Comm Rpt

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SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

CITY MANAGER'S OFFICE
RECEIVED
AUG 21 1985

August 19, 1985

APPROVED
AUG 27 1985
SACRAMENTO REDEVELOPMENT AGENCY
CITY OF SACRAMENTO

APPROVED
BY THE CITY COUNCIL
AUG 27 1985
OFFICE OF THE
CITY CLERK

Sacramento City Council
Redevelopment Agency of the
City of Sacramento
Sacramento, California

Honorable Members in Session:

SUBJECT: Development of a "Business Incubator" Project on the Donner School Site Located on Stockton Boulevard

SUMMARY

This report recommends that disposition of the Donner School site on Stockton Boulevard be held in abeyance for 90 days pending a feasibility analysis of the potential for development of a "Business Incubator" facility on the site by Superior Valley Small Business Development Corporation.

The report also recommends that a grant of $31,000 be made from previously allocated Community Development Block Grant economic development funds (see Attachment 1 for an analysis of the status of that fund) for the feasibility analysis ($18,000 ±), development of preliminary architectural plans ($8,000 ±) if warranted, and development of an investment opportunity prospectus ($5,000 ±), if warranted.

BACKGROUND

The "Business Incubator" Concept

Over the past four to five years, the so-called "business incubator" concept has become increasingly recognized in this country as a means by which to stimulate economic development in depressed areas. The Small Business Administration, which recently sponsored a nationwide series of seminars on incubator development, reports over 100 existing incubators in operation and many more under development. (The attached articles provide

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some interesting background information on the concept, see Attachment 2.)

Briefly, under the incubator concept, newly formed businesses are provided subsidized rent levels and pooled services designed to help them get started. Services may include secretarial and telephone support, postal metering, accounting services, marketing assistance, assistance in development of a business plan, pooled purchasing, manpower assistance, etc. Each business in the incubator may purchase one or more of these services. If funds are available, they may be provided at a subsidized level. The idea is to give businesses the special support they need during the difficult start-up phase, to establish them on a firm business footing, and to eventually move them out of the incubator into the open market.

Incubators have been established on both a non-profit and for-profit basis. Three general themes seem to prevail.

1. Technology Centers. These are usually affiliated with a university and emphasize research, medical technology, and computer firms.

2. Manufacturing. These incubators are highly space dependent. Several notable ones are located in the so-called "rust belt" (Northeast - Great Lakes region) where abandoned factories with large square footages can be purchased and rehabilitated at low cost.

3. Retail/Service. These incubators emphasize small retail/service type businesses or very light manufacturing or assembly oriented firms.

Overview of the Donner Incubator Proposal

The incubator proposed in this report includes:

1. Renovation of the existing Donner School building (30,000 ± sq. ft.) as Phase One of the incubator development. Emphasis will be on retail/service businesses commensurate with the physical character of the building and the surrounding neighborhood. Superior Valley Small Business Development Corporation (hereinafter "Superior Valley") will manage and operate the incubator, and will occupy up to 3,000 square feet of the building for its own offices.

2. Construction of a 40,000 square feet building suitable for light assembly or manufacturing as Phase Two of the project, to be developed at a later date. This facility would be completely shielded from the street with limited ingress/egress and a controlled tenant selection and environment which will prevent conflicts with surrounding uses.

3. Development of affordable rental or owner occupied housing on the western most one to one and one-half acres of the school site, as Phase Three of the project. (Reservation of this portion of the site for recreational uses for the surrounding community is an alternative possibility. Both ideas will be thoroughly discussed with the Project Area Committee before proceeding.)

4. Superior Valley will operate the incubator facility pursuant to the operations plan outlined below. Ownership of the building will rest with a for-profit limited partnership formed exclusively for this purpose with Superior Valley serving as the general partner. This will enable the property to be placed back on the property tax roll. The land will be leased to the partnership with an option to buy at the five year point for $500,000, its estimated current value (see Attachment 3). (Note: This figure may be revised based upon an independent appraisal secured by the City while the feasibility studies are being conducted.) Funds for renovation of the center will come partially from the limited partnership (syndication proceeds - see Attachment 4) and partially in the form of a loan from the City to the partnership (see financial plan, outlined below). Restrictions will be placed on the loan sufficient to guarantee the property's continued use as an incubator facility.

Why Donner School?

As you know, Donner School has been abandoned by the City School District since 1981. The property has been deeded to the City which, in turn, has asked the Redevelopment Agency to develop a disposition plan. (The Police Athletic League, which had been interested in using the site as a community center, has now been redirected to the City property at 3520 5th Avenue, was occupied by City Community Services, as a site for their use.) The Donner property was identified as a special R-O (residential/office) zone in the recently adopted redevelopment plan.

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

The school is in the center of our Stockton Boulevard commercial revitalization area which has been targeted for both Community Development Block Grant and tax increment generated renewal funds. We have been working with business and property owners, developers, and other interested persons to develop a renewal plan for the area. Renovation of the Donner school, which occupies a central, and critical position on the strip, would, in our opinion, have a tremendously uplifting effect on the strip area. Conversion of it into an operating business facility would be particularly beneficial. As an incubator facility, the school could potentially be established as a catalyst for "spinning off" other businesses into the area. Putting it back on the tax roles via a "deed restricted" sale to a private consortium (see Proposed Financial Structure, below) will generate significant tax increment revenues for the Oak Park Redevelopment Project Area as well.

The building itself is a 30,000 $\pm$ square feet two story Spanish style structure sited on a 3.6 acre lot fronting on Stockton Boulevard. Originally built in 1922, the structure has significant historical value to the neighborhood. The plan for the building will be designed to preserve its historical features. It's age (over 40 years) also provides the 20 percent tax credit for historic preservation.

Why Superior Valley Small Business Development Corporation?

Since 1983, Superior Valley has assumed an important role in helping the City realize its economic development objectives. In addition to providing their technical assistance and loan guarantee programs to numerous local businesses (see Proposal, Attachment 4), the Agency has contracted with them to provide "strip coordinator" services to both the Broadway and Stockton Boulevard areas, including organizing the merchants, development of a renewal plan and assistance to individual businesses. As a minority oriented firm, their assistance in developing trust and credibility for the Agency's programs in these areas has been very useful. We are optimistic about being able to integrate their operation closely with both our Minority Business Enterprise/Women's Business Enterprise (MBE/WBE) utilization plan and our plan to establish a local loan/finance center for small business through the Chamber of Commerce. With the State's recent approval of the Oak Park area as a finalist for Enterprise Zone designation, Superior Valley has approached four existing loan guarantee clients in the area, two of whom are prime candidates for locating in the Incubator facility. Both clients,

Vector Telcom and Overlay, Inc., were start-up companies that have provided new jobs in a high unemployment area.

Superior Valley first expressed interest in the incubator concept about a year ago. Since then, Agency staff, members of the Commission and members of the City Council have discussed the possibilities with them, culminating in the attached proposal. We believe that they would be an ideal choice as managers for the incubator, which is a highly specialized area of interest and which would have, we believe, very little interest from other non-profits. (We will insist that the incubator feasibility analysis have applicability to other sites as well, should it prove infeasible at this site. A time line has been included in Attachment 5 which delineates performance over the 90 day period. Strict adherence to this schedule will be required.)

The Proposed Operating Plan

As outlined in their Proposal (Attachment 5), the Center itself would be operated by Superior Valley.

Services* will include telephone answering, copying and office support as well as loan packaging, marketing, accounting, feasibility and marketing studies and assistance in preparation of a business plan. Basic space will be provided at $.60 per square foot per month in Phase One and $.40 per square foot per month in Phase Two.

Client selection criteria, length of stay and operating priorities are discussed in the plan. Basically, Superior Valley will recruit and select potential tenants from the community and provide incubator services for a three year (or shorter) period, after which the business will be analyzed for its readiness to "graduate" into the private market. Superior Valley will work with incubator tenants throughout the period to help avoid the pitfalls which can be so potentially damaging to small businesses in the early years of operation.

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*The specific mix is client dependent.

FINANCIAL DATA

Construction Cost Estimates

PHASE ONE (Rehabilitation of Existing Building)

Feasibility Study and Prospectus Preparation	$ 23,000	
Architectural Fees	58,000	@ 8% of construction
Rehabilitation Costs*	750,000	@ $25 (inc. conting.)
Off-Site Improvements* and Landscaping	200,000	
Initial Operating Reserve - Rent-Up	82,000	
Total	$1,113,000	

*These estimates are very preliminary in nature and are based on a walk-through inspection by an architect and a rough per square foot rehabilitation estimate of $25.00. Off site improvements include parking lot paving, outdoor lighting, fencing, and landscaping. If the initial feasibility analysis proves positive, a more detailed cost estimate will be worked up and will be reflected in the actual loan documents.

PHASE TWO (New Construction)

Architectural Design	$ 50,000	@ 6% of construction	
Misc. (Topo/Soils/etc.)	8,000		
Construction Costs	800,000	@ $20	Shell only (inc. conting.)
Off-Site Contingencies	15,000		
Subtotal	$ 873,000		
Leasehold Improvements	250,000		
Total	$1,123,000		

PHASE THREE (Residential or Recreational Development)

To be determined.

Overview of Construction and Operational Financing Plan

If the feasibility analysis proves positive, a prospectus and preliminary design plan, along with improved cost estimates, will be prepared in an attempt to market the project to investors. Assuming positive results from the incubator feasibility analysis, Superior Valley estimates that it can raise approximately $230,000 from limited partners in the program. (Attachment 4 provides a preliminary outline of the tax benefits which would flow to the limited partners.) As a back-up, debt financing is a possibility, however, it would negatively affect the operators ability to manage the facility.

The Superior Valley proposal suggests substantial rent revenues from Phase Two beginning in the second year of operation. We will support them in their attempt to secure funds for this Phase. Urban Development Action Grant, Economic Development Administration or other grant funds, if available, will be considered. The specific source of funds and debt service for this Phase, however, remains quite speculative at this time. Our analysis, therefore, assumes that only Phase One will be "on line" during the first five years of operation. Assuming 27,000 square feet available for rent, with full lease-up over the first two years, and a $.60 sq. ft./month rental rate, escalating slightly over time, the operation will begin to show a profit in the first year. This premise is based on rent-up of roughly 18,000 sq.ft. in the first year and 22,000 in the second. As a contingency factor, we have included an $82,000 initial rent reserve in the loan package which represents approximately 30 percent of the first two year's rent. The loan documents will be structured such that any unused rent reserve shall be repaid to the Agency at the end of two years. Superior Valley has agreed to place all positive cash flow from the project into the venture capital fund for small business development.

Assuming the ability to raise $230,000 via either equity or debt financing (as indicated in Attachment 4), the balance of $852,000 is proposed in the form of a zero interest deferred payment loan to the partnership, secured by the real property, with the following conditions:

1. The partnership will purchase the building for $1.00 and will be given a five year, zero interest deferred payment loan of $852,000, renegotiable in five years, contingent upon successful operation of the incubator during that term. The City will hold a first deed of trust on the building.

2. The City will retain title to the underlying property and will lease it to the partnership for $1.00 per year (with or without the back 1.6 ± acres, which may be sold for housing). The partnership will be given an option to buy the property, at the end of five years, contingent upon successful operation of the incubator for that period of time. The option price will be set at $500,000, or the appraised value as determined by an independent appraisal during the feasibility study stage.

3. The partnership will contract with Superior Valley to manage and operate the facility during the five year term.

An important aspect of any incubator facility is the availability of a seed capital loan fund or venture capital fund. Several potential sources will be developed to provide such a fund. Possibilities include:

1. Should there be any net operating income, Superior Valley, as operator, will place it into the seed/venture capital fund.

2. Superior Valley will petition the State of California to authorize a dollar-for-dollar match of the Incubator's Seed Capital Fund from the corporation's $2.5 million Loan Guarantee Trust Fund.

3. Private venture capitalists will be contacted.

4. The Federal Small Business Administration's programs (while they last) will be tapped. The Chamber of Commerce's Certified Development Corporation will be providing assistance in this regard.

5. Agency funding programs, to the extent available, will also be used.

The source of the $852,000 Agency rehabilitation loan will be as follows:

CDBG*	$426,000
Oak Park Tax Increment**	$426,000

ENVIRONMENTAL DATA

(An environmental analysis of this project is currently being prepared.)

POLICY IMPLICATIONS

A loan of $852,000 in Agency funds and lease of property with an estimated value of $500,000 for this project is a high-risk venture and should be viewed as such. The land lease conditions, retention of a first deed of trust on the building, and restrictions placed on the loan will help to reduce that risk but it nevertheless is there.

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*Reprogrammed from other sources. See Attachment 6. Note: Much of this money, if used, will be reprogrammed away from an unsuccessful commercial rehabilitation strategy along 12th Street in Alkali Flat. This, however, does not signal a removal of our commitment to that area. It will remain as one of our commercial development target areas, eligible for commercial development funds on the same basis as our other targeted commercial strips. More importantly, with the proposed decision, based on impending changes in the tax law, to proceed immediately with bonding against our tax increment flow in Alkali, we plan to rethink our whole approach to commercial revitalization on 12th Street, perhaps taking a more proactive role. We will be reporting back separately with a proposed strategy.

