



City of Rochester, New Hampshire

Economic Development Department
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Date: March 23, 2011

To: Mayor and City Council, REDC Members, RMS Board,
Bob Steele, Interim City Manager, Ea Ksander, Community Development
55 North Main Street Incubator Committee

Re: 55 North Main Street Incubator Feasibility Study

From: Karen Pollard, Economic Development Manager

The 55 North Main Street Incubator Feasibility Study is complete, and includes a lot of good information about the project as well as some financial projections regarding start up and operational budgets.

Some of the important points:

1. There are successful incubators in other communities that can serve as operational models for this project. In particular, the Springboard Shoppes in Newton, New Jersey are succeeding in revitalizing their downtown district with unique new retail businesses.
2. There is significant community desire and demand for this kind of space in Downtown Rochester. Public meetings as well as surveys brought in specific feedback on the kinds of businesses and spaces that are needed. A shared arts retail space, fine crafts outlet and a coffee shop concept were encouraged.
3. The commercial kitchen portion of the project does have some demand, however a more cost effective solution would be to collaborate with the Richard W. Creteau Technology Center on utilizing the school's culinary program space in the off hours or for workshops.
4. There is a demand for meeting space with installed presentation equipment and video conferencing capability. This space would be used for training and development of entrepreneurs, but could also support businesses and non-profits with occasional needs for this equipped space. It could provide some rental revenue under certain circumstances.
5. Advisory board members were identified and include professionals from many fields such as finance, law, insurance and marketing. The advisory board would support the businesses in the incubator as mentors and counselors and provide the benefit of their experience to the entrepreneurs.
6. There are strong educational partners for the project including Richard W. Creteau Technology Center, Granite State College, Great Bay Community College, SCORE, and the Small Business Development Center. These partners would be part of the preliminary as well as continuing education component related to the project.

The challenge to the project is the building itself. We can get creative with donations, labor and sources of funds, as this project will be a significant investment of talent and money. We have a

number of choices to make which will affect the final cost of the improvements, as well as determine ongoing operations. This project will require multiple sources of funding. In order to use this building for the project we will need to meet with the owner to discuss more participation by the ownership group in some of the deferred maintenance items, such as asbestos mitigation and roof replacement.

Next Steps:

1. Begin hosting Entrepreneurial Boot Camps at least twice annually to identify and prepare potential businesses for the incubator. In addition, some of these entrepreneurs will be able to start their venture prior to having incubator space available. Mary Ellen Humphrey of the Economic Development Department is putting the first event together for May 2011. It will be sponsored by Holy Rosary Credit Union and there will be no cost to participants. The program will include an overview of the start up process by SCORE and SBDC.
2. Meet with representatives of the ownership group, most likely Phil Haughey Jr., to review the report's findings and to see what further participation they can provide. There are some financing tools available to owners to offset these costs, such as tax credits or 79e Revitalization Credit that they should be made aware of.
3. Work with the owner to get a better handle on start-up cost items such as the asbestos mitigation, roof replacement and damage done by water.
4. Complete a cost/benefit analysis of various HVAC systems and their cost over time. The current oil heating system is not functioning and options run the gamut from possibly repairing the old system or replacement with a high-efficiency gas one.
5. Meet with funding source representatives about the project and put together timelines for possible grants or applicable programs. Get the project on the radar of state, local and federal legislators.
6. Continue meetings by the committee every other month; add some of the advisory members to the group. Keep them involved and engaged, and helping with project tasks.

We have included this project on the list of economic development priorities in the Strafford Region Certified Economic Development Strategy (CEDS) process that is underway now and being coordinated by Southeast Economic Development Corp. and the Strafford Regional Planning Commission. Once the CEDS is approved it could open new avenues of funding through federal programs as well.

The CDBG Budget for the current year includes a line item for this project. I recommend that the funds be reallocated to other projects because it is unlikely that this project will move to the next phase quickly.

The report is available in electronic form through our website www.thinkrochester.biz in the upper right-hand corner under Library, then Reports & Presentations.

55 NORTH MAIN STREET INCUBATOR FEASIBILITY STUDY

COMMUNITY INVESTMENTS

South Strafford, VT

ATC Associates, Inc.

