

Ohio Third Frontier Program Talking Points

Background

Created in 2002, the Ohio Third Frontier is an unprecedented commitment to create new technology-based products, companies, industries and jobs. In May, the Ohio Third Frontier was extended by taxpayers through 2015 indicating a widely held understanding by the populace that technology and innovation will lead to economic prosperity both today and for future generations.

In early September, the Ohio Third Frontier Commission approved a portion of the investment plan for fiscal year 2012, which includes approximately \$185.6 million of investments in technology-based economic development efforts this year, of which \$76 million is expected to be directed toward entrepreneurial support programs. This proposed plan represents a shift in Ohio Third Frontier's past investment activity. Initially Ohio's entrepreneurs needed pre-seed and seed stage funding to determine the technical merit of their technologies and ideas and to develop prototypes. In light of the demand, Ohio Third Frontier funneled 60 percent of its investments into research and development projects and infrastructure, 25 percent into the entrepreneurial space, and 15 percent to talent and cluster development. As the companies grew and the state succeeded in developing a strong pipeline of early stage companies, entrepreneurs ran into a new constraint — access to later stage capital to hire employees, develop their products, and perform initial marketing and branding. In response to the progress of the state's entrepreneurial ecosystem, the Ohio Third Frontier is now placing more emphasis than ever before on making later stage investment dollars available to these growing companies while continuing to support R&D and earlier stage companies.

The program's prior focus, which relied heavily on research related investments to provide major financial and employment returns to the State within a 7-10 year timeframe; is shifting its focus to areas that might pay off sooner, within three to five years.

So let's take a look at the 3rd Frontier yearly fiscal appropriations through 2015:

Appropriation Amounts			
FY 12	FY 13	FY 14	FY 15
\$225 M*	\$175 M	\$175 M	\$175 M

**Of which \$200 M is available for new program awards in 2012*

2012's program budget is \$200 million and will be disbursed in the following manner (with \$14.4 million unallocated):

Entrepreneurial Support	Value Chain Development	Open Innovation	Talent	Total
\$77.7 M	\$39.9 M	\$65 M*	\$3 M	\$185.6M
42%	21%	35%	2%	100%

**Includes \$8 M Research Incentive budget item*

A deeper dive into FY 2012 Budget Summary:

<u>CATEGORY</u>	<u>PROGRAM</u>	<u>2012</u>
Entrepreneurial	Entrepreneurial Signature Program	\$40.0
	ONE Fund	\$1.7
	Pre-seed Fund Capitalization	\$25.0
	Micro Fund	\$1.0
	Growth Fund	\$10.0
Value Chain	Jobs Ohio Network	\$14.9
	Commercial Acceleration Fund	\$25.0
Open Innovation	Tech Validation & Start-up	\$6.0
	Open Innovation Incentive	\$8.0
	Innovation Platform Fund	\$18.0
	Industrial R&D Center	\$25.0
	Research Incentive	\$8.0
Talent	Third Frontier Internship Program	\$3.0
Total		\$185.6

6 Leading Industry Sectors for the 3rd Frontier:

Based on a Battelle Study, these are the leading industry sectors that the 3rd Frontier Board and Commission will focus their time, effort and resources promoting:

- **Materials**
- **Aerospace**
- **Bio-Medical**

- **Energy**
- **Information Technology**
- **Instruments and Controls**

The Future Direction of the Ohio 3rd Frontier:

- Establish a portfolio of activities that emphasizes economic outcomes in the 3-5 year timeframe;
- Updated assessment of major Ohio market opportunities and sharper focus on six key industries in which significant growth can be catalyzed with 3rd Frontier investments, integrated with the State’s overall economic development strategy;
- Identification of some potential large game-changing investments that can be pursued in the next five years;
- Explore funding alternatives [*to grants*] that shift more risk to award recipients and generate some direct return back to the 3rd Frontier for future investments;
- Metrics that improve ability to make ROI-based decisions and track success in those terms.

Program Overview

VALUE CHAIN DEVELOPMENT

Innovation Ohio Loan Fund (IOLF) was created to assist existing Ohio companies develop next-generation products and services within the six Targeted Industry Sectors by financing the acquisition, construction, and related costs of technology, facilities, and equipment. The IOLF 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.

Program Parameters:

- The IOLF can finance up to 75 percent of a project's allowable costs to a maximum of \$2 million and a minimum of \$500,000.
- Applications for IOLF are accepted on a rolling basis.

