FINANCIAL RESOURCES

For new businesses to start up and for existing businesses to grow, they must have access to financial resources in the state or region where they operate. Ready access to capital or loan financing is also greatly conducive to attracting new ideas, new businesses, and young entrepreneurs to a region. It should be noted that existing public data mostly provide information on the "supply" of business financing, as opposed to the "demand" for it (i.e., the extent to which financial needs remain unmet). This chapter examines two subcategories related to financial resources:

- **Capital Resources**
- **Entrepreneurial Support**

BENCHMARK RESULTS

Strengths

+ Good availability of commercial and industrial loans
+ Strong state support of venture capital/seed capital programs
+ Average to good in business incubator support

Weaknesses

– Low volume of small and micro business loans
– Low level of capital investment in manufacturing
– Insignificant private venture capital investments
– Inadequate seed capital availability
– Low SBIC investments

FINANCIAL RESOURCES Summary of Benchmarking Indicators			
Indicator	**Ohio Indicator Value**	**National Ranking (out of 50)**	**Benchmark Ranking (out of 16)**
Capital Resources			
Commercial & industrial loans as a % of total bank assets (for all FDIC-insured institutions)	12.2%	14	5
Value of small business loans (<$1m) per worker	$863.89	23	10
Value of micro business loans (<$100,000) per worker	$282.30	23	11
Capital expenditures per employee in the manufacturing sector	$7,974.01	31	9
Entrepreneurial Support			
Average annual value of venture capital investments made in state over three years, and as % of U.S. total	$200.4 million (0.72% of U.S. total VC)	19	11
Average annual value of startup/seed venture capital investments made in state over three years, and as % of total VC investments in state	$1.2 million (0.58% of total state VC)	23 (30)	13 (14)
State sponsorship of seed/venture capital programs	Ohio offers: 1) allocated state funds/dedicated state revenues for seed/VC programs; 2) tax credit incentives for VC; 3) investment of state pension funds in seed/VC programs		
Total value of SBIC financing per business establishment	$154.99	27	11
Number of business incubators (# per 10,000 establishments)	37 (1.33)	6 (23)	5 (8)

Capital Resources

This category includes indicators on the traditional sources of business financing, such as loans made by banks and conventional financial institutions that are classified as commercial and industrial loans. To benchmark small businesses' access to financing in each state, we look at the *value of small and micro business loans per worker* in Ohio and the benchmark states. This section also reviews *capital investment per employee in the manufacturing sector* to benchmark the ongoing investments made by Ohio's manufacturing firms.

Benchmarking Indicators – Capital Resources	
Commercial & Industrial Loan Availability	Commercial & industrial loans as a % of total bank assets (for all FDIC-insured institutions)
Small & Micro Business Loan Availability	1) Value of small business loans (<$1m) per worker 2) Value of micro business loans (<$100,000) per worker
Capital Investment in Manufacturing	Capital expenditures per employee in the manufacturing sector

Commercial and Industrial Loan Availability

Why is this indicator important?

Businesses that have sufficient working capital can make investments continuously, but large investments in plant, equipment, process improvements or new projects often are financed through loan. This indicator measures the *value of commercial and industrial loans as a percentage of total bank assets* at financial institutions (i.e., FDIC-insured commercial banks and savings institutions) in Ohio and the other benchmark states.[12] These types of loans represent a very important source of funding to the business sector.

