requires that some minimum percentage of power purchased by utilities comes from renewable energy sources. By 2021 the minimum for all renewable sources will be 22.5%, with a minimum of 2.12% required to come specifically from solar. Twenty-eight other states are moving in this direction. New Jersey utilities are working in concert with the State legislature, the New Jersey Board of Public Utilities and the New Jersey Economic Development Authority to make solar energy more affordable by transitioning from a rebate system to a performance-based incentive program as a means of funding these projects. This new incentive system is based on Solar Renewable Energy Certificates (SRECs), which are tradable commodities representing all the clean energy that each solar PV system creates. Each time a solar PV system generates 1000 kWh of electricity, an SREC is issued to the owner. These can then be sold or traded to a utility, which now has a purchase obligation as mandated in the Renewable Portfolio Standard, or to other aggregators or investors.

Why does there seem to be a new urgency around solar energy?
The 30% federal Investment Tax Credit is set to expire on December 31, 2008. A new federal bill (H.R. 5351, the Renewable Energy and Energy Conservation Tax Act of 2008) is intended to amend the Internal Revenue Code of 1986 and provide tax incentives for the production of renewable energy and energy conservation. The bill has passed the House, but is not likely to pass the Senate. There is a broad coalition of government, business and civic leaders working hard to see the Investment Tax Credit extended.

Who stands to benefit most from solar PV installations?
Owners and operators of industrial and commercial buildings may be the biggest beneficiaries. Companies or high net worth individuals with an appetite for tax savings can also benefit. Aggressive investment tax credits and front loaded depreciation are two reasons for that.

As of today, each system generates SRECs for fifteen years after installation and generates electricity and energy cost savings for the entire useful life of the system. As the capital cost payback for any commercial system is six years, building owners and operators benefit from SREC generation for nine more years after installation and electricity generation and savings for at least another 34 years after the capital cost is paid back.

In addition, owners of unproductive brownfields can turn them into greenfields by installing ground-mounted solar arrays which will generate new cash flow.

Is solar power an attractive investment?
The solar industry is poised for growth, and investment in solar PV is less risky than ever because:

- the price per kilowatt hour for traditionally generated power (“brown power”) is increasing – PSEG announced a 12% rate hike and Orange & Rockland announced a 17% rate hike effective June 2008.
- sunlight provides peak power during the day, clipping some demand charges and, therefore, commands a premium price.
Solar Photovoltaic Systems
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- solar tax credits can be taken and used by investors at the inception of a solar project.
- solar projects have a long and inexpensive operating life cycle (40 years).
- sunlight is a very stable resource.

What's the best way for an owner to acquire solar for his building?
The best way for a business to benefit from the installation of solar PV is to own it outright, taking full advantage of all government programs and tax benefits. This way, the business will get all its money back after just six years and generate cash flow in the form of energy savings and SRECs for the long haul. Alternatively, a building owner can lease the system from a third party in the form of a Power Purchase Agreement, which requires no capital cost, but the owner would contract to purchase the electricity as generated from the system at 5% to 10% below retail rates.

What does the future hold for solar energy?
Solar is a disruptive technology like the printing press, cotton gin, radio or the cell phone. In 15 years, architects will be incorporating solar systems and other energy saving materials into their designs as a matter of course. It will be ubiquitous. By then, having solar in your building will be like having A/C in your car – you'd never buy one without it!

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someone who is not a party to the real estate transaction it often becomes much easier to get the parties to close. These deals are not easy to close, but much easier than they were before GCCCs.

GCCCs Without Environmental Insurance. GCCCs can be used to help close contaminated property deals regardless of the purchase price or the amount of the guaranteed cleanup cost. For transactions with a lower purchase price or guaranteed cleanup cost, the GCCC may be the only practical way to address the issue so that closing can occur immediately. This is because the parties may have no appetite for paying the cost of environmental insurance, and the only practical way to secure the payment of costs in excess of the guaranteed cleanup cost is to get the consultant to accept the risk.