**From the development assistance fund as identified in the Five Year Action Program.

It must be recognized, however, that the Stockton Boulevard strip is a difficult area to revitalize calling for aggressive public action. An investment of this magnitude may well trigger the spin-off investments needed to turn the area around.

Superior Valley is relatively new on the scene but is, we believe, in earnest about their commitment to Sacramento.

Public involvement in business incubator development is not atypical of the many other such developments nationwide. The City has already committed itself to the fostering of local small business growth through its commercial revitalization loan programs, MBE/WBE program, and other efforts. The incubator proposal should be viewed as an extension of those efforts.

VOTE AND RECOMMENDATION OF COMMISSION

At its regular meeting of August 19, 1985, the Sacramento Housing and Redevelopment Commission adopted a motion recommending approval of the attached resolutions. The votes were as follows:

AYES: Amundson, Glud, Lopez, Luttrell, Pettit, Sanchez, Teramoto, Walton, Wooley

NOES: None

ABSENT: Moose, Angelides

RECOMMENDATIONS

Staff recommends the following actions be approved:

1. Delay disposition proceedings on the Donner School site for three months from the date of approval of this report pending results of a feasibility study for location of a business incubator facility on the site.

2. Authorize the use of $18,000 in previously allocated Community Development Block Grant economic development funds to finance the feasibility study and authorize and direct the Executive Director to execute an augmentation to the contract with Superior Valley Small Business Development Corporation for coordinator services on Stockton Boulevard by that amount to conduct the study.

3. Pending positive results of that study, authorize the use of an additional $13,000 in Community Development Block Grant economic development funds for preparation of preliminary architectural plans and cost estimates for renovation of the existing Donner School building ($8,000 ±) and an investment prospectus on the project ($5,000 ±). Authorize and direct the Executive Director to augment the contract with Superior Valley Small Business Development Corporation for coordinator services on Stockton Boulevard by that amount.

4. Pending positive results of the feasibility analysis and evidence of Superior Valley's ability to raise the balance of the funding from either debt or equity financing, authorize:

   a. The leasing of the underlying property to the limited partnership, subject to the restrictions outlined in this report. Authorize the Mayor and/or City Manager to execute the lease, as required. (Note: Prior to the leasing of this property to the limited partnership, a determination regarding use of the back portion for either housing or recreational uses must be made. If the determination is made to develop it as housing, it may have to be split off and handled under a Request for Proposals.)

   b. The lending of $426,000 to the limited partnership in Community Development Block Grant economic development funds, for rehabilitation of the structure, subject to the conditions outlined in this report. Authorize the Executive Director to execute the loan agreement.

c. The lending of $426,000 in Oak Park Tax Increment funds set aside for developer assistance for rehabilitation of the structure, subject to the same loan agreement.

d. Amendment of the Agency budget to reflect these changes.

Respectfully submitted,

William H Edgar

WILLIAM H. EDGAR
Executive Director

TRANSMITTAL TO COUNCIL:

Walter J Slipe

WALTER J. SLIPE
City Manager

Contact Person: John Molloy
440-1360

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RESOLUTION NO. 85-654

ADOPTED BY THE SACRAMENTO CITY COUNCIL ON DATE OF

August 27, 1985

APPROVED
BY THE CITY COUNCIL

AUG 27 1985

OFFICE OF THE
CITY CLERK

FEASIBILITY ANALYSIS
OF A BUSINESS INCUBATOR PROJECT
AT THE DONNER SCHOOL SITE

WHEREAS the Council of the City of Sacramento wishes to foster economic growth and job development in the Oak Park area; and

WHEREAS the concept of "Business Incubators" is one which the Council would like to pursue as a means of obtaining those ends; and

WHEREAS the Council views the use of surplus government property, such as the Donner School site on Stockton Boulevard, as appropriate in the pursuit of such public objectives; now, therefore,

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SACRAMENTO:

Section 1: The Executive Director is authorized to delay disposition of the Donner School site for no more than ninety (90) days pending the outcome of a feasibility analysis which will determine the viability of a "Business Incubator" facility at the site.

Section 2: The use of $18,000 in Community Development Block Grant funds from those funds previously allocated for economic development loans and grants (Fund 222; Cost Code 4318) is hereby authorized for funding of the feasibility analysis. Additionally, pending positive outcome of the analysis, $8,000 for preliminary architectural plans and $5,000 for preparation of an investment opportunity prospectus is authorized from the same funding source. All such funds will be used as an augmentation to the existing contract with Superior Valley Small Business Development Corporation for business assistance along Stockton Boulevard (Fund 222; Cost Code 4320).

Section 3: Subject to Redevelopment Agency governing board approval of results of the feasibility analysis, and the raising of the requisite investment capital, the use of $426,000 in Community Development Block Grant funds is hereby authorized for actual renovation of the project. Such funds will be

transferred from funds previously allocated for commercial renovation of 12th Street, totalling $327,500 (Fund 220; Cost Codes 4291,4292 and 4293), with the balance from funds previously allocated for economic development loans and grants, totalling $98,500 (Fund 222; Cost Code 4318). Said funds, if required, will be transferred to a new project cost center.

Section 4: Subject to Agency governing board approval of results of the feasibility analysis and the ability of Superior Valley Small Business Development Corporation to raise the requisite investment capital, the Executive Director is authorized to execute a contract and/or loan agreement with Superior Valley Small Business Development Corporation, or with a specially formed project-specific partnership or corporation, or directly, with a rehabilitation contractor, in an amount not to exceed $852,000 ($246,000 from CDBG funds, Cost Codes 4318, 4291, 4292 and 4293; and $426,000 from Oak Park Tax Increment funds Cost Codes 0736 and 0730), for renovation of the center subject to such terms and conditions as are deemed appropriate.

Section 5: The Community Development Block Grant program budget is hereby amended as follows:

FROM:

$ 29,500 Economic Development Fund 222, Cost Code 4318
$187,500 12th Street Loan Pool Fund 220 Cost Code 4291
$ 75,000 12th Street Rehabilitation Loans Fund 220 Cost Code 4292
$ 65,000 12th Street Facade Rebate Fund 220 Cost Code 4293

TO:

$ 31,000 Stockton Blvd Com Revit Coord Fund 222 Cost Code 4320
$426,000 Donner School Revitalization Fund 222 Cost Code 4222

_____
MAYOR

ATTEST:

_____
CITY CLERK

z:ccDonner

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RESOLUTION NO. 85-072

ADOPTED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

ON DATE OF

August 27, 1985

APPROVED
AUG 27 1985
SACRAMENTO REDEVELOPMENT AGENCY
CITY OF SACRAMENTO

FEASIBILITY ANALYSIS
OF A BUSINESS INCUBATOR PROJECT
AT THE DONNER SCHOOL SITE

WHEREAS the Redevelopment Agency of the City of Sacramento wishes to foster economic growth and job development in the Oak Park area; and

WHEREAS the concept of "Business Incubators" is one which the Redevelopment Agency would like to pursue as a means of obtaining those ends; and

WHEREAS the Redevelopment Agency views the use of surplus government property, such as the Donner School site on Stockton Boulevard, as appropriate in the pursuit of such public objectives; now, therefore

BE IT RESOLVED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO:

Section 1: The Executive Director is authorized to delay disposition of the Donner School site for no more than ninety (90) days pending the outcome of a feasibility analysis which will determine the viability of a "Business Incubator" facility at the site.

Section 2: The Executive Director is further authorized to execute an amendment to the Stockton Boulevard business coordinator contract (Fund 222; Cost Code 4320) with Superior Valley Small Business Development Corporation adding the amount of $18,000 for funding of the business incubator feasibility analysis, including $8,000 for preliminary architectural plans, and $5,000 for preparation of an investment prospectus relating to the Donner School Business Incubator proposal; said funds to be transferred from the Economic Development Loan Pool (Fund 222; Cost Code 4318).

Section 3: Subject to Agency governing board approval of results of the feasibility analysis and the ability of Superior Valley Small Business Development Corporation to raise the requisite investment capital, a total of $426,000 in Oak Park Tax Increment funds, including $170,000 previously set aside for

development projects (Fund 247; Cost Code 0735) and $256,000 previously set aside for developer assistance (Fund 247; Cost Code 0730) is hereby approved for use on actual renovation of the Donner School site, and if required, is transferred to a new project cost center to be assigned for Donner School Revitalization.

Section 4: Subject to Agency governing board approval of results of the feasibility analysis and the ability of Superior Valley Small Business Development Corporation to raise the requisite investment capital, the Executive Director is authorized to execute a contract and/or loan agreement with Superior Valley Small Business Development Corporation, or with a specially formed project-specific partnership or corporation, or directly, with a rehabilitation contractor, in an amount not to exceed $852,000 ($246,000 from CDBG funds, Cost Codes 4318, 4291, 4292 and 4293; and $426,000 from Oak Park Tax Increment funds Cost Codes 0736 and 0730), for renovation of the center subject to such terms and conditions as are deemed appropriate.

Section 5: The Agency budget is hereby amended to reflect the changes indicated herein.

_____
CHAIR

ATTEST:

_____
SECRETARY

z:racsDonner

LIST OF ATTACHMENTS

1. City Economic Development Fund Summary
2. Articles on Business Incubators
3. Estimate of Value - Donner School Site
4. Estimate of Syndication Proceeds - McManis & Associates
5. Superior Valley Small Business Development Corporation Proposal
6. Source of CDBG Funds

ATTACHMENT 1

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CITY ECONOMIC DEVELOPMENT FUND SUMMARY

TOTAL BUDGET

Revenues - By Source or Purpose

1983 Loan Payments	$ 6,825.87
1983 UDAG Revolving Fund Payment	2,445.83
1983 12th Street programs	327,500.00
1984 Enterprise Consultant	17,000.00
1984 Meadowview Market Study	10,000.00
1984 Del Paso Traffic Study	9,950.00
1984 UDAG Revolving	537.59
1984 Facade Program	73,422.16
1984 Loan Payments	6,687.78
1984 Economic Development Fund Balance	471.40
1985 Economic Development Fund Balance	405,500.00
1985 Loan Payments[1]	4,686.00
1985 UDAG Revolving	98.40
1985 Del Paso Coordinator	17,568.00
1985 Franklin Coordinator	25,000.00
1985 Stockton Coordinator	12,500.00
1985 Design Services	7,000.00

$927,193.03
Budget Total

EXPENDITURES

Funds Previously Committed/Under Contract

Enterprise Consultant	$ 17,000
Meadowview Market Study	10,000
Franklin Coordinator	25,000
Stockton Coordinator	12,500
Del Paso Coordinator	17,568
Del Paso Boulevard Parking Study	9,950
Design Services	7,000
1984 Facade Program	73,422.16
12th Street Eoncomic Development	327,500
Financial Consultants[2]	8,000
Technical Services[3]	15,000
CDC Administration[4]	50,000
Total	$572,940.00

Funds Tentatively Earmarked[5]

1985 Facade Program	$ 50,000
Commerical Rehab.	154.252.87
Direct Loan Program	150,000
Total	$354,252.87[6]

$927,193.03
Allocation
Total

[1]Estimate based upon payments of two outstanding City loans.

[2]These funds represent the Community Development Block Grant (CDBG) funded portion of the Agency's financial team consultant contract. A portion of these funds were obligated in 1984.

[3]The SHRA Technical Services Division costs are those associated with the inspections for the rehabilitation program with First Interstate Bank.

[4]The specific amount required has not been established. The City portion is estimated at $50,000.

[5]In addition to the $327,500 from 12th Street, additional funds for the incubator project would have to come from this source.

[6]There are several potential demands against this fund, including the Meadowview Coordinator, Meadowview/24th Street loan, and additional facade grants.

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Business Incubators:
Creating Hatcheries for New Business, Jobs

By Candace Campbell

Innovation in products, ideas and processes, whether by private industry or public officials, is part of the California style. As the locus of inventiveness, California holds a reputation for trend setting. Today, California is applying its entrepreneurial spirit in the adaptation of an increasingly popular tool for economic development: business incubators.

Business incubators act as hatcheries for small businesses. Housed in multi-tenant buildings, they offer small businesses an environment for growth and development. Tenants are often new start-up businesses nurtured by lower overhead costs, shared services and facilities, flexible space and lease agreements, business management assistance, and sometimes debt or equity financing.

Business incubators are designed to combat the two major problems of new business start-ups — undercapitalization and poor business management. Such facilities reduce the overhead costs of new businesses by providing small flexible spaces, support services (typing, phone answering, and copying) and facilities (conference rooms, loading docks and libraries), business management assistance (business planning, accounting, financial planning, marketing) and access to capital through loan packaging, brokering with venture capitalists or providing equity investments in the tenants.

Business assistance is accomplished in two ways — by providing a variety of business consulting services mentioned above and by creating an atmosphere of cooperation among the entrepreneurs themselves. For many new businesses, it is the synergism of the business incubator, created by the creativity and experience of other new business tenants which contributes to their own company's success.

The concept was born in the research arms of major corporations and universities where new ideas were translated into new business opportunities. However, it expanded as a tool for economic development in the industrial northeast and midwest in response to declining industries and high unemployment.

