

**REQUEST FOR PROPOSALS FOR CAPITALIZATION OF
THE ARKANSAS INSTITUTIONAL FUND**

+/- \$50,000,000

Requested by the Arkansas Development Finance Authority

On Behalf of:

**Arkansas Institutional Fund and
Arkansas Venture Capital Investment Trust**

**SPECIAL NOTE: YOUR IMMEDIATE ATTENTION IS CALLED TO SECTION I.C. YOU
NEED TO SEND TO US AN E-MAIL ADDRESS FOR TRANSMISSION
OF NOTICES OF INQUIRIES.**



March 9, 2016

**Arkansas Development Finance Authority
900 West Capitol Ave, Suite 310
Little Rock, AR 72201
(501) 682-5900**

SECTION I: INSTRUCTIONS TO PROPOSERS/ GENERAL INFORMATION

A. DESCRIPTION OF VENTURE CAPITAL PROGRAM.

PURPOSE. The Venture Capital Investment Act of 2001 authorized the Arkansas Development Finance Authority (ADFA) to create the ADFA Venture Investing Program (VIP) and to capitalize the Arkansas Institutional Fund (AIF). **ADFA on behalf of the Arkansas Venture Capital Investment Trust (AVCIT) is requesting proposals from qualified financial institutions to provide the financing for the Arkansas Institutional Fund (AIF).** AIF is seeking up to a \$50,000,000 loan (line of credit) with the specific terms sought as described in the attached term sheet (Attachment A). Responding financial institutions should present its financing proposal with three maturity options of five (5), seven (7), and ten (10) years. These options should also provide a fixed interest rate. AIF is not currently interested in entering into a variable rate loan structure.

ADFA routinely uses the RFP process to engage professional service providers. State procurement policy requires this for all professional service contracts. The AIF has been operational since 2003. The AVCIT is currently the AIF fund manager. AIF is defined as the Designated Investment Group (DIG) in the authorizing legislation. The AIF is structured as a “fund of funds” venture capital investment program. The AIF exists to increase the availability of equity and near-equity risk capital for emerging, expanding, relocating and restructuring enterprises in the state.

Description of ADFA. ADFA was created in 1985 as an instrumentality of the State of Arkansas to provide access to capital for qualified activities that enhance the quality of life for Arkansans. Those qualified activities include all types of economic development, home ownership and affordable rental housing. ADFA runs as a business and is structured as a corporate body, with corporate succession, corporate financial management, proactive Board of Directors, and professional management team. The ADFA web site contains more details on program activities: <http://www.arkansas.gov/adfa>.

Description of VIP. The VIP is based upon principals that emphasize the use of private sector expertise and traditional investment disciplines. The VIP is focused on providing access to risk capital at the point in a company's life cycle the will allow that company to build and grow. Risk capital is necessary to generate and support the growth of entrepreneurial firms, which in turn create jobs and provide economic development and growth of the tax base. The VIP is a responsive state program that demonstrates to potential investors the level of commitment Arkansas has for entrepreneurial ventures. The risks of making venture capital investments in Arkansas can best be managed by diversification through a number of investments in separate venture capital funds with proven track records. ADFA will pursue both traditional investment objectives such as achieving a positive Internal Rate of Return (IRR) and encouraging leveraged co-investment. Key strategic objectives include maximizing an efficient and effective utilization of ADFA's Capital Guaranty and striving to keep any expenditure herein contingent. Another goal of the VIP is to strengthen the venture capital network in Arkansas by building knowledge and investment capacity through education and participation in investment opportunities. In an effort to reach our goals, and to accomplish a portion of its mission, ADFA has supported the capitalization of and investment by the Arkansas Institutional Fund (AIF). A copy of the Venture Capital Investment Act of 2001 can be downloaded from the following address:

