

INNOVATION OHIO LOAN FUND

The **Innovation Ohio Loan Fund (IOF)** was created to assist existing Ohio companies develop next generation products and services within certain Targeted Industry Sectors by financing the acquisition, construction and related costs of technology, facilities and equipment. Ohio's manufacturing sector will be a key target of this program. The IOF provides competitive financing terms on loans to finance projects that will positively impact Ohio by creating high-value jobs, increased tax revenues and improve the economic welfare of the State.

The IOF addresses an identified need in the capital-funding continuum. The IOF is intended to supply capital to Ohio companies having difficulty securing funds from conventional sources due to technical and commercial risk factors associated with the development of a new product or service. The IOF can finance up to **75 percent** of a project's allowable costs to a maximum of **\$3 million** and a minimum of **\$500,000**.

Targeted Industry Sectors

The IOF will target industry sectors involving the production or use of:

- Advanced Materials;
- Instruments, Controls and Electronics;
- Power and Propulsion;
- Biosciences; and
- Information Technology.

Investment Focus

The IOF is intended to support the capital needs of *established* Ohio companies that have:

- A recent history of positive cash flow;
- A minimum of three years of operating history; and
- Attracted or are likely to attract additional third party capital to the project.

Under limited circumstances, a company that does not have a recent history of positive cash flow may be considered if it has:

- Developed a proven product for a proven market;
- Significant customer orders and reasonable prospects for rapid sales growth; and
- Obtained the financial backing of professional investors and has reasonable prospects of continued backing from such investors. The Ohio Department of Development (ODOD) may require additional equity investment in the company as a condition to granting a loan.

Eligible Innovation Costs

Eligible costs include the cost of acquisition, construction, renovation, expanding or improving project facilities and the acquisition and installation of equipment for eligible innovation projects. Additionally, loan funds may assist with software development, and the cost of creating and protecting intellectual property including costs of securing appropriate patent, trademark, trade secret, trade dress, copyright or other forms of intellectual property protection for an eligible innovation project or related products or services. Allowable costs are limited to costs **that can be capitalized under applicable generally accepted accounting principles (GAAP)**. The IOF will not provide funding for working capital or other operating costs. The IOF may not be used to refinance existing debt obligations.

Evaluation Criteria

Applications will be reviewed by both the ODOD and an outside reviewer as outlined in the **IOF Loan Application**. Factors that will be considered include:

- Number of high-value jobs to be created as a result of the successful commercialization of a new product;
- Level of risk associated with the commercialization of the new product or service;
- Degree to which the applicant has attracted or will be able to attract additional third party capital;
- Degree to which the company's business plan identifies the market need and demonstrates a feasible plan for serving that need; and
- Level of financial risk and ability of the borrower to repay the loan.

Applicant Contribution (Match Financing)

The applicant must fund, either directly or through third-party financing (or some combination thereof), at least 25 percent of the project's allowable costs. The following are not acceptable as the applicant's contribution:

- Expenditures made by or on behalf of the applicant prior to receiving approval from the ODOD or submission of an IOF application; and
- In-kind contributions of labor, equipment or similar items.

Term

Applicants will propose the loan term, which should preferably be in the range of four to seven years; although, in limited circumstances, the ODOD may consider longer terms. In no event, however, will the loan terms exceed 15 years or the average useful life of the allowable costs, whichever is earlier.

Interest Rate

The interest rate for the IOF loans will be fixed at or below private sector loans for comparable levels of risk. The IOF loans will bear an interest rate of prime plus two percent to be determined on the date of application submission.

Security/Collateral

The ODOD will require a first priority mortgage and/or security position on assets that qualify as allowable innovation costs financed with IOF loan proceeds. In appropriate circumstances, the ODOD will *consider* subordination of its mortgage and/or security position to the security position of banks and other providers of traditional senior debt.