All of the environmental documents the seller has concerning the contamination on the property are provided to one or more consultants. They review the documents and provide a proposed guaranteed cleanup cost to obtain a regulatory sign-off from the appropriate governmental agency with jurisdiction over the cleanup (e.g. – the New Jersey Department of Environmental Protection). If the amount of information concerning the contamination on the property is not sufficient for the consultant to provide a guaranteed cleanup cost, they are asked to provide a proposal for whatever additional work they would need to do in order to provide a proposed guaranteed cleanup cost. Different consultants require different amounts of information depending upon how risk adverse they are.

A consultant is then selected to do the cleanup, usually based on some combination of their skill and having a relatively low guaranteed cleanup cost. A contract is then negotiated with the consultant selected whereby the consultant agrees to perform the cleanup of the known contamination for no more than the guaranteed cleanup cost. Typically, the consultant entering the GCCC agrees to cleanup only the known contamination, which is broadly defined to include both the source of the contamination and any contamination caused by its migration. New discoveries of contamination not seen by the consultant before the GCCC was entered are not part of the consultant’s remedial obligation, although environmental insurance can be obtained to cover this risk, as discussed below.

Some consultants want the guaranteed cleanup cost to be paid in full no matter what the cleanup actually costs them to perform, while others are willing to be paid on a time and materials basis with the understanding that the consultant will receive a percentage (e.g. – 50%) of the unspent guaranteed cleanup cost as a bonus. These GCCCs cover a wide range of issues, but most importantly they make it clear that the environmental consultant is liable for all costs to clean up the known contamination in excess of the guaranteed cleanup cost. Of course, often the only security for the environmental consultant's obligations, which may take many years for the consultant to fully perform (e.g. – where there is groundwater contamination), is the financial strength of the environmental consultant. Clearly, that financial strength may change over time and could reduce the security of the property owner for the consultant’s performance.

GCCCs With Environmental Insurance. Environmental insurance is often used as either to provide coverage for new discoveries of contamination (which are excluded from the consultant's remedial obligation under the GCCC) or as a better form of security for the consultant's performance. Typically, the environmental insurance policy can provide two kinds of coverage: Pollution Legal Liability Coverage and Cost Cap Coverage (the names of these coverages vary from insurance company to insurance company).
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**Pollution Legal Liability Coverage** Pollution Legal Liability Coverage ordinarily covers new discoveries of pre-existing contamination during the policy term. This covers what is ordinarily excluded from the consultant’s remedial obligation under the GCCC. Since pre-existing contamination is most likely to be discovered in the course of cleaning up the known contamination, we strongly recommend purchasing this coverage as it is usually quite affordable.

Pollution Legal Liability Coverage also covers third-party lawsuits (i.e. – lawsuits by anyone other than the seller and purchaser of the property) for property damage or bodily injury arising from either the known contamination or any contamination discovered after the policy is purchased. So if groundwater contamination on the property sold migrates off-site and impacts a neighbor’s property, the Pollution Legal Liability Coverage would protect against a lawsuit by the neighbor for property damage or bodily injury. If desired, coverage can be purchased for claims for either new discharges of pollution occurring after the policy is purchased or for business interruption caused by the contamination or its remediation. These are virtually all of the risks about which a purchaser of contaminated property will be concerned.

**Cost Cap Coverage.** Cost Cap Coverage generally provides insurance coverage if the cost to cleanup the known contamination exceeds the guaranteed cleanup cost. For as long as the Cost Cap Coverage remains in place, the environmental insurance company is primarily liable for cleanup costs in excess of the guaranteed cleanup cost that must be incurred to obtain the regulatory sign-off from the governmental agency with jurisdiction over the cleanup. The guaranteed cleanup cost serves as the deductible that must be exceeded before the insurance company is obligated to provide the Cost Cap Coverage. While this would seem to take the environmental consultant off the risk of such cost overruns, ordinarily the environmental consultant assumes the risk of such overruns since the term of the Cost Cap Coverage has expired and also if the cost of the cleanup exceeds the amount of the Cost Cap Coverage. Since the insurance companies are only willing to provide Cost Cap Coverage for a fairly tight timeframe (e.g.- one year longer than the estimated time to conduct the cleanup), this motivates the environmental consultant to finish the cleanup before it assumes the risk of all cost overruns in excess of the guaranteed cleanup cost.