<http://www.arkleg.state.ar.us/assembly/2001/R/Acts/Act1791.pdf>

Description of AIF. The AIF is structured as a “fund of funds” investment model and is organized as an Arkansas limited liability company with two members, the previous fund manager, Cimarron Capital, and the Arkansas Venture Capital Investment Trust (AVCIT). The AIF is authorized to invest in professionally managed venture capital funds that in turn make investments meeting agreed upon investment criteria as specified in a limited partnership agreement or other binding arrangement. Through the execution of this strategy, ADFA has attracted investors and venture capital funds to Arkansas on a long-term basis, which provides better access for Arkansas companies to the capital markets. ADFA has extended credit enhancement in the form of a guaranty of principal and interest to the AIF and its investors defined as the Capital Guaranty. Commitments by the AIF have and will be made to funds that meet the objectives of ADFA but will generally range from \$3 – \$10 million in size. Funds must have some nexus or “fit” with the deal flow indigenous to or emerging within Arkansas. These funds must be active and aggressive in their in-state deal prospecting. AIF continues to seek qualified groups with demonstrated successful investment track records and strong strategic fit, and commitment to, Arkansas investment opportunities. The AIF has closed on investments in seven funds and has commitment to two more investments.

AIF Portfolio Status Report:

	Commitment Amount	Amount Drawn
SSM III	\$ 4,000,000	\$ 3,720,000
Fund For Arkansas' Future (FAF)	\$ 100,000	\$ 100,000
Prolog Capital	\$ 4,500,000	\$ 4,500,000
Memphis Biomed Ventures II	\$ 4,000,000	\$ 4,000,000
Meritus Ventures	\$ 2,000,000	\$ 2,000,000
Noro-Moseley Partners VI	\$ 5,000,000	\$ 4,500,000
Petra Growth Fund II	\$ 4,500,000	\$ 2,250,000
Fulcrum Growth Fund II	\$ 4,000,000	\$ 2,362,952
Noro-Moseley Partners VII	\$ 5,000,000	\$ 1,250,000
Fund For Arkansas Future II	\$ 100,000	\$ 60,000
Tech Operators II	\$ 4,000,000	\$ 1,000,000
Totals	<u>\$ 37,200,000</u>	<u>\$ 27,742,952</u>

Description of the Capital Guaranty. The Capital Guaranty is the facility that insures payment to the bank that provides the loan that capitalizes the AIF. The Capital Guaranty is secured by two forms of credit enhancement. In a first loss position, there is a guarantee in the amount of \$10,000,000 from the ADFA Bond Guaranty Program. The ADFA Bond Guaranty Program is currently rated "A+" by Standard and Poors Credit Rating Services. Secondly, the Capital Guaranty is secured by a pool of \$60,000,000 transferable State of Arkansas income tax credits that have been authorized by the Arkansas State Board of Finance. There is a limit of \$10,000,000 in tax credits that can be transferred in any one tax year. The State of Arkansas is currently rated "AA" stable by Standard and Poors Credit Rating Services.

Description of Bank Financing (Line of Credit). The fund manager and ADFA have used their commercially reasonable efforts to assist the AIF in securing a bank line of credit. A state-wide RFP process was used to solicit banks interested in providing the capitalization for the AIF. The existing line of credit with Bank of the Ozarks has a borrowing limit of approximately \$43,000,000 of which approximately \$25,000,000 is currently drawn.

Description of the Arkansas Venture Capital Investment Trust. The AIF is designed to produce a surplus, the lion's share of which goes to the State. Then Governor Mike Huckabee authorized the establishment of a public trust pursuant to Title 28, Chapter 72, Subchapter 2 of the Arkansas Code of 1987 Annotated called the Arkansas Venture Capital Investment Trust (AVCIT) to hold ADFA's share of the equity interest in AIF. The President of the Arkansas Science and Technology Authority (ASTA) was the Settlor of the trust and this responsibility was transferred to the Executive Director of the Arkansas Economic Development Commission following ASTA's merger with AEDC. The President of ADFA and the Director of the Department of Finance and Administration (DFA) serve as the other two trustees for this public trust. The AVCIT is also being utilized to hold equity investments made by the Risk Capital Matching Fund, ADFA Co-Investment Fund, and Arkansas Seed and Angel Capital Network. These programs have been funded with a combination of state and federal funds and are designed to provide matching investments for validation and community based/angel funds organized in Arkansas.

