

Develop Michigan – Capital Conduit Program Application Process and Guidelines

Application Timeline

- Request for Applications Open: December 27, 2011
- Application Deadline: January 12, 2012 by 5:00 p.m. EST to contracts&grants@michigan.org
- Application Review Period: January 13, 2012 – January 17, 2012
 - The MEDC may follow up with questions and clarifications from applicants, if necessary, on January 17, 2012. Applicants must provide the email and phone number for an individual who will be available to respond to questions from the MEDC between 1:30 PM EST and 2:30 PM EST on January 17, 2011. Applicants will be notified by 5:00PM on January 16, 2012 if the MEDC anticipates contacting the applicant with additional questions.
- Award Recommendations to the MSF Board: January 25, 2012

Application Process and Requirements

The application must be in a .pdf format utilizing 10 point font or greater and is limited to 100 pages. Applications must be submitted via email to: contracts&grants@michigan.org by **5:00 p.m. EST on Thursday, January 12, 2012**. **All applications must be signed by an individual authorized by the Applicant to submit the application on its behalf.**

Hand-delivered and mailed submissions will not be accepted. It is the sole responsibility of the applicants to submit proposals in a timely fashion prior to the deadline. Late or incomplete proposals will not be accepted or reviewed. Any change or update to the deadline for proposals will be posted on the MEDC website. Such postings shall constitute constructive notice to the general public and all applicants of any modifications or alteration of the deadline for proposals. Therefore, applicants are strongly encouraged to continuously check the MEDC website at www.themichiganadvantage.org.

PROPOSALS MUST BE RECEIVED ELECTRONICALLY BY MEDC, CONTRACTS AND GRANTS, ON BEHALF OF MSF, NOT LATER THAN **5:00 p.m. ON THURSDAY, January 12, 2012**. THE MSF HAS NO OBLIGATION TO CONSIDER ANY APPLICATION THAT IS NOT TIMELY RECEIVED.

The Application must include the following documents and information:

- **Articles of Incorporation**
The applicant will supply its Articles of Incorporation. The company shall be organized and approved to do business within the State of Michigan.

In the case of the Real Estate Initiative, the corporation shall be a Michigan Not For Profit.

In the case of the Operating Company Initiative, the corporation shall be either a For Profit “C” corporation or a For Profit Limited Liability Corporation “LLC”.

In both cases the applicant should be newly formed for the purpose of meeting the programs requirements.

- **Bylaws**
The objectives, constraints, and obligations of the applicant and its owners and manager are integral to its success at maintaining a public policy focus as well as its ability to execute on a

financial return expectation to its investors. Draft Bylaws or similar operating agreements should be submitted which discuss these issues. If the full board is formed and has adopted such documents, the final version should be submitted.

- Management

The applicant should discuss its plan to select a management team and the requirements which will be part of the screening process in that plan. If a management team is already selected, the applicant should discuss in detail the qualifications of the management team, its track record for success in the space, and its motivations for seeking and accepting the role. Potential compensation and the length of engagement for management, if limited, should be discussed.

- Owner Profile/Capitalization Plan (level of private investment)

The applicant should discuss who the potential investors/owners in the applicant will be and discuss the level of private sector capital which will be committed and when those commitments will be in place. For the purposes of either program, the evaluation will favor the participation of commercial banks with significant markets in Michigan as owner/investors over other potential owner/investors due to their understanding of the business climate and the process of evaluating loan and investment risk in a variety of industries and sectors.

- Business Plan-Transaction Discussion Document

Applicants should provide a complete business plan including a discussion of the market size, the need the entity will address, how this need is in alignment with “double bottom line” investments as well as the programs guidelines and provide some example transactions either in general or as a product of a developed pipeline which support the anticipated fixed and variable costs.

- Competency and Track Record of Founders

Due to the complex and balanced nature of these institutions, experience forming other similar institutions is considered paramount in the selection process. Applicants should demonstrate how they have engaged with individuals or companies who have significant experience with all the various organizing, founding, and early management of such entities including when and where similar efforts were supported by the founders or their team.

- Operating Schedule

Applicants should include a schedule which describes when the following events will occur:

- o Selection of Management Team by Founders
- o Initial Investor Commitments
- o Final Investor Commitments
- o Formation of the Full Board of Directors
- o Ratification of the Final Bylaws of the company
- o Beginning of Operations
- o Anticipation of First Report on Performance to the MSF

Disclosure of Information

All application materials and materials generated throughout the Application Process, including, but not limited to review materials, biographical information, and due diligence information, submitted to the

MSF, MEDC and State of Michigan through the MSF Board may be subject to public disclosure under Michigan's Freedom of Information Act ("FOIA"), MCL 15.231-15.246.

Except as otherwise provided in this document, all information contained in an applicant's proposal is subject to disclosure under FOIA. The FOIA also provides for the complete disclosure of contracts, contract attachments, due diligence materials, progress reports submitted throughout the term of the agreement and financial documents submitted as required under the agreements.