In our experience, the insurance companies are willing to provide Cost Cap Coverage even where there is no cleanup plan approved by the governmental agency with jurisdiction over the cleanup. There just needs to be enough investigation done for the consultant to have a good handle on the nature and extent of the contamination. It is the consultant’s job to convince the insurance company that there is a sound basis for its guaranteed cleanup cost, which serves as the deductible for the Cost Cap Coverage.

Using one of the options above can make it much easier to close a transaction involving a contaminated property. In fact, by using a GCCC with both Pollution Legal Liability Coverage and Cost Cap Coverage, and adding the lender to the policy as an insured, we have been able to get most of the large institutional lenders to accept the contaminated property as the sole collateral for a purchase money mortgage. Otherwise, they would never accept the contaminated property as the sole collateral for the loan. And when the GCCC and environmental insurance make both the parties and their lenders comfortable with the risk, the transaction can close immediately.

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These actions were based on state statute, common law claims such as claims for nuisance and trespass, as well as the public trust doctrine. Under the public trust doctrine, the state, as trustee of the state’s natural resources, is required to manage these natural resources to the benefit of its citizens and to ensure that they are not injured or impaired. Natural resources include all land, air, water, flora and fauna and the activities and services provided by these resources. When companies discharge hazardous substances to the environment causing damage to these natural resources, NJDEP attempts to recover Natural Resource Damages, commonly known as “NRDs,” in addition to requiring the company to clean up the contamination.

While the lawsuits initiated in 2007 work their way through the courts, recent decisions have clarified several issues that have been the cornerstone of NJDEP’s NRD policy. Specifically, the courts ruled that:

1. NJDEP can seek compensation for the restoration of NRDs under New Jersey’s Spill Compensation and Control Act, known as the Spill Act, and that parties causing NRDs are strictly liable. The significance of this decision is that a company can be required to compensate NJDEP for NRDs even though the discharge of chemicals that caused the damage to the natural resources was not intentionally caused or in violation of any law at the time the discharge occurred.

2. The Spill Act allows NJDEP to seek compensation for the loss of use of a natural resource such as the public’s inability to use a stream for recreational purposes because it is contaminated. Under this ruling, NJDEP can seek damages for the time period during which the public was deprived of the ability to use such natural resources. The impact of this decision increases significantly NJDEP’s demand to liable parties for damages and requires that the NRDs be restored.
The Highlands Water Protection and Planning Act, signed into law in 2004, created an approximately 400,000 acre Preservation Area and 400,000 acre Planning Area, located within Bergen, Hunterdon, Morris, Passaic, Somerset, Sussex and Warren Counties, in which development is severely limited. The Highlands Act curtails development in the Preservation Area by, among other things, limiting a property to only 3% impervious cover, prohibiting development on steep slopes and prohibiting development within 300 feet of most water bodies. Impacts to the Planning Area will remain generally uncertain until the state completes a Highlands Regional Master Plan, which is expected sometime in 2008. As would be expected of such a sweeping land use law, there have recently been numerous legal challenges to the Highlands Act, none of which have been successful.

In OFP, LLC v. New Jersey Dept. of Environmental Protection, the developer claimed that the Highlands Act amounted to a taking of property for which the state was required to pay just compensation. The court ruled that it was premature for the developer to assert that the state had taken its property, such that the state was required to pay the landowner just compensation, because the developer failed to avail itself of administrative remedies available through the NJDEP. The NJDEP’s Highland Act regulations allow the NJDEP to waive the provisions of the Highlands Act in order to avoid a taking requiring the state to pay the landowner just compensation. While the administrative process necessary to obtain a waiver is daunting in its complexity and expense, the court held that it is nevertheless a prerequisite to the developer’s claim for compensation from the state.

