

Small Business Incubator Report New Orleans, Louisiana

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new orleans economic development

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I. EXECUTIVE SUMMARY

Mission Statement and Services

The New Orleans Business Incubator Center (NOBIC) will address critical business retention needs with the long-term goal of facilitating new jobs, public revenue, and economic development opportunities for New Orleans. The incubator will offer quality office space for nearly thirty emerging businesses while providing them with entrepreneurial training and services including management assistance, business counseling, writing business plans, financial analysis, professional referral networks, and a supportive environment to network with other small businesses. All services and office support infrastructure is included in the competitive market rate rents.

Partnerships

In the post-Katrina economy, New Orleans has a critical need for new business development and business retention. In an effort to fill an unmet need in New Orleans, the Mayor's Office of Economic Development has spearheaded the creation of NOBIC. Additionally, NOBIC will act as a catalyst to coalesce three service providers within the New Orleans area, including UNO and Loyola SBDCs, and Good Work Network. These partnerships will yield not only anchor tenants for the project, but also a more robust and functional referral and service delivery system. NOBIC will serve to foster entrepreneurial business growth in New Orleans by bringing together a service delivery system and providing continued business support through a "continuum of care" approach. The incubator will also partner with graduate students at Tulane and UNO in the business, law, and planning programs to gain credit hours while bolstering their professional skills and helping in the rebuilding effort.

Facilities

NOBIC will have the capacity for 29 businesses. The incubator will feature about 25,000 square feet of flexible office space with access to one conference room, three meeting rooms and a computer lab. Each office will have:

- T1 lines for high speed internet access, state-of-the-art data, fiber, and video wireless capabilities, fax and phone lines,
- Web and email hosting capabilities,
- Business support services- including basic legal, marketing, and accounting assistance,
- General office support- including shared office equipment, conference rooms, and tech support, and
- Free business workshops, seminars, receptions and mentoring.

Feasibility and Demand

The existing small business service network is fragmented and unable to meet business demand; this is especially critical in a post-Katrina business environment. Moreover, interviews with the two SBDCs, Good Work Network, NewCorp, and Idea Village strongly suggested that a small business incubator would fill a need, currently missing in New Orleans' continuum of care for entrepreneurs. Indeed, there is no small business incubator in New Orleans and the existing service providers expressed a strong interest in consolidating their services and physically

integrating with the incubator. In addition to this testimonial analysis of demand, data from the 2003 US Census indicates that key sectors for small business incubator growth include professional, scientific and technical services, real estate and lending, information, admin and support services, and the construction industry. With a total of 2,321 businesses with fewer than ten employees in the above sectors in 2003, an estimated displacement rate of 60 percent, and a loss rate of 20 percent, there are over 1,000 potential businesses that would likely benefit and create demand for the incubator.

Client Acquisition Model

NOBIC's acquisition model will center on the following resources and activities:

- Advertising and media, including various local newspapers and business trade publications
- Referrals from partners and existing clients
- Networking events whereby staff participate in local economic development events
- Community outreach programs, direct mailings, and presentations at chambers of commerce, business district associations, local neighborhood council and city council meetings
- Advertising on websites including those of the Mayor's office, governor's office, and partner organizations

Evaluation Methods

The incubator will realize its goals of fostering economic development by establishing clear goals for each incubatee client as well as prioritizing turnover for each firm when ready, to maximize the total impact of the incubator and its services. Managed by a top quality executive director, an office manager and a support staff and directed by a board of directors representing key players in the small business development world from the public, non-profit, and private sectors, the incubator will establish clear admissions, management, and graduation policies. Entrepreneurs will face admissions criteria based on their potential and their current business savvy, but NOBIC will specifically target those businesses that would benefit most from the incubator experience rather than those with only high growth potential. Accordingly, graduation will involve the following criteria:

- Each incubatee will jointly prepare specific quarterly benchmarks for the upcoming fiscal year. *Benchmarking* provides the entrepreneur with a continuous business improvement tool that evaluates performance and competitive advantage at each stage of the company's growth.
- Businesses' *revenue growth*, including financial transactions in the form of loans, lines of credit and equity financing will be bolstered and monitored.
- *Financial matches and partnerships* that lead to growth or procurement activity will be supported and monitored.
- *Job creation potential*, for full-time and part-time positions, will be a key component of admissions and graduation policy.

Sources and Uses

With the recommended size of 30,000 gross square feet, the incubator will likely purchase an existing building or engage in a sublease structure with clients. However, development is also an option and is estimated at \$5 million, with sources of funds coming from special allocations of City CDBG, State LED, and federal EDA monies being supplemented with New Market Tax Credits and private foundation funding. Annual operating costs are estimated at \$252,000 of which \$157,000 will be raised in rental revenue with the gap filled by external services and operating grants.

Next Steps

The Mayor's Office of Economic Development will use this report to build partnerships and garner funds for the project. Specific next steps include establishing memoranda of understanding with the other business service providers, applying for funding from the state, federal government, new market tax credit recipient bodies and local and national foundations. This should be followed by establishing the board of directors, hiring the executive director, marketing, and designing specific admissions, management, and graduation policies once operational.

II. INTRODUCTION

The New Orleans Mayor's Office of Economic Development (OED), the municipal agency charged with fostering and creating a vibrant economy for the City, solicited the help of graduate students from the Massachusetts Institute of Technology (MIT) and the University of New Orleans (UNO) to design and analyze the feasibility of a small business incubator to aid in the economic recovery of New Orleans.