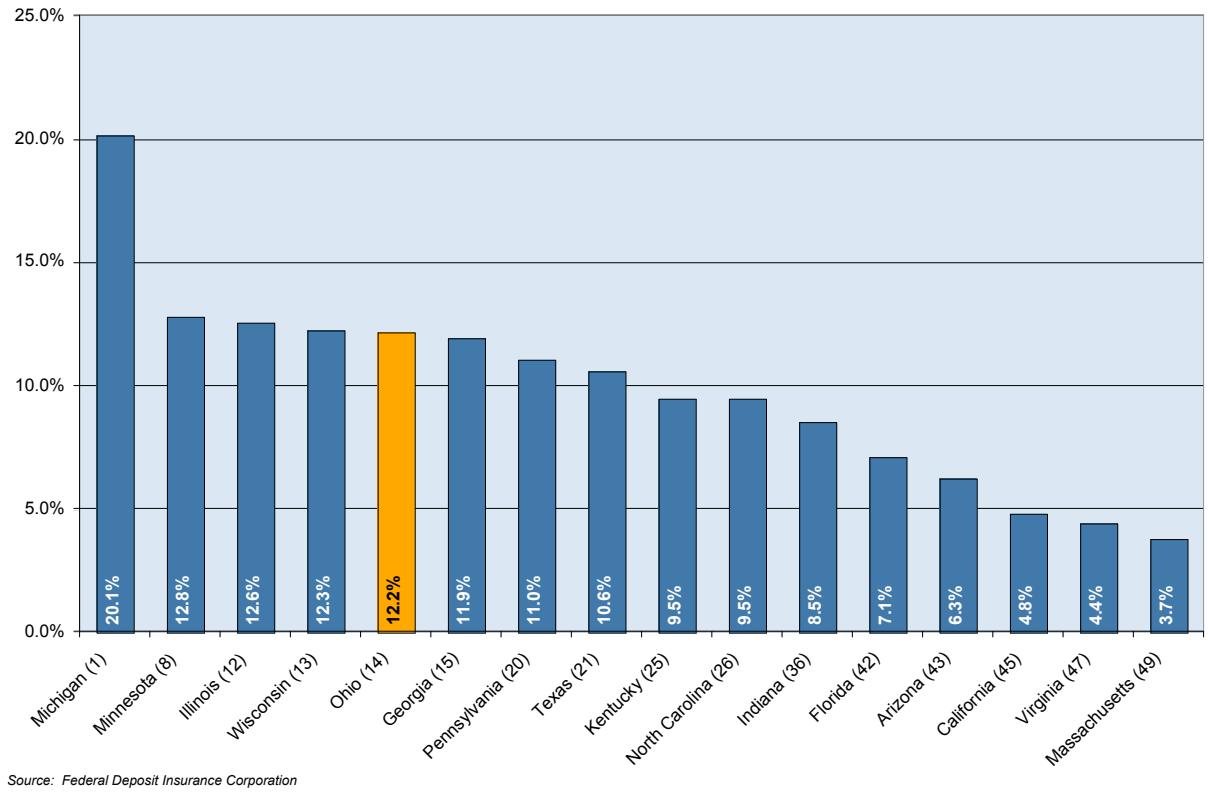
Commercial and industrial (C&I) loans are defined as loans made for commercial and industrial purposes to sole proprietorships, partnerships, corporations, and other business enterprises, whether secured (other than by real estate) or unsecured, single-payment or installment. Loans to individuals for commercial, industrial, and professional purposes, but not for investment or personal expenditures purposes, also are included. [13]

Where does Ohio stand?

Ohio is fairly competitive in this indicator, ranking 5th among peer states and 14th in the nation. In the second quarter of 2004, commercial and industrial loans represented 12.2 percent of total bank assets in Ohio, compared to the national average of 9.6 percent. The availability of loan financing and the willingness of Ohio institutions to lend to businesses represent an asset to firms looking to expand and make additional investments. Overall, the Northern and Midwestern states are very strong in this indicator, with Michigan, Minnesota, Illinois and Wisconsin taking up the first to fourth places among the peer group.

[12] Because this indicator is drawn from bank balance sheet data collected by the FDIC, it measures the amount of C&I loans held by banks at a *given point in time*, and not the total value of loans made throughout the year.
[13] Federal Financial Institutions Examination Council.

Commercial & industrial loans as a % of total bank assets (2nd Quarter, 2004)



Source: Federal Deposit Insurance Corporation

Small and Micro Business Loan Availability

Why are these indicators important?

While small business represents one of the most vibrant sectors of the economy, small business owners often encounter difficulties in securing financing to start or expand their businesses. After personal equity, commercial banks represent the second largest source of financing for small business. The *value of small business loans and micro business loans* made in each state is a good proxy indicator of the availability of financing to small business. Small and micro business loans are defined by loan size because financial institutions do not classify lending based on the size of the borrowing firms. Loans under $1 million are classified as small business loans, while loans smaller than $100,000 are considered micro business loans. Loans are adjusted for the size of states based on the size of the civilian labor force. This unit of measurement was chosen because small and micro businesses are typically individuals (e.g., partnerships or sole proprietorships).