Manchester NH

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COMMUNITY INVESTMENTS
55 North Main Street Incubator Feasibility Study

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55 NORTH MAIN STREET INCUBATOR FEASIBILITY STUDY

EXECUTIVE SUMMARY

PROJECT BACKGROUND

Over the course of three weeks, from October 6 to October 21, 2010, the COMMUNITY INVESTMENTS team toured 55 North Main Street, held meetings with City officials and staff, community leaders, representatives of educational and technical providers, local and regional organizations that were interested in being involved in the project, and potential incubator tenants. Meetings were followed up by a survey testing the market for the incubator and research into the feasibility of the project.

It became clear that 55 North Main Street has a meaning to the community that goes beyond its long term vacancy and that bringing it back to productive use would have a positive impact on perceptions of the downtown.

In terms of building location and configuration: the building lends itself to a layout that would support an effective retail incubator, with access from the front of the building and to a substantial parking lot at the rear. It would be complemented by the two buildings on either side of it that have had significant aesthetic improvements.

Condition of the building: the building shows the effects of many years of deferred maintenance which will require significant resources to correct, as well as code deficiencies often found in older buildings, although it does not seem to have any serious environmental issues. However, it is beneficial that this historic building has not seen much in the way of inappropriate remodeling and therefore would retain its eligibility for historic tax credits to the owner to help finance renovations.

PROJECT VISION AND GOALS

In conducting the research for this project, the team came across a retail incubator in New Jersey, Springboard Shoppes, which has similar vision and goals to the ones emerging for 55 North Main Street. Below, from their website (www.springboardshoppes.com), is their description of “How it Works”:

How it Works; the Basic Requirements

If you are selected as part of the incubator, it means that the committee thinks your business plan is likely to be successful. Assuming you decide to proceed, here is how the incubator will work. Rental of your unit will begin at \$315 to \$385 per month, depending on size and location. There is an option of signing up for double units. The rent will include heat, air conditioning, Spring Street window display space, town permits, electric, secure wireless or wired Internet connection, fire/burglar alarm, and group advertising.

Rents are due in advance with a three month deposit. You can decide to leave the incubator with three months' notice. This could occur because you wish to move up to your own storefront, your business is not thriving, or any other reason. You can sell your business to another party, but the committee must approve the new owner before they can take over the lease.

We expect no one to stay in the incubator for more than three years. Our purpose is to give you a chance to begin a retail business in Newton at a reduced entry cost, to give you a supportive

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environment to establish your clientele, and help with a smooth transition to your own individual or shared storefront on or before your third anniversary.

Your rent will increase on each anniversary so that your eventual move out will not be too great a financial shock, and you can determine that you will be able to afford to go on your own. This will also help subsidize the new first year tenants.

The incubator store hours will be 11 AM to 7 PM, 7 days per week. You can hire your own associates so that you can get away from time to time. If there is enough interest, we will hire a roving assistant so you can schedule regular time away.

It is important that all stores be open during these hours so that people begin to know that Newton's Spring Street is open for business. Our local restaurants do a very good evening business, and retailers are beginning to discover that folks often browse and shop after a meal out.

Our most successful new retailer has discovered that her Sunday and Monday clientele is different from those that shop on other days. So SPRINGBOARD will join her to take the lead in developing Spring Street as the local alternative to the mall.

We will expect all of our incubator members to maintain an attractive, well merchandised space, which contributes to the feeling of an upscale shopping experience, with unique products and/or special attention which will draw customers back.

Spring Street is developing this image, with some attractive new shops, upgrades of existing shops, art galleries, and some excellent restaurants. There are opportunities to build on this beginning. We hope you'll join the SPRINGBOARD SHOPPES and will help continue the development of this thriving local downtown.

Springboard also has an application form for potential tenants tailored to retail tenants that would be a good model for 55 North Main Street. The application includes a floor plan, which seems to show a facility of similar size as well. The application can be found at:
www.springboardshoppes.com/ReadinessAnalysisForm.html

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PROJECT FACILITY COSTS

Three scenarios were developed to determine costs for bringing the building up to code and ready to be fit up and occupied. The first alternative was developed by the engineering firm of ATC associates and represents a comprehensive analysis of all code and environmental issues. Costs are estimated based on industry averages and was completed in November 2008. The second alternative is a more limited assessment of the facility by local contractor Budel/Planet and has been augmented with ATC estimates where necessary. The assumption is that the difference in the two estimates can, at least in part, be attributed to the additional 2+ years' deterioration of the vacant building. The third alternative takes the ATC alternative but reduces it by those costs that seem appropriate to be paid by the owner. The three alternatives appear in the table below.