Prior to Katrina, OED undertook many tasks, including connecting people and businesses to opportunities by building and leveraging partnerships at home and abroad, workforce training, retaining and attracting businesses, providing support for equal business opportunities, and managing and marketing the City's assets and resources. While continuing to do much of this work, Katrina has forced OED to draw on resources throughout the nation, such as MIT, to help design and implement a successful economic recovery for the city.

The incubator project addresses the City of New Orleans' need to identify appropriate financing and partnerships for local initiatives that support small and emerging businesses in the post-Katrina environment. Indeed, business incubators lend themselves well to this function. They provide leased office space, shared administrative services, and business counseling for small and emerging businesses.

The National Business Incubator Association (NBIA) states that 87 percent of all firms who graduate from incubators remain in business, thus significantly reducing typical business failure rates. NBIA research also indicates that for every \$1 of estimated public investment in incubators, graduates of incubators generate approximately \$30 in local tax revenue alone. Moreover, the NBIA reports that 84 percent of incubator graduates remain in close proximity to the incubator, thus yielding continued returns to the community.

In the post-Katrina economy, New Orleans has a critical need for new business development and business retention. A business incubator could be utilized to temporarily address critical business retention needs with the long-term goal of facilitating new business development. At the request of OED, the MIT/UNO team has studied the design and feasibility of a small business incubator, to not only help the economy of New Orleans recover, but also to grow and prosper. Hence, this report focuses on how best to design a small business incubator,

in terms of targeting, services, partnerships, management, and operational policies, as well as development and operations financing.

III. PROJECT GOALS

The project goals of OED are currently broad in scope; to stimulate economic development benefits for the city in terms of jobs and tax revenues. These will be refined as the project moves forward and defines its place within New Orleans' small businesses support activities and other economic development strategies. However, clear, rigorous and achievable goals are key for the incubator to make progress and judge success. The first set of goals will be tied to milestones as the project gets off the ground. Once operational, the incubator will have to establish goals and policies vis-à-vis admissions, management, and graduation. These goals should include the following, in approximate order:

1. Obtain funding from EDA for a feasibility and market study.
2. Establish MOUs with SBDCs and other service providers.
3. Begin applications for CDBG and LED funding.
4. Begin conversations with local CDEs regarding New Market Tax Credits.
5. Launch non-profit entity with key board members.
6. Hire an executive director.
7. Purchase or lease the building.
8. Set operational goals and policies.
 - a. Business outcomes – New businesses, success rates, tax revenues, and spillover effects.
 - b. Employment outcomes – Number and type of jobs created.
 - c. Management outcomes – Graduation rates and milestones.
 - d. Group outcomes – Goals for specific demographics or subpopulations (e.g. women and minority entrepreneurs).
 - e. Place-based outcomes – Economic development goals for particular neighborhoods, due to incubator graduates, targeted services, or the incubator itself.

IV. TARGET BUSINESSES

Prior to Katrina, small businesses of 50 employees or less, accounted for over 18,000 establishments and 250,000 jobs, more than 40 percent of the New Orleans job market.¹ However, the hurricane devastated both local businesses and the customer base, driving out an estimated 60 percent of the city's small business.² As such, a small business incubator is the perfect tool to help retain the 40 percent that were not displaced, but still struggling, while also attracting back a variety of new entrepreneurial businesses. While this report doesn't offer any recommendations regarding a specific industry focus, it does highlight potential business targets. Indeed, while highly targeted incubators have their benefits, 47 percent of incubators nation wide are mixed use.

A. Assessing Demand: New Orleans Industry

While this report does not take the place of a full feasibility study, it appears that there would be a strong demand for a small business incubator in New Orleans. The demand analysis methodology focused on interviews with key players in the New Orleans small business arena (see Appendix 2 for a list of interviewees), supplemented with secondary data analysis.

As outlined by the Bring New Orleans Back Commission's (BNOBC) economic development committee, New Orleans has a comparative economic advantage in ten industry sectors, given the structure of the city's pre-Katrina economy.

- | | |
|--|----------------------------|
| 1. Hospitality | 6. Film and Television |
| 2. Bio-Med (Healthcare and Bio-Sciences) | 7. Music |
| 3. Maritime | 8. Manufacturing |
| 4. Oil and Gas | 9. Food Processing |
| 5. Aerospace and Military | 10. Information Technology |

Each of these broad sectors that were vital to New Orleans before Katrina are comprised of horizontal and vertical networks of businesses, many of which would be ideal candidates for a small business incubator. Hurricane Katrina undoubtedly changed the nature of residents and

¹ BNOBC Economic Redevelopment Plan and 2003 US Census

² BNOBC Economic Redevelopment Plan, 7

businesses in New Orleans, yet these sectors and the historical business patterns represent the most likely future for the city. A review of the business pattern data from the US Census in 2003, the most recent year available, highlights the type and volume of small business that existed before the storm. The industry types below represent only those with a large percentage of small-scale firms who are non-retail based and thus potential types of firms that would benefit from a small business incubator.

Industry Type	Establishments with Fewer than 10 Employees	Total Establishments
Professional, Scientific, and Technical Service	1,269	1,560
Real Estate, Rental, and Leasing	369	450
Information	118	176
Admin, Support, Waste Management, and Remediation Services	292	463
Construction	273	374
Total	2,321	3,030

Source: 2003 US Census

The category of professional, scientific, and technical services is mostly dominated by lawyers and legal services, however out of the 1,269 total firms with fewer than ten employees in 2003, there were also many consultants, architects, engineers, graphic designers, marketing, and design based firms. Many of these would be ideal incubator clients.