In ABD Liberty v. NJDEP, a developer claimed that the legislatively drawn Preservation Area boundary was illegal because the boundary was allegedly based upon political factors as well as scientific factors. The court, however, found that although the Preservation Area boundary was not formed strictly based upon science, it was nonetheless rationally related to the goals of the Highlands Act, and was thus constitutional.

Finally, in County of Warren v. State of New Jersey, the Warren County Board of Chosen Freeholders claimed that the Highlands Act improperly violated the due process and equal protection clauses of the state constitution. The Freeholders were essentially complaining that the Highlands Act destroyed the value of property in the county in violation of the state constitution. However, as that court noted, because individual landowners can use the NJDEP’s administrative process to obtain relief from the strict application of the Highlands Act’s development restrictions, the Highlands Act was not unconstitutional on its face.

These are just the latest in a slew of cases in which the validity of the Highlands Act has been upheld. The Highlands Act seems likely to remain an entrenched part of the development landscape in northern and western New Jersey. The next major challenge for landowners and developers will be to determine what can be done with their Preservation Area properties, including new development and brownfield redevelopment. And if the answer is that nothing can be done with their property, then those parties need to put together the right strategy to obtain just compensation from the state for their loss.

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New Jersey Issues Controversial Perc Phase-Out Plan

By Douglas I. Eilender

The New Jersey Department of Environmental Protection (“NJDEP”) published a plan to phase out the use of Perchloroethylene (“Perc”), a solvent used in the dry cleaning process, with a full ban effective in 2021. The plan, published in the New Jersey Register on December 17, 2007, will impact operators of dry cleaning establishments and landlords where dry cleaners are located. A public hearing was held on Friday, January 18, 2008 which was attended by numerous industry leaders such as the American Dry Cleaner Association, Korean Drycleaners Association and the Chemistry Council of New Jersey. Written comments to the proposed rule were due by February 15, 2008.

The proposed amendments to the Control and Prohibition of Air Pollution by Toxic Substances Regulation will require owners or operators of dry cleaning facilities to transition from the use of Perc dry cleaners to alternative technology. Full transition to non-Perc dry cleaners would occur by December 31, 2020. Starting January 1, 2010, a facility must replace Perc equipment classified as third-generation equipment with newer fourth-generation equipment. The main difference between the third-generation equipment and the fourth-generation equipment is that the new equipment is more protective of human health and safety by limiting airborne emissions at the end of the drying cycle. Further, dry cleaners located in residential buildings will be completely prohibited from using Perc in 2009. The NJDEP claims that the new rule would reduce Perc emissions in New Jersey by at least 467 tons per year.
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environmentally harmful agents that can pose a threat to human health if they leach from landfills into the state’s water supply or are incinerated. Therefore, the goal of the new law is to prevent such discharges from occurring and ensure that manufacturers and residents use safe, environmentally-sound management practices when discarding unwanted computers and televisions.

The Act requires every retailer of computers or televisions to clearly post in its store information from the state’s Department of Environmental Protection that will describe how to recycle computers or televisions, in addition to the locations for their collection or return. Information regarding recycling options will also be included in the packaging of all new computers and televisions. In addition, the Act directs the DEP to (1) post a plan that will establish collection and recycling goals for the state; (2) maintain a list of all manufacturers in compliance with the Act’s requirements; (3) name collectors, transporters, and recyclers that meet specific performance standards; and (4) ensure that each county has at least one collection location for computers and televisions.

The Act requires manufacturers of computers and televisions offered for sale in New Jersey to register with the state to help pay for recycling costs by imposing a yearly $5,000 state registration fee. However, the Acts sets up different deadlines and various recycling plans for computer manufacturers and television manufacturers. Generally, the Act sets collection and recycling goals for manufacturers based on the individual manufacturer’s market share.

