

ARIZONA COMPETES FUND

GRANT PROCESS

December 13, 2011



Arizona Commerce Authority (ACA)

A. Purpose. This process document establishes and sets forth the internal ACA process for making grants to businesses from the Arizona Competes Fund (“Grants”), from initial screening of businesses through due diligence, approval, documentation and administration.

The two main objectives of setting forth this process are (i) to ensure that all necessary due diligence is done on each project before offers are made and (ii) to provide for decisions by management at sensible points based on adequate information. It is understood that very seldom will a project track through the steps below in perfect timing and sequence, and hence adjustments based on personal judgment will have to be made on a case-by-case basis. As adjustments are made, please do so in such a way as to achieve the first objective in every case and the second objective whenever possible.

B. Responsibility. As is illustrated in the steps below, the Business Attraction representative for each project (“BA Rep”) is responsible for managing the process from the beginning of the process through the execution of a Grant agreement, and the Finance Department Program Manager assigned to the project (“Finance Rep”) is responsible for managing the process thereafter. This structure serves to provide the client with one main point of contact within the ACA at all times and also serves to place responsibility on one individual for ensuring that the process is done consistently with (i) the steps outlined herein, (ii) applicable statutes and (iii) ACA guidelines and policies, as well as in a manner that is expeditious, professional and generally “client friendly.” However, the work involved in the process is a team effort, and all ACA departments and staff are expected to assist the BA Rep and Finance Rep on an as-needed basis, taking into consideration the sometimes-exigent circumstances involved in a business location decision.

C. Due Diligence. As described herein, every Grant evaluation process will be tracked and documented through the creation of an ACA Due Diligence Report (“Report”). A template of the Report is available on the ACA intranet. The template contains further instructions for its completion. The Report for each project must remain in draft form – with a “draft” watermark on each page – until a Grant agreement is finalized. As Reports are prepared, please keep in mind that they will be presented to members of the Board of Directors (“Board”) and become public records.

The Grant evaluation process will consider a variety of factors associated with each project, including job creation and wages, capital investment, the financial strength of the applicant, the applicant's business history, analysis of the relevant business sector and public and private sector financial support. All of these issues, as well as any other due diligence issues that arise during the process, must be evaluated and addressed before a Grant is offered. It is contemplated that evaluating these issues will be a team effort, sometimes including outside consultants; the BA Rep should request assistance as needed.

D. Deal Structure. Grants are typically paid after performance targets (typically related to job creation and capital investment) are met. A term sheet template illustrating the main business points of this structure is attached for reference. This structure should be explained to the client very early on in discussions, and any deviations from this structure should not be discussed with the client without COO or CEO approval.

E. Timing. Each step in the process requires time for proper completion. For client expectations-management purposes, please be sure to communicate with responsible parties about delivery times before discussing such times with the client.

F. Other Steps. The process described herein is supplementary to project management through the ACA CRM system. CRM or other ACA procedures may dictate additional steps not specified herein. In particular, care must be taken to properly communicate with all other departments at appropriate times about the project.

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Step 1 – Preliminary Project Screening

For each Business Attraction project, the BA Rep and BA SVP will make a preliminary evaluation of whether the project warrants consideration for a Grant. This evaluation will be based on statutory parameters and internal ACA criteria.

Step 2 – Preliminary Information Gathering

For each project that warrants Grant consideration, the BA Rep will continue the evaluation process by (i) obtaining an Application form from the client; (ii) completing Section 1 of the Report and then (iii) working with Research staff to complete Section 2 and, as applicable, Section 4.

Step 3 – Preliminary Due Diligence Evaluation

Once Sections 1, 2 and 4 of the Report have been completed to the extent practicable, the BA Rep will review the due diligence findings to date and investigate and address any open questions before proceeding.

Step 4 – Preliminary Presentation to Management

Once the BA Rep is satisfied with the status of due diligence, the BA Rep will complete Sections 5.1 and 5.2 of the Report, and then, typically through or with the BA SVP, conduct a preliminary review of the project and draft Report with the COO or CEO. If the COO or CEO concludes the project is appropriate for ongoing Grant consideration, the COO or CEO will sign an authorization form (“Authorization,” available on the ACA intranet) to order an Economic Impact Analysis (EIA) for the project.

Step 5 – Economic Impact Analysis

Upon receipt of the executed Authorization, the BA Rep will provide it, and the draft Report to the Finance Department (“Finance”). Upon receipt of the Authorization and Report, the Finance Rep will order the EIA, open a Finance file for the Project and review the due diligence to date. Once the EIA is received, the BA Rep and Finance Rep will work together to update and complete all Sections of the Report.

Step 6 – Presentation to Management and Board Members

Once the foregoing steps are complete, and assuming the EIA supports the proposed Grant, the BA Rep will re-submit the draft Report to the CEO for approval of the Grant. For Grants that exceed minimum thresholds, the CEO will submit the proposed Grant to members of the Executive Committee and to the Chairperson of the Audit Committee for review and comment. Following this submission to Board members, the CEO will elect whether to offer the Grant to the client.

Step 7 – Presentation of Offer to Client

If the CEO elects to offer the Grant, the BA Rep will submit the draft Report, together with any revisions reflecting the terms of management’s approval, to the CFO, the Finance Department and the CAO. The CAO will then prepare an offer letter to the client for the COO’s or CEO’s signature. Grant offers may not be extended except in this manner. After the offer letter is sent, the BA Rep will communicate with the client to ensure agreement on the main deal points of the Grant. No public announcement should be made until the BA Rep is certain that there is agreement on the main deal points of the Grant.

Step 8 – Documentation and Execution

Once the client and ACA are in agreement on the main deal points of the Grant, the CAO will work with the client to draft and execute a Grant agreement. Following execution of the Grant agreement, the Finance Rep will finalize the draft Report, including obtaining the CEO’s signature on the CEO Report.

Step 9 – Post-Agreement File Management

Finance will manage ongoing Grant administration, including but not limited to review of progress reports, approval of payments, monitoring of clawback provisions, tracking of metrics for Grant evaluation purposes and compilation of data for reporting purposes. As a first step in this process, Finance will send a letter to the client establishing contact and providing reporting requirements with applicable forms.



ARIZONA
COMMERCE
AUTHORITY

DUE DILIGENCE REPORT

Project:

Date:

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