Programmatic Changes:

- NONE

JobsOhio Network Program (NEW): The goal of the JobsOhio Network Program is to make job creation and economic development a high priority by enhancing Ohio’s government-based economic development efforts, thus enabling more proactive and competitive responses to emerging and promising opportunities. With a focus on strategic industry sectors, the Network will aggressively pursue the retention, expansion and recruitment of businesses with

high potential for job and wealth creation in Ohio as well as the transition of technologies into new companies and products.

The Network will leverage statewide and regional strengths, within the six JobsOhio defined regions, supported by a regional network partner located within each of those regions. Those entities are as follows:

Regional Network Partners:

Toledo – Regional Growth Partnership

Cleveland – Team North East Ohio (Team NEO)

Columbus – Columbus 2020

Cincinnati – Cincinnati USA Partnership

Dayton – Dayton Development Coalition

Nelsonville (Appalachia) – Appalachian Partnership for Economic Growth

Program Parameters:

- This pilot program is funded for one year for a total of \$14.85M. Future funding will be based off the initial success of the network.
- These six entities are in varying stages of organizing and ramping up staff.

Programmatic Changes:

- None; a new program.

Commercial Acceleration Loan Program (NEW): was created to increase the technical capabilities and business competencies of Ohio value chains within key existing and emerging driver industries and pursue targeted attraction to fill gaps.

The goal of the program is to invest in projects moving products/services into meaningful market entry:

- Commercial scale demonstrations in market use conditions;
- Manufacturing scale-up beyond pilot plant;
- Final customer validation, product certification, and/or regulatory certification;
- Acquisition of exclusive IP rights;
- Launch of next generation of an existing product, service, or process;
- Design engineering/packaging.

• ***3 Commercial Acceleration Loan Funds:***

New Venture Loans - \$500k - \$1 M per loan

- Professional venture/smart money backed co.;
- Balloon loan w/ less than market rate interest;
- Warrant provision;

- 25% forgivable for successful completion and another 25% forgivable / sales of \$1 M and significant market entry.

Venture/Non-venture Loans - \$500k - \$2 M per loan

- Targeted to small, post revenue co. w/ existing product/service on market;
- Near to market project w/ high sales potential;
- Revenue participation note, deferred payments w/ min./max. payback;
- 25% forgivable w/ sales of \$1 M and another 25% forgivable w/ sales \$2 M+, and significant market entry at each milestone.

Non-venture Loans - \$500k - \$3 M per loan

- Targeted to small to established company w/existing product/service on market;
- Near to market project w/ strong financial backing;
- Loan will support up to 25% of the project;
- 5% annual interest, due monthly, principal deferred during project period.

Broader Program Parameters:

- \$25 Million dollars
- Finance up to 50% of project cash costs;
- Deferred principal and/or interest options;
- Working capital eligible;
- For-profit companies in targeted industries;
- Different loans/terms for different opportunities;
- Validated market demand through IOLF, OTF Investment Forum, Battelle forums, staff survey;

Programmatic Changes:

- This new program combines all of the former commercialization programs (advanced energy, biomedical, fuel cell, medical imaging, photovoltaic, sensors, Ohio research commercialization programs) into one.
 - This program will now consist of loan and not grant awards as in prior funding rounds (although percentage of the loan can be forgivable).
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ENTREPRENEURIAL SERVICES

Entrepreneurial Signature Program: The goal of the Entrepreneurial Signature Program (ESP) is to significantly increase the technology-based entrepreneurial commercialization outcomes throughout a defined geographical region and to focus the effort on strategic technology-based sectors that offer exceptional economic development prospects for the region. Each ESP represents a comprehensive, coordinated network of high-value services and assistance providers that are visible and easily accessible to technology-based entrepreneurs and small tech-based companies throughout its region. These services could include:

- Connections to a network of resources for assistance;
- Management assistance provided by a team of executives-in-residence and investment associates to help accelerate the growth of promising technology companies;
- Seed-stage investments;
- Capital formation assistance.

The six regional ESP entities are as follows:

ESP Regional organizations:

Northeast – Jumpstart Inc.

Southwest – CincyTech

Central – TechColumbus

West Central – Dayton Development Coalition

Northwest – Rocket Ventures

Southeast – TechGrowth Ohio

Program Parameters:

- \$40 M two year program budget;
- The ESP previously awarded grants up to \$10 million dollars. The 2012 RFP has yet to be released and therefore the award amount for this fiscal year has yet to be determined.