Over the last ten years, research has pointed to small businesses as the source of most new replacement jobs, the origin of most innovations and the generator of economic growth. In addition, it showed that entrepreneurs and their successful companies generally stay in the community in which the business is first developed. By using business incubators as an alternative to "smokestack chasing," public officials are developing their economies from within — creating an environment for small business growth.

The Small Business Administration now reports over 100 existing business incubators and probably hundreds more in some stage of development in the United States.

They are being set up by city and county governments, non-profit community-based organizations, universities and private developers. However, most have been a collaboration between any or all of these institutions. Their intent is to focus in one site the support mechanisms necessary for new businesses.

Business incubators have been located, for the most part, in old vacant buildings including schools, warehouses, post offices, abandoned factories, storefronts and office buildings. The costs of development have been funded by the Economic Development Administration (EDA), Urban Development Action Grants (UDAGs), Community Development Block Grants (CDBG), industrial development bonds (IDBs), direct state appropriations, financial institutions and private investors.

Given the exploding interest in business incubators in both the public and private sectors, Richard Dorf, professor of public administration at the University of California, Davis, and his partner, Barbara Purdy, are developing an implementation plan for incubator development as consultants to the Office of Small Business in the State of California's Department of Commerce. Dorf says, "In California, we want to stay innovative by nurturing innovation businesses." Accordingly he reports, "the state sees incubator development as an integral part of small business development — it's an attempt to maintain our

(continued on next page)

(Candace Campbell is executive director of the Minnesota Center for Community Economic Development, a statewide association of community development corporations, and a graduate student at the Hubert H. Humphrey Institute of Public Affairs at the University of Minnesota in Minneapolis. She surveyed 50 business incubators as part of a study for the institute's Cooperative Community Development program. The study, Business Incubator Profiles: A National Survey *is available from the Institute, Attn: Marlene Parkhurst, 267 19th Ave. So., Minneapolis, MN 55455 (612) 376-9996 [$5 for non-profit community-based organization, $15 others.])*

Business Incubators
(continued)

state's leading edge in the development of new products and new businesses."

Dorf also has encountered a great deal of interest in business incubators by California's regional and local officials, but, he says, "there is no formal mechanism to bring these about." He predicts his and Purdy's recommendations will involve a model of public/private partnership for incubator development with minimal financial assistance from the state itself.

Today, California's public officials are including business incubators as part of their overall economic development strategy. Non-profit community organizations, universities, and private developers are joining this effort. But, in using the concept, they are creating new forms of incubator development. Many of the economic conditions present in the northeast and midwest are not found in California. There are few declining industries and fewer vacant buildings which could serve as low-cost space for new businesses. The high costs of real estate, dwindling sources of public subsidies for development and the desire in many cases to retain businesses and jobs in addition to nurturing new ones, all shape California's approach to incubator development.

There is presently one operating business incubator in California and a dozen more in some stage of development. The Lancaster Economic Development Corporation (LEDC) opened its business incubator in mid-February 1985. This 30,000-square-foot incubator, constructed at a cost of $1.3 million, is a new building located within the city's industrial park on land owned by the LEDC. It was paid for by a $650,000 grant from the federal Economic Development Administration and funds of the Lancaster Redevelopment Agency, which presently owns thirty percent of the facility.

The Lancaster business incubator rents office and light industrial space at forty cents per square foot, which according to its manager, Vern Lawson, is higher than other rents in the area. "We want to give conventional developers the first shot at business tenants. We're after start-up companies in the business incubator."

Their first tenant, a diamond tool cutting manufacturer, was started by the former manager of a similar company that recently closed its Lancaster operations. The new company now employs 15 people with potential for 25-30 in the next year.

The Lancaster business incubator offers the assistance a new company may need — use of a conference room, copying and clerical services, loan packaging, small business counselling and employee training. They have plans to provide a business library and organize a tenant association. With space for seven tenants, Lawson is now negotiating with four more new companies. Over time, Lawson expects the new companies will move into the industrial park or anywhere in Lancaster as they grow and need more space. LEDC will assist with their relocation when the time comes.

A non-profit development organization in Los Angeles, the United Community Housing Development Corporation (UCHDC), has received a grant from the Local Initiatives Support Corporation (LISC) to study the feasibility of setting up a business incubator in the Alameda Corridor industrial area near downtown. Ira Handleman, consulting on the project, says the project is intended to help small manufacturers survive and to help new businesses get off the ground. "Land values are so high, business retention of light manufacturing becomes a big factor in providing jobs to lower income, blue collar workers which UCHDC represents."

Because UCHDC has had a small business loan and technical assistance program for five years, the business incubator is the logical next step in its economic development strategy. UCHDC's incubator plans to provide management assistance, clerical services, accounting, marketing and loan packaging to new and existing industries. "We don't want all start-ups — we're looking at home-based businesses and women's businesses which may also need space and support to grow."

The biggest obstacle in this development is funding. Says Handleman, "We want to develop the best incubator with the resources available, (but) funding is very difficult for these projects, if there is no government money to subsidize them." As a result, UCHDC has identified several potential private partners including a regional financial institution, a private foundation and the University of Southern California. "We are approaching this as pragmatists and hoping to joint venture the incubator development with private developers."

Another public/private partnership for business incubator development is taking place in San Bernardino County between Chevron Land Corporation and the West Valley Community Development Corporation (WVCDC). Chevron plans to build a 50,000-square-foot, $1.9 million business incubator in Ontario with the help of city CDBG funds and a county industrial development bond.

After construction, Chevron will then lease the incubator to the county for $1 a year for seven years. WVCDC, an SBA 503 development corporation, will manage the incubator and offer its on-going loan packaging, grant writing and business assistance expertise to tenants

(continued on page 21)

Business Incubators
(continued from page 4)

within the incubator. Construction started in June 1984, and the incubator is scheduled to open February 1986.

Fresno's Valley Rural Development Corporation has entered into an agreement with City Venture Corporation, a private corporation largely held by Control Data Corporation in Minneapolis, to make recommendations for their business incubator. According to Richard Dorf, "Fresno is attempting to build on top of an already strong economic base."

As one of a handful of private incubator developers in the United States, City Venture Corporation is offering Fresno as well as the cities of Sacramento, Oakland, and San Jose something called a Job Creation Network. The network has three components: a locally-developed seed capital fund, a cooperation office and a business and technology center (BTC). The BTC is Control Data's registered and licensed business incubator. Public or private developers may purchase a license and development consulting from City Venture Corporation or Control Data Corporation. The franchise fee is $50,000 the first year and $15,000 for subsequent years.

As consultants to local governments, universities and private investors, most private incubator developers include space, business capital and business assistance in their business incubator developments. Loren Schultz, president of Technology Centers International, Inc., with five Technology Enterprise Centers in Pennsylvania and more in several other states, is another private sector developer of business incubators. Like other incubators, TCI's Technology Enterprise Centers offer below-market rents, centralized services and equipment rental.

An unusual feature is TCI's "champion" — a subcontractor with extensive business experience who helps incubator firms with business planning and financing. Initial consultation is free, but follow-up assistance is on a retainer or fee basis. Each of Schultz's centers has a locally developed venture capital fund of $3 to $5 million and the possibility of financing through TCI's larger national venture fund.

Other private incubator developers which offer consulting and development services nationally to local governments, universities or investors include Pryde, Roberts, Inc., located in Washington, D.C.; Job Creation Limited, a firm from the United Kingdom with an incubator in Flint, Michigan; and Rubicon Group, from Austin, Texas. As reliance on creativity as well as private sector financing in business incubators development increases, these firms are finding a large demand for their services.

By using business incubators as an alternative to "smokestack chasing," public officials are developing their economies from within — creating an environment for small business growth.

The University of Southern California (USC) is developing a business incubator for new firms which meet the SBA's Small Business Innovation Research grant (SBIR) guidelines. The incubator expects to house 13 firms which will have access to USC's expertise in grant writing and federal contract management as well as university laboratories, graduate students and researchers. USC's incubator program expects to assist tenants in obtaining private financing for their companies when they are ready to leave the incubator. When that happens, they expect the companies to relocate nearby, because of the early ties developed with the university and other businesses there.

Eight miles from USC in Compton, HUB City Development Corporation is developing another type of specialized business incubator. This one is directed towards the retail auto and accessory industry. Now in the early construction phase, the incubator will offer below market rents for commercial and industrial space to keep auto dealers in the Auto Plaza and to attract more dealers to unsold parcels of land in the Plaza. Paid for by a $340,000 grant from the EDA and $240,000 grant from the state department of Commerce, the 15,000-square foot building will be home to new firms related to the auto industry, like van conversion and auto upholstery companies.

The Mission Economic Development Association (MEDA), a community-based non-profit organization in the low-income areas of San Francisco, has joined with Printing Industries of Northern California (PINC), a trade association, to develop The Center for Printing and Graphic Arts. The Center will house local printing and graphic arts firms threatened by dislocation from San Francisco County, a museum showcasing the printing industries' contributions to the area's social, economic and artistic tradition, an existing employment training and apprenticeship school, sponsored by commercial printing companies and the printing workers union, and incubator space for new printing-related companies.

The Center came out of MEDA's efforts to assist small and minority businesses and to expand employment opportunities for low-income minorities and unemployed residents.

MEDA found employment opportunities in the printing industry, particularly for semi-skilled blue collar workers, were growing, but these companies were being dislocated from San Francisco because of retail and commercial real estate speculation. From 1970 to 1983, the city had lost almost 1700 jobs in the printing industry and $25 million in annual payroll.

The purpose of the project is to retain blue collar jobs and the special services of the printing industry within San Francisco's local economy. Robert Switzer, Executive Director of MEDA, says "Not only will the center anchor and support the traditions of the printing industry, the incubator portion will house new high-growth firms at the cutting edge of printing technology."

The Governor's Office of Economic Opportunity and private foundations have provided MEDA with support for the organizational effort of the center. The Mayor's Office of Housing and Economic Development has agreed to submit a UDAG application for the project and MEDA is seeking other public and private funding for the development of the four-block $3.2 million project.

Other examples of business incubator development are in the works in Salinas by the community-based non-profit organization, Community Housing Improvement Systems and Planning Association, in Hayward by the Alameda County Private Industry Council, by Imperial County and in other California communities. One thing is clear, business incubators are a popular tool for economic development, but they often require entrepreneurial developers who can creatively garner support and public and private resources for incubator development despite California's high real estate costs. ■

ATTACHMENT 2(b)

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WHAT SMALL BUSINESS NEEDS IS A LITTLE INCUBATION

Farmers use incubators to hatch chicks, giving them a warm headstart on a rough and tumble life. New businesses can be as fragile as newborn chicks; four out of five fail in their first five years, 91 percent in their first ten. They could use a little coddling — in a *business* incubator — before greeting the highly competitive world of business.

In fact, there are over 50 business incubators nationwide, according to a study by the University of Minnesota's Hubert H. Humphrey Institute of Public Affairs. These incubators bring investors wanting big oppor-

BY VIRGINIA A. PERROT

Freelancer Virginia A. Perrot writes most often on health and health care.

"When you're starting your own business, your brother-in-law is probably telling you you're going broke, and your wife is saying you won't have money for the kids' braces. Just having someone cheer you on can make a big difference."

tunities; universities hoping to try out new research; companies looking for small business customers; and community leaders searching for ways to create new jobs — all to the aid of fledgling entrepreneurs.

Aid includes actual seed money, facilities at below-market rents and flexible leasing. It sometimes includes business planning, management and financial advice. In a very practical way, these business incubators address the two biggest obstacles facing a young company: shortage of capital and lack of management expertise.

An Incubator Works for People

An incubator provided the success Steve Gummow, Rockford, Ill., needed. Gummow, in his mid '20s and inexperienced, came up with an idea for a tool handle that changes a socket wrench into a speed wrench (very handy for tight spaces). He quickly patented the product but was unable to interest any manufacturers in his invention.

About this time Gummow heard about the Business Center for New Technology, an incubator then owned by the Barber-Colman company, a specialized tool and industrial manufacturer. He convinced John Dixon, manager of the incubator, that he could produce and market the product himself.

Dixon accompanied Gummow when he went to the bank for a loan, and Gummow moved into incubator space. The Business Center for New Technology offered Gummow access to the company Apple computers and WATS line and helped him write new business plans.

Just one year and 5,000 tools later, Gummow sold the patent for his tool to Sears and accepted a job with the company, in what Dixon describes as an extremely lucrative arrangement with a very promising future.

"What a lot of these people really need is someone to believe in them," says Dixon, who now works for the new incubator owners, Reed-Chatwood, Inc.

"When you're starting your own business, your brother-in-law is probably telling you you're going broke, and your wife is saying you won't have money for the kids' braces. Just having someone cheer you on can make a big difference."

Companies Invest in Companies

Why would a private company want to nurture other private companies? Control Data Corporation (CDC), Minneapolis, Minn., a worldwide computer and financial services firm, has used incubators to develop a workable, proven program for helping small business. The company then sells this expertise to communities who want to do just that.

A recognized pioneer in the development of private incubators, William Norris, chairman of CDC, was inspired by his own experiences starting the company in 1957. He also was motivated by a corporate philosophy that looks upon the unmet needs of society as potential business opportunities, according to spokesperson Syl Jones, Manager of Communications for Urban and Rural Ventures.