Description of the Arkansas Tax Credit Purchase Consortium. One of the most appealing designs of the VIP is the use credit enhancement as the method of capitalization for the AIF as opposed to a direct appropriation of state tax dollars, and there is no discounting of the State of Arkansas income tax credits. The funding mechanism of AIF implemented the tax credit component of the authorizing legislation. It involved the issuance of \$60 million in State of Arkansas income tax credits on to ADFA's balance sheet and the development of the system for the registration and transfer of tax credits that support the Capital Guaranty. Six Arkansas taxpaying companies have signed up to participate in the tax credit purchase consortium. Those companies are: OG&E, Simmons First National Bank, Bank of the Ozarks and SWEPCO, CenterPoint Energy, and First National Bank of Fort Smith. The participants have agreed to a contingent purchase of tax credits at par (dollar for dollar) at dates in the future if two conditions exist: (1) there is a capital call on the AIF to repay the bank loan and (2) the companies have Arkansas state income tax liability to be offset by the credits on a dollar for dollar basis. AIF needs to continue to build on the existing tax credit purchase consortium to a point of over subscription. AIF desires to continue to grow the consortium to assure that the tax credits if ever transferred will be transferred at par. Growing the number of participants in the consortium is a critical component of the VIP structure as it directly

affects the capacity of the Capital Guaranty and the amount of the bank financing. Other than the initial legal and accounting review, it does not cost the participants in the consortium anything to sign up. The participants are recognized annually and receive positive public recognition for their participation in a State of Arkansas program that is solely focused on using the power of equity investment to grow companies in Arkansas, to expand the tax base and to further develop the risk capital network in Arkansas.

Description of Arkansas Related Investment Goal. A measurable and stated goal of the VIP is to see the investee funds engage in robust risk capital investment activity in Arkansas. ADFA requires aggressive prospecting for qualified venture investments and expects to see the funds visible and participating in local events that support entrepreneurship. More importantly, AIF expects to see the offering of terms and the actual closing of investments in Arkansas companies. AIF has a goal of seeing two dollars of direct and leveraged co-investment in Arkansas companies for every for one dollar put at risk by the Capital Guaranty. Since AIF's inception in 2003, a total of twenty five (25) companies have received over \$30 million in venture capital funding, including \$12.1 million from AIF and \$17.8 million in additional co-investment. These companies have created approximately 450 new jobs in Arkansas.

B. SUBMISSION OF PROPOSALS. Written proposals responding to the questions and requests for information in the manner specified in this Request For Proposal ("RFP") should be submitted to the following:

rfp@adfa.arkansas.gov

To be considered, one (1) copy of the proposal should be delivered to ADFA not later than March 28, 2016, by 12:00 p.m., via email. Late proposals will not be accepted. ADFA reserves the right to reject any or all proposals.

C. ADDITIONAL INFORMATION. It is the responsibility of the proposer to inquire about and clarify any aspect of the RFP. Questions should be directed to Brad Henry (brad.henry@adfa.arkansas.gov), Vice President for Development Finance at 501-682-5905 or Patrick Patton (patrick.patton@adfa.arkansas.gov), Vice President for Internal Audit at 501-682-5902. Substantive questions and answers will be documented in letterform and will be sent by electronic mail to those who provide us with an e-mail address. **IN ORDER TO BE ON THE DISTRIBUTION LIST FOR INTERNET TRANSMISSION OF ALL RESPONSES TO INQUIRIES, YOU MUST IMMEDIATELY ADVISE PATRICK PATTON OF ADFA, THE INTERNET E-MAIL ADDRESS TO WHICH YOU WANT ALL SUCH TRANSMISSIONS SENT.**

D. PROPERTY OF ADFA. Any information or materials submitted as a response to this RFP shall become the property of ADFA and will not be returned. All submitted materials will be available for public review.

