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Economic benefits, state oversight faulted in study of Third Frontier grant program

The State of Ohio's Third Frontier Action Fund, the oldest part of Gov. Bob Taft's high-tech economic development program, has created only a modest number of commercial jobs and is operated without sufficient accountability to the public, according to a new study released today by Policy Matters Ohio.

The Third Frontier Action Fund: A Performance Assessment examines the five-year-old program, which distributed 80 grants totaling \$55 million between fiscal 1998 and fiscal 2003 to private companies, universities and other entities that try to spark high-tech development. Though the program has undergone various changes, its purpose has remained much the same since early on: Providing financial support to projects that contribute to technology-based economic development in Ohio. Grants now aid commercialization of new products, development of early-stage capital funds to support start-up and young companies, and Gov. Taft's Fuel Cell Initiative. Most grantees have been located in Cuyahoga or Franklin counties.

According to the Policy Matters Ohio analysis, while some grantees could develop into more substantial employers, the Third Frontier Action Fund has not been a big job creator. New jobs generated with the program's help so far number in the hundreds. An exact count of how many jobs have been created by TFAF grantees is impossible because reporting such figures is not required. Though it is still early and more new products could come out of the program, commercialization results so far are not substantial.

Program grants have contributed to the raising of at least \$134 million in early-stage capital for young companies during a difficult period for generating such funds. However, the state does not have a clear idea of how much early-stage capital is needed. One TFAF-backed venture fund has invested in a company that helps manufacturers find suppliers in China. "This underscores that the program lacks appropriate controls," said Zach Schiller, Policy Matters research director.

Three beneficiaries of the program have moved out of Ohio. The Ohio Department of Development (ODOD) has stiffened the rules requiring Ohio benefits since those grants were made. Now, a grantee that moves out of the state may have to repay the State of Ohio the monies it has received, plus interest. However, according to Schiller, "Ensuring maximum Ohio benefits from the program will take additional steps and closer monitoring."

The study found that oversight of the TFAF program has been lax. The selection process for outside contractors that evaluate program applications has not consistently been competitive. For instance, only one company applied to evaluate the fiscal 2004 and 2005 early-stage capital grant proposals for the state. ODOD keeps no list of when it has withheld funds because of questions relating to grantees' performance, making it impossible for the public to know whether the program is functioning as it should.

The report also makes recommendations on how to improve the program and its accountability. Policy Matters Ohio is a nonprofit, nonpartisan research institute that focuses on issues that matter to low- and middle-income Ohioans.