Today, CDC has 16 Business and Technology Centers (BTCs) in 13 U.S. cities and two foreign countries. The company owns and operates 13 facilities; the others are franchises with local communities.

Day-to-day operations and services vary somewhat from center to center, according to Jones. But generally, the BTCs offer management education and small business courses; the services of Small Business Advisers (a CDC subsidiary) to help with problems; and group health and life insurance. Some facilities offer the Office Without an Office Program for entrepreneurs who need a business address, answering service and occasional conference room but who can't afford a full-time office.

Bob Reid, president of Pope-Reid Associates, an environmental engineering consulting firm, has rented space in CDC's St. Paul BTC for four years. Although his business is growing — from six to 25 employees — he has no plans to move.

"I invoke that idea — that Control Data is here to help me — a lot of times," says Reid, who also uses CDC's management services. "That doesn't mean I always get what I want from management, because I

Photo by Kris Staubitz

don't. But I do think the corporate philosophy is reflected in the operation of the building."

Although Reid does not credit CDC entirely with the success of his business, he does admit the centrally located services have saved him money. What impresses him most is the corporate commitment behind the centers.

"It's important to me that it was not just anyone, but the chairman of the board, who said Control Data was going to provide these services to help small businesses," he says.

Communities Invest in Jobs

New businesses — particularly new small businesses — play a big role in creating new jobs. A 1981 study by David Birch at the Massachusetts Institute of Technology (MIT) found that two-thirds of all new jobs in the U.S. are created by companies with 20 or fewer employees. About 80 percent of all jobs are created by firms with 100 or fewer employees, according to the same report.

Community leaders have noticed. The city of Akron, Ohio, for example, was depressed by changes in the automobile and rubber industries around 1980. To create jobs and stimulate economic growth in the area, the city leaders decided to try a business incubator.

Members of Akron's Office of Economic Development (OED) lobbied support from private industry, community groups, government and the University of Akron. Part of that support came as a warehouse, available

"It's important to me that it was not just anyone, but the chairman of the board, who said Control Data was going to provide these services to help small businesses."

Bob Reid (above) started his St. Paul, Minn., consulting firm with the help of Control Data's Business Technology Center.

"These new small businesses play a big role in creating new jobs. A 1981 study by David Birch at MIT found that two-thirds of all new jobs in the U.S. are created by companies with 20 or fewer employees."

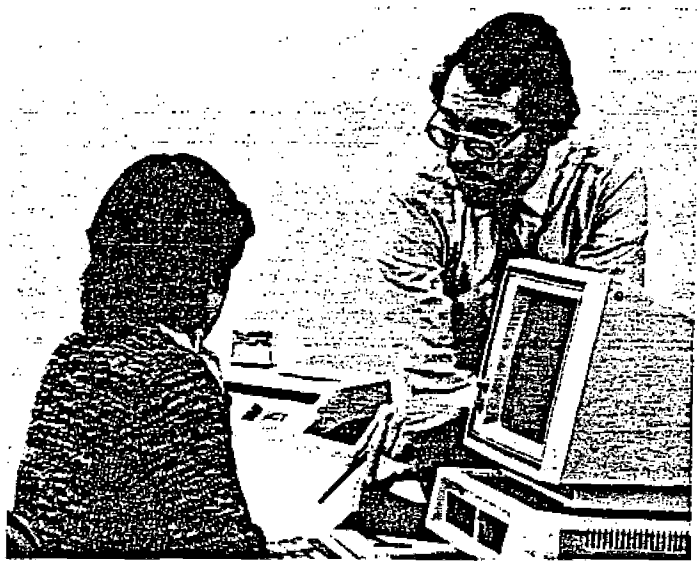

Photo courtesy of Technology Center International

Robert F. Monaco helps Nancy Amaroso at Datacap Systems Inc, a computer company started in Lansdale Business Center, Lansdale, Pa.

at a modest rent for seven years.

Almost immediately the developers received applications from more than 200 individuals for what became 14 offices in the warehouse, opened in April 1983. Just 15 months after opening, the first 12 firms created 90 jobs.

"Our success has spurred a lot of interest among private companies in the area," says Dieter Wegner, economic development specialist for the OED. Wegner now works to match firms interested in renting excess space to members of Akron's entrepreneurial community.

One way the OED has kept the incubator successful is to carefully evaluate the businesses' success along the way. Twice a year tenants are reviewed on the basis of jobs provided and business plans; counseling and assistance are provided if performance is not in line with stated goals.

Investors Seek the Big Break

In contrast to the BTCs or Industrial Incubators, Loren Schultz, president of Technology Centers International, Inc. (TCI)., Montgomeryville, Pa., seeks a direct profit from the success of his incubator business.

About 15 years ago, Schultz was a promising young entrepreneur himself. He cofounded Decision Data Computer Corporation (DDCC) out of his home and made a fortune developing a keypunch machine that was compatible with the IBM computer. Revenues reached $40 million within five years of its invention.

He left DDCD in 1976 to invest in other entrepreneurs. He opened the first Technology Center in a renovated building outside of Philadelphia, and today he operates five with plans for six more.

"I expect to make handsome rewards from these investments in new companies," Schultz says. "Of course, when people say, 'Loren, I wouldn't have made it without you,' it's a good feeling."

Schultz says he believes that entrepreneurs are the future of America. And he points out that in the beginning, there were no giant corporations, only small businesses. "What we're really doing," he says, "is building employers of tomorrow."

Space in the technology centers averages about $5 per square foot. Offices are available for a minimum of $125 per month, with utilities, receptionist and conference rooms thrown in. Other support services are offered at close to cost.

Each technology center has a board of local business people who act as advisers to tenants and run a venture capital fund of $3 to 5 million to provide seed and venture money for young companies. Each incubator also has a "champion," an independent contractor who works with entrepreneurs to get them started and scouts out new investment opportunities for Schultz and

other venture capitalists.

Indeed, initial figures on the success of technology center-nurtured companies is promising. Of the 45 companies located in his first incubator, Schultz reports that just three failed. The successful ones generated an estimated 500 jobs.

A Great Idea Needs Work

Yet most people in the incubator field agree that there are still more questions than answers. What, for example, is the best mix of tenants for an incubator? Is there such a thing as a "best" size? Is it better to offer lots of services right off to attract tenants, or to add them only as needed and requested? And the biggest question of all: Do incubators make a difference in the success and survival of new businesses? And if so, how does this happen?

"The biggest question in any kind of economic development is, 'Would this have happened anyway?' " says Candace Campbell, who co-authored the Humphrey Institute study. "It's one of the things that ought to be thought about with incubators, and it's almost impossible to answer," she suggests. Campbell, executive director of the Minnesota Center for Community Economic Development, an association of community development groups, offers some advice, based on what she's learned from people working in and developing incubators.

She says it's essential that the development of an incubator be carefully planned and thought out. "This isn't a solution you can just plop down anywhere and have it work," she notes.

Potential developers must assess both the people and financial resources of their local community. Are there successful business people to act as advisers? Are there funds for development and a pool of investors? Most important, is there a flock of potential entrepreneurs?

"You can't make an entrepreneur out of someone who isn't," she says. "You can't make a business out of air."

At the same time, she says, it's important to be flexible and let an incubator, like any other development program, have room to grow. "You don't want to be too rigid about getting people out of the incubator," she points out. "But you don't want to set them up for a lifetime of tender loving care, either. The whole idea is to get them to hatch and leave the nest." □

"Each technology center has a board of local business people who act as advisors to tenants and run a venture capital fund of $3 to 5 million to provide seed — and venture money for young companies."

Helen Foshee runs on-site secretarial services for small businesses in the Akron, Ohio, Summit Industrial Incubator.

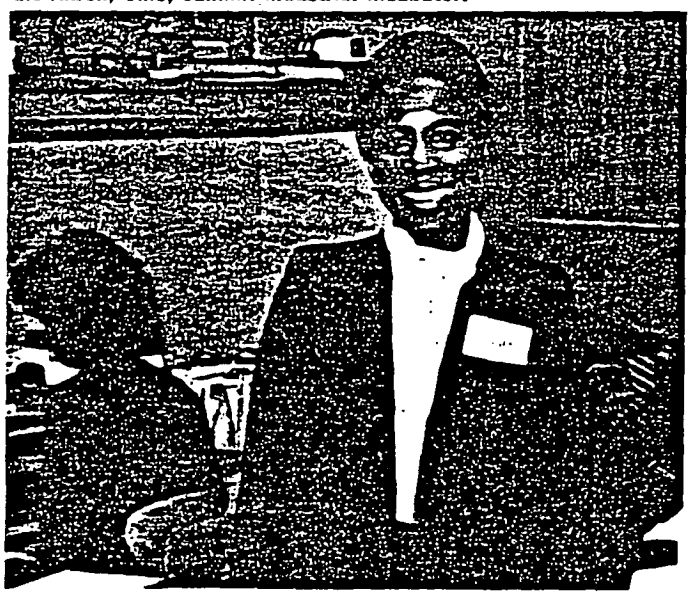

Photo courtesy of Summit Industrial Incubator.

ATTACHMENT 2(c)

Fledgling firms find shelter in 'incubators'

By David Carpenter
Bee Staff Writer

Not often does California copy Rust Belt innovations in business and technology. But the small-business incubator is one Eastern- bred concept whose bandwagon the state appears eager to jump on.

The incubator — a building that nurtures new or growing businesses through the sharing of costs and services — is a hot nationwide trend that is beginning to catch on here.

The idea was launched as a way to revitalize abandoned industrial buildings and empty factories in the East and Midwest.

In California, state officials and business leaders are hatching slightly different plans, with the emphasis on new products and services. But the primary objectives are the same: Cut start-up firms' overhead, encourage innovation, create and conserve jobs.

"California doesn't have a lot of vacant smokestack buildings," says Oscar Wright, executive director of the state Commerce Department's Office of Small Business. "But whether it involves rehabilitating existing facilities or building new ones, the incubator will be an important tool here in combating the problems faced by new businesses and in creating jobs."

Wright's office has just received the results of a $7,200 state-funded study by two consultants at the University of California, Davis. The 95-page report endorses incubators as "critical" elements in the state's efforts to remain on the leading edge of business development.

The Commerce official concurs. His and other agencies are nudging state and local bureaucracies into action to serve as the catalyst for private businesses' growth and innovation.

"This state is the recognized leader across the nation in innovative concepts in industry," he says. "It's necessary to come up with small-business support systems to keep it that way, and incubators will play an important role."

Only one incubator is functioning in California — a new 30,000-square-foot structure in Lancaster built with more than $1 million in federal and local funds, and currently housing a machine shop, a newspaper, a firm that sells equipment for the physically handicapped and a computer software business.

UCD consultants Richard C. Dorf and Barbara Purdy have identified another dozen such projects the "nest-building" process.

One could be established by next fall in Sacramento at the Donner School at Stockton Boulevard and Broadway, vacant for six years. The Superior Valley Small Business and Development Corp., which operates under the purview of Wright's office, is negotiating with the city to take over the property in hopes of fixing up the building for 10 to 12 small businesses and itself.

Superior Valley president Darryl Freeman says the future incubator — now "the biggest blight on the Stockton commercial strip" — could eventually get a 40,000-square-foot addition.

Firms sheltered by the local incubator — to be known as a business and technology center — will pay an estimated 60 cents per square foot — compared with the the 90 cents-$1.40 range for office space in midtown/downtown, according to Freeman.

Each will operate out of a classroom (900 square feet) or subdivided classroom, paying Superior Valley a single fee for leasing that includes utilities, centralized accounting and telephone systems, and management and technical assistance. Businesses would "graduate" out of the incubator after three to five years or whenever they could fly without assistance.

Potential funding sources are identified as the Sacramento Housing Redevelopment Agency, the city, private capital, bank loans, Economic Development Assistance funds and the Office of Small Business. Wright says the state's financial role should be limited, with consultant Dorf suggesting a level of about $1 million a year to support "each new crop of chicks."

Says Freeman: "The incubator is a more innovative way of helping small businesses than throwing money at them, giving them tax credits or discounted loans like those made through the SBA (U.S. Small Business Administration). And not only is it a good idea, it makes good business sense."

About 100 incubators are up and running nationwide, most having started up during this decade. The early verdict is positive, with firms taking advantage of the low overhead to free money they can use to expand. Studies peg the failure rate of start- ups in incubators at 50 percent, compared with an 80 percent rate in non-incubator companies.

Critics, however, claim that incubators offer services that new businesses could do without and at costs they can't afford.

An executive of one Minnesota-based corporation that has business and technology centers throughout the country cautions that those incubators are not a cure-all for small-business ills.

"It's a myth to say that a stand-alone building does any more for a start-up company than to reduce its cash-flow requirements," said Wilbur French, a vice president with Control Data Corp., in a telephone interview from St. Paul.

"Cheap space by itself is not going to make or break a start-up. The services that are in that facility are much more important.

California's lone incubator, in Los Angeles County, offers its space at about what it would cost a company going it alone. But Verne Lawson, executive director of the Lancaster Economic Development Corp., says businesses can benefit from much more flexible leases — even month-to-month — and a support system that doesn't exist elsewhere there.

