

**Response to Olympia Council questions re:
Grow Olympia Fund – Economic Development Loan Fund**

1. Please provide more information on other jurisdictions that use Grow America Funds (GAF).

GAF operates in more than 40 communities across the nation, from Tacoma to the Commonwealth of Puerto Rico. With a portfolio of more than 320 small business borrowers and loans totaling \$90 million, GAF has created a nationally recognized track record for:

- Tailored financing with flexible terms,
- Effective, individualized counseling and mentoring for the borrower, and
- Low portfolio loss rates

We are active in about a dozen California cities and several Washington cities, including Seattle, King County, Tacoma, Pierce County and Yakima. Of those, the Tacoma GAF program is the longest running and most robust. We've also had a full service Technical Assistance relationship with Tacoma for over 30 years. Our main contact for the City of Tacoma is Martha Anderson (253) 591-5207.

NDC IMPACT IN TACOMA

The Grow Tacoma Fund, a small business revolving loan fund administered by NDC's Grow America Fund and seeded with an initial \$1.1 million investment from the City. In 2008, as testimony to the success of the Grow Tacoma Fund, the City of Tacoma doubled its investment into GAF to \$2.1 million. The Grow Tacoma Fund has to date made 34 loans, financed \$13 million in project costs (leveraging the City's investment six times over) and retained or created 757 jobs to date. Like the rest of our portfolio, about 48% of the loans made by the Grow Tacoma Fund are to women and minority owned businesses.

Among our Tacoma borrowers, Stadium Thriftway, one of two independent groceries serving downtown Tacoma, accessed Grow Tacoma Fund dollars to finance a building expansion and new machinery and equipment. Stadium Thriftway added 30 new employees to its existing staff of 60 and was able maintain its niche in Tacoma's urban core as a purveyor of high quality foods with excellent selection and service, including weekly deliveries to local elderly residents.

Aero Precision, Inc.



Tacoma based Aero Precision, Inc. was started in 1994 in a garage. The company manufactures small parts in three different industries: aerodynamics, semiconductors, and firearms. When the company managed to double its sales in just two years it needed to significantly upgrade equipment in order to meet production demand. The Grow Tacoma Fund provided Aero Precision with funds to purchase equipment to fully automate their PFH machines, which would allow them to increase production and run unattended for 72 hours straight. In addition, GAF was able to refinance the company's existing high interest

*debt and to improve cash flow for the business as it continued to grow. "GAF helped us with a large manufacturing automation project, which involved multiple pieces of capital equipment and funding for soft cost integration. **With the GAF the funding was smooth and seamless with no surprises,**" said Scott Dover, Vice President of Aero Precision.*

Response to Olympia Council questions re: Grow Olympia Fund – Economic Development Loan Fund

The GAF program is often able to leverage other economic development tools in certain areas, such as our use of the New Markets Tax Credit program to further enhance our ability to assist businesses with needed expansions.

Stadium Thriftway



The Hargreaves family has owned and operated Stadium Thriftway, located in the Stadium District in Tacoma, since 1986. For decades it was the only market serving the downtown area. The grocery industry is a highly competitive and price-sensitive business, but Stadium Thriftway has been able to maintain its market share by catering to a niche market and providing quality service and competitive pricing. The store even provides some of its core customers with delivery service- packaging products it delivers to 70 to 80 senior citizens each week. In 2008, Stadium Thriftway had the opportunity to expand at its current location

and increase its store from 14,000 to 22,700 square feet. GAF was able to provide a New Markets Tax Credit-enhanced loan to enable the business to fund building expansion and make energy upgrades through purchase of new machinery and equipment. "The terms of the loan allowed us to do much more in upgrades to enhance the store than we would have been able to do with a conventional bank loan," said owner Mike Hargreaves.

DRC Specialty Veneering

GAF made a loan to DRC Specialty Veneering, a company that applies specialty veneers for cabinet manufacturers in 2008. This startup business, was spun off from an existing cabinet manufacturer, by one of the key employees. While the business did not have a track record, GAF underwrote the business based on the knowledge and expertise of the owners and the customer list from the prior company. The company was not conventionally bankable, but GAF took the risk in lending to the new venture. They have grown their sales and workforce and GAF made a second loan to the business in late 2012 for the purchase of additional machinery and equipment to allow them to growing their sales.



2. How do businesses learn about and access the GAF?

Overall, the success of the GAF model draws upon a broad based outreach plan (carried out by GAF's Loan Officer) that will utilize numerous existing contract and referral relationships as well as key target markets, including:

- City of Olympia Community & Economic Development
- Thurston Regional Chamber of Commerce
- Olympia Downtown Association
- Thurston County Economic Development Council

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- Other community based business groups and merchants organizations such as Rotary
- Accountants who specialize in small business accounting
- Realtors who deal with commercial real estate
- Bankers who make small business loans
- Lawyers who deal with lending and real estate
- Small businesses, including existing borrowers

As part of our outreach efforts, GAF emphasizes the positive role we can play in working with local small business lenders in the Client Community. GAF enjoys strong referral relationships with other banks making small business loans, particularly because GAF does not compete with the banks but offers a complementary program to support the needs of the bank's small business borrowers. The small business often benefits by accessing financing that provides more flexibility through better terms or rates. The bank benefits by maintaining the accounts of the business as it expands and strengthens operations. Local outreach has included Key Bank, Columbia Bank, Pacific Continental Bank, America West Bank, Commencement Bank and Umpqua Bank. When GAF enters a new community we work to expand these local bank contacts and build a network of referral relationships that can work both ways.