The real estate grouping doesn't contain small businesses that are normally thought of for an incubator, however most real estate agents and brokers represent firms with fewer than ten employees, have low startup costs, and will be a key sector in the rebuilding process. The information sector, consisting mostly of telecommunications, publishing, video production, data processing, and internet, radio and television based companies, also represents a clear group of businesses that could benefit from a small business incubator.

The administration, support, waste management and remediation services category is a broad category, but contains small businesses focused on everything from offering services to buildings and dwellers to travel arrangements, reservation services, office administration, landscaping, travel agencies, tour operators, and security guard companies. Many of these represent viable small business incubator targets.

While construction represented only 374 firms in 2003, 73 percent of which were establishments with fewer than ten employees, this number will boom within the next few years. The construction industry, in terms of contractors, plumbers, electricians, painters, carpenters, and other specialty trades, is surely a broad businesses category that to be should be targeted for

incubator clients. General contractors will need back office space, as will the other small trades-person type businesses and other vertically linked firms that feed into the construction industry. In fact, one option would be to focus the incubator exclusively on the construction industry. In this scenario the incubator would not only provide services that help builders and developers with land-use, zoning, utility and advocacy work, but also connect them to complementary firms (developers with architects with contractors with carpenters with painters, etc.). The William Factory Incubator in Tacoma, Washington employed this type of approach.

Overall, with 60 percent of the businesses displaced by Katrina and 2,321 broadly eligible incubatee-type businesses before the storm and assuming a 20 percent loss rate, there are still over 1,000 potential small businesses that could benefit from the incubator ($2,321 * 60% * 80%$). Additionally, conversations with Loyola and UNO SBDC administrators and Idea Village staff indicate that they have been unable to meet the total demand for entrepreneurial services.

B. Assessing Supply: Existing Business Support Services

There are currently five existing organizations working to meet the needs of emerging and existing businesses in New Orleans. None of these organizations provide physical incubation space, but they each offer important services that businesses should be able to access through a physical business incubator.

- ❖ Good Work Network, Phyllis Cassidy
 - As a non-profit formed to help low-income entrepreneurs gain knowledge and capital to develop their micro-enterprises, Good Work Network provides counseling and bookkeeping services to clients with little business sophistication.

- ❖ NewCorp Business Assistance Center, Vaughn Fauria
 - NewCorp specializes in minority and women-owned business development through technical assistance, financial literacy training, business plan development, computer literacy for business software, marketing support and management counseling. Additionally, NewCorp can provide access to capital as a participant in the SBA Micro Loan Program, Chase/SBA Community Express Program, SBA 7A Loan packaging, and through the community development financial institutions.

- ❖ Loyola Small Business Development Center, Carmen Sunda
 - This SBDC provides counseling, technical assistance and training for owners, operators, and managers of existing or proposed small businesses in the Greater New Orleans area. Specific assistance includes business planning, loan packaging, website development, logo design, marketing, finding sources of funding, and accounting and legal issues.

- ❖ University of New Orleans Small Business Development Center, Alice Kennedy
 - The UNO SBDC provides information, one-to-one business counseling, seminars and workshops to individuals starting a business or whose business has technical assistance needs.

- ❖ Idea Village, Tim Williamson
 - With a mission to encourage a culture of innovation and to provide the focused tools and resources necessary to accelerate the development of high-growth entrepreneurial ventures based in New Orleans, the Idea Village assists high-growth businesses by providing in-depth business consultation, including setting operational goals, advising and consulting on strategic business matters, connecting entrepreneurs to business mentors, and by facilitating access to professional services and capital resources.

Unlike most cities of similar size, New Orleans does not have a facility that houses and nurtures entrepreneurs. While the earliest incubators focused on technology companies and other high-growth potential entrepreneurs, in more recent years, incubators have been used for manufacturing and mixed-uses. There are also a number of specialized small business incubation proposals being studied or already underway in New Orleans. These include projects such as an arts incubator, a digital media center for film production, a food processing incubator, a research and technology park innovation center and a business recovery incubator for businesses attempting to re-establish themselves in the post-Katrina economy. The city does have an arts incubator, but it is targeted specifically to artists and isn't fully operational. Additionally, the Louisiana Technology Council received funding from the state to operate a recovery center, which some have misidentified as an incubator. Operated by Lee Pryor, this facility offers office space, but few services. Indeed, Pryor believed that a fully functional incubator sponsored by the city would be of great use to emerging businesses.

This sentiment was echoed in interviews with the directors of the other small business service providers listed above, who believe that there is a strong need for a physical incubator that serves small businesses in need of a particular set of services, including office space. Thus, there is not only the demand, but a lack of existing organizations to fill the gap. Moreover, as discussed below, the existing small business service providers are more interested in partnering to offer better and more coordinated services than in competing for clients or funding.

V. PARTNERSHIPS

This proposal includes a physical incubator along with the business services identified above. It should be noted that a number of organizational leaders, including Diana Simak with the Louisiana Business Incubation Association, emphasized that effective support services are critically important to the success of a physical business incubator. Without services and policies, the incubator risks becoming a simple real estate project. To build service capacity and foster collaboration between the existing service providers, the incubator should provide space for these organizations. Indeed, the Loyola SBDC, UNO SBDC, and Good Work Network, all expressed a strong interest in physically locating in the incubator to further streamline referral and service delivery systems, identify any duplications or gaps in services, and allow for mobilization to secure funding over time.