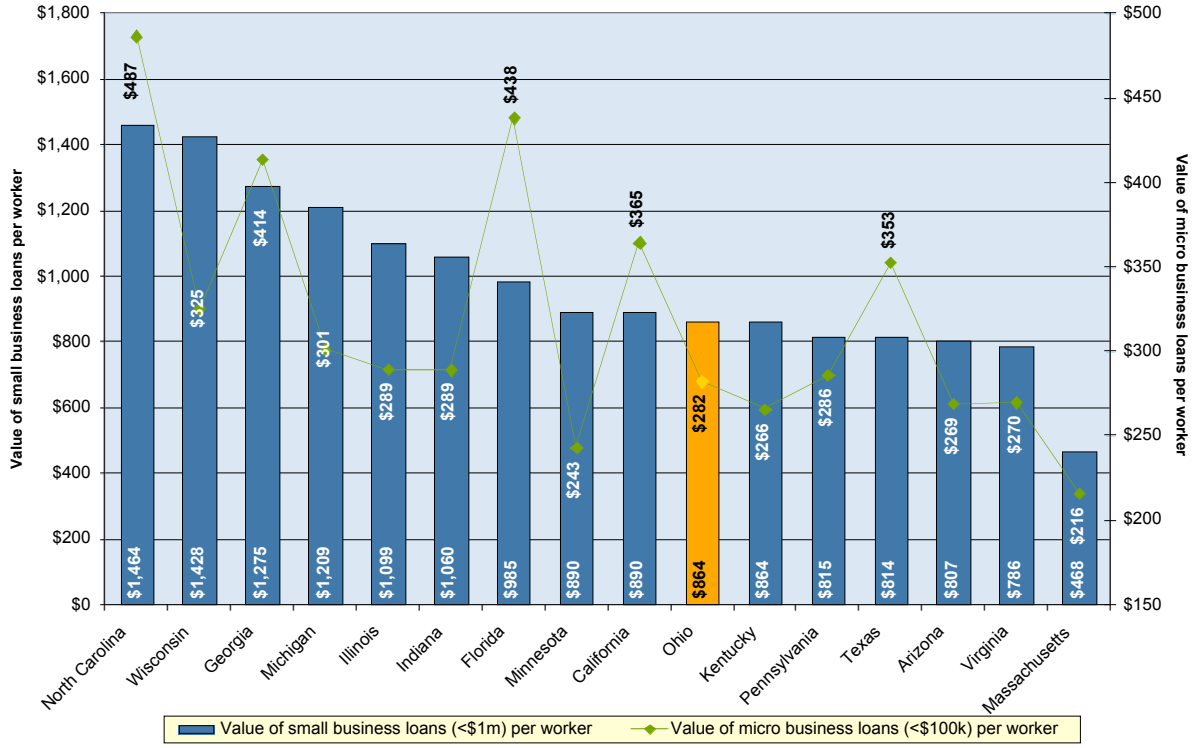
Where does Ohio stand?

Ohio supplies a lower than average value of small business loans per worker compared to the peer group as a whole. At 10th on this indicator, Ohio falls behind every other benchmarked Midwestern state. Within the country as a whole, Ohio ranks just above the middle, at 23rd in the nation, even though the state's value of small business loans per worker is, at $864, lower than the nationwide average of $951.

Likewise, Ohio's businesses have access to a smaller value of micro business loans per worker than to businesses in the competitor states. On this indicator, Ohio ranks 11th among the benchmarked states and 23rd in the United States. The value of micro business loans per worker in Ohio is $282, compared to an average of $331 across the country.

These results may imply that Ohio's financial institutions are more risk-averse in lending to small and micro businesses than their counterparts in other states.

Value of small and micro business loans per worker (2000)



