



SAUK VALLEY COLLEGE

R. R. 5, Dixon, Illinois 61021 — Phone 815-288-5511

October 11, 1984

Office of the Secretary
to the Board of Trustees

PUBLIC NOTICE

OF

MEETING

This is to provide public notice of the following meeting associated with the Sauk Valley College Board of Trustees:

Who: *Board of Trustees in joint session with Sauk Valley Area Council for Economic Development and the Hometown Heritage Foundation*

When: *Monday, October 15, 1984*

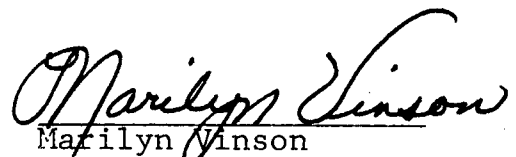
Time: *7:30 p.m.*

Where: *Room 2K2 - Second Floor Sauk Valley College*

Type: *Open Public Meeting*

Purpose: *To hear a report from Markle and Associates on their feasibility study for an area industrial incubator project*

Agenda: *Non-structured*


Marilyn Vinson
Secretary to the Board
of Trustees, District #506

AGENDA
NEW BUSINESS INCUBATOR PRESENTATION
TO
JOINT BOARD MEETING
Monday, October 15, 1984

- I. KAY FISHER
 - A. Welcome
 - B. Introduction of Area Council Board
Introduction of Hometown Heritage Foundation Board
 - C. Purpose of Meeting
- II. DAVID DEETS
 - A. Brief Explanation of Hometown Heritage Foundation
 - B. Reasons for HHF seeking cooperative relationship
with SVC and SVACED
 - C. History of Incubator Project
- III. BOB HAMILTON
 - A. Introduction of Illinois Bell Video Tape
(Show 15 minute video tape on Fulton-Carroll Incubator
Project)
 - B. Introduction of William D. Markle and Associates
- IV. MARKLE AND ASSOCIATES
 - A. Feasibility Study
 - B. Recommendations
- V. DAVE DEETS
 - A. Invite Questions from Boards...
 - B. Invite remarks from audience...
 - 1. Myron Olson representing area state legislators
 - 2. Bill Lininger representing the Illinois Department
of Commerce and Community Affairs
 - 3. Etc.
 - C. Discuss course of action and timetable for decision-making
process.
 - D. Invite closing remarks from Andy Cullum and Kay Fisher
 - E. Make closing remarks on behalf of the Hometown Heritage
Foundation
- VII. KAY FISHER
 - A. Adjourn meeting
 - B. Invite everyone for coffee and cookies

A G E N D A

New Business Incubator Presentation
to
Joint Board Meeting

October 15, 1984

- Welcome and Introductions Kay Fisher
- Background of Incubator Project Dr. David Deets
- Video Presentation on Fulton-Carroll
Incubator Project. Bob Hamilton
- Presentation of Markle & Associates
Feasibility Study Bill Markle and
Associates
- Follow-up Discussion Dr. Deets
- Questions, Comments from respective Board members,
guests, visitors.
- Adjournment Kay Fisher
- Social Hour

MINUTES OF THE SAUK VALLEY COLLEGE BOARD OF TRUSTEES MEETING

October 15, 1984

The Board of Trustees of Sauk Valley College met in special meeting at 7:30 p.m. on October 15, 1984 in Room 2K2 of Sauk Valley College, Rural Route #5, Dixon, Illinois.

Call to Order: Chair Fisher called the meeting to order at 7:30 p.m. and the following members answered roll call:

Ed Anderson	Richard Groharing
Oscar Koenig	David Mandrgoc
William Simpson	Robert Wolf
Kay Fisher	

Absent: Linda Hiatt

Purpose: Chair Fisher noted that the purpose of this meeting was to join with the Sauk Valley Area Council of Economic Development (SVACED) and the Hometown Heritage Foundation (HHF) to hear a report from Markle and Associates on the feasibility of an area industrial incubator project.

Welcome: Chair Fisher then welcomed those present and introduced the members of the Sauk Valley College Board of Trustees and administrators present.

Members of the Hometown Heritage Foundation and the Sauk Valley Area Council of Economic Development were then introduced.

History: Dr. David Deets, President of the HHF, gave a brief explanation of the foundation and the reasons why the HHF was seeking a cooperative relationship with SVC and the SVACED. He then gave a history of the proposed incubator project.

Video: Bob Hamilton of the Hometown Heritage Foundation presented an Illinois Bell Video on the Fulton-Carroll Incubator Project in Chicago. After the video, he introduced William Markle of William D. Markle and Associates who presented the attached feasibility study and the recommendations of his firm.

Question and Answers: Dr. Deets then invited questions from the audience and led a discussion on the incubator project and its concept.

Summary:

In summary, Dr. Deets said that the respective groups must decide if the concept has merits, and "where do we go from here?" Since there are funding deadlines, the Boards were reminded that there is an urgency for decisions.

It was agreed that the respective Boards should meet and discuss the recommendations of the feasibility study and then confer later in November to discuss a possible plan and timetable for further action.

Visitors:

Myron Olson, State Representative, and Bill Lininger of the Illinois Department of Commerce and Community Affairs, were introduced and each spoke briefly to the group.

Adjournment:

Since there was no further business, it was moved by Member Groharing and seconded by Member Mandrgoc that the Board adjourn. The next regular meeting of the Trustees will be 7:30 p.m. on October 22, 1984 in Room 2K2. In a roll call vote, all voted aye. Motion carried.

Respectfully submitted:


David W. Mandrgoc, Secretary

William D. Markle and Associates

October 15, 1984

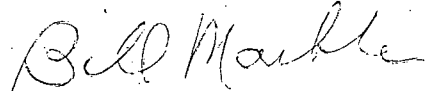
Mr. Robert L. Hamilton, Executive Director
Hometown Heritage Foundation of Lee
County, Illinois
227 East First Street, Commerce Towers
Dixon, Illinois 61021

Dear Bob:

Enclosed is our feasibility study and plan for the development of an incubator facility in the Sauk Valley area. We are confident of the success of this venture, and we hope that this report provides the impetus for the Foundation, the Council, and the College to implement this important project.

We have enjoyed consulting on an assignment which is sure to be a success. If you have any questions about this report or its contents, please feel free to call.

Very truly yours,
WILLIAM D. MARKLE AND ASSOCIATES


William D. Markle

IMPLEMENTATION PLAN
SAUK VALLEY AREA SMALL BUSINESS INCUBATOR

PREPARED FOR THE
HOMETOWN HERITAGE FOUNDATION
DIXON, ILLINOIS

October, 1984

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Executive Summary

In September of 1984, WILLIAM D. MARKLE AND ASSOCIATES were retained by the Hometown Heritage Foundation to assess the feasibility of developing a business incubator facility in the lower Rock River Valley area. Over the course of several weeks, we interviewed potential tenants for such a facility, evaluated potential sites, and prepared information on the construction costs, operating costs, organizational structure, and economic viability of an incubator in the area.

Our conclusions are that there are several suitable sites for an incubator in the area; the market for the space has not been explored in depth by existing realtors, and is sufficient to support at least one incubator facility and probably more, over the course of the next few years; and the organizational glue required to make projects of this sort work is in place amongst the Hometown Heritage Foundation, the Sauk Valley Area Council for Economic Development, and the Sauk Valley Community College. An incubator facility should involve all three of these groups, in order to have the greatest and most favorable impact within the community.