This proposal builds on the work done for the Entrepreneurial Network of New Orleans (ENNO) project started by the Mayor's Office of Economic Development and cut short by the dramatic staffing cuts that followed Hurricane Katrina. This effort to map existing business services aimed to accurately and comprehensively identify services provided by the many organizations serving small businesses in New Orleans. ENNO was to be an alliance of entrepreneurial support organizations committed to building a community of empowered entrepreneurs. In addition to OED, the Network involved Catholic Charities, Good Work Network, the New Orleans Housing Authority, Labor Solutions Inc., Newcorp, the Regional Loan Corporation, the Capital Access Project, the Idea Village, and the UNO and Loyola University SBDCs. While the status of some of these organizations is unknown, the potential for formal collaboration between the SBDCs, Good Work Network, the Idea Village, and the incubator is salient and important. Currently, these organizations provide different services for different business targets. Indeed, differently-sized businesses have different needs and come to these organizations with varying levels of business skill and preparedness. The following represents the client aims of each organization.

- ❖ Idea Village- serves higher capacity businesses
- ❖ UNO, Loyola SBDCs- serve middle range capacity
- ❖ Good Work- serves lower capacity businesses

A diversified economy needs to be able to support a range of business sizes but it is clear these businesses have very different needs. Programs likely to attract and support skilled business owners who operate high-growth businesses will have less relevance for micro-enterprise entrepreneurs.

Fortunately, the existing organizations have evolved with a clear understanding of these dynamics. While most provide a range of services and there is certainly overlap, each organization has a specialized area of interest tailored to meet the needs of their clients. One example of how different organizational specialties complement each other is the way in which technical services are provided. The small business development centers each provide group training and individual instruction. The UNO SDBC is known to excel at offering high quality workshops and seminars and the Loyola SDBC has a reputation for being especially effective with its one-on-one counseling. Both these organizations work with owners who have established a basic level of skill – skills that may have been developed through the training and counseling provided by the Good Work Network.

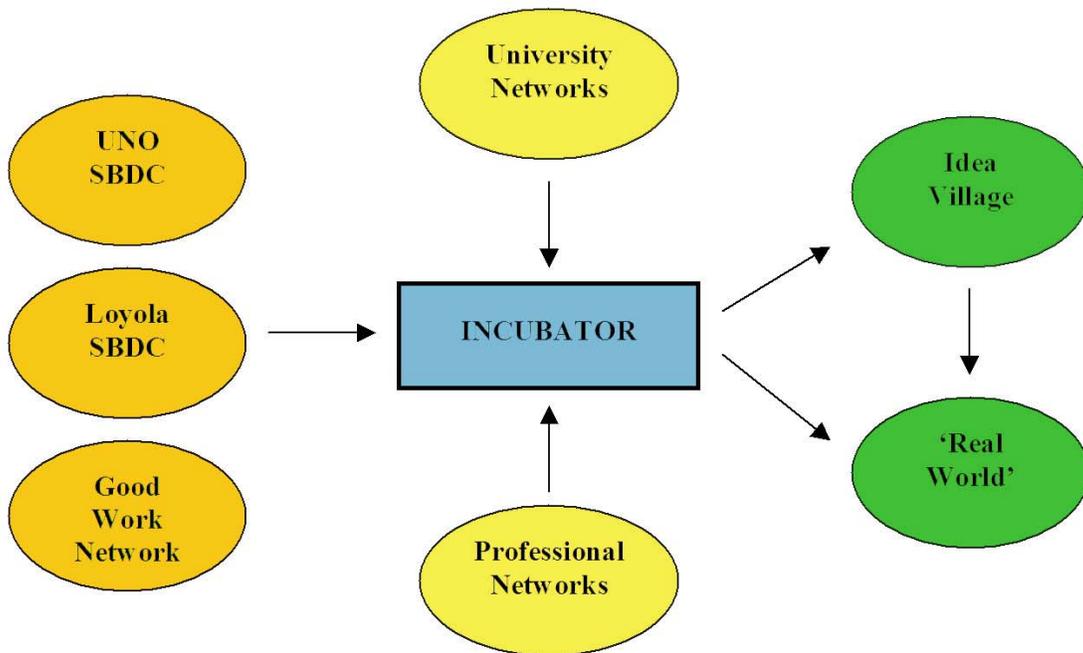
The Good Work Network works with the micro-entrepreneurs who may also have a greater need for the direct provision of back-office services such as simple accounting and cash flow projections that can be quickly produced by trained staff. Considering that many of these entrepreneurs are ‘one-person shows’, including contractors, craftsmen, artists and home care workers, it may make more sense to provide a collective of back-office services than to teach each of them how to use accounting software for the purpose of maintaining their own accounting books. This ‘collective’ approach to relatively simple technical services would help these very small business owners to focus on their product while saving money.

A. Continuum of Care Model

The graphic below illustrates a continuum of care for entrepreneurs. The SBDCs on the left will lend their support to the incubator by sharing their services and by referring applicants to the incubator. As mentioned previously, there has also been interest expressed by all three SBDCs to be housed at the incubator, making this service delivery more centralized. Both the university and professional networks will work similarly to the SBDCs by lending support and offering referrals. Such support may include a partnership with graduate students at Tulane and UNO in the business, law, and planning programs to gain credit while bolstering their

professional skills and helping in the rebuilding effort. These graduate students could help with reviewing businesses in the admissions process which is sure to be a time consuming task if left to the incubator manager alone. Additionally, they can assist clients with developing their business plans and enable businesses to stay abreast of technical innovations.

