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Ohio Agency Sets \$158M of Taxables for Tech Firms

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By [Caitlin Devitt](#)

CHICAGO – The Columbus Franklin County Finance Authority today will price \$158 million of taxable research and development bonds as part of Ohio’s high-profile effort to invest venture capital in young, technology-based companies.

Roughly \$98 million of the borrowing will be used to refinance four-year-old corporate debt issued by the Ohio Capital Fund LLC, which invests in private-capital venture funds to raise money for local technology firms.

The finance team will defease the variable-rate debt and terminate the letter of credit associated with the original borrowing.

The new-money portion of the transaction will be used by the Ohio Capital Fund for new investments in capital venture funds across the state. Remaining proceeds will be used to fund capitalized interest and fund a debt-service reserve fund.

The bonds carry a new credit-enhancement program from the state. Ohio has committed to offer refundable tax credits to replenish the debt-service reserve fund in the case of a draw.

Citing the credit enhancement as a key consideration, Standard & Poor’s assigned a AA-minus rating and stable outlook to the debt.

RBC Capital Markets is the underwriter. Squire, Sanders & Dempsey LLP is bond counsel.

The fund expects to pay debt service on the bonds through returns generated on its investments, said John Griffin, director of technology and innovation division at the Ohio Department of Development.

“We’re looking at being able to have the investments begin to pay back in another two years or so,” he said.

Interest will be capitalized through 2012. The bonds mature from 2015 through 2021. In the case of a shortfall that leads to a draw on the debt-service reserve fund, the state has said it would provide up to \$20 million annually in refundable tax credits to the bond trustee.

Ohio is not funding the payments up front, but has agreed to fund a deficiency once the bond trustee applies for the tax credits. The trustee must apply for the credit within 30 days, and the state is contractually obligated to fund the claim within 90 days. The 90-day window is important in order to ensure that the fund is replenished in order to meet the semiannual debt-service payments.

The state pledge begins in 2012 through 2036. It has a cap of \$380 million.

It’s the first time that Ohio has pledged refundable tax credits to back a bond issue. For the bond trustee, the tax credit is “as good as cash,” said an attorney familiar with the state’s program.

“It’s a unique bond structure,” said Standard & Poor’s analyst Robin Prunty. “It’s unusual from a credit standpoint. Our rating is based on the reserve mechanism.”

The AA-minus rating is also partly based on Ohio’s AA-plus general obligation rating, as the tax refunds are based on annual appropriations, Prunty added.

Though not formally part of Ohio's high-profile and recently renewed Third Frontier technology jobs program, the borrowing falls "under the umbrella of technology-based investments" considered key to the state's economic development, said Jean Carter Ryan, the finance authority's executive director.

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