

RESEARCH AND DEVELOPMENT INVESTMENT LOAN FUND

The Research and Development Investment Loan Fund (R&D Fund) was created to position Ohio to compete aggressively for private-sector R&D investments that will create high-wage jobs. The R&D Fund will target large investments from companies with significant assets and sales. The R&D Fund will be used to aggressively pursue research and development operations and facilities and to fund the cost of capital purchases. Assistance from the State would be in the form of a low-interest loan, partnered with a tax credit.

Businesses that are meeting the program requirements (i.e. job creation commitments, timely loan repayments, etc.) will be eligible for a dollar-for-dollar credit against their Ohio Corporate Franchise Tax, equal to the amount of principal and interest repaid on the loan. The maximum annual credit is \$150,000. The credit will be non-refundable, but can be carried forward.

Before a company can claim a credit on its tax return, it must first receive a tax credit certificate from the ODOD certifying that the company is meeting the terms of its loan agreement. To receive a tax credit certificate, the company must file an annual progress report with the ODOD by March 1st. In this report, the company would detail its progress in meeting the job creation, wage, and investment commitments made as a condition of receiving the loan. The reporting period will include activity for the prior calendar year. The ODOD Staff will review the report and the company's record of timely loan repayments and certify the amount of principal and interest paid on the loan for the preceding calendar year. A certificate will then be prepared and forwarded to the company to file with its annual State of Ohio tax return.

Eligible Projects

Eligible facilities/operations are defined as projects in which research is undertaken for the purpose of discovering information that is technological in nature, and the application of which is intended to be useful in the development of a new or improved product, process, technique, formula or invention. It is expected that project employment will be comprised of a significant representation of scientists, researchers and technicians.

Eligible Project Costs

- Purchase of land and/or building; if the project involves the purchase of an existing building, the business must occupy at least 51 percent of the premises
- Purchase of machinery and equipment
- Building construction and/or renovation costs; if the project involves new construction, the business must occupy at least 75 percent of the premises
- Long-term leasehold improvements
- Purchase of an ongoing business' fixed-assets
- Limited soft costs directly related to the fixed-asset purchase
- Refinancing is ineligible

Available Funding

The R&D Fund can finance up to 50 percent of a project's allowable costs, with loans ranging in size from \$1.5 to \$25 million.

Term

The term of any loan awarded through the R&D Fund is conditioned upon the useful life of the financed assets, with the maximum limits of up to 15 years for real estate and up to 10 years for machinery and equipment.

Interest Rate

Interest rates for the R&D Fund are fixed at/or below market rates and typically do not exceed ½ of the current prime rate.

Job Creation/Retention

The ODOD requires, under the R&D Fund, a commitment to create or retain jobs to the State of Ohio. 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

The applicant must fund, either directly or through a third party (or some combination thereof), at least 50 percent of the project's allowable R&D Fund costs.

Collateral

The ODOD will require a first priority mortgage and/or lien position on assets financed with R&D Fund proceeds to be established via a multi-party agreement between the participating lender(s), the ODOD and the borrower.

Security Requirements

The following may be required:

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

Program Fees

- A \$1,500 non-refundable application fee is required upon filing a completed Financial Assistance Application.
- A processing and commitment fee of one percent of the loan amount up to a maximum of \$50,000, due upon receipt of a signed loan commitment letter.
- An annual servicing fee equal to .25 percent of the outstanding principal balance of the loan, prorated and payable monthly.

Pre-payment

The ODOD imposes no pre-payment penalty.

Prevailing Wage

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

Application Process

- ❑ Contact the ODOD staff to discuss the project.
- ❑ Submit a completed Financial Assistance Application which includes applicable items on the application checklist below.
- ❑ An eligibility review and credit analysis will be conducted by the ODOD staff.
- ❑ A preliminary project term sheet will be provided by the ODOD 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 commitment letter will be issued by the ODOD upon approval by the State Controlling Board.
- ❑ Upon receipt of the signed loan commitment letter and processing fee, loan-closing documents will be prepared.
- ❑ Loan proceeds will normally be disbursed after project completion and loan closing (interim financing may need to be arranged by the business).

Application Checklist

- ❑ History and description of business
- ❑ Description of market, industry and competition
- ❑ Resumes of owners and/or key managers
- ❑ Project description including sources and uses of funds (include specific use of loan proceeds)
- ❑ Business financial information:
 - o Income statements and balance sheets for past three fiscal years, and accompanying notes;
 - o Current business financial statements (less than 90 days old);
 - o Business financial projections for three fiscal years (privately held companies only); and
 - o Business financial information for the last three fiscal years on affiliate businesses (if applicable).
- ❑ Current personal financial statement(s) from all 20 percent or more owners
- ❑ Conditional bank commitment and/or term sheet (if applicable)
- ❑ Phase I environmental audit (if applicable)
- ❑ Cost verification-purchase agreement and/or third party cost estimates
- ❑ Appraisal by qualified appraiser

For More Information

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