Proposal materials submitted by applicants may contain "financial or proprietary information," which is defined as "information that has not been publicly disseminated or which is unavailable from other sources, the release of which might cause competitive harm." Applicants are provided an opportunity to specifically designate such proprietary or financial information.

Applicants must be aware that, pursuant to the MSF Act, MCL 125.2005(9), information the applicant deems confidential must be acknowledged by the MSF Board as confidential to protect such information from disclosure under FOIA, MCL 15.243(1)(d). Information that is not acknowledged as confidential by the MSF Board may be subject to disclosure under FOIA. Unless considered proprietary in nature, routine financial information cannot be acknowledged as confidential. The MSF Board will make the final decision on whether information designated as confidential by the applicant will be acknowledged as confidential. Such information must be identified directly within the materials submitted by applicants and must comply with the following requirements:

1. Identify each component and portion of the narrative for which you are requesting confidentiality. Text, tables, or graphics **MUST** be bolded and marked with asterisks and brackets (***[bold if text]***) within the narrative.
2. Identify the attachment and the portion of the document for which you are requesting confidentiality. Text, tables, or graphics **MUST** be bolded and marked with asterisks (***[bold if text]***) on the attachment. If you are requesting confidentiality for portions of a multi-page document, such as the Business Plan, you **MUST** also list the page numbers of all pages that contain information marked by asterisks and bold brackets.

Applicants understand and agree that by failing to properly identify information that the applicant desires to be designated as confidential by the MSF Board, the applicant waives all rights and actions against the MSF, the MSF Board, the MEDC and the State of Michigan and its participants, officers, agents and employees regarding the release of information that could have otherwise been acknowledged as confidential but for the applicant's failure to properly designate the information as provided in this section or take other necessary action to have information acknowledged as confidential. It is the applicant's sole responsibility to identify information that it desires to be designated as confidential.

The MSF, the MSF Board or the MEDC shall not be liable for any inadvertent disclosure of any of the applicant's information designated as confidential by the applicant.

Additional Application Process and Award Information

Notwithstanding any other statement in this document or the DM-CCP Program Guidelines, the MSF reserves the right to:

1. Reject any and all applications;

2. Waive any errors or irregularities in the process or in any application; or
3. Redo the project.

In the event that there are conflicts concerning the DM-CCP that proceed to court, jurisdiction will be in a Michigan Court of Claims for claims against MSF and in the Ingham County Circuit Court for claims against the applicants or the MEDC. Nothing in this process shall be construed to limit the rights and remedies of the MSF, the MSF Board, the MEDC or the State of Michigan that are otherwise available.

Exhibit A
DM-CCP
Real Estate Initiative Guidelines

Eligible Applicants

Statewide non-profit corporation which will engage in the assembly of capital or financing redevelopment of investment real estate within underserved communities in Michigan which meets a public policy objective of returning vacant, functionally obsolete, blighted or distressed properties into desirable places to live and work.

The applicant shall adopt and adhere to all the General Requirements of the DM-CCP as follows:

- The loan provided must be used to either de-risk/enhance project risk capital or may be used to fund the cost of assembling project risk capital including the applicant's normal operating costs.
- The loan will be a demand line of credit. The MSF will set the draw terms and conditions which shall be proposed at the time of recommendation.
- The recipient shall provide three seats on its Board of Directors to be filled by individuals to be determined by the MSF.
- The loan shall carry a cost of .25% or more except that up to 20% of an allocation or no more than \$500,000 may be available at no interest charge so long as the award is \$2.5M or greater at the determination of the MSF.
- The loan term cannot exceed 10 years on a single approval but can be extended at the request of the awardees and approval of the MSF.
- The recipient must demonstrate no less than 2:1 non-MSF capital to MSF capital prior to any line of credit increase request subsequent to an initial line establishment and draw approval.
- The recipient must deploy capital such that MSF capital provides cost or risk enhancement or the defrayment of the cost of organizing non-MSF risk capital.
- Projects must be located within the state of Michigan.
- Best practices in the formation and execution of applicant entities and their business plans shall be a consideration in the application process
- Recipients must demonstrate that the management team will have meaningful personal capital at risk and disclose how much.
- Recipients must report to the MSF semi-annually the economic development and financial results of its activities. Reporting requirements will be further developed within each program window however; the applicant/recipient agrees to provide any and all necessary information which the MSF may reasonably request as a part of this report. The reports will contain a discussion about public/private capital leveraged, tax implications, and a pure financial return on investment to the recipient and MSF.

Specific Loan Parameters for Real Estate Initiative:

- The capital shall be a Line of Credit which will carry zero interest on draws totaling under \$500,000 collectively and in perpetuity.
- Drawn amounts over \$500,000 carry an interest charge of at least .25% per annum. Payment of which is due semi-annually.
- The line shall mature in 120 months from the date of the note at which time the recipient may request an extension, subject to the approval of the MSF.