We identified the T1 and T2 buildings on the College campus as the most suitable site for this initial incubator venture. Development of the incubator on this site would return income to the College which it is not now receiving, and be a focal point for other economic development efforts, including job training and the community alumni project of the Foundation. Approximately 120 to 150 jobs will have been created at the college site when the space is fully leased. If the College site cannot be made available within the near term, then the FOSCO building in the Green River Industrial Park is an excellent alternative site.

Funding for this project can be made available from the State of Illinois or one of several federal agencies. The total development cost of the project is approximately \$257,000, or \$4.79 per square foot of space. This compares favorably with other incubator projects in the country. With respect to job creation, the "cost per job generated" is approximately \$2,300, which compares very favorably with other economic development projects, including incubators, throughout the country.

We recommend an early decision on the part of the three groups involved in this study, since at least one deadline of a potential funding source occurs in mid-December of this year.

HOMETOWN HERITAGE FOUNDATION BUSINESS INCUBATOR PLAN

NATURE AND SCOPE OF ASSIGNMENT

In September, 1984, the Hometown Heritage Foundation of Lee County, Illinois, retained WILLIAM D. MARKLE AND ASSOCIATES to investigate the feasibility of establishing a business incubator facility in the lower Rock River Valley. There were four reasons for conducting the necessary research:

- o the economy of the lower Rock River Valley area has been suffering, along with the rest of the cities and towns of the midwest and the northeast, due to changes in economic conditions and the perceived suitability of these areas for manufacturing;

- o the incubator would provide a more directed focus for the activities of local economic development groups, including chambers of commerce, development associations, private foundations, and the business center at Sauk Valley College;

- o it was felt that efforts to "home-grow" businesses would be an important addition to the local economic development strategy, even though such efforts might require a longer payback period for the jobs, tax base, and sales created within the community;

- o the track record of industrial or business incubator facilities elsewhere in the country provided indications that these facilities could be replicated to advantage in the lower Rock River Valley area.

WILLIAM D. MARKLE AND ASSOCIATES was instrumental in the creation of the largest and most successful incubator in the country, the 350,000 square foot Fulton-Carroll Complex in Chicago. This complex is owned and operated by the Industrial Council of Northwest Chicago. We were asked to determine whether an incubator could be established in the lower Rock River Valley area; if so, where such a facility might be located; and what the costs, benefits, and organizational structure of an incubator would be. The findings and conclusions of this research are contained in this report.

Incubator Background

According to recent economic research, small businesses generate over one-half of all new jobs in the U.S. economy. Such businesses provide the major source of jobs for minorities and are the major source of innovations in new products.

Concomitant with these benefits to the economy are some disadvantages for the communities and employees of small businesses. Such businesses are generally much more volatile than large businesses- that is, they are prone to failure and rapid changes in size and location.

Studies of business birth and failure, managerial and entrepreneurial studies, venture capital research, small business loan evaluation, and other investigations of the nature of economic growth all point to similar conclusions- that most small businesses die within the first four years of their operation; that entrepreneurs are not often good managers of their businesses as they grow; and that failure is due most often to financial or operational deficiencies, rather than the failure of the product or service to find a market niche.

Given this large body of similar research, many observers have concluded that whatever could be done to reduce the rate of failure of small businesses would be beneficial to the economy, to the employees, and to the communities in which these businesses were located. This observation is particularly apropos to towns in the midwest, where economic conditions have been poor and business relocation has been blamed for lack of growth in the economy. Most studies of business in the midwest have concluded that few businesses have "backed up the moving truck" and moved to the south or southwest. The failure rate of new businesses in the midwest, moreover, has proved to be not substantially different from that elsewhere in the country. What has been observed is that the rate of business start-ups in the midwest has lagged significantly behind the business birth rate in the growth areas of the country. In other words, fewer businesses are being born in the midwest than in other parts of the country.

Just as with the human birth rate, when there are fewer business births, the births that do take place are more precious. It is particularly important, given this line of reasoning, to nurture those small business which are created in our midwestern towns. It would be even more desirable to stimulate the birth rate, to provide a larger pool of businesses from which to develop the engine of the local economy.

The business incubator is designed to foster this nurturing and stimulation. The term "incubator" is used because of the similarity in intent with the incubator used for nurturing newborn babies and animals- the preservation and fostering of life during the critical first stage of existence. The experience with incubator facilities is that they can increase the business survival rate from 20% during the first five years of life to somewhere in the range of 50% to 65%. This is substantive.

From the standpoint of those administering federal, state, and local business loan and development programs, incubators offer

another important benefit. Because an incubator is by definition located in a specific place in an area, it becomes easy to focus attention on this one facility. Programs designed to achieve rehabilitation of older structures, provide small business loans, assist minorities, encourage entrepreneurship, revitalize declining areas, or implement any of a myriad of policy goals can be marketed in a targeted way to the incubator facility itself, to the businesses in the incubator, or to the business owners and their employees.

In practice, business incubators are multi-user buildings in which efforts are made to keep overhead low and the level of sound business advice high. Rents may be at or below market; space may be flexible, e.g., businesses need not rent more space than they need and may be able to rent space when needed without moving; the space provided will be relatively safe, given the conditions under which most businesses start, from both vandals and the elements; some shared office and clerical functions can be provided; and advice on accounting, marketing, personnel, finance, and other required areas of business knowledge may be provided.

Incubators are not a panacea for urban or rural economic difficulties. They do attempt to address two important factors in economic growth-- a reduction in the rate of business failure and an increase in the rate of business births.

From the perspective of the community, new and more stable businesses result in more new jobs and a more stable job market.

CRITERIA FOR CREATING A BUSINESS INCUBATOR

Despite the glowing claims for incubators now common in the economic development literature, it is important to keep in mind that incubator development is not an appropriate strategy for every unit of government, for every small business owner, or for every building with vacancies. It is, moreover, clear that without a market for the type of space being provided there will be no tenants for the incubator.

We used a set of criteria for evaluating the potential of the lower Rock River Valley area to support an incubator which included both quantitative and qualitative factors. The factors used were:

- ability of the site or building to accomodate the potential market (physical space requirements)
- ability of the site or building to be a focus of attention for local on-going activities
- the level of demand for such space (related to the number of births of firms)
- ability of local organizations to implement the program (level of sophistication, ability to raise funds, ability to operate and manage this kind of development)
- ability of the project to meet basic economic operating criteria (cash flow, debt service, etc.)
- ability of the area to provide support services desired by the tenants (clerical or small business advisory services)
- ability of the owner of the real estate to be flexible in lease terms, space subdivision, and operating procedures
- availability of public and private funding for the development of the incubator facility
- availability of job training services
- ability to raise sufficient seed or venture capital to help the incubator businesses grow

We feel that these criteria provide insight into both the economic and organizational issues affecting incubator development. The economic issues are important, even though public funding may be used for rehabilitation of the incubator building, because incubator projects are fundamentally real estate projects. Although the economics of the project can be established relative to other public policy goals for an interim period, it is

our experience that there is a point at which the economics comes to dominate all the other public policy criteria. When the funding source tires of providing a subsidy to the project, the real estate economics again becomes dominant. Any incubator project should be designed, we feel, to eventually become self-supporting.

The organizational issues are also of fundamental importance because not all groups are in a position to operate and manage such a project even after construction is complete. An incubator plan which sits on a shelf is worthless. We have an interest in fostering incubator development only in those cases where implementation is both likely and likely to succeed.

