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**Ohio Venture Association  
Position Paper  
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**Ohio Third Frontier Program**

The Ohio Venture Association strongly supports the prompt renewal of the Ohio Third Frontier Program. The program has delivered, and will continue to deliver, tangible economic benefits to Ohio through technology-based economic development at a time when Ohio is striving to reinvent and reinvigorate its economy. The program generates economic activity and job creation by increasing the research technology base in the state, supporting the commercialization of products from that research, and increasing the availability of capital for early-stage investment. These benefits drive technology-based employment growth, contribute to the competitiveness and diversification of the Ohio economy, and support the recruitment of businesses to the state.

**What is the Ohio Third Frontier Program?**

Ohio's Third Frontier Program, launched in 2002, is a \$1.6 billion, 10-year commitment to support technology-based economic development by creating products, companies, industries and jobs. The source of funds is a bond measure approved by Ohio voters.

The program is administered by the nine-member Ohio Third Frontier Commission, which is comprised of three state officials and six regional representatives appointed by the Governor. The Commission is responsible for the allocation of funds as appropriated by the Ohio legislature. A 16-member Advisory Board provides guidance to the Commission.

**What is the Programs' Purpose?**

The Third Frontier Program is part of a comprehensive Ohio strategy to promote collaborative research and commercialization, provide entrepreneurial support, and form new companies. Other parts of the strategy include the Ohio Technology Investment Tax Credit Program, which provides tax-based incentives for investment in qualifying technology start-ups, and the Ohio Capital Fund, which is designed to attract venture capital firms to Ohio.

The Third Frontier Program targets its investments to support technologies that represent Ohio's key competitive opportunities, including advanced and alternative energy; biomedical and bioscience; advanced materials; instruments, controls and electronics; and advanced propulsion.

## Encouraging Results

The Ohio Third Frontier program has had many successes, and is now seen as a prototype by other states that are trying to reinvigorate older manufacturing-based or industrial economies. The program is estimated to have had a \$6.6 billion economic impact on Ohio since the program's launch in 2002, generating 41,300 primarily high-technology jobs, and attracting ten dollars in federal grants and investor capital for every dollar invested by Ohio, according to an analysis conducted by the nonprofit research institute SRI International and the Georgia Institute of Technology's Enterprise Innovation Institute.

During its first seven years, the Third Frontier Program has:

- Attracted \$3.2 billion in additional grants and investments with its \$473 million in funded grants to researchers, centers of innovation, research institutions and companies in five industry clusters
- Created \$440 million per year in product sales by funded companies, a number that is estimated to climb to \$900 million a year by 2013
- Generated \$2.4 billion in employee wages and benefits
- Yielded an average yearly return on investment of 22 percent

As a result, employment in Ohio's technology sector is *growing*. Between 2004 and 2008, total employment in Ohio's high-tech industries grew 4.0 percent, adding 19,198 jobs, according to recent study commissioned by NorTech and conducted by the Center for Economic Development at Cleveland State University.

The latter half of this time period was otherwise recessionary. All other industry sectors in Ohio experienced a net total decline of 7,247 jobs. Employment growth in the five industry clusters targeted by Third Frontier (advanced and alternative energy; biomedical; advanced materials; instruments, controls, electronics; and advanced propulsion) has outpaced U.S. employment growth.

Investment in Ohio early stage companies is also growing. Total seed and early-stage capital investment in Ohio expanded by 18.5% per year between 2004 and 2008, from \$127.9 million to \$298.3 million, according to a study by the Fisher College of Business Center for Entrepreneurship at Ohio State University. The same study indicated that total venture capital investment in Ohio grew by 13.2% (\$243 million to \$445.6 million) from 2004 to 2008, which substantially

outpaced the 5.1% annual growth rate of venture capital investment in the U.S. during the same period. Other studies have drawn similar conclusions.<sup>1</sup>

The program and its related initiatives are catalyzing economic activity in emerging technology clusters that build on the existing foundation of Ohio's existing industrial strengths and existing research institutions.

### **Where it Stands Today**

The program was designed to last until 2012, a decade after it began, but is set to close a year early because of reduced state revenue. Third Frontier and government leaders expect to ask voters to approve a renewal of the program in May 2010.