- Upon maturity if the note is not renewed, the MSF may demand repayment except to the extent that the repayment would remove or place at some risk a credit enhancement committed to another capital provider whose risk remains outstanding
- Capital must be used to facilitate the financing of projects in Michigan which are allowed and described within its bylaws either directly by participating in credit risk or indirectly by funding activities which are intended to result in the successful capitalization and execution of projects within Michigan.
- Three members of the entity's board of directors shall be individuals to be determined by the MSF. These appointments shall carry a term of five years.
- Any subsidiary corporation or fund shall have no separate board and shall instead be managed as a direct, whole owned subsidiary of the recipient with identical board members.
- Semi-Annual reports to the MSF shall include the amount and type of square feet redeveloped, an estimation of the short and long term tax impacts, a discussion on private capital vs. public capital leverage, an update on the relative risk of all deals in which the recipient is directly and indirectly taking on credit risk, and business plan goals and objectives for the coming period.

Exhibit B
DM-CCP
Operating Company Initiative Guidelines

Eligible Applicants

A state wide for-profit corporation which will be regulated in the State of Michigan by the Office of Finance and Insurance Regulation under the PA 89 of 1986 or similar enabling/expanding legislation and whose purpose is to provide a broad range of lending and investing activities as contemplated under PA 89 of 1986 and/or similarly intended legislation. Generally, the recipient will target the following types of opportunities all within the state of Michigan:

- Opportunities to supply capital when sales growth is outstripping available cash and physical assets are insufficient to secure additional traditional senior debt.
- Opportunities to supply capital as a part of a turnaround or balance sheet reconfiguration which will allow the company to reduce and reset borrowing costs and take advantage of additional growth opportunities under an optimal capital structure.
- Opportunities to supply capital to support succession and founder/investor exits which leads to the borrower's remaining /growing in Michigan and continuing to provide employment opportunities in Michigan.
- Opportunities to supply capital to support the full, arm's length acquisition of Michigan companies by buyers who intend to maintain the business and grow the business in Michigan.

The applicant shall adopt and adhere to all the General Requirements of the DM-CCP as follows:

- The loan provided must be used to either de-risk/enhance project risk capital or may be used to fund the cost of assembling project risk capital including the applicant's normal operating costs.
- The loan will be a demand line of credit. The MSF will set the draw terms and conditions which shall be proposed at the time of recommendation.
- The recipient shall provide three seats on its Board of Directors to be filled by individuals to be determined by the MSF.
- The loan shall carry a cost of .25% or more except that up to 20% of an allocation or no more than \$500,000 may be available at no interest charge so long as the award is \$2.5M or greater at the determination of the MSF.
- The loan term cannot exceed 10 years on a single approval but can be extended at the request of the awardees and approval of the MSF.
- The recipient must demonstrate no less than 2:1 non-MSF capital to MSF capital prior to any line of credit increase request subsequent to an initial line establishment and draw approval.
- The recipient must deploy capital such that MSF capital provides cost or risk enhancement or the defrayment of the cost of organizing non-MSF risk capital.
- Projects must be located within the state of Michigan.
- Best practices in the formation and execution of applicant entities and their business plans shall be a consideration in the application process
- Recipients must demonstrate that the management team will have meaningful personal capital at risk and disclose how much.

- Recipients must report to the MSF semi-annually the economic development and financial results of its activities. Reporting requirements will be further developed within each program window however; the applicant/recipient agrees to provide any and all necessary information which the MSF may reasonably request as a part of this report. The reports will contain a discussion about public/private capital leveraged, tax implications, and a pure financial return on investment to the recipient and MSF.

Specific Loan Parameters for the Operating Company Initiative:

- The capital shall be a Line of Credit which will carry zero interest on draws totaling under \$500,000 collectively and in perpetuity.
- Drawn amounts over \$500,000 carry an interest charge of at least .25% per annum. Payment of which is due semi-annually.
- The line shall mature in 120 months from the date of the note at which time the recipient may request an extension, subject to the approval of the MSF.
- Upon maturity if the note is not renewed, the MSF may demand repayment except to the extent that the repayment would remove or place at some risk a credit enhancement committed to another capital provider whose risk remains outstanding.
- Capital must be used to facilitate the financing of projects in Michigan which are allowed and described within its bylaws either directly by participating in credit risk or indirectly by funding activities which are intended to result in the successful capitalization and execution of projects within Michigan.
- Three members of the entity's board of directors shall be individuals to be determined by the MSF. These appointments shall carry a term of five years.
- Any subsidiary corporation or fund shall have no separate board and shall instead be managed as a direct, whole owned subsidiary of the recipient with identical board members.
- Semi-Annual reports to the MSF shall include the type of loan opportunity, jobs created or retained, an estimation of the short and long term tax impacts, a discussion on private capital vs. public capital leverage, an update on the relative risk of all deals in which the recipient is directly and indirectly taking on credit risk, and business plan goals and objectives for the coming period.
- The loan may be converted to equity at any time during the term of the loan at the option of the MSF, with terms acceptable to the MSF. The MSF may cause the line of credit to be fully drawn for purposes of converting its entire commitment uniformly. Additionally, it may choose to convert less than the entire line of credit and may convert incrementally an unlimited number of times until such time as all loan availability has become equity.