That approach may be adopted elsewhere around the state.

Fresno, for example, is paying $70,000 for a feasibility study on new incubator possibilities. And Davis Mayor Ann Evans, looking to expand business in a city with few vacant buildings, has expressed a "very keen" interest in setting up small business cooperatives.

Wright says several California incubators may be situated near universities where small businesses can take advantage of technological ideas generated on campus.

Both the small-business director and Freeman say they're eager to see how well California-style incubators will work.

"It's a proven concept elsewhere," says Freeman. "But we've never seen anything quite like it in California."

Bee photos/Dick Schmidt

Donner School on Stockton Boulevard may become an 'incubator' that would provide new businesses with low-overhead facilities.

(29)

ATTACHMENT 3

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

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MEMORANDUM

TO: John Molloy, PPDD (C-32)

DATE: June 5, 1985

FROM: Gloria G. Shepherd, TSD (17-TS)

SUBJECT: Estimate of Value - Donner School Site on Stockton Boulevard

Based on your estimate of 3.6 acres for subject site size, a "ballpark" estimate of value for land only (you confirmed Larry Lancaster's opinion of no value placed on improvements) is as follows:

Land only 156,816 s.f. x $3.20 s.f. = $501,811.20

ROUNDED TO: $500,000.00

(Square foot price was derived from Frank Blaesi's appraisal report of May 1, 1985, for two other pieces of commercial property, for prime corners i.e. $3.50 and $3.25 per sf.)

Gloria

GLORIA G. SHEPHERD
Program Analyst

ggs

cc: Larry Lancaster

(NOTE: This figure not to be used for acquisition/disposition, only for use in estimating.)

McManis
ASSOCIATES, INC.
Management and
Research Consultants

ATTACHMENT 4

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June 6, 1985

Mr. John Molloy
Director, Planning and
Policy Development
Sacramento Housing and
Redevelopment Agency
Post Office Box 1834
Sacramento, California 95809

Dear John:

This report is in response to your request for us to consider questions in relation to the proposed "incubator" development at the Donner site. You asked, first, for our judgment on the likely amount of equity to be raised by taking advantage of the tax and income consequences of renovating the 40 year old building; second, for the impact on syndication of leasing the land and selling the building to the developer with an option to repurchase within the first three years.

Background Analysis

We have utilized the information contained in the Sacramento Small Business Center Business Plan prepared by the Superior Valley Small Business Development Corporation. Page 15 provides a five year pro forma and page 16 the assumptions used therein.

We note the following:

1. The pro forma appears to assume a 15 year depreciation schedule for Phase I; present tax law requires an 18 year schedule. Depending upon startup and the enactment date of the new tax legislation, this may also be lengthened.

2. Although you have taken into account the $50,000 repayment on the $600,000 loans from the city in your 4th and 5th year figures for seed capital projections, the pro forma does not.

3. The information on page 16 suggests a $900,000, 15% loan on Phase II; the pro forma assumes Phase II income starting in a limited fashion in year 2, and phasing in substantially in year 3, but does not show any debt service for the $900,000. At almost any interest rate down to 8% and any term of years between 15 to 20 we find the project running either at a loss or substantially below anticipated figures.

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201 Sansome Street • San Francisco, Ca. 94104 • (415) 398-3087

4. The only provision for any return to the limited investors is the possibility of future capital gains since there is no share in cash flow. A very preliminary estimate of Phase I by itself suggests that it could produce a minimal cash flow, with similar capital gains implications, in years 4 and 5, but not in later years if the $50,000 repayment goes to $100,000.

5. Short of a market feasibility study, we cannot judge how persuasive the business plan might be to individual and institutional investors, most of whom will have to be sought, we expect, from within the Sacramento area. We would note, however, that the Meadowview Road building, formerly used by a federal government agency for office space, seems suited to a number of the uses contemplated here, and is available for $4.20 per square foot/year. Phase I runs at $7.80 and Phase II at $4.80.

Estimate of Syndication Proceeds - Equity Investment

At a maximum, we believe it may be possible to raise $230 to $250,000 through the sale of limited partnerships. We base this on the following analysis:

1. Since the building would be transferred at no cost to the developer, building rehabilitation costs would qualify for 40 year age tax treatment as credits to the full $750,000. The 20% credit would provide, at best, $150,000.

2. Using a $1,050,000 transfer cost to the corporate entity composed of the general partner and the limited partners, and an 18 year depreciation schedule, there would be $58,000 straight line depreciation per year (required if the tax credit is to be used).

   Present valued with a 12% discount over 18 years, this amounts to $420,000. Assuming tax changes in the future will be factored into any present decision for investment, the tax value at 35% would be $147,000. Since most investments of this sort are now being made for economic, rather than only tax, reasons, and since this project has little or no apparent economic return to the limited partners we would discount the tax value to anywhere from 65 to 80%. Using 80% this provides $117,600 less costs for structuring the sale, which could run as high as 18 to 20 percent of the tax value. Assuming local placement and some pro bono contributions, sale costs could run $10,000 or more reducing the net proceeds for equity investment to under $250,000.

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3. A more likely approach, which we have checked out with HUD UDAG staff experts on syndication, is the following:

   - $150,000 for the 40 year credit (minus placement costs)
   - Present value of the first five years of depreciation, or $290,000, discounted over 5 years at 12%, which times today's "norm" of 42% for tax value = $87,812
     TOTAL = $237,812 (minus placement costs).

We are skeptical of the realism even of this figure. This project asks investors to agree to an equity contribution based upon a Phase I-Phase II revenue supported project which has questionable financial feasibility, in a difficult neighborhood, with no cash flow return and what we would estimate to be a 3-4% maximum cumulative annual return over the first five years if sold for capital gains. The investor runs the additional risk, without an assigned cash flow preferred return, of having the IRS find that this is not a legitimate economic deal, but was entered into only for tax purposes. Hopefully, friendly local investor(s) interest will be found, but even under those circumstances we believe the discounted value of the tax benefits will be greater than we indicate.

Land Lease with Option to Repurchase

We see two possible benefits from the option to repurchase within 3 years. First, it would be possible to remove a poor operator without loan foreclosure, or without having to wait until the business operation provided foreclosure opportunity. Second, it permits a floor, depending upon the circumstances and definition of purchase price, for the limited partners which may be of benefit in marketing the project.

On the other hand, it would be possible to remove a poor operator by foreclosure on the city's loans, or by structuring the land lease to permit the city to appoint the operator or remove the operator if certain goals are not met within the three year period. That would leave the limited partners in place without losing their equity contribution. That oversight would also be encouraging, we believe to the limited partners.

Second, if the option takeout is to be exercised regardless of the success or failure of the project, then the limited partners would be concerned that the city would exercise that right at the point where they might expect to receive some additional income from the property. If the intent is noted that the authority would only be used in the case of poor performance, then it raises a serious legal question as to whether or not the investment would be considered to be at risk for IRS purposes.

In addition, the optional bailout would be seen as a signal of a lack of faith in the operation, which would not be condusive to investment, and would not be encouraging for lenders on Phase II. In fact, Phase II lenders would be expected to take the risk that the city could take over Phase I - and possibly even change its use - after the lender provided permanent financing for a Phase II building that it largely dependent upon the success of Phase I.

Unless the feasibility study shows the project's ability to provide both seed money capital and some assured return to the investors from cash flow, the option also would suggest that the prospect for captial gains is additionally suspect, raising additional IRS and investor eyebrows. If the purchase price under the option includes an increase in value, that could show prospect of gain, but also a greater likelihood that the investment would not be considered at risk, since public funds would be "guaranteeing" return, where market circumstances were otherwise unfavorable.

We suggest that this approach not be offered up front but be held back in case it becomes an acceptable risk for an investor to take as syndication efforts are pursued. The lease of land would seem wise and without any obvious drawbacks for investor purposes.

Summary

We believe that the present financing and market assumptions of this project will not encourage either investors in Phase I or lenders in Phase II unless Phase I can be worked to stand on its own as a viable project. Without that likelihood, projections of investment in Phase I are conjectures at best, and the financing of Phase II will require additional city funds. There is an immediate need for the feasibility analysis to help restructure the project.

Sincerely,

McMANIS ASSOCIATES, INC.

Warren H. Butler
Principal Associate

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ATTACHMENT 5

DONNER SITE PROPOSAL

SACRAMENTO SMALL BUSINESS CENTER

BUSINESS PLAN

Main Office: 817 14th Street, Suite 100 • Sacramento, CA 95814 • (916) 442-1729
Field Office: 445 E. Weber Street • Stockton, CA 95202 • (209) 466-7066

SACRAMENTO SMALL BUSINESS CENTER

BUSINESS PLAN

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SUMMARY

Superior Valley Small Business Development Corporation proposes to rehabilitate and expand a vacant 30,000 square foot abandoned school site and operate a small business incubator in the enlarged structure. The incubator will contain a variety of space sizes for office and light industrial users. In addition, the incubator will provide a customized package of administrative, management, and financial services that each business on its own could not afford. By doing so, the incubator can improve the survival rate of small businesses, and the jobs they produce, from twenty percent to over eighty percent.

In a recent publication, the U.S. Small Business Administration documents small business' contribution to the economy in terms of job creation, innovation and productivity.

> "All of the 980,000 net new jobs generated in the American economy during 1981 and 1982 came from independent small businesses. In addition, small firms and inventors are 2.4 times more productive per employee and 24 times more productive per dollar of research and development expenditure in the generation of innovation than large firms. Small businesses, especially those under five years old, are often vulnerable to a single serious mistake in purchasing, marketing, location, or personnel that may spell disaster. An estimated 2,000 businesses close their doors each year because of one serious error. Nine out of ten small businesses fail due to management deficiencies, and research shows that nine out of ten causes of failure could have been foreseen".

The purpose of most small business incubators is to reduce small business failures by making it easier for them to survive the critical early stages of business development. This is achieved by providing inexpensive, appropriately-sized space, access to commonly-required administrative support services, and access to management, financial, and technical assistance. All new businesses make mistakes, but incubators give new firms "breathing room" to learn from errors that otherwise could be fatal. Valuable working capital is preserved by reduced overhead in an incubator facility.

The proposed incubator, the Donner Small Business Center, would be developed in two phases. Phase One calls for the rehabilitation of an abandoned 40 year-old school building into 30,000 square feet of office space at a cost of $1,043,000. Phase Two would add 40,000 square feet of light industrial and limited office space at a cost of $1,112,000.

Superior Valley, a non-profit corporation, would operate the Center and a for-profit limited partnership would own the site. As general partner in the limited partnership, Superior Valley would supervise the development and manage the building. As managers of the Center, Superior Valley would provide the financial, administrative, and management services critical to the incubator concept using the existing resources of the corporation. Maintenance and security services for the property would be contracted out.

Superior Valley SBDC is licensed by the State of California Department of Commerce, Office of Small Business. An SBDC provides management, technical, and financial services to qualified small businesses. One unique service offered is the assignment of a State-backed guarantee of bank loans. Superior Valley opened for business on January 3, 1983 with headquarters in the City of Sacramento and a branch office in the City of Stockton. Since then, the Small Business Loan Guarantee Program has leveraged $2 million in guarantees into $15 million of small business loans.

I. BUSINESS HISTORY

Superior Valley Small Business Development Corporation was organized as a non-profit corporation in 1983. The firm was founded by Darryl O. Freeman (President) and Harold F. Brown (Vice President). Mr. Freeman has over fifteen years experience in managing small businesses and designing government programs to serve small-, minority-, and women-owned businesses. Mr. Brown has over fifteen years in financial analysis, planning, and banking for businesses and economic development programs and projects for State and local governments. These two senior operating officers have managed the corporation since its inception under the guidance of a fifteen-member Board of Directors (see Appendix A: Board Roster and Appendix B: Articles of Incorporation).

Superior Valley is one of seven corporations licensed (see Appendix C: State License) by the State to issue State-backed loan guarantees and to provide supportive management and technical assistance to small businesses. The State Department of Commerce, Office of Small Business regulates Superior Valley through a four-year contract that requires the State to contribute annually to a trust fund against which Superior Valley issues loan guarantees. While annual increments to the trust fund may vary, the Corporation projects a $5 million trust fund at the end of the contract based on the current balance of $2 million. The State also contributes each year of the

contract a declining amount for the operating expenses of the Corporation. The State currently contributes $176,000 or fifty-nine percent of the annual budget of $300,000. The contract calls for the corporation to be self-sufficient by the end of the five-years. Current projections indicate that Superior Valley will achieve self-sufficiency in three years or by July 1, 1986 (see Appendix D: Five Year Plan).

During 1983, Superior Valley guarantees generated $3.5 million in loans for small businesses, using guarantees of $1.1 million. The corporation leveraged over $3 million in private funds for every $1 million in the guarantee fund. One hundred nineteen (119) jobs were retained, one hundred sixty-eight (168) jobs were created, and approximately $646,000 in federal taxes were generated. In addition, the corporation conducted twelve small business seminars on a variety of financial and management topics attended by over five hundred (500) persons. Three hundred thirty-four (334) clients received face-to-face counseling, managment, and technical services.