Professional networks would help the incubatee to build their professional capacity. Such an arrangement might include an agreement with identified accountants and attorneys available to provide their services to incubatees at a reduced rate or free of charge. By building their client base and allowing the incubatees to receive pre-screened, high quality, and low cost services, this arrangement is mutually beneficial. Lastly, upon graduation, businesses could either operate in the ‘real world’ without additional support services, or potentially access higher-level services provided through the Idea Village. This continuum of care is represented below.



VI. BUSINESS NEEDS

In addition to assessing the demand for a small business incubator and leveraging partnerships for referral and service delivery, it is important to examine the specific needs of the

target businesses. While needs will vary from one business to the next, general needs include the following:

- ❖ A structured environment in which to work
- ❖ Reasonable rent
- ❖ Shared services, including
 - Office equipment, computers and faxes
 - Meeting space
 - Receptionist services
- ❖ Technical assistance, including
 - Registering and licensing
 - Writing a business plan
 - Marketing
 - Accounting
 - Legal services
- ❖ Management mentoring
- ❖ Financing

VII. SERVICES

Based on the business needs and partnerships described above, the incubator should be able to offer the following services:

- ❖ *Quality office space* in an appropriate location with affordable and flexible leases
- ❖ Access to *high quality facilities and technology services*, including conference space, telephone, voicemail, printing, copying, faxing, and broadband.
- ❖ *Management assistance and small business counseling.*
- ❖ Assistance in developing *business plans and skills* as well as marketing and growth strategies.
- ❖ *Financial analysis services* to access debt and equity sources of capital.
- ❖ *Entrepreneurial education* and training.
- ❖ *Referral to professional and advisor resources*, such as lawyers and accountants.
- ❖ Access to a *network of university, community, and business professionals.*
- ❖ Linkage to the National Business Incubation Association.

VIII. MANAGEMENT

All interviewed parties and the literature agree that the incubator should be managed and operated by an independent non-profit entity. While this entity must recruit an expert manager, its board of directors should be comprised of key stakeholders from each sector. It is especially important to include the director or a liaison thereof of OED, the existing service providers, as well as key players in the local lending industry. Thus, the board would have representatives from the public, non-profit, and private sectors.

A. Marketing

Marketing is vital to attract a surplus of companies, only a small percentage of which will be the perfect fit for the incubator, but also to accomplish broader strategic goals. It can expand other organizations' understanding of the incubator to lay the foundation for future partnerships. The incubator manager and staff should view marketing and relationship building as part of their responsibilities. Marketing plans require both wholesale and retail strategies. Wholesale marketing, through mailings, media, and advertising is cost effective in reaching a large audience and generating broad community awareness. Retail marketing on the other hand, can better target specific businesses. Referrals can also be reciprocated with recognition as well as reverse referrals in some cases, as incubatee businesses mature. As such, marketing strategies include:

- ❖ Advertising and media, including various local newspapers and business trade publications
- ❖ Targeted mailings
- ❖ Press coverage
- ❖ Presentations
- ❖ Networking events whereby staff participate in local economic development events
- ❖ Community outreach programs, direct mailings, and presentations at chambers of commerce, business district associations, local neighborhood council and city council meetings
- ❖ Referral networks
 - Lenders
 - Technical assistance entities and service provider partners

- Business and trade associations
- Civic and community organizations

B. Admissions and Acquisition Model

Client screening is vital to the success of the incubator. A well-structured screening and admissions process can help ensure promising clients, productive inter-client synergies, and successful graduates. Generally, the process begins with an application and is followed by an interview. The idea is to attract entrepreneurs who have the drive and skills to bring an idea to fruition, while thinking about relationships and linkages between the companies. While the admissions policies should ultimately be determined by economic development goals of the incubator, the targeting strategies and applicant pool also represent influential factors to be considered.

Firstly, it's important to identify those businesses that will benefit most from the finance and management services that will be provided. However, admitting businesses on the basis of their success and growth potential needs to be balanced with community and city-wide economic development goals in terms of what sectors and types of jobs should be promoted.

Once interest has been generated in the program, an application must be created that solicits information to assess the company's suitability for the incubator. An application should include the history of their company, current revenue, number of employees, type of business, space requirements, information on the company's owners and managers, business plan or description of the company's planned activities and product, and if available, a current financial statement and projections.

The purpose of these policies is to determine the capacity and experience of the company so that an appropriate suite of services can address the needs of the potential incubatee. The applicant will be designated as either an *emerging business* or as an *established business*. Based on this designation, the business will be assessed for admission to the incubator based on the following criteria.

Emerging Business

Company's focus

Job creation potential

Established Business

Company's focus

Job creation potential

Financial resources	Financial resources
Background checks & credit histories	Background checks & credit histories
Estimated benefit from incubator services	Estimated benefit from incubator services
	Managerial capacity
	Cash flow projections

Emerging businesses are less likely to have an extensive management team or a refined cash accounting system and should not be held to the same standards for the purposes of admissions. These would be activities that the incubator would assist the company to develop to move into the established business category. Indeed, focusing half of the spaces in the incubator for emerging businesses with the other half focused on more medium-capacity, yet still nascent entrepreneurs would yield benefits of diversification as well as more inter-client deal-making and information sharing. Nevertheless, if any applicant isn't quite right for the incubator, they can be directed elsewhere within the established network of small business service providers. Perhaps they need to go back to one of the SBDCs to get help before reapplying.