EVALUATION OF SITES

We considered a number of sites in our selection process. These were selected primarily on the basis of having improvements already in place (vacant sites were not considered) and being large enough to support subdivision of the space into smaller spaces. For each site, we kept in mind the types of industries for which the space might be attractive. The ability to develop a synergy among incubator tenants is an important asset, and we considered the "business suitability" of the site in each case.

According to our discussions with several different resource persons, no building codes were in effect in any of the areas we considered. Although codes are in the process of development in some jurisdictions, it was felt that the codes would be liberal enough to permit any use of space which met fire insurance and OSHA standards.

We met with similar responses with regard to zoning ordinances. We were counseled that any required changes could be obtained without difficulty, so long as the current and future use of the space were similar.

Other issues of concern for each site are physical access, particularly for large trucks on the local road network; availability of sprinklers (for building insurance purposes), heavy power (220 volt or greater, 3 phase), and large gas supply; suitability of the space for subdivision into smaller spaces; availability and quality of elevators, loading docks, and staging areas; ability of the space to be zoned for heating and electrical supply purposes; and parking. Even though foundation or public funds are likely to be used for acquisition and rehabilitation of the building, we nevertheless wanted an acceptable site with the lowest reasonable cost for construction and subdivision.

Because one site would not likely be suitable for all potential tenants, we considered the possibility of developing two incubator sites, either simultaneously or in a staged process, which would accommodate different kinds of users, if that seemed appropriate.

We evaluated sites in the Green River Industrial Park (several separate buildings); the FOSCO building in the Green River Park, but owned separately; the Volckman building, owned by Ethan Allen Furniture, in Morrison; and the so-called T1 and T2 buildings on the Sauk Valley College Campus. Additional sites in Sterling and Rock Falls were also considered.

Green River Industrial Park

A large number of buildings are available in this industrial park. We evaluated both the occupied and unoccupied buildings of

the two major types available. The vacant buildings are generally sprinklered, with frame siding on wood beams and columns, with wood truss roofs. Ceiling heights are very good, and column spans are more than adequate for any normal use (twenty to fifty feet, or more). While power is adequate to the park and to the buildings generally, it is likely that rewiring would be necessary in some of the buildings to upgrade to modern standards. Little or no insulation is provided in the walls. Given the ceiling heights, we would want to provide insulation, or drop the ceiling heights for many potential users. The spaces would need to be zoned to provide for tenant heating.

The occupied buildings appear to be used primarily for storage. One of the buildings we looked at had been extensively renovated to provide for higher standards of dust control than normally found in such buildings. The owners had undertaken some improvements, including the addition of a depressed loading dock. The space had been subdivided.

In general, we found these buildings to be suitable for a large number of uses, provided funds for rehabilitation can be secured. The buildings are accessible only from a set of winding roads, and this could prove to be a detriment in the early stages of incubator development. The initial costs for renovation would be high for most of the buildings we saw. The buildings are generally not visible from any often-traveled roadway, and this could be a further detriment to the kind of "showcase" that the incubator should be. The most appropriate use for most of these buildings, in the short term, is their current use as storage space.

FOSCO, Inc., Building

This complex of buildings is located in the Green River Industrial Park, but is owned separately. The tenant at the time of our inspection was a manufacturer of polystyrene beads and insulation. According to the information from the realtor showing the property, this tenant is scheduled to leave the building shortly and the property will be vacant.

Some fairly extensive renovation has been completed, including new loading docks, offices, wall insulation, lot fencing, and subdivision of the space into smaller units. The complex is approximately 65,000 square feet under one roof, located on 13 acres of land. Ceiling heights vary, but in the main portions of the complex heights are suitable for most industrial uses. Gas and electric service are adequate. Electrical busbars are located in the main spaces to provide for power drops as required. The spaces are separately heated now, so zoning of the spaces has already been achieved in most cases. The structural system is steel and wood frame columns and beams. Most of the space is sprinklered. A four-ton overhead crane provides

for internal goods movement in one of the buildings. Truck docks are provided in strategic locations for a multi-user building. Taxes (1983) are quoted at \$2772, or approximately \$0.04 per square foot per year, not including the vacant land available. Leasing rates are quoted at \$1.25 per square foot per year, net. Owner financing is available. The purchase price is quoted at \$885,000, although some negotiation on price is expected.

Although this building is located in the Green River Industrial Park, it is visible from the main access road and has clearly been cared for. As a "showplace" for business development, the building would be quite attractive. The offices would be suitable for management of the complex as well as business service center functions.

Volckman Building

This one story building has about 90,000 square feet under one roof. The structure is wood beams and columns with masonry bearing walls. The space is subdivided extensively already. The building is fully sprinklered. Both interior and exterior loading docks are available, as is adequate parking and a rail connection. Two central boilers provide steam heat to roof hung blower units in most of the spaces.

The building is located in an industrial area, adjacent to a General Electric facility. Operating data provided to us indicates that electric costs for the year ended in February, 1984, were approximately \$0.27 per square foot per year; gas costs were approximately \$0.084 per square foot per year. The low cost of the gas for heating could be explained by the use of wood chips from the processes operating in the building now for heating in the winter. Insurance costs approximately \$0.1166 per square foot per year; taxes about \$0.074 per square foot per year (not counting the available vacant land and parking).

In general, the building is in good condition and would require only minor upgrading. The space is occupied by a division of Ethan Allen, Inc., which is building a new building nearby. It is unlikely that this building would be available before October of 1985.

T1 Building, Sauk Valley College

This building has approximately 43,700 square feet of space under one roof. Construction is steel beams and columns, with steel joints supporting a conventional steel deck. A recessed exterior loading dock is available, with space for two trailers. One ten-foot, two bay truck door is provided for access from the dock to the interior of the building.

The building is not sprinklered, but an air line is provided in the joist spaces. Six ceiling hung forced air gas-fired

furnaces provide heating. The ductwork for these units is suspended from joist hangers. The ductwork is as low as 7'-10" in some locations, although heights to the joists are much greater, approximately fourteen feet in most locations. The ductwork could be raised, if necessary, to accomodate fork lifts. Exterior walls have some insulation. Three-phase service is provided, and power drops are located throughout the building. Approximately 2700 square feet of offices are provided, in fair to good condition.

The last tenant was Anixter Communications, whose eight-year tenancy ended in 1981. At that time, they were paying approximately \$1.38 per square foot, net. The building has been vacant since March of 1981. The building can be separately metered for gas and electric service. When the building was last used for private purposes, the property was on the tax roles at \$6873 per year (1979), for a tax rate of \$0.157 per square foot per year (not counting parking area). No lease price is quoted in the current records for this building, as on file as vacant industrial space with the State of Illinois. The access roads within the campus are adequate for trailer use. The road network outside the campus is suitable for heavy truck use.

Toilet rooms are available at two locations in the building. These would require only minor upgrading to be used again. Parking is available in front of the building. An adjacent structure, referred to as the T2 building, is also available. This building is of similar construction, and could also be used for incubator space if the offices now in place were removed.

ASSESSMENT OF MARKET POTENTIAL

There are four primary sources of tenants for space in an incubator in the lower Rock River Valley area. Entrepreneurs already in the area who wish to start up businesses, or are at an early stage in the business life cycle, would comprise a major source of tenants. Spinoffs from existing businesses in the area would be another good source. Businesses may move into the area, attracted by industrial realtors or other reasons, and choose to locate in the incubator facility. Lastly, the Community Alumni network of the Hometown Heritage Foundation should be a good source of tenants, even though they may not be start-up businesses.