Each manufacturer must participate in a statewide recycling program and pay an additional fee that is based on the weight of the devices it sells in the state. However, if a manufacturer opts to conduct its own collection and recycling program, the Act mandates that the manufacturer submit annual reports to the DEP to document the total weight of the products collected as well as documentation verifying its collection and recycling. Manufacturers that collect, transport and recycle computers and televisions in excess of their obligation may sell excess credits to another manufacturer or apply the excess credits to the following year’s recycling obligation. Any manufacturer that fails to meet its recycling obligation is required to submit an additional penalty payment to the DEP to reinstate its annual registration.

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as quickly as possible to minimize the damages arising from loss of use of the natural resource.

3. NJDEP’s formula to calculate a monetary value for the damage done to natural resources was unreliable. The Court held that NJDEP did not follow the required rule making process to establish the reliability of the formula and failed to produce sufficient scientific support to sustain the damages it was seeking. The ruling will make it more difficult for NJDEP to prove its case in future lawsuits involving NRDs.

Given the flurry of cases filed in 2007, it is expected that a number of other issues impacting NJDEP’s NRD program will be resolved in the upcoming year. If a company is sued for NRDs, it should review its insurance coverage and acquisition documents. These documents may allow the company to seek reimbursement from other responsible parties or its insurer for any damages paid to the NJDEP for NRDs. Similarly, if a company is considering purchasing a business or real property, it must also take into consideration during contract negotiations NRD issues. Only by being proactive will a company be prepared to address potential NRD claims.

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The use of Perc in dry cleaning began in the 1940’s and by the late 1950’s it had virtually replaced other solvents used in commercial dry cleaning. The United States Environmental Protection Agency’s science advisory board has classified Perc as a possible to probable human carcinogen. Exposure to Perc has been linked to the development of liver tumors in mice, as well as associated with chronic, non-cancer health effects including liver and kidney damage in rodents and neurological effects in humans. Thus, the USEPA promulgated a rule in July 2006, the National Perchloroethylene Air Emission Standards for Dry Cleaning Facilities. The proposed New Jersey rule specifically requires facilities to comply with the federal rules regarding Perc dry cleaning facilities. However, the NJDEP’s proposed rules exceeds the federal requirements in several respects.

The NJDEP’s proposed rule requires all existing third-generation dry cleaning systems to be upgraded to fourth-generation dry cleaning systems or to install a vapor barrier enclosure or install a non-Perc alternative by January 1, 2010. The proposed New Jersey rule bans new Perc dry cleaning facilities from being installed in a building with a residence, which provision is similar to the federal rule. The NJDEP proposes to prohibit all dry cleaning facilities located in residences from using or emitting Perc as of July 27,
2009. The NJDEP proposes to eliminate the use or emission of Perc in dry cleaning systems as of December 31, 2020. Lastly, the NJDEP proposes to prohibit the spraying of Perc contaminated waste into the open air for disposal.

Industry leaders claim that the proposal is based on “outdated studies and data which do not reflect recent improvements and changes in the industry.” They claim that the phase-out would make the industry much less profitable and would provide few health benefits. Industry leaders also suggest that the rule should be abandoned and discussions opened with the industry to come to an agreement as to how best to achieve the NJDEP’s goals while protecting the dry cleaner’s economic interests.

As you might expect, failure to comply with these requirements can lead to the assessment of civil administrative penalties, as well as revocation of a required operational permit. Whether you are an owner of property where a dry cleaning establishment is currently located or an operator of a dry cleaning facility, the proposed Perc phase-out will impact the way dry cleaners do business in New Jersey. As the proposed rule appears to apply to owners and operators equally, landlords at a minimum should be monitoring their dry cleaning tenants regarding the type of equipment currently being used and, if necessary, their plan to retrofit or replace their dry cleaning equipment to ensure compliance.

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