In addition, as part of our outreach efforts, GAF emphasizes the strength of our program to the accountants, lawyers, and realtors who work with small businesses and may be the first to know about possible expansion plans. These referral sources recognize the advantages that GAF offers in providing below market rate financing, flexible terms and an efficient closing process.

3. How is GAF more flexible than conventional bank financing?

GAF is a 501c3 nonprofit non-bank lender. Our mission is to foster entrepreneurship and to create jobs and investment in low income communities by making growth capital available to healthy and expanding small businesses that invest and create jobs in their communities. GAF differs from other conventional lenders by:

- partnering with NDC client communities (NDC Community Partners) and NDC Investment Partners to create a flexible and responsive small business loan fund
- working with and lending to small businesses and entrepreneurs that have or are developing the capacity and ability to succeed, to repay debt, and to create permanent private sector jobs based in the local community
- structuring and tailoring financing that meets the needs of the small business, rather than the needs of bank shareholders or bank regulators
- offering loans with the lowest possible rates of interest, and
- providing patient capital and counseling that helps a small business borrower and entrepreneur through difficult times.

One of the hallmarks of GAF is our strategy to offer financing that is well-structured to meet the needs of the borrower and can be repaid. Too often, poorly structured financing offered to a borrower prematurely does the borrower and the community more harm than good, and leaves behind a borrower caught in a quagmire of financial and legal problems. GAF makes every effort to keep interest rates to the small business as low as possible; currently rates are in the 4-5% range. We believe that by keeping interest costs as low as possible for the business, we

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Grow Olympia Fund – Economic Development Loan Fund**

are affording them a sustainable financing mechanism with which to grow their operations. This helps reduce their annual costs and increases the likelihood of their success.

A second hallmark of GAF is our ability to provide counseling and technical assistance to the small business while it is a borrower. While providing technical assistance is very labor intensive, our mission is to build the economic fiber of the community by assisting small businesses to grow and prosper in the community, leaving behind a thriving business after the loan has been repaid.

For example, one of our borrowers, the Hughes Group, had an option to purchase a property with significant environmental problems. A minority owned business located in Tacoma, The Hughes Group is a government logistics contractor. GAF worked with the owner of the company for over a year and helped the owner review environmental reports and state permitting for the site they wanted to purchase. They ultimately realized the site would be very expensive to remediate and we then provided financing once they found a new location.

This one-on-one counseling is a truly distinguishing characteristic of GAF and we offer it without cost to each borrower. When surveyed by our Community Impact Specialist, all of GAF borrowers in Tacoma stated that they felt our counseling and technical assistance were the most valuable part of their relationship with GAF, more important than the attractive rates we offer. The City of Tacoma evaluated GAF as follows:

“GAF’s lending activities within the City of Tacoma have had a very positive impact on the business community and this impact goes beyond simply making the loan. GAF has provided much needed financial guidance and project support to all of our Grow Tacoma Fund borrowers.”

For small businesses that do not receive financing, the capacity building assistance guides them through the due diligence process to understand why they are not a candidate for financing and what they need to complete to be able to receive loan capital.

4. What services will NDC provide in managing the GAF?

Client Cities provide seed capital to the loan pool, which leverages the SBA guarantee thus providing lending capacity that is 4-5 times the initial seed capital investment. GAF manages all aspects of the loan fund and finances businesses that are SBA – eligible to obtain the SBA guarantee and the additional capital from banks that participate with us. GAF can finance real estate, machinery & equipment and working capital needs of eligible business borrowers.

The Grow Olympia Fund will be staffed by a GAF Loan Officer (Diana Sasser), who will provide all direct outreach, marketing, meeting with businesses, financial underwriting, and obtaining GAF’s Investment Committee approval. Upon approval, GAF’s loan processing team coordinates all closing due diligence, loan documentation, SBA Guarantee approval and closing activities. The GAF Portfolio Manager (Alan Stubbs) will coordinate all management and loan servicing activities as well as ongoing borrower relationship through the life of the loan. GAF disburses the loan proceeds and maintains responsibility for any construction monitoring or other disbursement monitoring requirements during construction

**Response to Olympia Council questions re:
Grow Olympia Fund – Economic Development Loan Fund**

(with the exception of CDBG-related compliance). The Portfolio manager meets with borrowers on a regular basis to ensure that the business is running smoothly and the loan is performing in good standing and consistent with SBA requirements.

As the GAF Client City, Olympia must designate an Economic Development Professional (EDP) within the City to serve as the primary point of contact with the Grow Olympia Fund. The Grow Olympia Fund is proposed to be sourced with Community Development Block Grant (CDBG) funds. As such, the Olympia EDP will serve two primary functions for this program: 1) to act as a referral source for potential loans (along with the other referral sources listed above); and 2) to provide primary coordination on the CDBG environmental review, citizen participation process, compliance and monitoring aspects of any loans that are sourced with CDBG funds. The City EDP will confirm CDBG eligibility for any loans sourced with CDBG prior to GAF moving forward on a loan. In addition, the EDP will coordinate with the GAF loan officer to include any specific compliance and monitoring requirements imposed as a result of HUD CDBG funds. The business will provide such CDBG compliance reports directly to the City EDP once a loan is made. Thus the direct compliance monitoring and reporting relationship is maintained. GAF provides its Client Cities with a quarterly Portfolio Report that provides information on the overall loan portfolio and status of active loans as well as paid loan history, loan fund balances and earnings information.