The only one of these four which we were able to assess is the first-- entrepreneurs already in the area with ideas for new goods or services. Our experience with this segment of the market was obtained in two days of concentrated meetings and interviews with entrepreneurs with businesses already started or with concepts for a business. These interviews were arranged for us on relatively short notice and with no advertising except by word of mouth. The fourteen potential tenants we interviewed comprise a surprisingly sophisticated group, for one put together in such an informal manner. We were quite pleased with the outcome of these meetings, since we feel that aggressive marketing and promotion of the incubator concept would bring a fairly large number of additional potential tenants into the open.

Some general conclusions from these meetings are instructive. As we have found elsewhere in the country, the business needs of small companies are similar. Problems in marketing, financing, finding seed capital, shipping, inventory-- while each business frames the problem in a slightly different way, the basic needs are similar from one business to the next. This is hardly surprising, since one would not expect small business problems to vary much from one locale of the country to another.

Several businesspeople related stories about the difficulty of finding space that would be suitable, secure, and appropriately sized for both the present and the future. This is a familiar lament, based on our experience in Chicago and elsewhere. While plenty of space is available, plenty of appropriate space is not. We feel that a market for small, expandable space has been identified in the area, just as this same market was identified during our research on incubators elsewhere in the country. This finding also justifies our assessment that the appropriate size of space would be in the 2000 to 5000 square foot range, with the capacity for expansion to two or three times that amount of space.

We had some initial reservations about at all considering the T1 building on the Sauk Valley College campus for the incubator. We felt that this building might not provide the proper working

environment for the start-up businesses-- that the synergy and the benefits of learning from neighbors in the business community might not be available, and therefore not permit the incubator to fill one of its vital roles. In a word, we felt that the T1 building might be perceived as or actually be too sterile for the incubator concept.

Based on our discussions with the potential tenants, these reservations appear to be unfounded. The Anixter Corporation, according to our discussions with their staff, found the space suitable to their needs. One of the potential tenants with the need to use a fork lift to move panels around his space did not find the ceiling heights in the T1 building to be a deterrent to occupying the space.

The Anixter Corporation found the T1 building to be a positive environment for their employees. According to the Anixter personnel director, the smaller scale of the building helped create close working relationships which Anixter has been unable to duplicate at other Anixter facilities. This is one element of synergy which incubators seek to foster.

At the same time, we found that the large open spaces of some of the buildings in the Green River Industrial Park might be too intimidating for the small user. Just as it is considered very bad for a business to be one of only a few tenants in a shopping plaza, it is just as depressing to be occupying only a small part of a much larger manufacturing space that is unoccupied. The synergy that we would prefer to see in an incubator would not occur as readily in a building in which most of the users would be occupying only a very small portion of a much larger space that would remain unoccupied. This feeling would not have been so important to us if one or more of the potential tenants were a relatively large user of space-- an anchor tenant, so to speak. No tenant using more than 10,000 square feet of space to start out was identified, however.

Some specific information on potential tenants interviewed follows. In some cases, we have chosen to not report the results of the meetings for reasons of confidentiality.

Aitec, Inc.

Aitec, Inc. is an existing business which manufactures an insulating exterior wall treatment, consisting of insulated wall panels. They have a track record of installations over the last several years, but require, in our judgment, more focused attention on marketing and on establishing a line of credit in order for the business to grow. A number of large companies have expressed interest in their product, either as purchasers or investors, but the business requires more maturation before this would become a possibility. They would move to the lower Rock

River Valley area from Rockford, where their plant is now located, if proper arrangements could be made. This relocation would be an advantage to the company, since most of the principals live in the Sauk Valley area. About 6000 to 7000 square feet of space would be required. No special ventilating, mechanical, electrical, or process equipment is required. Relocation could probably be accomplished within a six month period.

Scott Erickson

Scott Erickson has taken over a family store fixture manufacturing business located in Minneapolis. Some of his customers are located there, but others are in or near Chicago. Mr. Erickson lives in Dixon now, and is married to Laura Erickson, M.D. Mr. Erickson is actively looking for space in which to move the business. He expects to have the business moved by the end of October, 1984. Requirements include loading dock space for two 40-foot trailers for shipping, access to a doorway from which a flatbed truck could be unloaded, access to an air compressor, three-phase power, and make-up air for a painting booth. Mr. Erickson has seen other space in the area, and has also walked through the Sauk Valley College T1 building, which he found suitable. He would require 3000 to 5000 square feet of space initially, but wishes to have additional room to expand as needed.

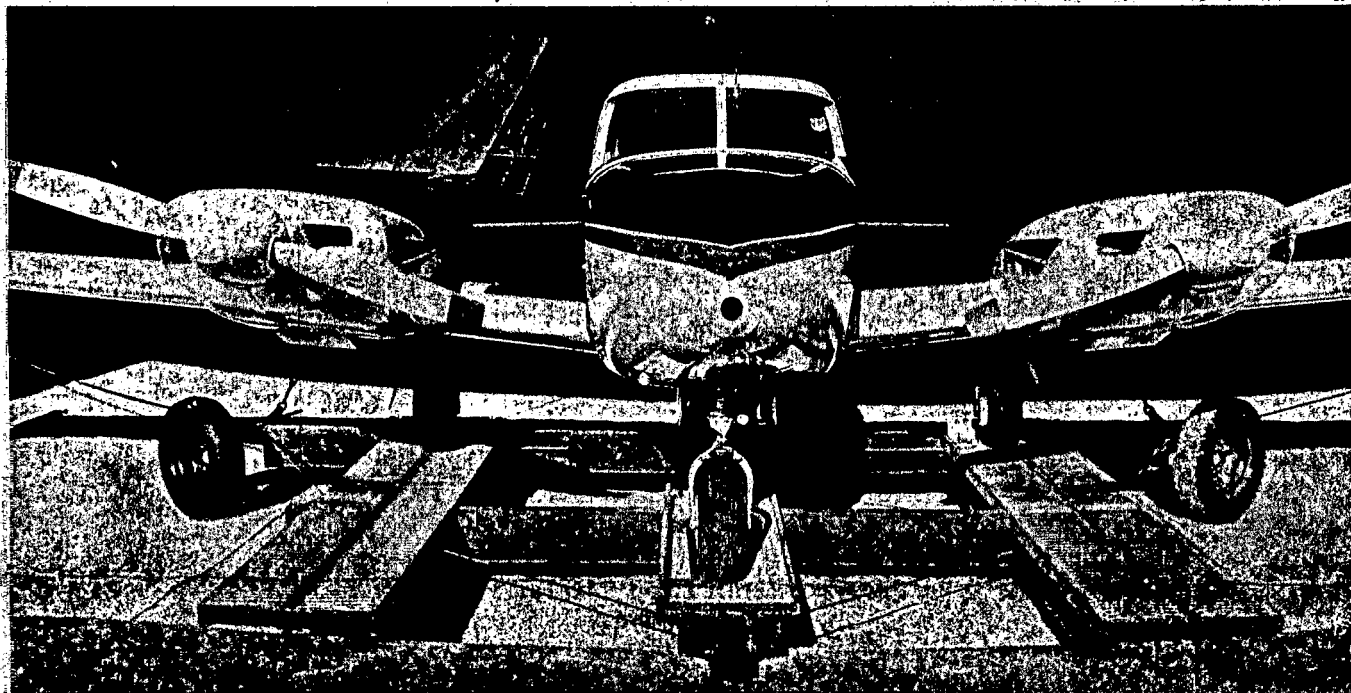
Refugee Economic Advancement Program (REAP)

This year, the Indochinese Project directed by Sauk Valley College developed the Refugee Economic Advancement Program (REAP) which is aimed at helping the Hmong population in the Sauk area become self-sufficient members of the community. With the guidance of the Area Council and the Hometown Heritage Foundation, fifteen Hmong families pooled their resources to form a vegetable farming business. That free enterprise experiment was successful enough that they have decided to form a corporation to continue the vegetable farming effort and expand into other business endeavors. One such business is a T-shirt manufacturing operation. A preliminary market study has been completed which supports the viability of the operation. This operation would require approximately 6000 square feet to start.