Source: Federal Deposit Insurance Corporation

Capital Investment in Manufacturing

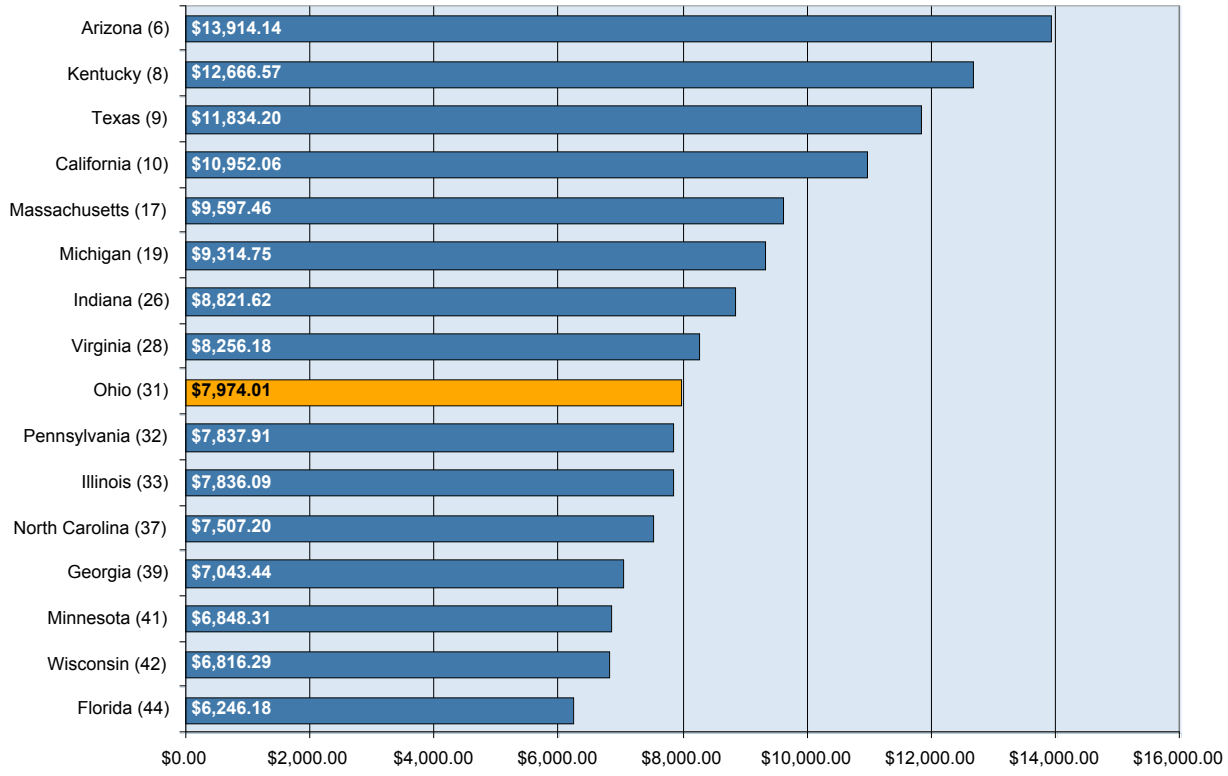
Why is this indicator important?

Capital investment in manufacturing is a good indicator of a firm's potential for growth and confidence in its future. The following chart compares *capital expenditures per employee in the manufacturing sector* among the benchmark states. *Per employee* is used as a unit of measurement here because it adjusts *capital expenditures* by the size of the manufacturing sector.

Where does Ohio stand?

Ohio's performance is weak in this indicator. It ranks 9th among the 16 benchmark states, but 31st out of 50 states. At $7,974 per employee, capital expenditures in Ohio were below the U.S. average by more than $1,000 in 2001. Among the Northern and Midwestern peer states, only Kentucky ranks among the top five states in the benchmark group in this indicator.

Capital expenditures per employee in manufacturing (2001)



Source: Census Bureau

Entrepreneurial Support

In this section, we examine indicators that measure the financial resources available to entrepreneurs who own small firms, especially start-up firms. Small start-up firms often have limited access to commercial bank loans since banks typically avoid making investments they deem risky. At the same time, start-up firms do not have the financial track record necessary to seek funds in a public offering. This financing gap most often is filled by venture capital or other seed capital providers in the private sector, as well as federal, state, or local government programs designed to help small and start-up businesses.

To benchmark the market supply of capital to entrepreneurs, we look at venture capital investments in each state, including the availability of seed and first-stage capital. This section also examines public funding provided through the Small Business Investment Companies (SBIC) and business incubator programs, which benefit both high-tech and non-high-tech companies.

Benchmarking Indicators – Entrepreneurial Support	
Venture Capital (VC) Resources	1) Average annual value of venture capital investments made in state over three years (2001-2003), and as % of U.S. total 2) Average annual value of startup/seed venture capital investments made in state over three years (2001-2003), and as % of total VC investments in state 3) State sponsorship of seed/venture capital programs
SBIC Investments	Total value of SBIC financing, and value per business establishment
Number of Business Incubators	Number of incubators, and number per 10,000 business establishments

Venture Capital Resources

Why are these indicators important?

Venture capital is critical to new businesses because it fills a funding gap between the start-up stage and the later consolidation stage, when companies can obtain conventional financing from banks or tap equity from the public stock markets. Venture capital typically is provided by financiers who have a high risk tolerance but seek higher returns from their investments. Most of the venture capital in the United States is invested in small, technology-based companies with high growth potential. To help neutralize business cycle fluctuations, *annual venture capital investments* on a gross basis and as a share of total U.S. venture capital have been averaged over the period 2001-2003 for comparison across states.