### **Why Continue the Third Frontier Program?**

"It is now well understood that a region's capacity for innovation depends on an effective system that involves many elements, including R&D, skilled people, financing, market pull, a supportive policy environment, and other elements."<sup>2</sup> The Ohio Venture Association believes strongly that not only the continuation of the program, but its continuation without interruption, is essential for Ohio to continue to build on past success in creating an environment for innovative economic activity, which leads directly to overall economic development through the creation of companies and jobs.

In addition, the program's investments will generate substantially larger and more significant impacts in the years to come, according to the SRI International analysis.<sup>3</sup>

- A majority of funds remain to be spent: some funds have not yet been awarded, and some funds awarded have not yet been entirely spent. The economic impact of the program is expected to increase significantly over the next five to ten years.
- The program is generating successful outcomes in spite of a long and particularly deep U.S. recession.

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<sup>1</sup> See "Ohio Third Frontier Analysis of Performance" Ohio Business Roundtable, December 8, 2009 [http://obdc-files.gripmanager.com/innew/filename/181/Third\\_Frontier\\_Performance\\_Review\\_Dec\\_8\\_2009.pdf](http://obdc-files.gripmanager.com/innew/filename/181/Third_Frontier_Performance_Review_Dec_8_2009.pdf).

<sup>2</sup> Nelson, Richard R. National Innovation Systems: A Comparative Analysis. Oxford University Press. 1993.

<sup>3</sup> Making an Impact: Assessing the Benefits of Ohio's Investment in Technology-Based Economic Development Programs, p.95. SRI International. September 2009.

- Many intermediate impacts of the program, such as new products and services resulting from university research and better linkages among research institutions, companies, and financial institutions, are long term in nature and take time to coalesce.

To compare the results of the program with the alternative of not having such a program, SRI modeled a scenario in which the funds spent by the Third Frontier Program were merely returned to Ohio taxpayers. This generated a projected \$935 million in economic activity, as opposed to \$6.6 billion generated by the program.

The most important effect of the program is the probable long-term impact on Ohio's system of supporting innovation. Innovation is integral to economic growth. Growth translates to higher quality jobs, increased tax revenue, and all the benefits associated with each.

The Ohio Venture Association believes that continuity is of paramount importance to the program. The experience of other states and clusters, such as Silicon Valley, the Research Triangle, or Austin, Texas, is that it takes 20 to 30 years for regions to achieve the critical mass that becomes self-sustaining. It takes time to take a new technology from the laboratory to a product, time to finance and grow companies, and time to develop the supporting manufacturing and service firms. It takes time to build new institutions and change the culture of existing institutions to support technology-based economic growth. It takes time to establish the networks among organizations and to develop the national and international reputation that attracts talent and resources.

Without actual and perceived continuity, principal parties (such as venture capital firms, research and educational institutions, government, entrepreneurs, etc.) will likely reduce investment activity in Ohio and the program's initial success and traction will be lost. Accordingly, postponing voter approval of renewal of the program beyond the May 2010 primary election would likely risk disrupting the flow of funds. This, in turn, would likely depress investor enthusiasm for investing in Ohio and create a gap in Third Frontier financial support because it would take time to issue bonds and get funds flowing again at a later date. It is therefore extremely important that the program be renewed at the first possible opportunity, which is May 2010. Politicizing the issue in any manner that would cause delay is an unacceptable result for the people of Ohio.

Lastly, in addition to the positive effects on Ohio's economy, the Ohio Third Frontier program is likely to pay for itself by 2014 with income and sales taxes generated by organizations receiving its grants.<sup>4</sup>

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## **Conclusion**

Ohio's future economic prosperity depends on its ability to transition from traditional manufacturing to high-growth, technology-intensive industries of tomorrow. The Third Frontier Program accelerates this economic transition by facilitating the investment in, and growth of, new technologies, products and companies in Ohio, leading to general economic development and job creation.

For these reasons, the Ohio Venture Association strongly supports the renewal in May 2010 of the Third Frontier Program.

The Ohio Venture Association also acknowledges that continuation of the program is not an endeavor to be taken lightly, and that continued oversight, transparency, and communication are important aspects of any government-run, taxpayer funded initiative such as the program. Accordingly, the Ohio Venture Association advocates efficient, periodic, independent oversight of the program and its progress, with reports to be publicly available.