Rotomonodor, Inc.

This is an existing business, the rights to which have been acquired by a local businessman. The firm manufactures rotating carousels for storage of light airplanes, eliminating the need for double doors and much of the storage space required for these craft. Several installations have been made, but the firm requires a regular production schedule and marketing approach. The manufacturing process would require about 2000 to 3000 square feet of space. Space could be leased immediately.

FOR LOW COST, SPACE SAVING HANGARS

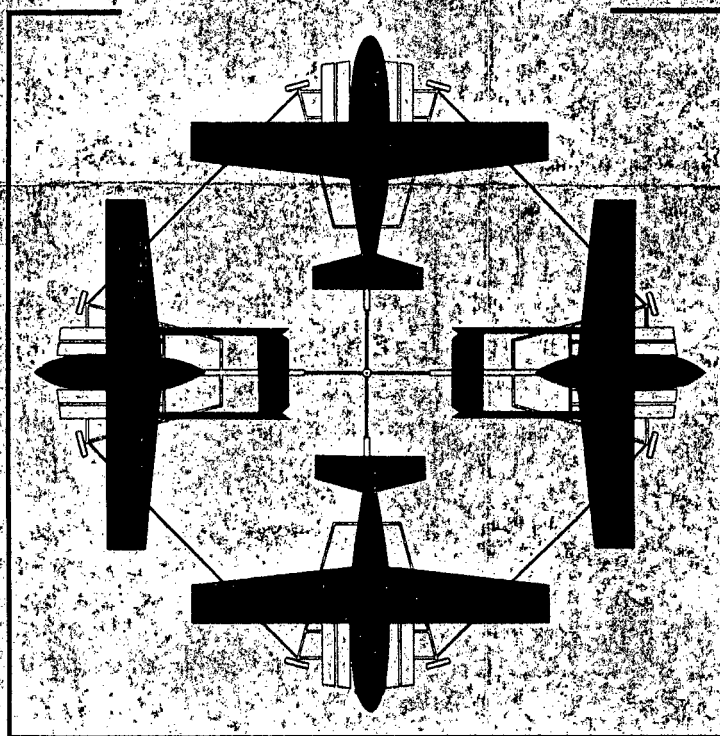


Carousel

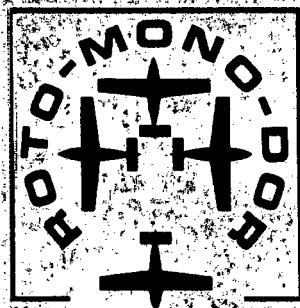
systems provide individual hangar space at low cost by eliminating floors, doors and 90% of all taxi strips. Gone is the required access to both sides of a hangar. One door and one ramp makes the Carousel ideal for boundary line location. Carousel saves valuable land area normally required for more conventional hangar construction and makes possible more close-in storage. The electrically-powered Carousel rotates on rubber-tired wheels. The power winch makes the operation almost effortless. The risk of hangar "rash" is also eliminated.

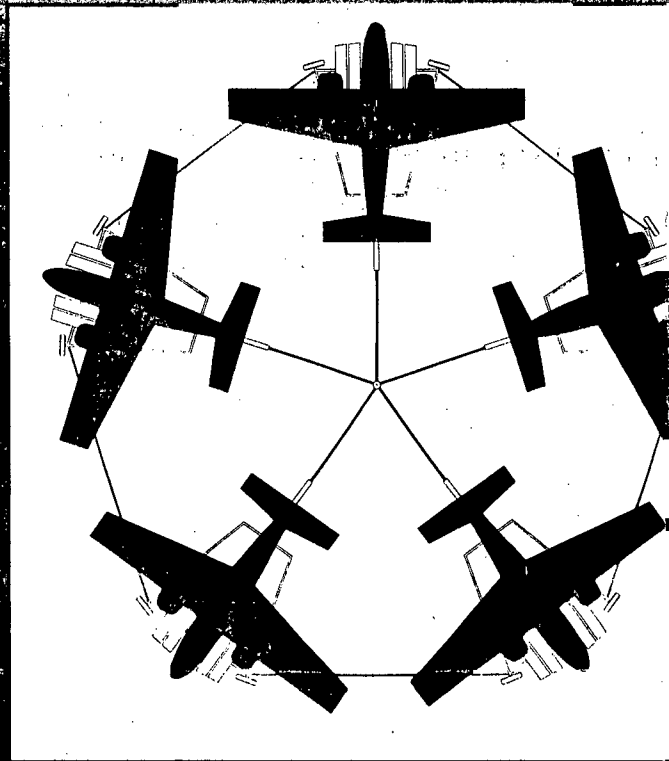
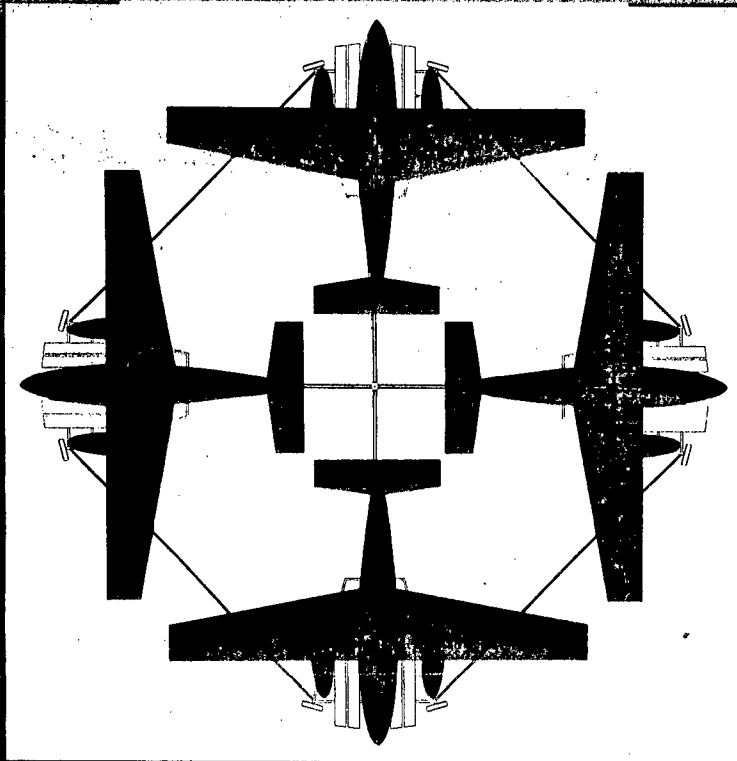
MODEL 4-70

4 single or light twin aircraft can be housed in a 70' x 70' inexpensive pole building or a steel building. Approved plans and specifications for pole building are furnished for local construction.