Seed capital (or first-stage venture capital) usually is invested in fledgling companies with partially established operations, providing these businesses with funding to continue their research and development of innovative ideas. This is considered the riskiest form of venture capital investment. Here we compare *total seed/first stage venture capital* invested, and the *share of total venture capital investment that is composed of seed capital*, averaged over 2001-2003.

Many state governments also help to extend access to financing to startup companies in the following ways:
Allocating state funds or providing dedicated state revenues for seed or VC programs
Offering tax credit incentives for VC
Investing state pension funds in seed/VC programs

Below we compare Ohio and the benchmark states on whether they offer these programs and/or incentives.

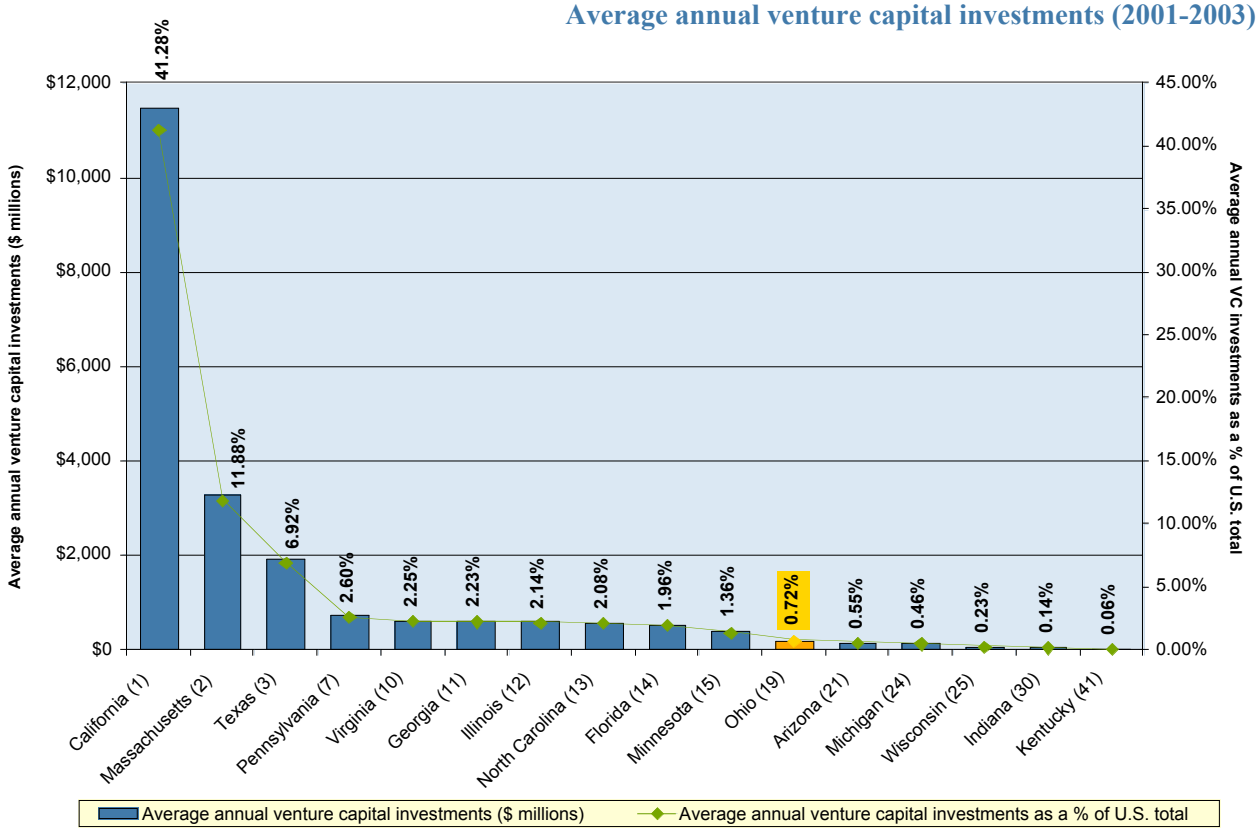
Where does Oho stand?

