



ARIZONA INNOVATION ACCELERATOR FUND

LOAN PARTICIPATION PROGRAM

PROGRAM SUMMARY:

- The Arizona Innovation Accelerator Fund (AIAF) is an \$18.2 million loan participation program funded through the U.S. Department of the Treasury's State Small Business Credit Initiative and is managed by the Arizona Commerce Authority (ACA).
- The intent of the AIAF is to participate with lending institutions and private finance partners (the "Lead Lender") to make loans to small businesses and foster business expansion, capital investment and job creation in Arizona.
- Loan proceeds are to be used for business purposes such as working capital, inventory and equipment purchases, workforce expansion and real property improvements and purchases.
- Loan proceeds may not be used to make payments on outstanding debt or for the refinancing of existing debt (some exemptions). See Appendix for details on loan proceed uses.

ELIGIBLE BORROWERS:

- Businesses eligible for the AIAF include: for-profit existing corporations, limited liability companies, partnerships or other business entities with 500 or fewer employees. Sole proprietors are not eligible.
- Businesses principally engaged in industries targeted by the ACA such as science & technology, renewable energy & sustainability, advanced manufacturing, and aerospace & defense will have priority application status. See Appendix for more details on eligible companies.
- Eligible businesses are likely commercializing their technology /product(s), generating revenue, and will be able to demonstrate job creation as a result of the AIAF loan.

RESPONSIBILITIES:

- The Lead Lender is typically responsible for all aspects of managing and servicing the loan including the collection of interest, principal, fees, documenting, monitoring, perfecting liens, etc.
- The Lead Lender is required to maintain and provide access to loan documents as would be customary in commercial loan(s) with lending institution(s).
- The borrower shall provide a quarterly report of job creation, including the number of jobs, titles, and salaries to the ACA until the loan has been paid back in full.
- The ACA will administer the AIAF Program, track its loans to determine the economic benefits, and identify loan recipients in news releases and marketing activities.

PROGRAM GUIDELINES:

- The program's loan participation may range from \$50,000 to \$2 million on any one loan and may not be used to support loans or financial packages greater than \$20 million in total.
- AIAF loans may be used for up to 49.9% of the total financing package and will typically have a maturity of less than 5 years.
- The financing offered will be in the form of low-interest loans with favorable payback terms.
- The program relies on the Lead Lender's credit, operational & financial risk assessment, and will collect from the Lead Lender and/or borrower all credit analysis, borrower financial statements, risk rating justification, cash flow analysis and other documents which ACA staff deems necessary for due diligence purposes.
- For each loan, the program requires that a minimum of \$1 of AIAF participation will result in at least \$1 of new private financing (a minimum 1:1 leverage ratio).
- Over the five year life of the AIAF program, the total lending must result in a minimum of \$10 of new financing for each \$1 in AIAF participation (10:1 leverage ratio). To that end, loans to companies that contain a higher percentage of private financing relative to AIAF participation will have priority application status.
- The borrower must maintain a significant portion of its operations, or have the intent to establish new operations, in Arizona.

GENERAL TERMS:

- The program may provide reduced or zero interest terms on its loan participation with a maximum interest deferral period of 24 months.
- The program may provide deferred principal repayment on its loan participation for up to 24 months.
- After any designated grace period, the interest rate on the AIAF's loan participation shall be no less than 1% and no more than 3% above the interest rate of the Lead Lender.
- The program charges a fee at closing. This fee will typically be 1–3% of the AIAF participation amount.
- The program may charge an annual fee. This fee will typically be 1–3% of the AIAF principal balance.
- Loans will typically be collateralized.
- The loans may be subordinated to existing or new debt and should aid borrowers in raising debt capital from private sources for the majority (>50%) of their loan.
- The program may offer an annual job creation interest rate reduction (.05% interest rate reduction for each qualified job created in Arizona up to a maximum of 2.50%). See Appendix for definition of a qualified job.



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EVALUATION CRITERIA:

- The program relies on the Lead Lender's credit, operational and financial risk assessment.
- Applications submitted by the Applicant(s) or Lead Lender will be evaluated by the AIAF Investment Committee (the "Committee") composed of ACA management.
- The Committee will review each proposal based upon the following criteria:
 - Adherence to the criteria and the requirements set forth by the ACA and the U.S. Department of Treasury through the State Small Business Credit Initiative. See Appendix for additional details.
 - Credit worthiness of the borrower and the expectation of repayment.
 - Demonstrated market potential of technology, product(s) or solution(s).
 - Quality of business plan, including sales and capital expansion plans.
 - Potential to add value in ACA targeted industries.
 - Potential to develop into an investment grade venture worthy of follow-on private capital investment.
 - Potential to create high-wage employment.
 - Percentage of private financing match/involvement.

