



Department of
Development

Innovation Ohio Loan Program
Program Guidelines & Application Process

Ohio Department of Development
Strategic Business Investment Division
Loans & Servicing Office
77 South High Street, 28th Floor
Columbus, OH 43215-6130
(614) 466-5420
financialincentives@development.ohio.gov

Rev. 2/9/11

The Innovation Ohio Loan Fund (IOF Loan) promotes assistance to existing Ohio companies in developing next generation products and services within certain Targeted Industry Sectors

The Ohio Department of Development's (Development) IOF Loan 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 Loan addresses an identified need in the capital-funding continuum. The IOF Loan 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.

Targeted Industry Sectors

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

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

Investment Focus

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

- a recent history of positive cash flow
- minimum of three years of operating history
- 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
- obtained the financial backing of professional investors and has reasonable prospects of continued backing from such investors. Development may require additional equity investment in the company as a condition to granting a loan

Eligible Projects

Eligible projects include those related to industry, commerce, distribution or research activities. Retail projects are **ineligible** for the IOF Loan.

Allowable Project Costs/Uses

Allowable costs are limited to costs that can be capitalized under applicable generally accepted accounting principles (GAAP) to include the following:

- Acquisition
- Land and/or building purchase; if the project involves the purchase of an existing building, the business must occupy at least 51% of the premises
- Machinery & equipment purchase
- Building construction and/or renovation costs; if the project involves new construction the business must occupy at least 60% of the premises
- Long-term leasehold improvements
- Ongoing businesses fixed asset purchase
- Capitalizable costs directly related to a fixed-asset purchase
- Software development
- 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.
- Refinancing is **ineligible**

Available Funding

The IOF Loan may finance up to 75% of allowable project costs with loans ranging in size from \$500,000 to \$1,500,000.

Term

The IOF Loan term is determined by staff and will range from 4 – 7 years or upon the useful life of the allowable project costs/uses financed.

Interest Rate

The IOF Loan rate will be fixed at or below private sector loans for comparable levels of risk.

Job Creation/Retention

Development requires a commitment to create or retain jobs to the State of Ohio through the IOF Loan program. While there is not a specified dollar per job ratio, the number of jobs committed, as well as the annual payroll will be considered when determining the funding amount.

Applicant Contribution

Development requires a 25% minimum contribution in the allowable project costs/uses. The required contribution may be higher for early stage companies and special purpose facilities. In-kind contributions of labor, equipment or similar items **are not** acceptable as the applicant's contribution.

Security & Collateral

Development requires a first and/or shared first priority mortgage and/or lien position on project costs/uses financed with the IOF Loan proceeds. Development may require the following additional collateral or credit enhancements:

- Personal guarantees from owners with more than 20% ownership in the company
- Corporate guarantees from related companies
- Full or partial letter of credit
- Life insurance on key business owners and/or managers
- Other types of credit enhancement, if necessary

Program Fees

- Non-refundable \$1,500 application fee is due upon submitting a completed Financial Assistance Application
- Non-refundable commitment fee equal to 2% of the loan amount is due upon receipt of a signed loan approval, confirmation and commitment letter
- Annual servicing fee equal to 1% of the outstanding principal amount of the loan is pro-rated and payable monthly
- Participation fee equal to 10% of the maximum drawn principal will be payable upon maturity of the loan. This fee is in lieu of Development's ability to take an equity position in the applicant company

Prepayment

Development imposes no pre-payment penalty.

Prevailing Wage

Ohio prevailing wage is required for construction, renovation and the installation of machinery and equipment. Rates and payment of prevailing wages are determined by the Ohio Department of Commerce's Wage and Hour Bureau. A request for prevailing wage determination is required for all projects.

Application Process

- Applicants must submit a Preliminary Application (described below) to allow Development to make an initial review of whether or not the applicant company meets the IOF criteria and intent prior to submission of a full IOF Loan Application.
- Contact Development's Business Development Manager to discuss the project.
- Submit a completed Financial Assistance Application, which includes applicable items on the application checklist below.
- The Application will be reviewed by an external evaluator in concert with Development through a due diligence process. The external evaluator has a blanket Non-Disclosure of Confidential Information Agreement with Development. The external evaluator and Development will review all applications received, and consider which applications to submit to the Development Financing Advisory Council (DFAC) for review.
- A preliminary project term sheet will be provided by Development staff.
- Loans will be presented to the Development Financing Advisory Council (DFAC) for review and recommendation. (DFAC generally meets on the last Monday of each month.)
- Loans will be presented to the State Controlling Board for final approval.
- A loan approval, confirmation and commitment letter will be issued by Development upon approval by the State Controlling Board.
- Loan-closing documents are prepared upon receipt of a signed loan approval, confirmation and commitment letter and processing fee.
- Loan proceeds are normally disbursed after project completion and loan closing ("take-out" financing), interim financing may need to be arranged by the business.

Application Checklist

Complete application and attachments may include any/all of the following information:

Business Information

- Description of business and operational history
- Description of market, industry and competition
- Description of products and services
- Bios of owners and/or key managers
- Capitalization table with ownership, subsidiary and affiliates information

Financial Information

- Income statement and balance sheet for past three fiscal years and accompanying notes
- Current business financial statement (less than 90 days old)
- Business financial projections for three fiscal years (privately held companies only)
- Business financial information for the last three fiscal years on affiliate businesses (if applicable)
- Conditional bank commitment and/or term sheet (if applicable)

Project Information

- Project description
- Sources of funds with commitment levels, conditions and financial terms
- Uses of funds with detailed project plan, equipment list and contractor quotes
- Cost verification-purchase agreement and/or third party cost estimates
- Appraisal by qualified appraiser
- Phase I Environmental Review

Evaluation Criteria

Applications will be reviewed by both Development and an outside reviewer. 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.

Preliminary Application Notification

Potential applicants may submit a short, Preliminary Application that Development will review to determine whether the applicant understands the intent and eligibility requirements of the IOF Loan and appears to have merit. 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 IOF Loan 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

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 IOF Loan. 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 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 Financial Assistance Application will meet the intent of the IOF Loan.

Development prefers that Preliminary Applications be sent electronically to financialincentives@development.ohio.gov. 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 Development does not indicate any intent to provide IOF Loan funding.

Evaluation Criteria

Applications will be reviewed by both Development and an outside reviewer. 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.