Overall, the level of venture capital financing in Ohio is weak and insignificant. The average annual VC investment made in Ohio from 2001 to 2003 was around $200 million, placing it 11th among the peer states and 19th nationwide in this indicator. It should be noted that three states – California, Massachusetts, and Texas – receive a disproportionately high share of VC investments, with 60 percent of all U.S. VC going to these states. California alone receives 41 percent of all VC investments made during this period.

An annual average of $1.2 million of VC investments was made as seed capital to startup companies in Ohio in 2001-2003. This represents a very small proportion of Ohio's VC investments (0.6 percent), placing it near the bottom of the benchmarking group.

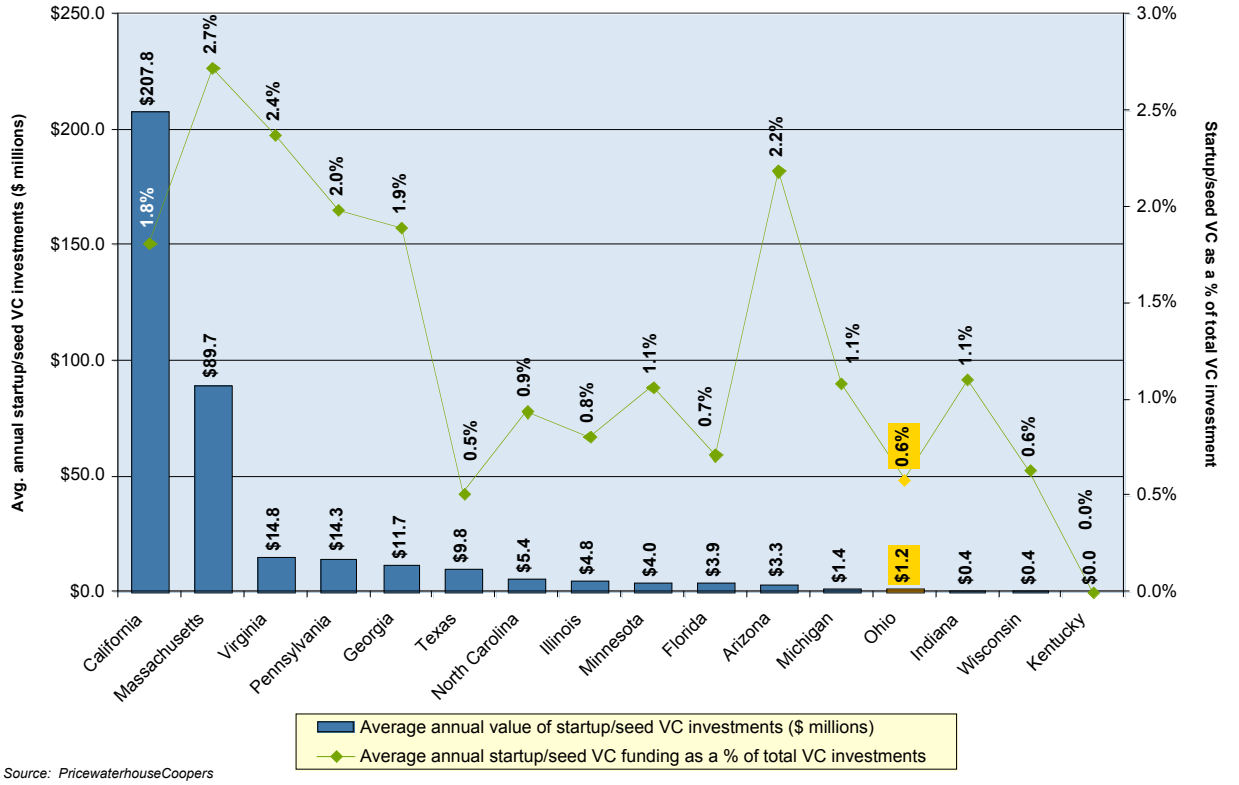
While the overall picture of venture capital resources in Ohio is quite weak, the state government has put into place several mechanisms to help ease financing resources to start-up companies. In fact, Ohio is the only one among the peer group that has: allocated state funds or has dedicated state revenues for seed/VC programs; tax credit incentives for VC; and investment of state pension funds in seed/VC programs in 2000. Only six other U.S. states have all three types of programs and incentives in place: Arkansas, Iowa, Kansas, Louisiana, and New York.