Capital Requirements	Capital Needs As Estimated By:			
	ATC	Budel/Planet		ATC less Items
	Associates	2008 (Note 1)		Paid by Owner
	(#1)	(#2)		(#3)
Repair exterior walls	50,000		50,000	50,000
Replace two windows	3,000		3,000	3,000
Repair roof	80,000	Construction/Roof	75,000	80,000
Restrooms/domestic water supply	100,000	Plumbing (Note 2)	15,000	Note 4
HVAC system	200,000	HVAC	50,000	Note 4
Upgrade electrical system	50,000	Electrical	55,000	Note 4
Install sprinkler system/life safety facilities	100,000	Fire Alarm	10,000	Note 4
Replace walls and ceilings	100,000	Sprinkler	60,000	100,000
Fix leaks in walls	100,000		100,000	100,000
Remove asbestos-containing materials	40,000		40,000	Note 4
Repair leak in above ground oil storage tank	3,000		3,000	3,000
Inspect for lead paint and PCBs	5,000		5,000	5,000
		Sign/Security	15,000	0
		Contingency	68,000	0
	831,000		549,000	341,000
Interior Finishing for End Use				
Assume \$50 per square foot (Note 3)	300,000		120,000	120,000
Total Estimated Cost	1,131,000		669,000	461,000
Note 1: Where Budel/Planet did not provide estimate, ATC Estimates are used				
Note 2: Plumbing costs may be reduced with assistance from Creteau training program				
Note 3: Interior finish in scenarios 2 and 3 assumes used or donated room partitions				
Note 4: Assumes investment by owner in basic habitability and usability infrastructure.				

In addition to the building upgrade costs discussed above, an additional \$350,000 is estimated as the cost for fit up of the building, using an estimate of \$50 per square foot for this work for the 6,000 square foot main floor plus \$50,000 in miscellaneous administrative and fundraising costs.

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FINAL REPORT

PROJECT BACKGROUND

In May of 2008 the Rochester Community Development Specialist Ea Ksander wrote a concept paper to support a proposal for developing a downtown incubator, which had first been developed in 2006 by Rochester Economic Development staff. The paper included the following as reasons for this proposal:

- ✦ Interest on the part of city staff, the city's economic development manager and representatives of the SBDC and the Rochester Main Street program to meet newly emerging economic development needs and organizational goals.
- ✦ Interest in finding a better way to respond to and support economic development needs that were in demand and not able to be met by matching them with the objectives of the CDBG program.

The result was a decision to look at a new way to continue to support the establishment, stabilization and expansion of small businesses.

This led to the concept of the Downtown Incubator project. Using the Downtown chapter of the city's master plan (2003) and the Rochester Economic Development Strategic Plan (2006) as guides, it was clear that a focus on the downtown was warranted.

Anticipated highlights of such a plan were:

- ✦ Control of, and improvement to, the most notorious vacant storefront – the Hoffman Furniture Store, 55 North Main St.
- ✦ Access to incubator participation would be placement via a business plan competition reviewed by a diverse and knowledgeable committee.
- ✦ Development of a personalized 'graduation plan' with a clear timeline of business development skill building targets and realistic exit points from the program (opening up space for future tenants).
- ✦ Expectation that businesses incubated in the downtown will become familiar with and enjoy the downtown community and its benefits, and will be more likely to graduate to market rate space nearby.
- ✦ Participation by the businesses in the Chamber of Commerce.
- ✦ Participation in joint marketing and Main Street events, fostering community stewardship and good business relationships.
- ✦ Willingness of the REDC to act as leaseholder; the Main St. program to act as resident manager; and the SBDC to provide technical resources, support and oversight of the incubator businesses.
- ✦ Correction of code violations and improvement of exterior features are allowable activities under the limited scope of commercial/industrial rehabilitation activities permitted by the CDBG regulations. HUD's national objectives and demonstration of public benefit are satisfied by the elimination of blight in a low-mod income area.
- ✦ Visibility of the health and vitality of emerging Rochester businesses and the Main Street program.

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COMMUNITY INPUT

Over the course of three weeks, from October 6 to October 21, the COMMUNITY INVESTMENTS team toured 55 North Main Street to assess its deficiencies and possibilities, held meetings with City officials and staff, community leaders, representatives of educational and technical assistance providers, local and regional organizations that were interested in being involved in the project and, potential incubator tenants.