The admissions process should involve the staff of the incubator as well as the board of directors. The staff will assess the goodness of fit of one business with the rest of the incubatee cohort. Generally, synergies should be maximized, while companies that would compete with existing incubatees should not be admitted. The board of directors, who will represent a range of business sectors, will have first-hand knowledge of the potential for business success within specific sectors. This insight, especially when the board has experience that matches that of the applicant, will strengthen the quality of the selected set of clients. While the focus of this incubator is clearly not solely on firms with the most growth potential, strict admissions criteria can help to create a positive reputation for the incubator and create competition for the limited space available.

Graduation

When a company is admitted to the incubator and at each lease renewal, the incubator director and client will set specific business objectives. These objectives will be used in conjunction with other criteria to determine when clients are ready for graduation. Other important considerations are 1) whether the business is financially stable and 2) whether they still

need the services of the incubator. The former, financial stability, will be assessed with the following metrics:

- ❖ Each incubatee will jointly prepare specific quarterly benchmarks for the upcoming fiscal year. *Benchmarking* provides the entrepreneur with a continuous business improvement tool that evaluates performance and competitive advantage at each stage of the company's growth.
- ❖ Businesses' *revenue growth*, including financial transactions in the form of loans, lines of credit and equity financing will be bolstered and monitored.
- ❖ *Financial matches and partnerships* that lead to growth or procurement activity will be supported and monitored.
- ❖ *Job creation potential*, for full-time and part-time positions, will be a key component of admissions and graduation policy.
- ❖ *Length of time at the incubator* will vary, but should be less than three years. While most business incubators permit clients to remain for three to five years, many are focused on high-tech companies trying for an IPO and don't want to force graduation for fear of losing temporary rent.

Since high demand for the incubator space is expected, graduation should be focused more on policy and less on the comfort of having a stable tenant. The goal should be to graduate businesses that are able to succeed in the private market, having used the service to develop their operating capacity. It is also important that the service of the incubator be made available to new incubatees and that it not be a permanent home for particular clients.

IX. DEVELOPMENT & OPERATIONS

Deciding where and how the business incubator will be located is important as location will facilitate customers, business supply, and delivery access for the businesses located within the incubator. Based on general feedback from interviews and conversations with people familiar with New Orleans, the Bywater and Upper Warehouse districts represent ideal incubator locations. A substantive and in-depth analysis will help to inform whether these districts offer the best, strategic location with appropriate pricing, existing commercial building stock and

parking options. Additionally, these initial considerations will ultimately be determined by a “holding” decision, which is guided by a real estate and financial feasibility analysis. The central question to be considered here is whether the incubator will seek to lease, buy or construct a new building.

A leasing option may provide the most financially feasible opportunity as the incubator launches its operations. This will add flexibility as the incubator stabilizes and adjusts to actual local business demand in a post-Katrina environment. Moreover, as partnerships with local universities and services providers formalize, it will be important to explore possible needs and sitting opportunities with them. It is expected that as the incubator operations and budget structure matures, it will consider buying an existing building or possibly constructing its own facilities. Each of these options come with their own strengths, and depending on the incubator’s growth and management capacity, one may provide greater advantages than the other.

A development analysis is provided below which is based on a new construction approach. Based on this analysis, new construction is estimated at about \$4.9 million, or \$166 per square foot. This assumes market rents for Class B office space of \$10 psf. In gathering and corroborating our information with local real estate personnel, we found that there is very little in New Orleans Parish that could accommodate 30,000 square feet of office space. In addition, real estate in the New Orleans is currently undergoing significant flux and an accurate per-square-foot rate is hard to pin-point.

A. Development Costs

No specific building has been disclosed as the target of purchase for the incubator, as doing so would create speculative appreciation. However, general characteristics and costs can be estimated. The City does not have any buildings in its existing inventory and would likely acquire a 30,000 – 40,000 SF building in the Upper Warehouse or Bywater Districts. The following tables explain the potential space allocation within an assumed building of 30,000 square feet. Other assumptions were also made, such as the average space per incubatee of 500 sf and the breakdown of common space. In particular, the values below assume 3,800 sf for the service providers, yet if they need more then the total space available for clients could shrink. The current total incubatee capacity is 29 clients, but this could be reduced if needed.

Space Allocation		
Office/Flex Space	SF	
Total SF		30,000
Total Usable	80%	24,000
Common Space	20%	4,800
Management Space	4%	1,000
Service Providers	16%	3,800
Incubatee Space	60%	14,400
Incubatees		
Avg Space Reqd	250	sf/employee
Avg Employees	2	
Avg Space/Business	500	
Number of Incubatees	29	

Common Space	SF
Conference Ctr (1 rm , 75 capacity)	1,875
Meeting Rooms (3 rm, 20 capacity)	1,375
Computer Lab	900
Kitchen /Special Use	650
Total Common Space	4,800

With the assumed 30,000 square foot building described above, typical development costs would be approximately as follows:

Anticipated Development Costs (30,000 Sq Ft)*	Amount	Per SF
Land Acquisition	\$2,000,000	\$66.67
Hard Costs	\$2,258,500	\$75.28
Soft Costs		
Contractor Overhead/Profit	\$564,625	\$18.82
Architectural Fees	\$173,574	\$5.79
Total Development Costs	\$4,996,699	\$166.56

*Source: RSmeans QuickCost Estimator, Mid-level Development Estimate

B. Operating Cost

Annual operating costs would be roughly the following for both the development and building purchase options. For the master lease with subleases to the incubatees system, operating costs would include rent which would be approximately \$240,000. However, this would also substantially change the funding scheme and depend more heavily on operational grants from CDBG and foundation sources.