Programmatic Changes:

- Previously this program also provided **capital funding**, along with funding for entrepreneurial services, to the 6 regional ESP organizations **but that is no longer the case. Only provide funding for services.**
 - Starting this fiscal year (2012), if the ESP's want to apply for capital funding to accelerate the growth of early-stage Ohio technology companies in their regions, they will have to compete against angel and private equity entities (like the Queen City Angels for example) under the Pre-Seed Fund

Capitalization Program for funding which is a significant program shift from prior years.

Pre-Seed Fund Capitalization Program (PFCP): The goal of the Pre-seed Fund Capitalization Program is to increase the availability of professionally managed capital and associated services to accelerate the growth of early-stage Ohio technology companies. The PFCP provides grants to capitalize for-profit and nonprofit funds that have attracted the support of other non-state investors. Funds capitalized by PFCP are expected to target investments to pre-seed stage technology-based businesses.

Program Parameters:

- \$25 M program budget;
- \$500K to \$2M per fund;
- Cash match 1:1.
- The 3rd Frontier staff is currently drafting the RFP for 2012 fiscal year.

Programmatic Changes:

- Starting this fiscal year (2012), if the ESP's want to apply for capital funding to accelerate the growth of early-stage Ohio technology companies in their regions, they will have to compete against angel and private equity entities (like the Queen City Angels for example) under the Pre-Seed Fund Capitalization Program for funding which is a significant program shift from prior years.

Micro Fund (NEW): This new fund will provide awards that range between \$5,000 and \$25,000 for new sustainable community-based, non-profit investment funds, each of which will have to match the State's investments dollar for dollar.

Program Parameters:

- \$1 M program budget;
- Up to \$1M per fund (non-profit);
- Investments from \$5k to \$25k;
- Cash match 1:1.
- The 3rd Frontier staff is currently drafting the RFP for 2012 fiscal year.

Programmatic Changes:

- NONE; new program.

Growth Fund (NEW):

Program Parameters: This new fund will make two investments of \$5 million each into investment funds. It requires a private match of \$3 and an SBA match of \$8 for every \$1 of Ohio Third Frontier money. Thus, the state's \$10 million investment will make \$120 million of new capital available to Ohio companies.

\$60M Fund (2):

- \$5M State Investment;
- \$15M Private Capital;
- \$40M SBIC Leverage.

*SBIC Impact Fund targets energy, education and low to moderate income areas. Funds must deploy 50% of capital to these targets.

Program Parameters:

- \$10 M program budget;
- \$5M per fund;
- Private Cash match 1:3.
- SBA Cash Match 1:8 (2x total fund)
- The 3rd Frontier staff is currently drafting the RFP for 2012 fiscal year.

Programmatic Changes:

- NONE; new program.

TALENT

Internship Program: The Third Frontier Internship Program links Ohio students with rewarding internship opportunities that provide great hands-on experience within Ohio's private sector business community. The goal is to build a young, talented workforce for the future and assist students in gaining valuable work experiences that can lead to permanent full-time employment in Ohio after graduation.

The Ohio Third Frontier Internship is looking for participating businesses that can provide the following types of internships:

- Advanced energy;
- Advanced manufacturing;
- Advanced materials;
- Bioscience;
- Information technology;

- Instruments, controls and electronics; and
- Power and propulsion.

Program Parameters:

- \$3 M program budget;
- The program will reimburse up to 50 percent of the intern's wage, or no more than \$3,000 for a 12-month period.
- Following an intern's graduation, the company will have the opportunity to offer full-time employment to an individual who is well prepared for a future career with the organization.
- FY 2012 funding will be awarded for deployment well before the summer internship season 2012
- To apply, visit <http://thirdfrontierintern.ohio.gov>

Programmatic Changes:

- NONE

The ONE Fund: Is a program designed to aggressively recruit young entrepreneurs to Ohio to work under the guidance of seasoned entrepreneurs, industry experts, and investors to launch a new business venture. This pilot program, in collaboration with The Ohio State University's Center for Entrepreneurship at Fisher College of Business, focuses on the professional development of young entrepreneurs with the necessary ambition to commercialize new technologies.