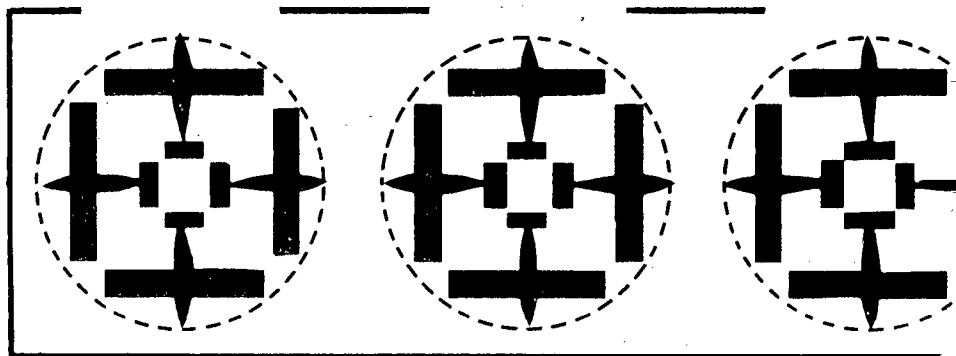
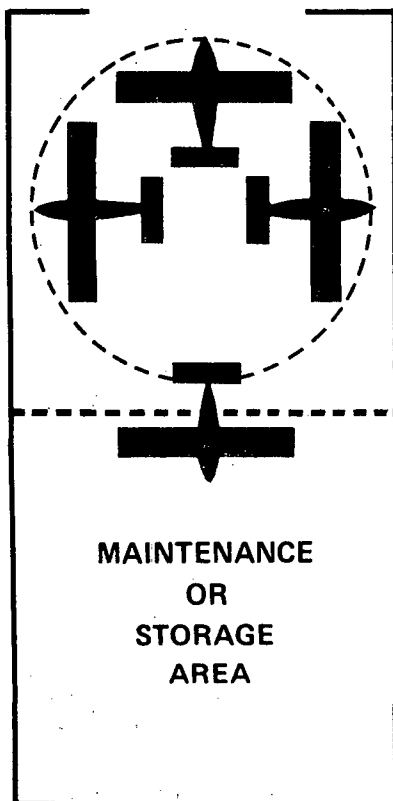
ROTOMONODOR furnishes only the Carousel which is installed in your existing or new building.





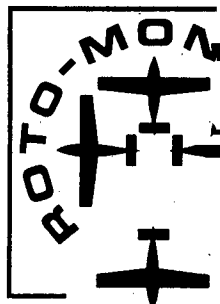
MODEL 4-100 4 large twins can be housed in a 100' x 100' steel building of your choice or we will recommend a building dealer near you. Compare this model for heavy aircraft hangar economy.

MODEL 5-100 Break the cost barriers by housing 5 large twins in a 100' x 100' steel building of your choice. F.B.O.'s should check the return on this investment. In-out service required.



Multi-Units can extend to any length accommodating two or more Carousel units. Costs are further reduced by eliminating common walls either now or when units are added later.

Diagrammed at left is an example of the unlimited possibilities of the Carousel system. A doorless shop or less active plane storage area added to a Carousel unit provides space for additional planes which also are accessible through the one door by rotating the Carousel 180°.



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Sterling Shoe Repair

This is a retail shoe business in which the owner has expressed a great deal of interest and has invested several years in learning to manufacturing orthopaedic shoes. While the retail business would not be suitable for the incubator, the manufacturing of these special items would be. The market for the product is established. About 2000 square feet of space would be required initially.

Jet Engine Parts Manufacturer

Several area businessmen have access to the rights to a spinoff business with an already established market. The business, currently operated as a division of a Fortune 1000 company, manufactures spare parts for jet engines. The business currently has a captive market, but the participants feel that they could begin manufacturing parts with related uses in other industries. The negotiating process to acquire this business and move it here from a southwestern state would take several months. If the business were acquired, space needs would be approximately 60,000 square feet. Employment would be about 60. About 3000 square feet would be required initially to get the business under way.

One of these same individuals is involved in a small, university related business which restores bronze sculptures. If this business were moved to the incubator, about 3000 square feet would be required. Relocation could be achieved within six months.

Eclipse, Ltd.

This business is a retail kitchen refinishing business which currently operates out of the owner's garage. The business has been operating for about a year, and demand has been very good for the product. The owner has been aggressive in marketing, and is willing to expand the business. About 1000 square feet would be required initially. Market research has already been completed for expansion.

Injection Molding Business

Three local individuals are acquiring equipment with which to begin an injection molding business. They have already acquired one machine valued at about \$9,000 and have hooked up three phase power to the machine, which is operating in a garage. They have a number of product leads, including manufacturing of a gas coupling and stereo stands. For other business, they would function as a job shop, taking overflow business from other companies in the area. They could move into the incubator within a month or two. About 3000 square feet would be required initially.

We are pleased with the results of these interviews, insofar as they indicate the existence of a market and the ability to lease up an incubator relatively rapidly. While the rural environment of the lower Rock River Valley area might be considered a backwater for industrial or general business development, we find that this is not the case. With more of a marketing effort, we are firmly convinced that the incubator itself, as well as the efforts of the Community Alumni Program of the Hometown Heritage Foundation, will produce a waiting list of potential tenants once the building is fully leased. Given this scenario, it would then be possible to consider the development of a second "satellite" business incubator in the area, linked to the original one.

The leasing program for the incubator would probably require that "market" rates be charged to the tenants, even though comparable space might be impossible to find in the area. In the current market, we do not feel that the rent obtained in 1979-80 from the Anixter Corporation can be duplicated in the T1 building on the Sauk Valley College campus, if this building were to be used as the incubator site. The best evidence of this finding is that this space has been vacant since March of 1981.

Current rents in the area for manufacturing space average about \$1.15 to \$1.50 per square foot per year. These rents seem to be applicable whether or not the lease terms are gross or net. We did not find any evidence of net net or net net net leases in the area. While higher rents could probably be obtained for the smaller spaces under consideration, we feel that this general level of rent would be acceptable to the start-up companies envisioned as tenants.

One-year minimum leases are standard in the area. The incubator could provide leases of shorter or longer duration, but this would best be a policy decision left to the building management.

There are other considerations which are at times made a part of leases for incubator buildings. Such items usually reflect policy considerations, such as only leasing to businesses with annual revenues of less than \$5,000,000 per year, only leasing to minority firms, or forcing businesses to leave the incubator at the end of some specified period. Decisions on such matters

should be left to the building management. We firmly recommend against such prescriptions. We feel that the incubator is serving a previously unserved market niche, not providing a public subsidy to business requiring a substantial quid pro quo. Such lease restrictions will not aid in the leasing program, and might act as a deterrent to filling the space in the building.

SITE RECOMMENDATION

We recommend initial consideration of the T1 and T2 buildings on the college campus as those most immediately available, with the best potential for subdivision and provision of ancillary services for fee through the college. All of the potential tenants we interviewed could use the T1 or T2 buildings for their businesses if proper modifications could be made. Similar modifications would be necessary for any of the buildings under consideration.