Meetings October 6

The focus of the October 6 meetings was to conduct a site visit for the consulting team and the Rochester project committee. The first meeting on October 6 was at the 55 North Main Street site. It included Christine Whetstone and Kevin Drinan from ATC Associates who are conducting the general suitability of the facility and doing an “enviro” transaction screen, project manager Jill Michaels from CI, Karen Pollard and Samantha Rodgeron from the Economic Development Office, City Councilor Chuck Grassie, and Michael Provost from Rochester Main Street.

The initial tour of the building confirmed what was already known by the project’s designers -- that the building had an antiquated heating and plumbing system, no air conditioning, the environmental concerns normally found in a building of that age, inadequate bathrooms, no handicap access to the basement, and, other potential code issues if the basement were to be used.

The second meeting was with members of the project advisory committee including: Mike Provost, Director Rochester Main Street; Warren Daniel, NH SBDC Seacoast Regional Manager; Ea Ksander, Rochester Community Development Specialist; Gerry Gilbert, Profile Bank, Board Rochester Main Street, Rochester Chamber of Commerce; Mary-Jo Monusky, owner artstream, REDC; Wayne Chick, Fosters, REDC; Chuck Grassie, City Councilor. This meeting gave CI the opportunity to brief the advisory committee on the work CI would be doing and to get suggestions and direction for the committee. The committee helped Jill develop the foundation for the meetings to be held the following week by helping to answer three questions:

1. Why locate at 55 North Main Street?
 - ✦ Address negative perceptions about Main Street through addressing this specific site
 - ✓ Long term vacancy (20+ years)
 - ✓ Representative of disinvestments in Rochester’s Main Street
 - ✓ Self esteem issue: “Rochester Main Street not worth saving”
 - ✦ Build on positive attributes of the site
 - ✓ Central location
 - ✓ Off-street parking
 - ✓ Buildings on either side have been significantly improved
 - ✓ Opportunity to turn a long-term negative into an exciting positive

2. What is the vision for 55 North Main Street?
 - ✦ Restore and fill a long term vacant Main Street building
 - ✦ Assist new entrepreneurs in developing their businesses
 - ✦ Provide stable, economically viable tenants for Main Street building owners
 - ✦ Keep businesses in Rochester’s downtown that might otherwise have gone someplace else
 - ✦ Support concentrations of businesses already beginning to aggregate in Rochester
 - ✦ Arts
 - ✦ Crafts/woodworking
 - ✦ Specialty foods

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3. What are the Next Steps?

- ✦ Meet with current Main Street businesses in group meetings and some one-on-one during the month of October
- ✦ Meet with potential technical assistance providers
- ✦ Identify potential incubator tenants
- ✦ Distribute brief questionnaire widely to test:
 - ✓ Market for the incubator space and concept
 - ✓ Community support for the project
- ✦ Assess suitability of the site
- ✦ Develop budget and proforma for the project
- ✦ Present feasibility study to City Council in December

Meetings October 13

The focus for October 13th was (1) to meet with potential tenants and artist groups and (2) to hold a public meeting. Jill Michaels was joined by team member Paul Denton for these meetings. The goals of all three meetings were essentially the same – to outline the rationale and vision for the project as described above and to begin developing interest, support, and a data base of both potential tenants and potential technical assistance providers for the project.

Once the concept was described, meeting attendees were asked to give their feedback on the project concept and vision. Suggestions and comments from attendees included:

- ✦ Make rent affordable
- ✦ Look for potential incubator referrals from banks
- ✦ Recruit a diverse group of businesses. Suggestions included:
 - ✓ Kitchen store
 - ✓ Food/commercial kitchen
 - ✓ Studio space with a retail component
 - ✓ Coffee shop
 - ✓ Apparel
 - ✓ Books/cds/music/newspapers and magazines
 - ✓ Wifi hotspot
- ✦ Look at successful incubators like Hannah Grimes Marketplace
- ✦ Also look at successful art/craft co-ops like the League of New Hampshire Craftsmen
- ✦ Use incubator experience to create strong tenants for area landlords
- ✦ Provide a microloan pool for the tenants and other Main Street businesses
- ✦ Set opening and closing times that are responsive to the rhythm of the community.

Businesses who attended the meetings were asked to fill out a survey while they were there. Three of them did – a bakery and a web designer who had home based businesses and a textile designer who wanted to take her hobby to the next level. In addition, the artists who attended the luncheon meeting provided insight into the challenges of providing studio space for them (although they thought that a retail outlet might be useful). As one artist pointed out: “Artists are smelly, noisy and dirty.” Survey results appear later in this report.