In the past year, Superior Valley approved $2,524.045 in loans carrying guarantees for small businesses. Of these guaranteed loans, $1,321,000 went to ten minority-owned businesses. Two hundred fourteen (214) jobs were created and ninety-seven (97) jobs were retained. In addition, Superior Valley conducted an average of two small business seminars monthly, covering a variety of topics from

"The Components of a Successful Loan Package" to "Small Business Sales and Marketing Techniques" (see Appendix E: Seminar Flyer). In the first six months of 1984, Superior Valley reached 690 small and minority businesses with counseling and educational training. Forty-four percent of these businesses were start-up situations. Almost fifty percent of the seminar and workshop participants were minority business persons and approximately forty percent were women.

II. ORGANIZATIONAL PLAN

The organization plan for the Center consists of two entities. A for-profit limited partnership will own the deed restricted property. A non-profit corporation, Superior Valley SBDC, will operate the incubator program.

The limited partnership would offer a means through which private capital could be invested in the structure to capture the tax benefits of rehabilitating a property over 40 years old. Private ownership of the facility will put the 3.1 acre site back on the tax roles for the Oak Park Redevelopment area and generate an estimated $11,000 per year in tax increments after Phase One and $20,000 per year after Phase Two. Superior Valley will serve as the General Partner of the limited partnership. The limited partners will receive all tax credits, operating loss deductions, and a share of the capital gain should the

property ever be sold. As general partner, Superior Valley will receive property management fees and profits from space rentals. All space rental profits derived by Superior Valley will go into the Center's Seed Capital Fund for tenants and clients of the incubator programs. Building Superintendent Services will be contracted out to a property management firm that will become a tenant in the Center.

The Center will be operated by Superior Valley Small Business Development Corporation. As a State-licensed small business development corporation, Superior Valley already provides most of the administrative and financial support services designed in the incubator concept. The existing services will have to be expanded in scale, in some cases (e.g., telephone answering and copying) and altered in type in some others (e.g., equity financing in addition to debt financing). Management services in loan packaging, marketing, accounting, and feasibility studies will be continued using present staffing made more productive through added use of computer terminals. Only one full-time position (secretary-receptionist) will be added to Superior Valley's existing organizational structure. An existing administrative position will be upgraded to Incubator Administrator to coordinate the administrative services component of the incubator program. Superior Valley's existing Businesses Services Manager and Vice President of Finance will continue in their roles of supervising the management and financial services of the corporation. The existing Public Information Officer will coordinate the marketing and public relations program for the Center.

All staff managers report to the General Manager who in turn is accountable to the Board of Directors.

The Business Services Program will be augmented by the Cooperation Office. The Cooperation Office provides small business with management skills and expertise to overcome the obstacles faced by new enterprises in their critical start-up phase. Using a network of active volunteer executives, professionals, community based organizations, and academia, the Cooperation Office assists small businesses to develop a business plan and secure adequate financing. It is a professionally managed program which utilizes a volunteer network of experts to assist small businesses in the following ways:

- o evaluates new products or services for viability in an identified market;
- o guides the creation of the company's business plan which serves as the blueprint for the first years of operation;
- o helps assemble a management team with combined talents, experience and know-how to implement the plan;
- o provides assistance in locating start-up financing for the new buinesses; and

- provides assistance in obtaining existing community services such as employment training, child care, housing, and commercial rehabilitation.

A sample organization chart is presented as Appendix I. Only one new staff position, Incubator Administrator, is to be added to Superior Valley's existing organization.

III. THE MARKETING PLAN

The marketing plan is designed to take maximum advantage of the financial, management, and real estate assets of the Business Center for local small businesses. The plan is structured around three basic elements. The Client Element defines the characteristics of eligible firms, how those firms will be identified, and what priority they will receive in using the Center's services. The Resources Element identifies the various local sources of financial, management, and technical services, how those sources will be solicited and coordinated by the Center, and how they will be channeled to the Center's clients. Finally, the Incubator Element promotes the advantages of a firm locating in the Center, defines how these firms will be selected, and under what circumstances the firms will "graduate" from the incubator and make their way in the larger community.

A. THE CLIENT ELEMENT

The business clients are ranked for marketing purposes as follows:

1. First priority, Business Center tenants;

2. Second priority, local businesses currently receiving financial assistance from the Business Center;

3. Third priority, any disadvantaged business that offers significant employment growth, especially within high employment communities. A disadvantaged firm is defined as one that by virtue of its size, brevity of history, or gender or ethnicity of ownership lacks the access to capital markets necessary to permit employment growth.

The firms will be recruited through Superior Valley's existing marketing programs, through the advent of the Seed Capital Fund and Cooperation Office Programs, and finally through the Center's advertising campaign described below in Paragraph C. Superior Valley's existing marketing program consists of regular monthly seminars throughout Sacramento County; ongoing announcements or ads

in local newspapers and the Yellow Pages; corporate memberships in the Hispanic, Black, and Metropolitan Chambers of Commerce; and participation in a steady flow of workshops, conferences, and seminars sponsored by business groups throughout Northern California.

Over two hundred clients per month are contacted in this fashion. The recruitment components of the Seed Capital Fund and the Cooperation Office are decribed in the Resources Element below.

B. THE RESOURCES ELEMENT

This element adds to Superior Valley's loan guarantee and management services programs with a Seed Capital Fund and a Cooperation Office. The loan guarantee program screens a client pool of 500 applicants from which an average of five full applications are processed monthly. The Business Services program conducts 100 interviews with clients monthly providing a range of counseling, marketing, and management services.

The Cooperation Office will expand this network by formal cooperative agreements with other business management, employment training and child care organizations throughout the Sacramento area. This

office will act as a "brokerage" for client services and as a source of new client referrals. The Center will regularly mail to participating companies or agencies and give priority staff support to these organizations when they sponsor workshops, seminars, or conferences. (see Appendix F for roster of Potential Cooperation Office Member Organizations). The Cooperation Office will meet monthly and be staffed by the Business Services Manager.

The Seed Capital Fund will involve private investors (individuals and institutional) in the Center's small business financing program. Fund participants have ongoing marketing programs of their own that, according to industry averages, generate 95 clients for every five that actually receive private investor funds. The "ineligible 95" are all potential clients for the Seed Capital Fund or the other financing programs offered by Superior Valley. Representatives of insurance companies, banks, savings and loans, venture capital companies, business law firms, accountants, and individual investors will regularly meet to invest the Seed Capital Fund and monitor client recipients (see Appendix G for Listing of Potential Seed CApital Fund Member Organizations). The Seed Capital Fund will meet monthly as part of Superio Valley's Loan Committee and will be ataffed by the Vice President of Finance.

C. THE INCUBATOR ELEMENT

The Incubator advertising program will consist of three phases. The first phase will emphasize recruiting tenants for the renovated structure and the new light industrial building. The second phase will promote the Incubator's management, financial, and administrative services to non-tenant clients. The third phase will support the marketing efforts of Incubator tenants.

Tenant recruitment will be carried out by Center staff with the expert assistance of real estate brokers. Using the priorities described in the Client Element, potential office tenants will be recruited initially for the 30,000 square foot office structure. Service companies will be sought that are compatible and that will support and expand the local employment base. Firms located on Stockton or Broadway Boulevards requiring new space that would otherwise relocate out of the Oak Park area will receive first priority as Incubator tenants as long as they meet the priorities described in the Client Element. If not, then other local facilities will be identified and perhaps renovated using funds from the Center and/or the Redevelopment Agency. Potential tenants who require supportive services such as telephone answering, centralized copying and wordprocessing , and accounting will receive priority consideration. Tenant leases will be so structured to provide services at or slightly below market rates. The marketing advantage for the Incubator will

be the availability of a full range of administrative, management, and financial services. The prices for these services will not be structured to unfairly compete with surrounding real estate or business services companies.

A key feature of incubator leases will be the term of the lease. The leases will be structured for three years with an option for three more. Unlike conventional landlords, the Incubator's decision on exercise of the option will also be based on the financial progress of the tenant firm and the demand from prospective tenants. Tenants will be required to submit quarterly financial statements and annual financial plans to the Center as a condition of the lease.

Once the Incubator meets its occupancy goals and supportive services are flowing smoothly to tenants, the marketing emphasis will promote those services to clients in the surrounding areas. Again, first priority will be given to those firms located on Stockton or Broadway Boulevards particularly those who are members of the local Business Associations. Add campaigns maximizing the non-profit status of the Center will be used to promote services to small business throughout the Sacramento Metropolitan area. Public service announcements on local radio and television will be used. The degree of this type of advertising could be greatly increased if the U.S. Small Business Administration is eliminated by Congress. If that action is taken, the Donner Small Business Center will go from being an important resource for local small businesses to the primary resource.

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and non-tenant clients using four major approaches:

a. Direct contract assistance by providing working capital lines of credit critical to firms that obtain business through competitive bid or contract negotiation;

b. Procurement assistance through the Regional Purchasing Council program designed to help small, female-owned, or minority-owned companies doing business with major private corporations and government agencies;

c. Direct consultation through the Business Service Program for the development of marketing plans, market research, or advertising campaigns; and

d. Center assistance to the Boulevard Business Associations in revitalizing the commerical strips through cooperative advertising,clean-up campaigns, financing for capital improvements, and coordination of city and county services.

IV. FINANCIAL PLAN

The following budget illustrates the expected costs for renovating the existing 30,000 square foot structure (Phase I), building a 40,000

(50)

square foot addition (Phase II), and operating the Center for the first five years. It should be noted that approximately 1 to 1.5 acres would remain for other development. It is conceivable that residential or recreational use could be built on this remaining acreage. Appendix H includes a draft budget for a possible residential use.

Donner Business and Technology Center
Development Budget for Rehab and Construction

Phase One: Rehab of Existing 30,000 Square Feet	
Feasibility Study	23000
Architectural Fees	58000
Rehab Costs	750000
Offsite Improvements	200000
Operating Reserve	82000
Total Phase One Costs	1113000
Phase Two: Construction of 40,000 Square Feet	
Architectural Fees	50000
Construction Costs	0
Topographical Survey	2200
Soils Report	1800
Printing Documents	4000
Offsite Improvements	15000
Construction (@ $20 [illegible])	800000
Leasehold Improvements	250000
Total Phase Two Costs	$1123000

FIVE-YEAR INCOME PROJECTION
Donner School: Business and Technology Center

REVENUES:	MONTH 1	MONTH 2	MONTH 3	MONTH 4	MONTH 5	MONTH 6	MONTH 7	MONTH 8	MONTH 9	MONTH 10	MONTH 11	MONTH 12	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Space Rentals	10800	10800	10800	10800	10800	10800	10800	10800	10800	10800	10800	10800	129600	162000	194400	200880	202500
Accounting Fees	1550	1550	1550	1550	1550	1550	1550	1550	1550	1550	1550	1550	18600	25200	32414	34034	35736
Telephone	825	825	825	825	825	825	825	825	825	825	825	825	9900	10725	13200	13200	13200
Copying	375	375	375	375	375	375	375	375	375	375	375	375	4500	4875	6000	6000	6000
Wordprocessing	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	18000	19500	24000	24000	24000
Passthrough Service Revenues	2700	2700	2700	2700	2700	2700	2700	2700	2700	2700	2700	2700	32400	40824	42865	45008	47259
Interest		503	527	550	573	597	621	645	669	693	717	742	6836	10479	14320	19635	25100
Royalty/dividend													0				
Other Revenue	2083	2083	2083	2083	2083	2083	2083	2083	2083	2083	2083	2083	25000				
Total Revenue	19833	20337	20360	20383	20407	20430	20454	20478	20502	20526	20551	20575	244836	273603	327198	342757	353795
EXPENSES:																	
Salaries	2083	2083	2083	2083	2083	2083	2083	2083	2083	2083	2083	2083	25000	26250	27563	28941	30388
Benefits	417	417	417	417	417	417	417	417	417	417	417	417	5000	5250	5513	5788	6078
Management Fees	992	1017	1018	1019	1020	1022	1023	1024	1025	1026	1028	1029	12242	13680	16360	17138	17690
Equipment Leased	3000	3000	3000	3000	3000	3000	3000	3000	3000	3000	3000	3000	36000	36000	36000	36000	36000
Depreciation	4861	4861	4861	4861	4861	4861	4861	4861	4861	4861	4861	4861	58333	58333	58333	58333	58333
Office Supplies	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	12000	15750	19845	20837	21879
Postage	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	24000	30240	31752	33340	35007
Printing	5000	200	200	200	200	200	200	200	200	200	200	200	7200	9072	9526	10002	10502
Marketing	5000	300	300	300	300	300	300	300	300	300	300	300	6300	10458	10981	11530	12106
Accounting	1395	1395	1395	1395	1395	1395	1395	1395	1395	1395	1395	1395	16740	22680	29172	30631	32162
Legal	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	12000	15120	15876	16670	17503
Utilities	900	900	900	900	900	900	900	900	900	900	900	900	10800	11340	11907	12502	13127
Telephone	200	200	200	200	200	200	200	200	200	200	200	200	2400	3150	3969	4167	5470
Maintenance	600	600	600	600	600	600	600	600	600	600	600	600	7200	7560	7938	8335	8752
Gardening	750	750	750	750	750	750	750	750	750	750	750	750	9000	9450	9923	10419	10940
Property Taxes	925	925	925	925	925	925	925	925	925	925	925	925	11100	11322	11548	11779	12015
Interest													0				
Other	1072	1072	1072	1072	1072	1072	1072	1072	1072	1072	1072	1072	12866	14283	15310	15821	16398
Total Expenses	31195	21720	21721	21722	21724	21725	21726	21727	21728	21730	21731	21732	270181	299938	321515	332233	344349
Operating Profit/Loss(-)	-11362	-1383	-1361	-1339	-1317	-1294	-1272	-1249	-1226	-1203	-1180	-1157	-25345	-26335	5683	10525	9446
less Debt Service																	
add Depreciation	4861	4861	4861	4861	4861	4861	4861	4861	4861	4861	4861	4861	58333	58333	58333	58333	58333
add Initial Rent Reserve	82000												82000				
NET CASH FLOW GAIN/LOSS(-)	75500	3478	3500	3522	3544	3567	3589	3612	3635	3658	3681	3704	114989	31998	64017	68858	67779
CUMULATIVE CASH FLOW	75500	78977	82477	85999	89543	93110	96699	100311	103946	107603	111284	114989		146987	211003	279861	347641
CAPITAL GAIN CALCULATED AT	.03% per year												41190	42426	43698	45009	46360
CAPITAL GAIN CUMULATIVE													41190	83616	127314	172324	218683