Operating Expenses	Budget	% of Total
Salaries and Benefits	\$155,400	62%
<i>1 F/T Exec Dir @</i>	\$72,000	-
<i>1 F/T Proj. Coord @</i>	\$32,500	-
<i>1 F/T Office Support @</i>	\$25,000	-
<i>Benefits @ 20%</i>	\$25,900	-
Telephone	\$6,000	2%
Office Expenses and Maint	\$7,500	3%
Supplies	\$8,000	3%
Travel Expenses	\$4,000	2%
Advertising	\$4,500	2%
Miscellaneous	\$4,000	2%
Office Equipment	\$2,000	1%
Occupancy Costs	\$21,600	9%
Printing	\$1,500	1%
Postage & Messenger	\$1,000	0%
Contingency (5% of Total Operating Expenses)	\$10,775	4%
TOTAL OPERATING EXPENSES	\$252,175	100%

X. SOURCES

As mentioned above, sources would change from a capital to operational structure if the purchase or develop options are not pursued. This would eliminate the NMTCs and change the types of CDBG, state, federal and foundational funds. While the development option is presented below, operational subsidies and grants from these sources are also probable.

A. Development Sources

Sources of Capital	
City of New Orleans CDBG - Special Allocation	\$ 996,699
Louisiana Economic Development	\$ 1,000,000
Federal EDA	\$ 1,000,000
New Market Tax Credits - Special Allocation	\$ 1,000,000
Foundations	\$ 1,000,000
Total	\$ 4,996,699

As of April 2006, the State was planning to use \$350 million of their special CDBG allocation for economic development as per the following breakdown. While these categories,

funding amounts and their eligibility criteria are still in flux, the City of New Orleans should easily be able to garner \$1,000,000 for development cost subsidy. Another option would be to use HUD-108 guarantees to borrow against future CDBG allocations.

State CDBG Monies for Economic Development	
<i>Category</i>	<i>Amount (in millions)</i>
Bridge Loans	\$ 100
Long-term Recovery Loans	\$ 90
Risk Pool for Limited-Equity Borrowers	\$ 20
Technical Assistance	\$ 40
Workforce Training	\$ 40
Marketing	\$ 30
Higher Education	\$ 30
Total	\$ 350

Foundation funding can come from a variety of sources. The large-scale foundations such as Sorros and Rockefeller are giving through the Greater New Orleans Foundation while others like Ford are still looking for investment opportunities and sectors. Besides the well known and large-scale national foundations, the following groups could be tapped for the incubator project and have been known to fund economic development in the past. They include: Bush-Clinton Katrina Fund, Baptist Comty Ministries, Entergy Foundation, Rosa Mary Foundation, Ella West Freeman Foundation, and the Foundation for the Mid South. Additionally, United Nonprofits and the Louisiana Association of Nonprofit Organizations (LANO) would likely support the formation and needs of the incubator nonprofit. The total pool of available funds from these foundations is over \$45 million.

With total development costs at approximately \$5 million, the New Market Tax Credits could raise approximately \$1 million. Under the leverage model investors agree to place their funds in a separate legal entity for that entity's equity contribution to eligible. Current law provides a new markets tax credit for a qualified investment in a qualified community development entity equal to five percent in the year of investment and the following two years and equal to six percent for the following four years. CDEs are any domestic corporation or partnership whose primary mission is serving or providing investment capital for low-income communities that is certified by the Secretary as being a qualified CDE. The maximum amount of qualified investments is capped at \$2 billion per year for calendar year 2005 and at \$3.5 billion per year for calendar years 2006 and 2007. However, the Gulf Opportunity Zone has been

allocated an additional \$300 million of NMTCs for 2005 and 2006, and an additional \$400 million for 2007.

The general rule of thumb among NMTC practitioners is that under the leverage model, 20 percent of the eligible costs can be considered grant equity. There must be a nominal return per IRS law, but it can be as low as one percent. Of course, the investors realize their return from the tax credits directly as well as passive losses through depreciation. To access the NMTCs, the City should identify the local qualified community development entities (CDEs) who are legally entitled to apply for credits and receive them for disbursal.