If the college site is not available within a relatively short time span, then the FOSCO building is also available and would be an excellent showplace for incubator development.

These recommendations are based on our evaluation of the sites available, the existing market insofar as we could survey it, and the list of criteria noted on page 4 of this plan. We are impressed with the commitment of the College to hands-on economic development efforts, and this commitment will be useful to the business people who locate in the incubator. While there is no reason that business services made available through the College Center for Business and Economic Development cannot be made available to businesses off campus, we feel that a close working relationship can be better established if the initial incubator venture were "close to home."

It is our understanding that the public sector sale process for property of this type is lengthy and cumbersome, particularly for sole source transactions. It is for this reason we have not considered sale of the T1 and T2 buildings to an incubator developer. We have assumed that the site could be made available through a joint venture agreement between the College, the Area Council, and the Hometown Heritage Foundation. Such an arrangement would be acceptable to any of the funding sources we have dealt with in the past. With the College acting as a partner in the program, there would be no need for the developer to acquire the property (since the College would be a partner in the program) and philanthropic and public funding sources would have no problem providing funds for expenditure on a publicly owned building.

The college is centrally located in the Sauk Valley service area, and this neutral location has frequently been pointed out as a major benefit of the college site. In addition, a key factor in the success of incubators is their reputation as demonstration projects in job creation and job training. The college already offers these services, and their participation would be a very natural and logical contribution to the incubator project.

The FOSCO site has the advantage of an existing realtor who is already marketing space in the complex. A key question in the

use of this building is the manner in which space would be made available. The quoted acquisition cost of approximately \$885,000 is far more than could be reasonably justified for a project of this type. We recommend that the Hometown Heritage Foundation pursue immediately other means of using space in this building for incubator purposes, since additional space would be required when the T1 and T2 buildings are fully leased. In this manner, no tenant need be turned away for lack of suitable space in the incubator. Suggested means of providing space in this building include a net lease for a large amount of space which could then be further subdivided; sale of a portion of the complex to the incubator developer; or bringing the current owner into the development as a partner.

ECONOMIC ANALYSIS OF RECOMMENDED SITE

Capital Costs

The incubator will have capital costs for renovation of the loading docks, office demolition, space subdivision, raising of some ductwork, renovation of toilet rooms, and some electrical and gas piping. We recommend purchase of a compressor to activate the air lines in the building, and thereby provide an additional marketing tool for prospective tenants. We recommend demolition of the offices in the T1 building and use of this space for leasable purposes. Any training, incubator management, or business service center functions could be housed in the T2 building, and we have shown this in our estimates.

Some soft costs, such as architect's fees, construction supervision fees, and cost of utilities during construction should also be included in this estimate. While detailed estimates will be provided once architectural plans have been worked out, we have provided some initial estimates upon which to base applications to funding sources. We are confident of the adequacy of these estimates for the purposes.

Subdivision of the space and provision of corridors in the T1 building will require about 4,500 square feet of the available space, to reduce the leasable total to about 39,200 square feet. We have provided in these estimates for the demolition of the existing office space and transfer of any office or clerical functions (for example, those functions of the business service center) to the T2 building. Subdivision of the T2 building would require only the demolition of existing partitions and construction of new partitions. About 8,500 square feet of the 10,000 square feet available in the T2 building will be leasable.

Estimate of Capital Costs for Both Buildings

Space subdivision, doors, frames, hardware	\$ 117,500
Painting and signage (including street signs)	22,000
Adjustments to ductwork, including new grilles	5,300
Fans and vents	2,700
Electrical points and wiring	3,700
Piping and metering	2,500
Compressor and equipment to activate air system and provide air curtain at dock entrance	8,000
Excavation of existing depressed dock area to provide for a deeper dock; dock levelers; concrete and driveway repairs	15,200
Fittings and furnishings	9,000
Construction Total	\$ 185,900
Contingency at 10%	18,590
Architect's fees	10,000
Construction operating costs	2,000
Supervision and management	3,000
Capital Cost Total	\$ 219,490

These estimates provide for work to be performed by outside contractors, not college maintenance staff. A separate cost estimate would be required to build in the college labor cost, if in-house staff were to be used. No sprinklers are provided in these estimates. If sprinklers are to be required for insurance purposes, then the cost should be built in. The college should obtain this information from their insurer.

Operating Schedule

The operating costs shown here assume the following schedule for fund acquisition, construction, and leasing. The final State of Illinois CDAP applications for 1984 are due on December 17th, and we reflect this deadline in the schedule. We have assumed the need to follow public bidding procedures.

Funds Acquisition and Construction

Initial Memorandum of Agreement	November 1
Completion of partnership agreement	December 1
Authorization to proceed	January 1
Preparation of application packages, including resolutions, profiles of partners, and partnership agreement	November and December
Application to funding sources	December 17
Funding source review and approval	March
Preparation of bid packages and contractor solicitation	March
Receipt of bids and negotiations	April
Construction begins	June
Completion of corridors and common areas	August
Completion of dock work	September
Space partition	According to leasing

Operating Budget

The assumptions involved in the development of the operating budget provide for 39,200 square feet of the 43,700 square feet in the T1 building to be available for lease. This is 90% of the total available space. In the T2 building, 8,500 square feet of the 10,000 available would be leasable (85% of the total). The building management will pay for space heat in the buildings. Electricity and use of gas for process equipment will be paid for by the tenants.

Because the insurance requirements and costs for this particular reuse of the building are not clearly identified, and because the taxes for the building are not clear (e.g., what use

type this property would be considered), we have not stratified these costs by item. We have instead provided a cost per square foot figure which has been found to be useful in buildings in the Sauk Valley area. This figure was used in conjunction with utility cost data to determine the operating costs to be covered during building operations.

Based on our evaluation of similar properties in the Sauk Valley area, we are using an allowance of \$0.50 per square foot per year to cover heat, taxes, and insurance. While these items may vary amongst themselves, we feel that this would be a conservative estimate to use in budgeting. For the 53,700 square feet of space available, this would provide for operating expenses of \$26,850 per year for these items.

Management and leasing will require approximately \$10,000 and \$5,000 per year, respectively. This is in addition to fees paid by tenants for business center services such as copying, phone answering, and typing. These service-for-fee items will be built in to the rent structure of the project.

The basic operating costs of the incubator will encompass payments for gas for heat, insurance, taxes, marketing, and management. The cost for these items is estimated at \$41,850 per year, which translates to approximately \$0.88 per leasable square foot per year. The remainder of the rental receipts would be available for payment of rent to the college and special development programs related to the national demonstration project encompassing the incubator. If rents were established at \$1.55 per square foot per year, then approximately \$32,000 would be available annually for these purposes.

Operating Negative During Start-Up

We have assumed that the leasing period would begin in September of 1985, and that the building would be fully leased by September, 1987 (twenty-four month period). The occupancy rate at the end of the first year would be 50%. This is a revenue definition of occupancy, e.g., either 50% of the space is leased or 50% of the projected revenue is provided.

The incubator will be self-supporting when a substantial portion of the space is leased. According to our calculations, this "break-even" point should be at approximately two-thirds of full occupancy. This is a relatively common break-even point. In the interim, heat will be provided, taxes and rent will be incurred, insurance will need to be paid, and the building will need to be managed, regardless of the occupancy status of the building. We have provided an estimate of the negative cash flow requirements during the leasing period. We recommend that funds be secured for these purposes, as well as for construction.

