



**Department of
Development**

Ted Strickland, Governor

Lee Fisher, Lt. Governor
Director, Ohio Department of Development

Innovation Ohio Loan Fund
Program Guidelines and Application Procedures

Ohio Department of Development
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The **Innovation Ohio Loan Fund** 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 Innovation Ohio Loan Fund 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 of Ohio.

The Innovation Ohio Loan Fund addresses an identified need in the capital-funding continuum. The Innovation Ohio Loan Fund 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 Innovation Ohio Loan Fund can finance up to 75 percent of a project's allowable costs to a maximum of \$2 million and a minimum of \$500,000.

Targeted Industry Sectors

The Innovation Ohio Loan Fund 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 Innovation Ohio Loan Fund 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 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 Innovation Ohio Loan Fund will not provide funding for working capital or other operating costs. The Innovation Ohio Loan Fund may not be used to refinance existing debt obligations.

Evaluation Criteria

Applications will be reviewed by both the Ohio Department of Development and an outside reviewer as outlined in the Innovation Ohio Loan Fund Application. Factors that will be considered include, but are not limited to:

- 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), a minimum of 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 Ohio Department of Development or submission of an Innovation Ohio Loan Fund 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 six years; although, in limited circumstances, the Ohio Department of Development may consider longer terms. In no event, however, will the loan terms exceed 15 years or the average useful life of the assets, whichever is earlier.

Interest Rate

The interest rate for the Innovation Ohio Loan Fund will be fixed at or below private sector loans for comparable levels of risk. The Innovation Ohio Loan Fund will bear an interest rate of prime plus up to two percent to be determined upon review of the application.

Security/Collateral

The Ohio Department of Development will require a first priority mortgage and/or security position on assets including intellectual property that qualify as allowable innovation costs financed with Innovation Ohio Loan Fund proceeds. In appropriate circumstances, the Ohio Department of Development will consider subordination of its mortgage and/or security position to the security position of banks and other providers of traditional senior debt.

The Ohio Department of Development may require 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 Innovation Ohio Loan Fund 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 Ohio Department of Development'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 must submit a Preliminary Application (described below) to allow the Ohio Department of Development to make an initial review of whether or not the applicant company meets the Innovation Ohio Loan Fund criteria and intent prior to submission of a full Innovation Ohio Loan Fund Application.
- Upon receipt of the full Innovation Ohio Loan Fund Application, the Ohio Department of Development 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 in concert with the Ohio Department of Development through a due diligence process. The external evaluator has a blanket Non-Disclosure of Confidential Information Agreement with the Ohio Department of Development. The external evaluator and the Ohio Department of Development will review all applications received, and consider which applications to submit to the Development Financing Advisory Council for review.
- If the Development Financing Advisory Council 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 Ohio Department of Development will proceed with the negotiation of definitive loan agreements and related documents.
- Upon completion and execution of the definitive loan agreement, the Ohio Department of Development 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 Ohio Department of Development has the authority to nullify the award without recourse.

Preliminary Application Notification

The Ohio Department of Development requires potential applicants to submit a short, Preliminary Application that the Ohio Department of Development will review to determine whether the applicant understands the intent and eligibility requirements of the Innovation Ohio Loan Fund and appears to have merit. The Ohio Department of Development 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/or services currently offered
- Describe the proposed project
 - The innovative product or service to be commercialized
 - How the Innovation Ohio Loan Fund 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 Innovation Ohio Loan Fund
 - Amount of Innovation Ohio 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 Ohio Department of Development 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 Innovation Ohio Loan Fund. The Ohio Department of Development 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 Ohio Department of Development 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 Innovation Ohio Loan Fund Application will meet the intent of the Innovation Ohio Loan Fund.

The Ohio Department of Development prefers that Preliminary Applications be sent electronically to financialincentives@development.ohio.gov. The Ohio Department of Development will respond to the submission of a Preliminary Application as quickly as possible and in the order they are received. The submittal of a Preliminary Application does not bind the applicant to submit a formal application. Similarly, feedback given by the Ohio Department of Development does not indicate any intent to provide Innovation Ohio Loan funding.

For More Information Contact:

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