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HELP

Friday, December 12, 2003

Report: Frontier fund gets slow start

By James McNair
The Cincinnati Enquirer

A report issued today by a Cleveland research group says Ohio's 5-year-old Third Frontier Action Fund, part of the state's flagship economic development program, has generated few jobs and little commercial activity.

The report from Policy Matters Ohio, a nonprofit institute that focuses on issues of concern to low- to middle-income Ohioans, says the state has made 80 grants worth \$55 million since the fund was created by former Gov. George Voinovich to spur the growth of technology industries.

The grants later were folded into the Third Frontier program rolled out by Gov. Bob Taft in 2002.

Policy Matters Ohio said the state does not track the precise number of jobs created by the grants program. From available information, the group estimated the program led to "hundreds" of jobs in the five-year period.

At the close of its 37-page study, the group concludes the Third Frontier Action Fund "suffers from serious deficiencies" such as lack of oversight and public accountability. "It has not delivered a significant number of new jobs, a long-standing goal," the report states. "Though it's still early and more products could come out of the program, commercialization results so far are not substantial," the report says.

Written by the group's research director, Zach Schiller, the report offers the first broad assessment of a program launched to breed high-tech enterprise in Ohio's manufacturing-oriented economy. So far, it says, the state has no "home runs" to show for its money, although it identifies several projects that have created jobs and show commercial potential. It says the first five years' worth of TFAF grants have helped recipients raise an additional \$134 million in early-stage capital.

Frank Samuel, Taft's science and technology adviser, said

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the purpose of the program is to catalyze entrepreneurship in Ohio. Some projects will succeed, he said, and some will fail.

"This is not a program that's going to hit short-term home runs," Samuel said. "The first batter up isn't going to hit one into the bleachers. We hope that one of the balls in the air is a home run."

Among the program's most discernable successes is the Science & Technology Campus Corp. at Ohio State University. Policy Matters Ohio says Scitech has received five grants totaling \$2.5 million.

Combining the grants with money from other sources, Scitech has generated 237 jobs, aided the formation of six companies and attracted 44 tenants to its business incubator. It has also generated \$3.8 million in state and city personal income taxes, the report says.

Other projects, however, were of dubious value to the state.

The report cites two grants, totaling \$1.6 million, given to a Cleveland company called Early Stage Partners, which invests in startup companies. One of those, the report states, is a Cleveland software company called SupplierInsight.

Among other things, SupplierInsight helps clients establish manufacturing in low-cost countries, including China. That, Schiller wrote, is "not in keeping" with the Third Frontier goal of spurring manufacturing investment in Ohio.

Another company - Cincinnati Machine - benefited from \$895,000 granted in fiscal 2001 for development of intelligent, high-speed machining technology, only to move to Kentucky as soon as the two-year grant period expired.

The money actually went to TechSolve, a nonprofit manufacturing technology center in Bond Hill, to help Cincinnati Machine speed development of its HyperMach project. Cincinnati Machine wound up commercializing HyperMach, but moved from Oakley to Hebron, taking more than 300 jobs across the state line. TechSolve said the state-funded project left it with valuable advanced machining technology that is being shared with companies that have no plans to leave Ohio.

Policy Matters Ohio said it asked the Ohio Department of Development if Cincinnati Machine's move prompted any penalties, but was told no action was warranted. Samuel said terms of the grant were met. Nonetheless, he said the state learned from the experience and has added terms requiring recipients to return all or part of the money if it reneges on the grant.

The group expressed frustration with how the department ensures that grant recipients achieve their stated goals. The department withholds money until performance questions are

addressed, but the group said it was stymied in its efforts to get a list of such actions.

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