We recommend budgeting \$10,000 for management of the facility per year and \$5,000 per year for broker's fees and marketing. We recommend paying broker's fees where appropriate to assist in leasing the space. If training of incubator management staff is required, we recommend budgeting an additional \$6,000 for technical assistance for this item.

Given these assumptions, and a straight line cash flow projection from zero per cent occupancy at the beginning of leasing to 100% at the end of the two year period, we recommend budgeting approximately \$37,400 for negative cash flow and cash payments required before the incubator is 100% leased. These items are stratified as follows:

Item	to end of Year I (50% leased)	to end of Year II (100% leased)
Heat, taxes, insurance	\$ 13,425	\$ 6,713
Management	5,000	2,500
Marketing and Fees	2,500	1,250
Staff Training	6,000	—
Total, costs not recovered in rents	\$ 26,925	\$ 10,463

At the end of this period, the incubator would be fully leased. At rents of \$1.55 per square foot, the project would be generating \$74,000 per year in gross revenues, of which expenses for taxes, heat, insurance, and management would require approximately \$0.88 per square foot. Approximately \$32,000 per year would be generated as cash throw-off from this project.

These projections assume no increase in costs or rents. These are conservative projections in the sense that somewhat higher rents can be obtained for these spaces, if desired; the leasing period is assumed to be twenty-four months; and management fees and marketing costs may be less than projected, if the space can be leased up readily by other than real estate professionals.

TOTAL PROJECT CAPITAL COSTS	\$ 219,490
TOTAL PROJECT OPERATING NEGATIVE	37,400
TOTAL INCUBATOR DEVELOPMENT COSTS	\$ 256,890

RECOMMENDED ORGANIZATIONAL STRUCTURE

Our investigation gave special consideration to the legal entity which will direct the incubator project and manage its daily operation. In addition to our own experiences, we consulted with other incubator operations which are run by multi-interest groups. The consensus of these opinions is that a new corporation with IRS 501(c)(3) status be formed by the three parties in this case. This corporation would be both non-profit and charitable, making it possible to take advantage of personal contributions, foundation grants, and corporate gifts.

It is also recommended that a nine-member Board of Directors provide direction for the incubator project. Since the activities of the executive directors of the Area Council and the Foundation would have a direct influence on the development of the incubator and its tenants, we encourage their election as directors to give proper continuity to the project. Four Board seats would be divided between the College and the Area Council. In the case of the College we suggest that both the administration and the Trustees be represented. The balance of the board recommended would come from the Hometown Heritage Foundation. This is recommended for several important reasons. First, the incubator will play a significant role in the national demonstration project to be led by the Foundation. The sponsoring agency of the national demonstration project will expect the Foundation to continue in a leadership position to ensure that its interests in the incubator are protected. Also, the Foundation has had far more exposure to the incubator concept and should be better prepared to deal with critical issues during the incubator start-up. Being the group that has spearheaded the incubator project, the Foundation wants to protect its own interest through the crucial start-up period.

The Foundation wishes to remain in a leadership role only until the incubator is firmly established and the Area Council is capable of assuming total responsibility for the operations and management of the incubator. At the urging of the Foundation, we are recommending that specific language be placed in the bylaws of the new corporation that would assure the Area Council of the opportunity to take over the incubator in three to five years.

In addition to its leadership, the Hometown Heritage Foundation will make a number of other important contributions to the incubator project. The community alumni concept, for example, will be a prime source for incubator tenant leads. In fact, two of the better tenant prospects we interviewed came to us via the alumni network. It can also be a prime resource for business consultants to help incubator tenants through the Center of Business and Economic Development. It will also contribute new job and business development concepts to be created through the incubator. These concepts will reinforce the importance of the incubator to the national demonstration project mentioned above.

The Sauk Valley Area Council for Economic Development will bring the cumulative leadership experience of its many board members and its regional development mission to the incubator project. Since the area will only support one primary incubator project, their contribution is very important. The Area Council is, in reality, the only organization among the three originating groups that could in time legally assume responsibility for the incubator as a regional economic development tool. As we have been told by the executive director of the Area Council, however, it is in the process of reorganizing and will not be able to assume that responsibility for some time.

Sauk Valley College would bring its expertise in job training to the project. It would also be asked to help design and implement the new job and business development concepts for the national demonstration project. It could offer certain kinds of business services to incubator tenants on a pay-as-used basis which could generate additional income for the College. It could also bring the experience of its faculty and the needs of its students to assist the tenants and the project.

The Center for Business and Economic Development would play a key part in the development of the incubator. First, it would be responsible for the development and implementation of the business management services to be used by the incubator tenants. It would be the arm of the incubator primarily responsible for writing business plans and providing management, marketing, financial and technical counsel for the incubator tenants. As we understand it, the Center already has the mission to create a network of business management consultants to serve businesses in the area. We recommend that the executive director of the Center and the Area Council assume management and administration of the incubator once it becomes the responsibility of Area Council. Until then, we recommend that administrative and management duties be assigned to someone other than the executive directors of the Area Council or the Foundation. Under the terms of our contract with the Foundation we will help find the best qualified person for that post.

From our experience and those sources that we have consulted, there are no limitations placed on any of the three groups, in particular the College, in entering into the kinds of agreements as we have recommended here. Similar associations have been formed by other community colleges and they have, in fact, been encouraged to do so by the Illinois Community College Association as well as the Illinois Department of Commerce and Community Affairs. The College, should it choose to do so, could be guided in this matter by the Intergovernmental Cooperation Act of 1973. Nonetheless, we recommend that each of the potential participating organizations consult their respective attorneys for verification of these points.

FUNDING SOURCES FOR PROJECT DEVELOPMENT

In recent months, several State of Illinois programs have been structured to provide construction financing for incubator projects. In addition to the special incubator program of the Department of Commerce and Community Affairs, the Community Development Assistance Program (CDAP) can make loans or grants for purposes such as incubator development. These would seem to be the most likely funding sources. Over the last several months, staff of the Foundation have met on several occasions with DCCA officials to explore incubator funding feasibility. DCCA support to date has been encouraging. The state Capital Development Board might be persuaded to provide funding for this purpose as well.

At the federal level, the Economic Development Administration of the U.S. Department of Commerce has funded incubators in the past, and is doing so again in 1984-85.

The U.S. Small Business Administration has also expressed a great deal of interest in incubators. The SBA is currently in the process of suggesting changes to their legislation that would permit them to fund incubator development projects.

The U.S. Farmer's Home Administration may also be interested in funding this project, although they have not been contacted during the course of this research.

It is unlikely that Urban Development Action Grants (UDAG), provided by the Department of Housing and Urban Development, can be used on this project as long as the site is publicly held and no private financing is envisioned. The UDAG funds would become an attractive source if the T1 building were not selected for the incubator project.

While this plan has been concerned specifically with the funding of the incubator, there are a number of agencies or organizations which provide small business loans or venture capital, both of which can be critical to helping locate a tenant in the building. In addition, our interviews with prospective tenants in the area, as well as our own experience with small business consulting elsewhere in the country, leads us to suggest the creation of a seed capital fund which might be used to take positions in businesses located in the incubator. These funding sources are distinct from those required for incubator development, however. Depending upon the cash flow position of the College, we suggest consideration of establishment of a seed capital fund using some of the cash throw-off from the incubator project. This process would have the effect of providing a loan pool or equity pool for other ventures in the Sauk Valley College area.