Average annual venture capital investments (2001-2003)



Source: PricewaterhouseCoopers

Average annual startup/seed venture capital investments (2001-2003)



Source: PricewaterhouseCoopers

State support of seed and venture capital funds (2000)

State	Allocated State Funds/Dedicated State Revenues for Seed/VC Programs	Tax Credit Incentives for VC	Investment of State Pension Funds in Seed/VC Programs
Arizona	X		
California	X		X
Florida			X
Georgia			
Illinois	X		
Indiana	X	X	
Kentucky		X	
Maryland	X		X
Massachusetts	X		X
Michigan	X		X
Minnesota	X		
North Carolina	X		
Ohio	X	X	X
Pennsylvania	X		X
Texas	X		X
Virginia	X		
Washington			
Wisconsin			X

Source: National Governors' Association

SBIC Investments

Why is this indicator important?

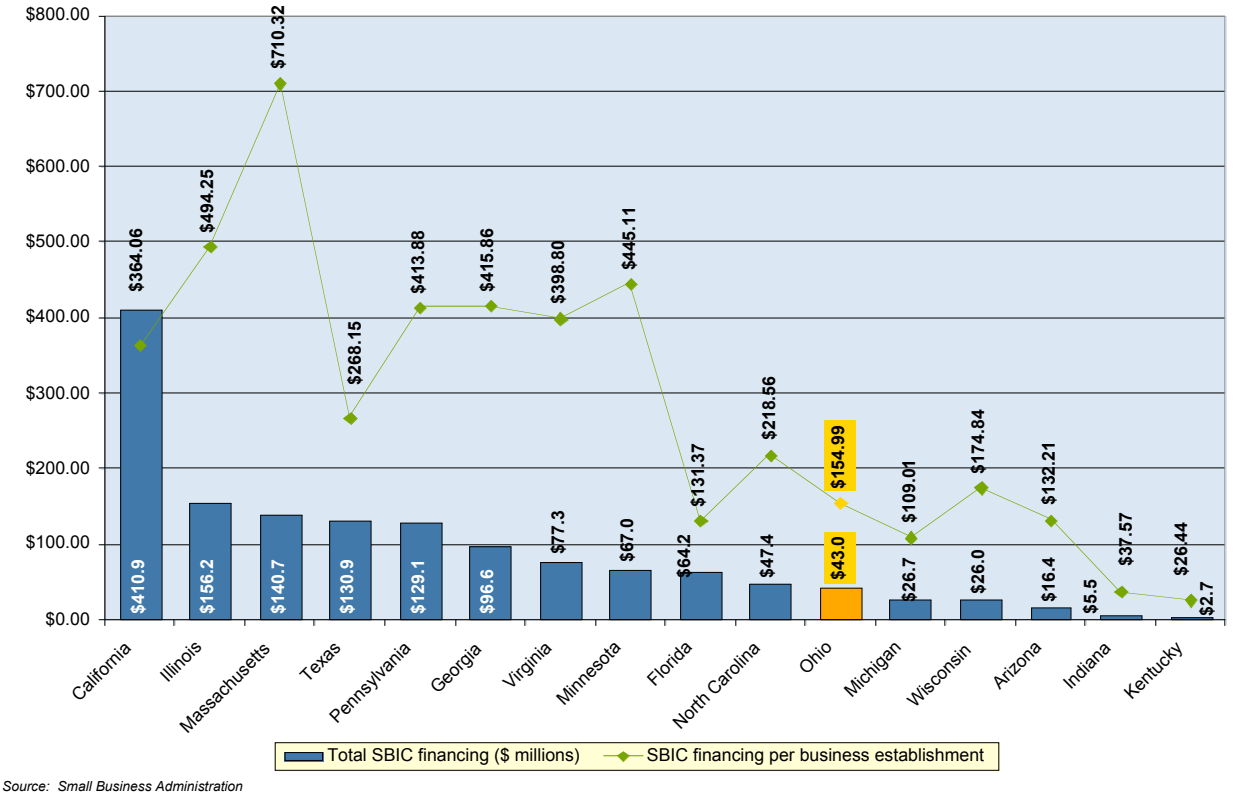
Small Business Investment Companies (SBICs) are privately owned entities that are licensed by the Small Business Administration to provide venture capital to existing or new small firms. Created to fill the gap in small and startup business financing, SBICs offer debt and equity financing as well as management assistance. Some specialize in making investments in businesses owned by socially and economically disadvantaged groups. This indicator is important because SBICs are often the only source of equity investment available to small and disadvantaged businesses, including many that are not in the high-tech sector.

