

Renewed funding sought for rapidly draining Ohio Capital Fund

Premium content from Business First - by Carrie Ghose

Date: Friday, March 18, 2011, 6:00am EDT

An Ohio-backed fund that helped create or keep 1,900 jobs at 50 startup companies is about to wind down as efforts for a second round stall in the Statehouse.

In five years, the Ohio Capital Fund has committed \$117 million of an available \$140 million to 22 private venture capital funds, nine of which are new to the state. Those funds, with some 260 portfolio companies overall, invested in 50 Ohio health-care, technology and other startups, which in turn attracted more than \$2 in investments for every state-backed dollar. Those companies have a total payroll of about \$120 million.

The fund, managed by the Columbus office of Fort Washington Capital Partners Group, is financed by \$150 million in bonds – \$10 million must be kept in reserve – that are in turn backed by state tax credits should the investments fail. No tax credits have been needed because the program has been successful with its investments so far.

“The state of Ohio is not funding a dollar, but it’s already getting payroll taxes and other benefits,” said Paul Cohn, vice president and regional director for Fort Washington, a division of Cincinnati-based Western & Southern Financial Group.

“We’re here because it’s really tough for venture capital funds to raise capital, and it’s gotten tougher,” he said.

The Ohio Capital Fund is critical to the mosaic of support for early-stage companies in the state, such as Third Frontier seed money, tax credits and state-backed loans and angel investors, said Will Indest, vice president of capital access and formation for TechColumbus, an advocate for Central Ohio’s tech industry.

“All of those things together are making Ohio a really spectacular place for startups,” Indest said, and the Ohio Capital Fund “has been wildly successful.”

Other investors look to the fund as a guide for where to put their money, Indest said, not only because of Fort Washington’s reputation at picks but because of the security of not being the first investor.

“They have a significant level of expertise, and the amount of due diligence they do is probably greater than any other institution or fund that has invested in us,” said Curtis Crocker, managing partner of Reservoir Venture Partners. Ohio Capital is among the largest investors in Columbus-based Reservoir’s second VC fund.

The state program also aids networking among the funds it invests in, Crocker said. Reservoir teamed up with another beneficiary, Cleveland-based Early Stage Partners, to invest in medical device maker CardiOx Corp. in Columbus, which also attracted Third Frontier dollars.

The post-prototype stage, when support is needed to take a product to market, is when companies are vulnerable to leaving Ohio, Cohn said. CardiOx founder Philip Eggars had moved four previous startups at that point.

“I honestly don’t think that company would have gotten funded had the Ohio Capital Fund not been here,” Crocker said.

Arsenal Venture Partners in Cleveland this month was named the 22nd fund recipient. Commitment amounts aren’t released but average \$6 million and are drawn down as the funds invest in companies. Arsenal adds expertise in communications and energy technology, enhanced by its partnership with the U.S. Department of Defense, Cohn said.

Cohn said the final two VC funds have been identified, and deals should close by summer.

A bill that would give authority to issue \$100 million more in bonds passed the House unanimously last May but died in the Senate.

“They just told me they didn’t have enough time,” said sponsor Rep. Jay Goyal, D-Mansfield.

Goyal reintroduced the bill in January, but no hearings are scheduled. A message seeking comment was left with the chairwoman of the economic development committee, Rep. Nan Baker, R-Westlake.