APPLICATION PROCESS:

- In order to be considered for the AIAF loan participation program Applicant(s) should:
 - **1st** - Engage a Lead Lender that is willing to lend at least 50% of the Applicant's project financing.
 - **2nd** - Submit a completed Arizona Innovation Accelerator Fund Application and provide the Lead Lender's credit approval documents including but not limited to: all financial analysis, risk rating, financial statements & projections, and collateral analysis which would typically be required to adequately satisfy traditional commercial loan underwriting.
- Once the materials above have been submitted via e-mail, an ACA staff member will be assigned to your application and do the following:
 - Contact you and your lending institution (the Lead Lender) to confirm receipt of the application materials.
 - Conduct additional analysis and due diligence on the materials provided by the Lead Lender, if necessary.
 - Answer questions you may have and discuss additional ACA offerings that may benefit your business.
- ACA staff will notify Applicants of the status of their application within five business days of a Committee loan decision via phone or e-mail.
- Upon Committee approval, ACA staff will work with the Lead Lender to negotiate loan terms pertaining to the AIAF portion of financing, if necessary.
- Please note that the AIAF Investment Committee meets bi-monthly.
- Information submitted to the ACA related to the Applicant's business plan, financial statements & projections, and background checks will be kept confidential to the extent allowed under the Arizona public records law A.R.S. §39-121 and A.R.S. §41-1504L

APPLICANT CHECKLIST

1. Review AIAF Loan eligibility (see Appendix)
2. Contact your Lead Lender(s) to start their credit approval / qualification process and inform them that the AIAF Loan Participation Program may be an option should the Lead Lender have difficulty approving your business loan.
3. Work with your Lead Lender(s) and complete their due diligence and loan approval process.
4. Download and complete the "AIAF Application" (posted on the ACA's website).
5. Submit completed AIAF Application, Lead Lender due diligence and credit materials to the ACA.

HOW TO SUBMIT APPLICATION:

- The application can be found on the ACA's website by going to www.azcommerce.com/incentives.aspx, clicking on the Arizona Innovation Accelerator Fund link and downloading the application ([or click here to open](#))
- Please submit via e-mail all application materials and inquiries to AIAF@azcommerce.com with one of the following subject lines:
 - "AIAF Application" for Application submittal
 - "AIAF Inquiries" for general questions

We look forward to working with you!



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APPENDIX

Businesses eligible for the AIAF program include for-profit existing corporations, limited liability companies, partnerships or other business entities with 500 or fewer employees. Sole proprietors are not eligible.

The loan proceeds will be used for a "business purpose." Business purposes include, but are not limited to: working capital, business procurement, equipment, inventory, start-up costs, as well as the purchase, construction, renovation or tenant improvements of an eligible place of business that is not for passive or speculative real estate investment purposes.

Business purpose excludes activities that are related to acquiring or holding passive investments, such as commercial real estate ownership and the purchase of securities and lobbying activities, as defined in Section 3(7) of the Lobbying Disclosure Act of 1995, P.L. 104-65, as amended.

The proceeds of loans financed through the AIAF shall not be used for the following prohibited purposes in addition to the prohibited purposes in Section 3005(e)(7) of the Small Business Act:

1. Refinancing existing debt where the lender is in a position to sustain a loss and the government (state and/or federal) would take over that loss through refinancing
2. Purchase any portion of the ownership interest of any owner of the business
3. Permitting the reimbursement of funds owed to any owner, including any equity injection or injection of capital for the business's continuance
4. Repaying delinquent state or federal withholding taxes or other funds that should be held in trust or escrow
5. Financing a non-business purpose.

In addition, the ACA shall prohibit the proceeds of loans financed through the Arizona Innovation Accelerator Fund from being used to finance the following ineligible businesses:

1. Real estate investment firms, when the real property will be held for investment purposes as opposed to loans to otherwise eligible small business concerns for the purpose of occupying the real estate being acquired.
2. Firms involved in speculative activities that develop profits from fluctuations in price rather than through the normal course of trade, such as wildcatting for oil and dealing in commodities futures, when not part of the regular activities of the business.
3. Firms involved in lending activities, such as banks, finance companies, factors, leasing companies, insurance companies (excluding agents of insurance companies), and any other firm whose stock in trade is money.
4. Pyramid sales plans, where a participant's primary incentive is based on the sales made by an ever-increasing number of participants.
5. Firms engaged in activities that are prohibited by federal law or applicable law in the jurisdiction where the business is located or conducted. Included in these activities is the production, servicing, or distribution of otherwise legal products that are to be used in connection with an illegal activity, such as selling drug paraphernalia or operating a motel that knowingly permits illegal prostitution.
6. Gambling activities, including any business whose principal activity is gambling. While this precludes loans to racetracks, casinos, and similar enterprises, the rule does not restrict loans to otherwise eligible businesses, which obtain less than one-third of their annual gross income from either the sale of official state lottery tickets under a state license, or legal gambling activities licensed and supervised by a state authority.
7. Charitable, religious, or other non-profit institutions, government-owned corporations, consumer and marketing cooperatives, and churches and organizations promoting religious objectives.
8. Businesses engaged in activities that involve human cloning or embryonic stem cell research.
9. Adult bookstores, adult theatres, adult companion/escort services or other adult entertainment facilities or services.
10. Businesses that are in bankruptcy or imminently contemplating filing for bankruptcy are not eligible for the AIAF Program.

The AIAF Program defines a qualified job as the following:

1. A net new full-time and permanent position in Arizona.
2. Pays at least 100% of the median county wage in which the business is primarily located.
3. Offers health insurance to employees for which the employer pays at least 65% of the premium.

SBA-guaranteed loans and other federally guaranteed loans may not be credit-enhanced by the AIAF Program per U.S. Treasury guidelines

The ACA is not obligated by law to provide financing to any business. Loans are made in the sole and absolute discretion of the ACA based on a variety of factors and no factor or combination of factors ensures loan eligibility.