E. RESPONSE TO REQUEST FOR PROPOSAL. Firms wishing to respond to this RFP can interact and contact Patrick Patton, Chair of the Staff Professional Selection Committee. **NO CONTACT WITH ADFA BOARD MEMBERS, STAFF (EXCEPT AS STATED IN SECTION I (C)), OR AVCIT TRUSTEES IS ALLOWED AND ANY SUCH CONTACT WILL BE GROUNDS FOR IMMEDIATE REJECTION OF A FIRM'S PROPOSAL.**

F. PROPOSAL TIMETABLE.

March 9, 2016	Request for Proposal Issued
March 28, 2016	Proposals Due @ 12:00 noon
April 12, 2016	Final Selection

G. SELECTION PROCESS. The ADFA Staff Professional Selection Committee will review the submitted proposals. Proposals will be evaluated based on responses to specifics outlined in the Proposal Format section of this RFP and based upon the selection criteria. Proposals which omit any of these items may be rejected as non-responsive. The ADFA Staff Professional Selection Committee will make a recommendation to the AVCIT, which will make the final decision on a selection.

ADFA or the AVCIT may at any time prior to the selection of the financing provider reject any and all proposals and cancel this RFP, without liability therefor, upon finding that there is good cause for rejecting all proposals and that it would be in its interest to cancel the solicitation. Further, ADFA and the AVCIT shall under no circumstances be responsible for any proposer costs and expenses incurred in submitting a response to this RFP. Each proposer who submits a response does so solely at the proposer's cost, risk and expense. ADFA

and the AVCIT accept no responsibility for the return of successful or unsuccessful proposals. This RFP in no way obligates ADFA or the AVCIT to select a firm.

Any firm selected will be required to complete a disclosure form in compliance with Governor's Executive Order 98-04.

H. SELECTION CRITERIA. The proposals will be reviewed by the Staff Professional Selection Committee composed of selected members of ADFA Staff. The committee may use the following criteria to evaluate all acceptable proposals and to develop recommendations to be presented to the AVCIT, however, ADFA and the AVCIT reserves the right to evaluate proposals based on factors beyond the listed criteria.

1. Qualifications of the financial institution and individuals assigned to manage the loan:
 - a. Prior experience with comparable loans including size, number, complexity and success of prior loans.
 - b. Qualifications of staff assigned to this program including the team members' demonstrated ability, years and type of experience.
 - c. Response to Arkansas presence issue including relevance of presence to this transaction.
2. Merits of the proposed financing structure including its creativity and cost effective goals of the program
3. Pricing proposal

SECTION II: SCOPE OF SERVICES AND REQUIREMENTS

The selected financial institution will be expected to perform the following services, including but not limited to:

1. Provide necessary financing to operate and fund the AIF capital commitments
 - i) Be prepared to provide necessary liquidity in a timely manner; and
 - ii) Provide appropriate monitoring and access to AIF accounts
2. Provide standard banking relationship and communication services to the AIF
 - i) Identify a direct point of contact at the financial institution that can provide timely responses to issues and questions posed by AIF.

SECTION III: PROPOSAL FORMAT

A. TRANSMITTAL LETTER. A brief transmittal letter prepared on the proposer's business stationery should accompany the original and required copies of the proposal.

B. PROPOSAL. The proposal should be labeled "Proposal to Provide Capitalization for the Arkansas Institutional Fund". The proposal must contain sufficient information to enable the Committee to evaluate the proposal. It should be prepared in a clear and precise manner and should address all appropriate subsections.

1. Describe the organization, size, structure and stability of the firm, including:
 - a) Type of firm (such as bank, registered investment advisor, consultant or other) and the number of professionals in each major functional area of the firm;
 - b) Year founded and current ownership structure; and
 - c) Brief history of the firm.
2. Identify the representative of the firm who is submitting the proposal on behalf of the firm and his/her address and telephone number.