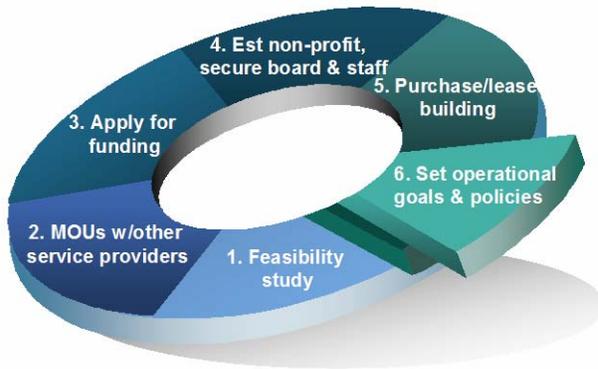
B. Operating Sources

Operating Income				
Rental				
Service Providers	\$	8	\$ 27,360	10% vacancy
Incubatees	\$	10	\$129,600	10% vacancy
		<i>total</i>	\$156,960	
Other				
External Conf Space Use	\$	2	\$ 9,600	
External Services		7%	\$ 10,987	5% of Rental Revenue
		<i>total</i>	\$ 20,587	
Grants			\$ 74,628	
Total			\$252,175	

With market rate rents conservatively estimated at \$10 psf with the service providers paying \$8 psf, the total rental income is projected at \$156,960 including a 10 percent vacancy rate. However, depending on the current rental and financial situation of the two SBDCs and Good Work Network, their rent could be increased to market rate as well. Additionally, rates will rise with the market and adjust at each lease renewal accordingly. Other income sources include the provision of external services to non-incubatee entrepreneurs and the use of the incubator's conference space by external organizations. Lastly, grant sources from either public or foundation sources would fill the gap.

XI. NEXT STEPS

The Mayor's Office of Economic Development should use this report to build partnerships and garn funds for the incubator.



Specific next steps include establishing memoranda of understanding with the other business service providers, applying for funding from the state, federal government, new market tax credit recipient bodies and local and national foundations. This should be followed by establishing the board of directors, hiring the executive director, marketing, and designing specific admissions, management, and graduation policies once operational.

The small business incubator will play a vital role in the economic revitalization of New Orleans. With roughly ten firms graduating per year, the City can expect job growth from the incubator alone of at least 20 employees and a subsequent gain in local tax revenue. Moreover, the incubator will also help it to stay competitive with other cities throughout the United States. Indeed, as cities across the US have seen the power of incubators to develop resident businesses, the number of total incubators has boomed and now totals over three hundred. By nurturing fledgling firms into healthy and thriving small businesses, the City of New Orleans will create an economically amenable environment for entrepreneurs while yielding numerous fiscal and social benefits to the City.

XII. APPENDICES

Appendix 1. Interviews

- *Mayor's Office of Economic Development* – Don Hutchinson, Ashleigh Gilbert, & Joan Judycki
- *Idea Village* – Tim Williamson
- *Louisiana Technology Center* – Lee Pryor
- *Louisiana Grants Office*
- *Louisiana Recovery Authority*
- *Tulane, AB Freeman School of Business* – John Elstrott
- *Loyola SBDC* – Carmen Sunda
- *UNO SBDC* – Alice Kennedy
- *Good Work Network* – Phyllis Cassidy
- *Louisiana Business Technology Center* – Roy Keller and Bryan Greenwood

Appendix 2. Sample Business Education Seminar Series

LTC/LED Recovery Center Seminar Series by Lee Pryor

- Business plans and successful strategies for growth
- Sources and ideas for raising cash
- Practical accounting and cash flow practices
- Sales and marketing techniques
- Technology transfer and copyright issues
- Finding, hiring, and motivating employees
- Proven best management practices
- Advances in communication technologies
- Proper use of the latest in information technology
- Website optimization

Appendix 3. NBIA's 1998 State of the Business Incubation Industry Findings

Incubator Services

Percent of Incubators Offering Various Services

(n=270 for business assistance and general office services combined)

	# of incubators offering	% of responding incubators that offer
Business Assistance Services		
Help with Business Basics	249	96
Marketing Assistance	232	89
Accounting/Financial management	200	77
General Legal Services	122	47
Intellectual Property Management	97	37
Help with Access to Commerc. Loans/ Loan Funds/Loan Guarantee Programs	201	77
Management Team Development	114	44
Shadow Boards/Mentoring Programs	109	42
Investor/Strategic Partner Linkages	151	58
Affiliate Programs	163	63
New Product Assessment	106	41
Management Information Systems	66	25
Manufacturing Practices Assistance	97	37
Product Design Assistance	59	23
Networking Activities	224	86
Technology Commercialization	105	40
Links to Higher Education Institut.	197	76
Help with Regulatory Compliance	80	31
International Trade Assistance	110	42
Federal Contract Procurement Asst.	113	43
Comprehensive Business Training Prog	127	49
General Office Services		
Conference Room	238	92
Custom Equipment/Custom Leasing	116	45
Shared Administrative Services	229	88
Video Conferencing	50	19
Telephone System/Phone Answering	170	65
Internet Access	162	62
Computer Labs	103	40

The numbers show that a high percentage of incubators do offer a wide range of business assistance service. Almost every incubator offers help with getting business basics in order (such as the business plan and pro formas) and the vast majority offers networking opportunities and help with marketing. More than three-quarters gave help with accounting and financial management, assisted clients with getting loans from conventional or unconventional sources, and linked clients to higher education resources.

There were also impressive numbers of incubators offering the more specialized services. Well more than half the incubators helped clients find investors or strategic partners, for instance, and 42 percent offered international trade assistance.

The general office services held a few surprises. Although we suspected incubators were wiring for the future, we did not foresee the extent. Almost two-thirds of incubators offer Internet access now (nearly as many as offered telephone and answering services) and about one-fifth offer video conferencing. Only 40 percent had computer labs, (in the 1989 survey, 55 percent of respondents said they provided access to "sophisticated computer processing" elsewhere; computer labs weren't mentioned) but incubators informally report that entrepreneurs often have computer equipment or purchase it early in their life cycles rather than rely on the incubator for this resource.