Program Parameters:

- The teams will be made up of at least two people who are at least 18 years of age.
- Team members must be able to locate to Columbus, Ohio for the duration of the 11- week program.
- There are no nationality or residency restrictions.
- The application can be found by visiting 10xelerator.com. The application window opened on September 2, 2011 and completed applications are due no later than 11:59 pm on November 20, 2011.
- Program will have the same parameters as last year.

Programmatic Changes:

- NONE

OPEN INNOVATION

Industrial Research and Development Center Program (IRDCP): The Industrial Research and Development Center Program are designed to attract large, nationally designated and highly visible corporate, nonprofit, and federal research and development centers or laboratory facilities to Ohio. The IRDCP will achieve this by enhancing and supplementing Ohio organizations' proposals for such centers by providing funding that serves as cost share or matching dollars, thereby improving the competitiveness of the proposal and enhancing the potential for a center being located in Ohio.

Program Parameters:

- \$25M program budget;
- IRDCP contributes an 15% of the prime investment not to exceed \$5M
- Minimum corporate investment of \$15 M or federal center award of \$10 M
- For-profit and non-profit research institutions are both eligible to be lead applicants
- Fiscal Year 2012 RFP's are available.

Programmatic Changes:

- NONE.

Innovation Platform Program (NEW): The Innovation Platform Program was created to support near term commercialization projects requiring major capital acquisitions and improvements at Ohio higher education institutions and nonprofit research organizations with a secondary benefit to support technical workforce training. Collaborations, between universities and for profit entities are still encouraged and are formed to further the near-term commercialization of specific or platform technologies with significant, defined market opportunities.

Program Parameters:

- \$18 M program budget;
- \$1M to \$3M per award
- 1:1 cost share
- Operations, facilities and equipment costs are eligible
- Higher Ed and non profit research entities can be lead applicants
- 2 or more Ohio, for profit industry collaborators required to validate industrial relevance and use of the platform
- Fiscal Year 2012 RFP's are in the process of being drafted.

Programmatic Changes:

- None; new program.

Ohio Technology Validation and Start-up Fund (NEW) (TVSF): TVSF was created to stimulate greater economic growth in Ohio based on start-up companies that commercialize technologies developed by Ohio institutions of higher

education. The TVSF has been designed to: (1) Support protected technologies developed at Ohio institutions of higher education that need known validation/proof that will directly impact and enhance both their commercial viability and ability to support a start-up company and (2) Support Ohio start-up and Ohio young companies that license these validated/proven technologies from the Ohio institutions of higher education.

Program Parameters:

- 2 Phases of program:
- **Phase 1 (Technology Validation):**
 - \$3 M
 - Up to \$50K per technology
 - 1:1 cost share
 - Universities/Colleges are lead applicants
- **Phase 2 (Start Up):**
 - \$3M
 - Up to a \$100K per technology
 - No cost share requirement
 - Goal is to increase the number of new or young Ohio companies licensing Ohio university technology and are well positioned to commercialize it.
- Fiscal Year 2012 RFP's are currently being drafted and will be available soon.

Programmatic Changes:

- NONE; new program

Open Innovation Incentive: This program provides for-profit enterprises (“seekers”) with vouchers to spend with other for-profit enterprises or non-profit research institutes to address a problem prohibiting the for-profit enterprise from bringing a product to market. The product must be very close to market entry.

Program Parameters:

- \$8 M program budget
- Voucher amounts will range from \$200,000 to \$400,000.
- Seekers must contribute \$2 for every \$1 of Ohio Third Frontier money.
- Fiscal Year 2012 RFP's are currently being drafted and will be available soon.

Programmatic Changes:

- NONE; new program

Research Incentive: Details of this program have yet to be created or released and the 3rd Frontier staff is unsure, at this time, whether the program will actual be created (even though dollars have been budgeted to establish the program).

Program Parameters:

- \$8M dollar program budget

Programmatic Changes:

- NONE; new program

Pursued Outcomes of the 3rd Frontier Program:

- Produce a high level of economic return for the state in quality jobs, company growth, and wealth creation;
- Attract companies, talent and capital to Ohio;
- Create sustainable engines of economic development activity in key areas of technology and industry strengths;
- Reduce the risk of pursuing entrepreneurial, innovation and development activities in Ohio;
- Sustain best practices and relationships that lead to efficient commercialization;
- Increase the visibility and reputation of Ohio as an innovation and entrepreneurial destination.

*For more details on the programs, visit www.thirdfrontier.com.