The ODOD may negotiate additional security in the form of one or more of the following:

- Personal guarantees from owners, major stockholders, members, partners or other persons with similar interests;
- Corporate guarantees from affiliate companies;
- Life insurance on key business owners, partners and/or managers; and
- Other comparable credit enhancement.

Program Fees

- A \$1,500 non-refundable application fee is required upon submitting an IOF Loan Application.
- A processing fee of two percent of the principal of the loan, due upon receipt of the signed Commitment Letter.
- An annual servicing fee of one percent of the outstanding principal balance of the loan, prorated and payable monthly.
- A participation fee equal to 10 percent of the maximum drawn principal will be payable upon maturity of the loan. This fee is in lieu of the ODOD's ability to take an equity position in the applicant company.

Prevailing Wage

Ohio prevailing wage is required for construction, renovation and installation of machinery and equipment. The Ohio Department of Commerce's Wage and Hour Bureau determines rates and payment of prevailing wages.

Approval and Award Process

- Applicants may submit an optional Preliminary Application (described below) to allow the ODOD to provide feedback on whether or not the applicant company meets the IOF criteria and intent prior to submission of a full IOF Loan Application.
- Upon receipt of the full IOF Loan Application, the ODOD will conduct a review of each Application for compliance, financial feasibility, economic viability, the business plan, project plan, and technical feasibility as outlined in the Application.
- The Application will be reviewed by an external evaluator using pre-established criteria. The external evaluator has a blanket Non-Disclosure of Confidential Information Agreement with the ODOD. The external evaluator will review all applications received, and submit their reviews to the ODOD who will consider the scores in determining which applications to submit to the Development Financing Advisory Council (DFAC) for review.
- If the DFAC recommends approval of the loan, it will be presented to the State Controlling Board for final approval.

- After Controlling Board approval, a Commitment Letter will be drafted. Upon execution of the Commitment Letter and payment of the Commitment Fee by the applicant, the ODOD will proceed with the negotiation of definitive loan agreements and related documents.
- Upon completion and execution of the definitive loan agreement, the ODOD will close and fund the loan in accordance with the terms thereof.
- At any time prior to the final award and the negotiation and execution of definitive loan agreements, the ODOD has the authority to nullify the award without recourse.

Preliminary Application Notification

The ODOD strongly encourages potential applicants to submit a short, Preliminary Application document that the ODOD will review to determine whether the applicant understands the intent and eligibility requirements of the IOF. The ODOD requests that the document be a maximum of five pages plus financial statements, and potential applicants are asked to:

- Describe the company
 - The company’s location, size and length of operations
 - The company’s operating history
 - The products and services currently offered
- Describe the proposed project
 - The innovative product or service to be commercialized
 - How the IOF proceeds will be used
 - The economic impact, including employment (both direct and indirect) and revenue growth resulting from the project
 - The applicant’s position that the uses of loan proceeds can be capitalized under GAAP
- Describe the proposed terms of the IOF loan
 - Amount of IOF loan funds requested
 - Total eligible project costs
 - Amount and source of matching funds
 - Term of the loan
- Include three years reviewed and/or audited financials

The ODOD will provide feedback to the potential applicant as to whether the company’s planned application appears to meet the eligibility requirements and intent of the IOF. The ODOD may also respond with a list of questions that can be answered either (1) before the potential applicant submits a formal application for additional feedback from the ODOD or (2) in the formal application should the potential applicant feel confident the questions will be addressed. The Preliminary Application will not be considered in the evaluation of formal applications; rather, this is an opportunity for potential applicants to gain confidence that the full IOF Loan Application will meet the intent of the IOF.

The ODOD prefers that Preliminary Applications be sent electronically to financialincentives@odod.state.oh.us. The ODOD will respond to the Preliminary Application Notification as quickly as possible and in the order they are received. The submittal of a Preliminary Application Notification is not mandatory, and it does not bind the applicant to submit a formal application. Similarly, feedback given by the ODOD should not be taken as an indication of how well the full IOF Loan Application will be scored and does not indicate any intent to provide IOF funding.

For More Information

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