3. Identify individuals that will be assigned substantive and on-going roles for this relationship. Describe each individual's responsibilities and indicate whether primary or secondary and include each person's detailed resume of qualifications, years of experience with the firm, position within the firm and years of experience in prior firms.
4. Terms of the Loan – AIF is seeking up to a \$50,000,000 loan (line of credit) with the specific terms sought as described in the attached term sheet (Attachment A).
 - a) Responding financial institutions should confirm its acceptance of the terms outlined in Attachment A.
 - b) Further, respondents should present its financing proposal with three maturity options of five (5), seven (7), and ten (10) years.
 - c) The proposals should also provide a fixed interest rate for the corresponding maturity. AIF is not currently interested in entering into a variable rate loan structure.
5. Describe any transaction, agreement or arrangement for the rendering of services, or potential conflict of interest, that might arise between your firm or any individuals in your firm and:
 - i. Any of the Directors, Officers or Professional Advisors of ADFA listed herein and their respective firms; or
 - ii. The State of Arkansas, or any public trust or agency of the State.
6. Describe in itemized detail the projected amount and types of fees and/or costs that may incurred in completing the loan.
7. Arkansas Presence. Please explain your firm's presence within Arkansas and describe how that presence is relevant to the proposed transaction.
8. Potential Conflicts. List any relationship which might lead to a potential conflict in performing any services for ADFA, AIF or the AVCIT. Please list specifically any conflicts resulting from material adverse matters, as distinguished from the conduct of business as usual. Indicate what steps would be taken to eliminate any such conflict.

Other Terms and Conditions

ADFA reserves the right to take any or all of the following actions:

- 1) Cancel, delay or re-open this solicitation;
- 2) Reject any or all proposals or award the contract to the next most qualified firm if the firm receiving the award does not execute a contract acceptable to ADFA and its general counsel within 20 working days after receiving the award;
- 3) Select for contract negotiations the respondent's proposal which in its judgment will best meet ADFA's needs, regardless of any differences in estimated cost between that respondent and all others;
- 4) Negotiate one or more contracts that cover selected parts of the proposal or that will be interrupted for a period of time or terminated; and
- 5) Accept joint proposals.

Any proposal may be withdrawn up until the date and time set forth above as the deadline for submission of proposals. Any proposal not so withdrawn shall constitute an irrevocable offer, for a period of 90 days, to provide to ADFA the services set forth herein, or until one or more of the proposals has received an award and a contract has been executed.

The respondent selected shall not assign any interest in the contract and shall not subcontract or otherwise transfer any interest in the same without the prior written consent of ADFA.

Equal Opportunity Statement. Please submit your Equal Opportunity Policy to ADFA in accordance with Arkansas Act 2157 of 2005. This act requires any firm wishing to respond to an RFP or submit a proposal or statement of qualifications to provide ADFA with your Equal Opportunity Policy.

Acceptance. Submission of proposals, in response to this Request for Proposal, constitutes acceptance of all conditions, requirements and limitations described in this document.

APPENDIX A

ARKANSAS INSTITUTIONAL FUND, LLC LINE OF CREDIT TERM SHEET

Set forth below in this term sheet (this "Term Sheet") is a summary of principal terms and conditions proposed for a revolving line of credit facility and is not intended to be an exhaustive list of all terms and conditions.