The chart below depicts total SBIC financing provided in Ohio and the benchmark states. Measurement per business establishment was added in order to adjust SBIC investments for the size of the state and the business sector.

Where does Ohio stand?

Ohio firms received $43 million in SBIC investments in 2003, placing it 11th among its competitive peers and 18th nationwide. At an average SBIC investment of $155 per business establishment, Ohio also ranks 11th among the peer states in this indicator, but its national ranking drops to 27th. The national average SBIC funding in 2003 was much higher, at $310 per business establishment.

SBIC financing (2003)



Source: Small Business Administration

Number of Business Incubators

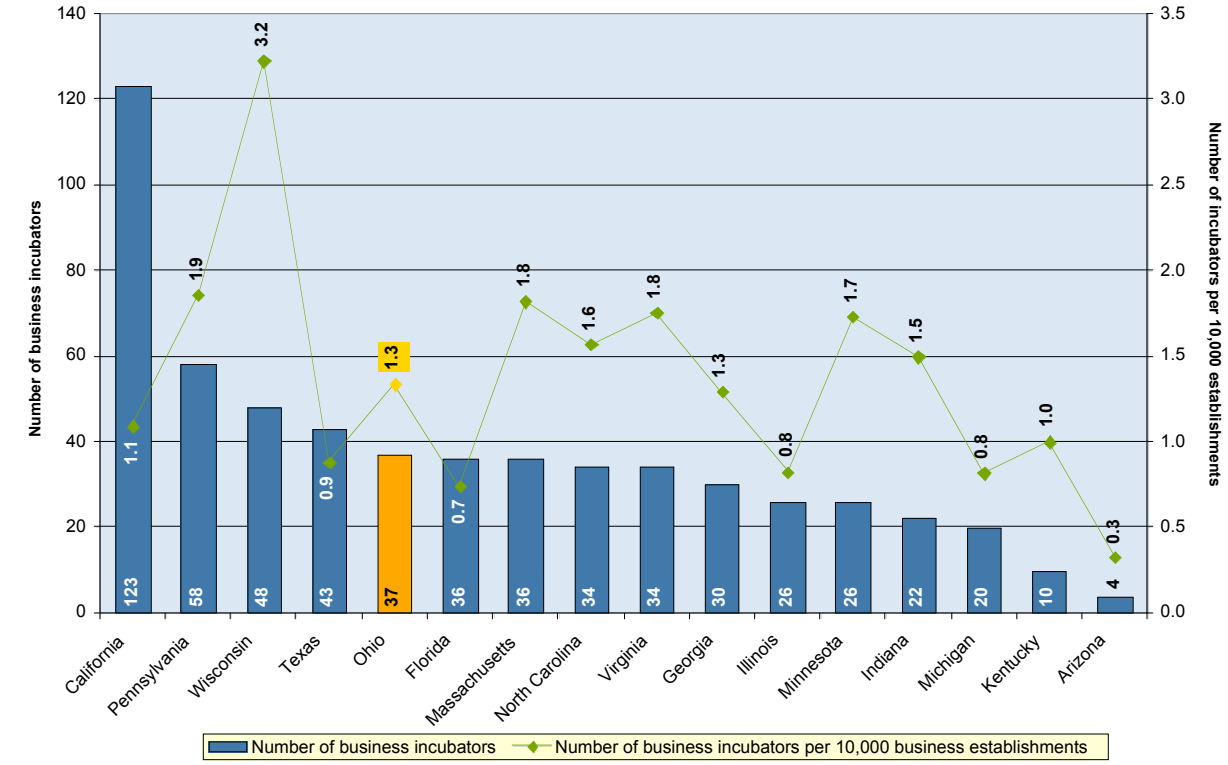
Why is this indicator important?

Business incubators provide hands-on management assistance, access to financing, administrative and technical support, and sometimes subsidized office space to small and start-up firms. While business incubators can be sponsored by a range of institutions (e.g., economic development agencies, universities, community colleges, municipalities, utility companies, real estate development partnerships, chambers of commerce, etc.,) the majority are sponsored by government agencies or some form of public-private-university partnership.

Where does Ohio stand?

Ohio is strong in the number of business incubators in the state, ranking 5th among the peer states and 6th nationwide. However, adjusted for the size of state using the number of business establishments, Ohio's ranking drops to the 8th in the benchmark group and to 23rd among all U.S. states.

Number of business incubators (2003)



Source: Department of Commerce, National Business Incubation Association