Assumptions:

Leaseable Square Feet(s.f.)	-	30000	0	in Phases I and II, respectively.
Rent/s.f./month	-	.6	.4	in Phases I, II, and III, respectively.
SHRA Loan for Rehab	-	852000		
Inflation Rate(compounded)	-	1.05		
Private Loan	-	Phase II	0	
Interest Rate	-	Phase II	15	
Rehabilitation Costs/sf	-	25.00		
Construction Costs/s.f.	-	Phase II	20.00	
Offsite Improvements	-	200000	100000	in Phases I and II, respectively.
Tenant Occupancy Rate	-	.6	.75	.9 in Phases I, II, and III, respectively.
Owner's Equity	-	230000	through limited partnership offering.	
Average Tenant Space	-	1200	2000	in Phases I and II, respectively.
Average Accounting Fee	-	25.00	per tenant employee per month.	
Average Telephone Fee	-	30.00	per instrument;	25.00 per line.
Average Copying Fee	-	500	copies/employee @	.05 per copy.
Leaseable Space/Job	-	250	s.f.	
Number of Jobs Generated	-	120	120	in Phases I and II, respectively.
Average Typing Fee	-	100.00	per month per tenant.	
Staffing	-	25000	includes an Incubator Manager.	
Depreciation	-	1050000	includes a centralized phone system	100000 18-year straight line method.
Passthrough Revenues	-	includes postage and hourly legal fees.		

Superior Valley

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SMALL BUSINESS DEVELOPMENT CORPORATION

BOARD MEMBERS

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Oscar Wright, Ex-Offico Office of Small Business 1121 I Street 6th Floor Sacramento, CA 95814	BPh:(916) 445-6545

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ARTICLES OF INCORPORATION

OF

SUPERIOR VALLEY RURAL SMALL BUSINESS DEVELOPMENT CORPORATION

I

The name of the corporation is Superior Valley Rural Small Business Development Corporation.

II

This Corporation is a private non-profit corporation organized pursuant to the California Small Business Development Law.

III

A). The specific and primary purposes of this corporation are:

1). To promote the economic development of small farms, rural city and agricultural related businesses by making available capital, management assistance, and other resources, including loan services, personnel and business education to said business entrepreneurs in economically disadvantaged areas, and thereby stimulating economic development, entrepreneurship among minority groups, disabled persons, and job training.

2). To reduce unemployment of the economically disadvantaged of the state.

3). To reduce youth delinquency and promote employment opportunities for youth.

4). To do any and all lawful activities which may be necessary, useful, or desirable for the furtherance, accomplishment, fostering, or attainment of the foregoing purposes either directly or indirectly, and either alone or in conjunction or cooperation with others, whether such others be persons or organizations, trusts, institutions, foundations or governmental bureaus, departments or agencies.

B). The general purposes and powers are to have and exercise all rights and powers conferred on non-profit corporations under the laws of California, including the power to contract, rent, buy or sell personal or real property; provided, however, that this corporation shall not, except to an insubstantial degree, engage in activities or exercise any powers that are not in furtherance of the primary purposes of this corporation.

IV

The economically disadvantaged areas to be served by the Corporation may extend throughout the State of California. The principal office shall be located in Sacramento County with a branch office in San Joaquin County. The Corporation will primarily serve the North Central Valley and mountain region of the State, which encompasses the Counties of Shasta, Tehama, Glenn, Butte, Colusa, Sutter, Placer, Yuba, Nevada, Yolo, Sacramento, El Dorado, San Joaquin, Amador, Calaveras, Stanislaus and Tuolumme. Geographically, the Superior Valley area is the western watershed of the California - Nevada Sierra Nevada Mountains to the east and north between the greater urban areas of the San Francisco Bay to the west and the greater Fresno - Merced area to the south.

V

Contained within the above Corporate region of service are economical disadvantaged areas which consists of those contiguous census tracts within urbanized areas as defined by the most recent federal decennia census, in which twenty percent or more of the families were reported by the most recent federal decennial census to have incomes of poverty level or comparable areas which, because of technical factors, cannot be isolated by census tracts, in which the unemployment rate exceeds ten percent.

VI

The number of Directors of the Corporation shall be Fifteen (15) until changed by an amendment to these Articles of Incorporation. The following persons will act as Directors of the Corporation until selection of their successors:

1). William Lee, 3540 Fourth Ave. Sacramento, Calif. 95817

2). Marion Woods, 1234 Silver Ridge Way, Sacramento, Calif. 95831

3). Joe Yew, 6170 Fordham Way, Sacramento, Calif.95831

4) Drue Brown, 1300 San Augustine Way, Sacramento, Calif.95831

5) George Moton, 1512 Pecos Circle, Stockton, Calif. 95210

6) Hiram Woo, 625 West Santa Inez, Hillsborough, Calif. 94010

7) Ricardo Gonzales, 141 Clover Street, Woodland, Calif. 95695

8) Jack Rucker, 882 East Oakside Drive, Sonora, Calif.95370

9) Peter Lauwerys, 2323 Fourth Avenue, Sacramento, Calif. 95818

10) Reuben Limon, 1883 West Flora, Apt.1, Stockton, Calif. 95204

11) Goldie Hall, 8880 Mackey Road, Elk Grove, Calif. 95624

12) William Longman, 28 French Bar Road, Jackson, Calif. 95642

13) Randy Cooke, 1206 Silver Ridge Way, Sacramento, Calif. 95831

14) Lincoln Ellis, 114 Glacier Court, Stockton, Calif. 95205

VII

The name and address in the State of California of this Corporation's initial agent for service of process is:

Peter A. Lauwerys
2323 Fourth Avenue
Sacramento, California 95818

VIII

The manner in which directors shall be chosen and removed from office, their qualifications, powers, duties, compensation, and tenure of office the manner of filling vacancies on the Board, and the manner of calling and holding meetings of Directors, shall be as stated in the Bylaws of Superior Valley Rural Small Business Development Corporation.

IX

a) This Corporation is organized and operated exclusively for charitable purposes within the meaning of Section 501 (c) (3) of the Internal Revenue Code.

b) Notwithstanding any other provision of these Articles, the Corporation shall not carry on any other activities not permitted to be carried on by a corporation exempt from Federal income tax under Section 501 (c) (3) of the Internal Revenue Code.

c) No substantial part of the activities of this Corporation shall consist of carrying on propaganda, or otherwise attempting to influence legislation, and the Corporation shall not participate or intervene in any political campaign (including the publishing or distribution of statements) on behalf of any candidate for public offic

X

The property of this Corporation is irrevocably dedicated to charitable purposes and no part of the net income or assets of this Corporation shall ever inure to the benefit of any Director, Officer or Member thereof or to the benefit of any private person, upon the dissolution or winding up of the Corporation, its assets remaining after payment, of all debts and liabilities of this Corporation shall be distributed to a non-profit fund, foundation or corporation which is organized and operated exclusively for Charitable purposes and which has established its tax exempt status under Section 501 (c) (3) of the Internal Revenue Code.

State of California

County of Sacramento

DATED: December 13, 1982

	Joseph Yew
	Goldie Hall
	Ricardo Gonzales
	George Moton
	Reuben Limon
	Randolph Cook
	Lincoln Ellis
	Drue Brown
	Peter Lauwerys
	William Lee
	Marion Woods
	Jack Rucker
	William Longman
	Hiram Woo

APPROVED AND ENDORSED:

CLARENCE WILLIAMS
Executive Director, (61)
Calif. Office of Small Business Development

DATE: 12/31/82

I hereby declare that I am the person who executed the foregoing Articles of Incoporation, which execution is my act and deed.

Dwyer P. Brown

Peter R. Lawrey

William H. Lee

Melvin J. Wade

Jack Rucker

State of California
Department of Economic and Business Development
Office of Small Business Development

Certificate of Registration
as a
Rural Development Corporation

Superior Valley Small Business Dev. Corp.
Name in Full

1716 Capitol Ave., Sacramento, Ca 95814
Address

Having fulfilled the requirements of Title 1, Division 3, Part 5, Chapters 1 and 2, beginning with Section 14000 et seq. of the Corporations Code is afforded all the rights and priviledges thereof.

Signed and sealed at Sacramento, California this 1st day of September, 1983.

George Deukmejian, Governor

By Christy Campbell
Director, Department of Economic and Business Development

Oscar Wright
Executive Director, Office of Small Business Development

(63)

D. FIVE-YEAR PLAN

	Year-1 FY 82-83 (act)	Year-2 FY 83-84 (est)	Year-3 FY 84-85 (est)	Year-4 FY 85-86 (est)	Year-5 FY 86-87 (est)	Year-6 FY 87-88 (est)	
Revenues							
Trust Interest 2/	0	17597	118903	138568	146296	144976	
Loan Guarantee Fees	0	12803	17465	15207	14190	21231	
Contracts 4/	0	0	0	0	0	0	
Finders Fees 4/	0	0	2500	10000	25000	30000	
Loan Packaging Fees 4/	0	0	9600	14400	16000	30000	
Grants 4/	28894	45130	25545	12600	13230	23892	
Participations 4/	0	0	15000	30000	50000	60000	
Miscellaneous	0	1000	6500	14200	57500	99800	
Total Revenues	28894	76529	195513	234975	322216	409899	
Expenses							
Personnel	64323	125405	182682	191816	201407	211477	
Fringe	12931	21447	38363	40281	42295	44410	
General	7897	10792	14000	14700	15435	16207	
Communications	4240	8550	12500	13125	13781	14470	
Travel In-State	3991	11314	14000	14700	15435	16207	
Travel Out-of-State	0	2000	3000	3150	3308	3473	
Facilities	4445	18121	21363	22431	23553	24730	
Legal and Accounting	4000	6500	9500	9975	10474	10997	
Equipment Lease	6840	12960	13356	14024	14725	15461	
Equipment Purchase	0	0	3000	3150	3308	3473	
Consultants	5630	3000	28700	35000	36750	38588	
Total Operating Expenses	114297	220089	340464	362352	380470	399494	
State Admin. Contrib.	85403	143560	144951	127377	58254	10405	surplus

WHO SHOULD ATTEND

Start-up Businesses

Existing Businesses

Purchaser of Businesses

Franchisers

Planned Expansion Needs

Planned Reorganization of Debts

Marketing New Products/Services

Sole Proprietors

Partnerships

Corporations

Cooperatives

Non-Profit Firms

Retailers

Manufacturers

Service

Construction

Owners

Managers

Accountants

Investment Counselors

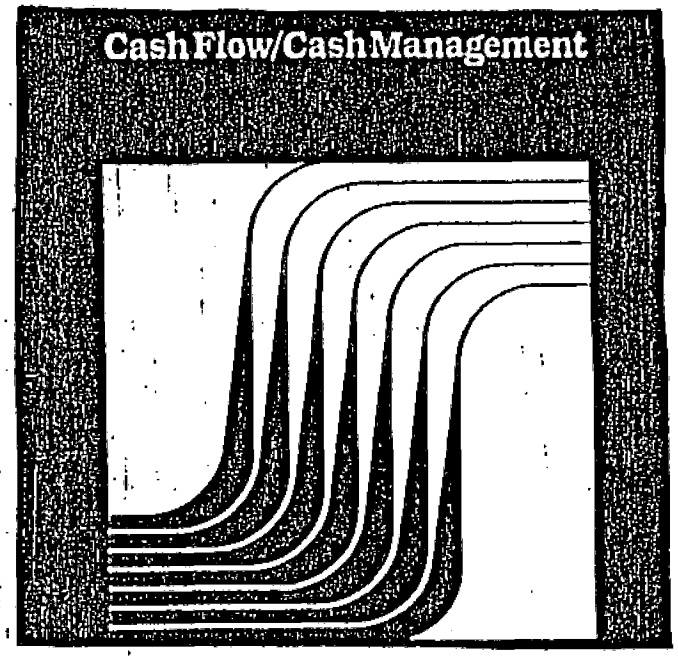
Superior Valley S.B.D.C.
817 14th Street, Suite 100
Sacramento, CA 95814