- Borrower:** Arkansas Institutional Fund, LLC, an Arkansas limited liability company (the "Borrower").
- Guarantor:** Arkansas Development Finance Authority ("ADFA").
- Lender:** _____, an Arkansas state chartered bank (the "Lender").
- Loan:** Creation of a revolving credit facility in favor of the Borrower with the Lender, in the initial amount of \$50,000,000 (the "LOC Facility"). The LOC Facility to be secured by certain collateral pledged by the Guarantor.
- Closing Date:** The LOC Facility will close as soon as possible but no later than September 28, 2016.
- Terms:** The LOC Facility shall be a revolving line of credit facility in an aggregate principal amount of up to \$50,000,000. The LOC Facility shall be secured by certain assets pledged by the Guarantor in an amount sufficient to secure 100% of the outstanding balance of the LOC Facility.
- Maturity and Amortization:** The LOC Facility shall mature on the earlier of the occurrence of an Event of Default or the _____ anniversary of the Closing Date and unless renewed, the outstanding principal balance thereof plus accrued and unpaid interest, fees and expenses thereon will be due on the maturity date. Renewal of the LOC Facility will be at the sole and absolute discretion of the respective Lender; provided, however, Lender must give Borrower notice of non-renewal not less than 180 days prior to the then current maturity.
- Purpose and Availability:** The LOC Facility shall be available on the Closing Date for the Borrower's working capital requirements and other general business purposes. The revolving loan may be borrowed, repaid and re-borrowed. The LOC Facility shall be available to make interest payments ("capitalize the interest").
- Interest:** The LOC Facility will bear an average interest cost of __% per annum.
- Interest will be paid monthly and will be calculated on the basis of the actual number of days elapsed in a 360-day year. The borrower shall have the option to allow the interest to accrue during the 360-day year or use the LOC Facility to make certain interest payments ("Capitalize the Interest"). Any and all accrued interest shall be paid at the end of the 360-day year.
- Voluntary Prepayments:** The LOC Facility may be prepaid and commitments may be reduced, in whole or in part without premium or penalty at the option of the Borrower.
- Collateral:** As authorized under Ark. Code Ann. § 15-5-1405, the LOC Facility will be secured by the following described collateral (the "Collateral"):
- (a) \$10,000,000 from the ADFA Bond Guarantee Reserve Fund. These funds are held in marketable securities and are also used to guarantee certain other

economic development bonds issued by ADFA. The ADFA Bond Guarantee Program currently maintains an S&P credit rating of A plus. If the ADFA Bond Guarantee Reserve Fund were to become depleted, then the ADFA Bond Guarantee Program can be recapitalized through the treasury earnings of the State of Arkansas.

(b) \$60,000,000 in State of Arkansas Tax Credits. These tax credits are secondary collateral to provide payment if the primary collateral cannot cover any losses incurred at the end of the term of the LOC Facility. The State of Arkansas currently maintains an S&P credit rating of AA stable.

Ark. Code Ann. §15-5-1406 states that ADFA shall determine the amount of income tax credits to be transferred by ADFA, up to a total amount of ten million dollars (\$10,000,000) in any one (1) fiscal year. Specifically, no more than ten million dollars (\$10,000,000) in tax credits may be issued per fiscal year.

Representations and Warranties:

Representations and warranties applicable to the Borrower and other parties to the loan (the "Loan Parties") acceptable to the Lender and shall include, without limitation the following (subject to thresholds and/or exceptions to be agreed upon): corporate existence; corporate power and authority; non-contravention; authorization and enforceability of the loan documentation; no conflicts with law or contractual obligations; accuracy and completeness of financial and other information; no material adverse change with respect to the Borrower or other Loan Parties; compliance with applicable laws and regulations; accuracy and completeness of disclosure; consents and approvals; ownership of property; intellectual property; subsidiaries; insurance; casualty events; labor matters; no liens; no material litigation; use of proceeds; payment of taxes and other obligations; no default or event of default; and the validity, priority and perfection of liens and security interests in the Collateral.

Affirmative Covenants:

Affirmative covenants applicable to the Borrower and other Loan Parties acceptable to the Lender and shall include, without limitation the following (subject to exceptions to be agreed upon): delivery of annual unaudited financial statements and tax returns; delivery of certificates, notices and other information; compliance with applicable laws and regulations; payment of taxes and other obligations; use of proceeds; preservation of existence, permits, licenses and approvals; visitation and inspection rights; keeping of books and records; maintenance of properties and insurance coverage; performance of material contracts; and further assurances.

Events of Default:

Events of default applicable to the Borrower and the other Loan Parties customary and usual for financings of this type and any additional Events of Default reasonably required by Lender after review of information submitted by Borrower or the guarantor and related parties.

Expenses at Closing:

At Closing, the Borrower shall pay all reasonable out-of-pocket expenses of the Lender incurred in connection with the LOC Facility and the preparation, execution, delivery, administration, amendment or waiver of the Loan Documents (including the reasonable fees, disbursements and other charges of counsel to the Lender).

Governing Law and Forum:

State of Arkansas.

SIGNATURE PAGE TO FOLLOW