SUPERIOR VALLEY
SMALL BUSINESS DEVELOPMENT CORPORATION

PRESENTS

A WORKSHOP ENTITLED

Cash Flow/Cash Management



F. Potential Cooperative Office Member Organization:

United States Government

U.S. Small Business Administration
660 J Street, Suite 215
Sacramento, CA 95814
(916) 440-2956

Department of Housing and Urban Development
545 Downtown Plaza, Suite 250
Sacramento, CA 95825
(916) 440-2328

State of California

Office of Minority Business Assistance
Department of General Services
1812 14th Street
Sacramento, California 95814
(916) 322-3420

Office of Small Business
1121 L Street, Room 600
Sacramento, CA 95814
(916) 445-6545

Office of Civil Rights
Department of Transportation
1120 N Street
Sacramento, CA 95814
(916) 445-4616

Local Government

Office of Commercial Revitalization
Sacramento Housing and Redevelopment Agency
630 I Street, P.O. Box 1834
Sacramento, CA 95809
(916) 444-9210

Placer County Economic Development Department
11424 B Avenue
Auburn, CA 95603
(916) 823-4694

Chambers of Commerce

North Sacramento Chamber of Commerce
2122 Del Paso Boulevard
Sacramento, CA 95815
(916) 929-7528

Sacramento Area Chamber of Commerce
917 7th Street
P.O. Box 1075
Sacramento, CA 95814
(916) 443-3771

G. POTENTIAL SEED CAPITAL FUND MEMBER ORGANIZATION:

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Commercial Lenders

Bank of Alex Brown
1425 River Park Drive
Sacramento, California
(916) 925-0572

Bank of America
3600 American River Drive
Sacramento, California
(916) 449-4429

Bank Cal-The Bank of California NA
2650 Watt Avenue
Sacramento, California
(916) 482-3600

California First Bank
502 J Street
Sacramento, California
(916) 448-3911

Capital Bank of Commerce
300 Capitol Mall
Sacramento, California
(916) 441-2333

Central Bank
429 J Street
Sacramento, California
(916) 444-0500

Crocker National Bank
3610 American River Drive
Sacramento, California
(916) 449-0260

First Commercial Bank
550 J Street
Sacramento, California
(916) 447-7706

First Interstate Bank of California
21st & K Street
Sacramento, California
(916) 449-2204

Golden State Sanwa Bank
511 L Street
Sacramento, California
(916) 441-2690

Imperial Bank
555 Capitol Mall
Sacramento, California
(916) 443-5460

Point West Bank
1440 Ethan Way
Sacramento, California
(916) 924-0200

River City Bank
825 K Street Mall
Sacramento, California
(916) 441-4653

Sumitomo Bank of California
1800 Arden Way
Sacramento, California
(916) 443-5761

Sunrise Bank
7601 Sunrise Boulevard
Citrus Heights, CA
(916) 723-2020

Wells Fargo Bank
500 Capitol Avenue
Sacramento, California
(916) 440-4304

Venture Capitalists

Washington Capital Corporation
601 University Avenue
Campus Commons
Sacramento, California

Crocker Ventures, Inc.
10 Montgomery Street
San Francisco, California 94104

Wells Fargo Investment Company
475 Sansome Street, 15th Floor
San Francisco, California 94111

Sierra Resources Corp.
2893 Sunrise Blvd.
Rancho Cordova, California 95817
(916) 638-0197

51

MESBICs/SBICs

Yosemite Capital Investment Inc.
448 Fresno Street
Fresno, California 93706
(209) 485-2431

Hub Enterprises Limited
5874 Doyle Street
Emeryville, California 94608

Bay Area Western Venture Capital Group, Inc.
383 Diablo Road, Suite 100
Danville, California 94526

Brantman Capital Corporation
P.O. Box 877
Tiburon, California 94920

West Coast Ventura Capital
10440 South De Anza Boulevard, Suite D-2
Cupertino, California 95014

Equitable Capital Corporation
855 Sansome Street, Suite 200
San Francisco, California 94111

H. Residential Use Development Concept:

DONNER ESTATES

TOWNEHOUSE DEVELOPMENT PLAN

I. EXPENDITURES

A. HARDCOST ---------- $567,500
1.900 sq. ft. x $25.00 x (5) = $112,500
(22,500 per house)

2.1080 sq. ft. x $25,00 x (15) = $405,000
(27,000 per house)

3.Contingency fund ($2,500/house x (20) = $50,000

B. LANDCOST---------- $ 50,000
($2,500/Lot x 20 Lots = $50,000)

SUBTOTAL---------- $617,500

C. SOFTCOST
1.Construction Finance Cost---------- $ 26,200
2.Permit Fees---------- $ 20,000
3.Packaging Fees---------- $ 6,000
4.Escrow & Closing Cost---------- $ 17,000
5.Developers Fees---------- $ 4,000
6.Marketing Fees---------- $ 50,000

SUBTOTAL ---------- $123,200

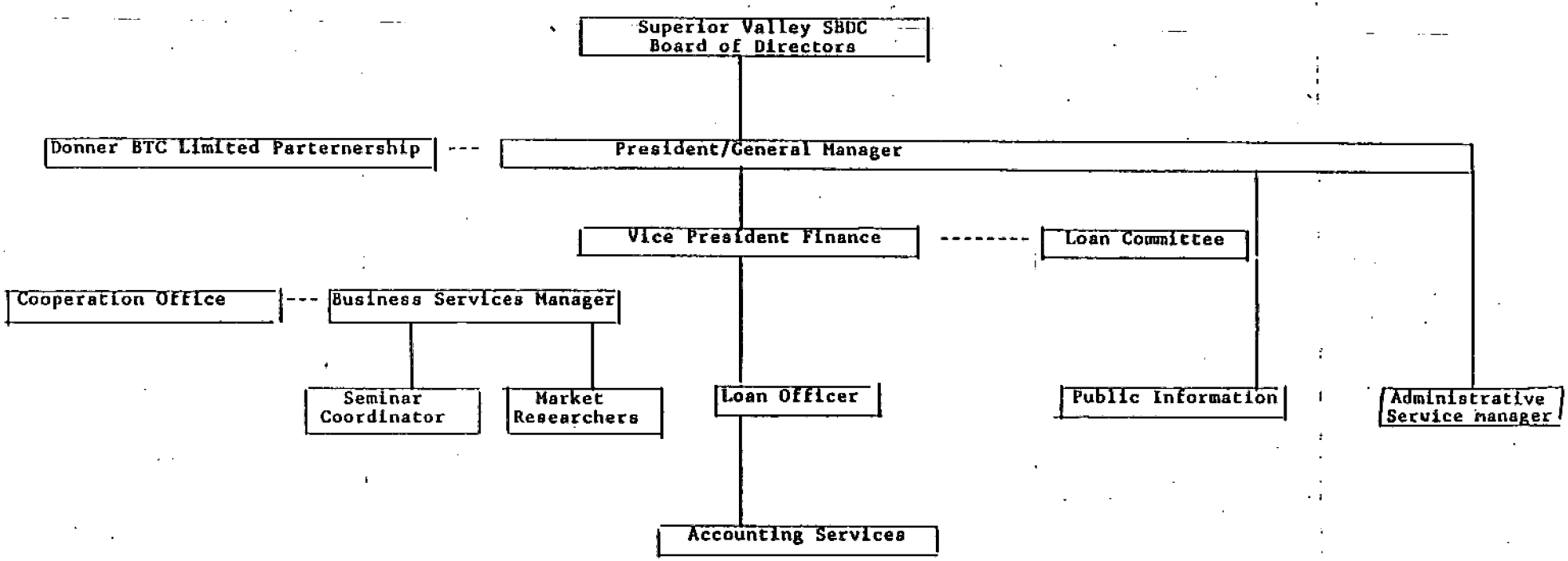
II. APPRAISAL/SALES VALUE
$50,000 x 20 Townehouses ---------- $1,000,00

III. Immediate Transfer Tax to City/Count: ---------- $15,000

IV. Annual Property Taxes to City/County:---------- $12,000/Yr.

I.

DONNER BUSINESS AND TECHNOLOGY CENTER ORGANIZATIONAL PLAN



DONNER SMALL BUSINESS CENTER

NINETY-DAY (90) ACTION SCHEDULE

September
1st Week

1) Develop instrument and survey area small businesses to identify the need and potential profile of the types of businesses needing the proposed small business support facility and services.

2) Award architectural feasibility contract to lowest responsive bidder. Deadline for compitition is 45 days.

3) Select attorney(s) specializing in real estate partnerships and public-private co-ventures to identify parameters of the partnership instrument to be drafted for the private sector investors. Deadline for completion is thirty days.

4) Determine preliminary tenant selection criteria to guide survey.

2nd Week

1) Begin survey of area businesses and expand the market feasibility study to include research on area office and light industrial vacancy and leasing rates.

2) Compare similiar partnership agreements of existing small business incubators to determine if language or terms are applicable to this situation.

3rd Week

1) Review attorney's draft partnership agreements.

2) Review preliminary architectual findings.

4th Week

1) Work closely with architectural firm in providing information on potential tenant needs to be considered while predaring architectural documents.

2) Compile and analyze market survey questionaires and other research information and compose narrative of results. Initiate negotiations with small businesses indentified which are ready to commit to a lease agreement in the center.

3) Complete first draft of partnership agreements for private sector investment, submit to SHRA for review. Share with community concerns for input on community participation.

4) Review preliminary draft of Seed Capital Fund business plan with Attorneys and Loan Committee.

5th Week

1) Continue communications with architectural firm in drawings and specifications for the profect.

2) Research and compile data on job creation and public benefit ramification of simular small business incubators nation wide. Project, based on this information and previously compiled local data profiling types of business likely to be tenants in the Donner Center potential jobs created, tax revenues generated and other economic benefits.

3) Revise draft partnership agreements based on feed back from SHRA legal and other community concerns.

6th Week

1) Continue working with architectual firm on drawing specifications for project, both phase one and two.

2) Complete 1st draft of market - feasibility study identifying potential tenants as well as public benifits.

3) Complete and distribute for review 2nd draft of partnership agreement. Identify and negotiate with potential private sector interests the parameters of the proposed agreement.

7th Week

1) Review preliminary drawings and specifications for Phase I and give appropiate feed back to archectual firm.

2) Make final adjustments to partnership agreement and

prepare final copy for reproduction. Prepare all additinal information to accompany the agreement as a total propectus on the project.

3) Prepare final draft of market feasibility.

8th Week

1) Complete Market feasibility study in first form. Reproduce for submission to SHRA.

2) Review Architect's drawing and specifications share with appropriate SHRA representatives submit recommended adjustments to architectual firm to be added to work.

3) Distribute final partnership perspectives to interested parties with response deadline (tenative commitment).

9th Week

1) Respond by amending the market feasibility study to queries or concerns raised by SHRA representatives.

2) Meet with and negotiate tenative commitments of limited partners for Donner Center.

3) Review final products of architectual firm.

4) Formulize tenative agreements with qualified small businesses wishing to lease space in the center with priority parameters identified for actual selection of businesses to lease space apon completion.

10th Week

1) Submit copy of all drawings and renderings of architect's firm to SHRA review.

2) Submit market study revisions to SHRA.

3) Continue to solicit tenative commitments firm potential limited partners.

11th Week

1) Meet with SHRA representatives on architectual plans.

2) Make presentation to SHRA representatives on market study results and conclusions.

3) Finalize all limited partnership tenative commitments for participation in Donner Center. Complete executive summary, revisions in projections as necessary based in identified participation of limited partners.

12th Week

1) Submit partnership commitments, revised projections, and summary as needed to SHRA for review and critic. Be available to meet and other make presentations where necessary regarding all three aspects of the Donner Small Business Center Plan.

2) Execute SHRA loan documents.

ATTACHMENT 6

SOURCE OF CDBG FUNDS

On May 31, 1983, your Council approved the set-aside of $327,500 in Community Development Block Grant funds for various commercial revitalization programs on 12th Street in Alkali Flat as follows:

Facade Rebates	$ 65,000
Commercial Rehabilitation	75,000
Commercial Development	187,500
Total	$327,500

To date, despite repeated marketing efforts, none of this money has been applied for or used. This may be, in part, due to the uncertainty surrounding the impact of the proposed light rail system on the area; however, regardless of the reason, we must now consider a more productive use of those funds.

We therefore recommend that 12th Street businesses and developers be given one last opportunity to apply for these funds. If no applications are forthcoming by August 31, 1985, the $327,500 should be made available for the Incubator project. Twelfth Street would remain an Economic Development Target Area (EDTA), eligible for City Economic Development moneys on a first-come, first-served basis, just as every other EDTA is.

Should any 12th Street businesses come forward between now and August 31st, they would receive funding and other arrangements will have to be made for providing the CDBG portion of the Incubator project.

The balance of the $426,000 in CDBG, or $98,500 will have to come from 1985 Economic Development Loan Funds tentatively earmarked for grants and loans. (The balance in this fund currently stands at $354,252.87.)