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Meetings October 21

The focus for the October 21 meetings was to gather information and test the waters for assistance from local businesses, educational institutions and other service providers. Jill Michaels was joined at these meetings by Al Zielenski, an educator with significant experience in the technical high school and community college arenas.

The first meeting (and one-on-one meetings that followed with local businesses) were held to measure interest in:

- ✦ Serving on the board of advisors to assist in screening incubator tenants and providing other technical assistance.
 - ✓ Bankers were interested in working with incubator technical assistance providers to develop programs that would get incubator tenants creditworthy for bank loans.
- ✦ Providing specific assistance related to their area of expertise/product
 - ✓ Metrocast agreed that they might do a “how to do TV marketing” workshop as well as assist in planning for using the basement of the incubator as a conference room/training center with taping and teleconferencing facilities to increase available city meeting space and encourage more foot traffic.
 - ✓ A local café/bakery/catering business expressed serious interest in managing a coffee shop in the facility as a satellite to its current operation
 - ✓ A local retail business was interested in assisting incubator retail businesses to develop complementary, not competing, Main Street businesses.

The second meeting was attended by representatives from area educational institutions, technical assistance providers, and the state’s economic development infrastructure. These professionals identified the following needs for new and small businesses:

- ✦ Affordable rent
- ✦ Training/technical assistance in “how to run a business”
- ✦ Access to credit
 - ✓ Specific gap between loans of \$15,000 and \$50,000
 - ✓ Access to microcredit lending program
- ✦ One-on-one business assistance
- ✦ Wifi/internet cafe
- ✦ Place to hang out – the “water cooler effect”

Two specific areas for further study/potential partnerships that resulted from this second meeting were:

- ✦ Research into a relationship with Creteau Technical Center for:
 - ✓ Use of their commercial kitchen, outside of school hours, by incubator tenants and other small food producers in Rochester
 - ✓ Technical assistance and perhaps training from the culinary instructor and students to a commercial kitchen program for those using the kitchen

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- ✓ Assistance from the plumbing program in work needed to rehabilitate the incubator facility
- ✓ Assistance from IT interns to incubator tenants

- ✦ Development of training/technical assistance program as a collaboration between Granite State College and the Seacoast Small Business Development Center
 - ✓ Conduct periodic “boot camps” to provide intense, short-term training for Rochester entrepreneurs on important business topics – at GSC before the incubator opens and then either at the incubator or GSC once the incubator is in operation
 - ✓ Assist entrepreneurs in accessing existing business and other appropriate classes at GSC
 - ✓ Provide opportunity for students in the Management Program to focus their project-based courses on incubator related topics (for example, students have conducted an analysis of area inns)

Additionally, attendees to meetings suggested:

- ✦ Develop programs and services that could respond to the poor economy such as meeting/ training space for trades people, perhaps in the basement space
- ✦ Build a video recording studio in the basement
- ✦ Develop space for small businesses to use as offices on a rotating/shared basis
- ✦ Organize easy access to one-on-one business assistance from the Seacoast SBDC
- ✦ Look into the possibility of getting construction labor donated to rehabilitate 55 North Main Street by local trade companies in return for free advertising. A community effort – something akin to “Extreme Makeover – Home Edition”.

As part of the research for the Feasibility Study, first a hard copy and then an online survey were created. The survey included questions about business experience and left room for comments on possible tenant mix and the project in general. Twenty-eight individuals answered the online survey. An additional 3 people answered the hard copy survey. The online survey results are summarized here with periodic comments added from the hard copy survey.

Notification of the online survey was sent out through several means, so as to get a varied amount of public response. It was mentioned in a press release in Foster’s, a link was listed on both the Economic Development Facebook page as well as the new 55 North Main Street Incubator Facebook page and it was also sent out as an email to various groups of people. Results and analysis of the survey appear in the section on Market Feasibility.

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ECONOMIC FEASIBILITY

Financial elements related to capitalizing costs of the building renovation

The costs, in the table at the bottom of this page, have been identified by the engineering firm ATC Associates as needed to insure that the building is safe and code compliant.

After completing these improvements, there will still be a need to provide for the interior fit-up of the space. This could vary significantly based on the ultimate end use. Since so much of the building infrastructure would be completed as part of the safety and code compliance work described above, the interior fit-up would probably be mainly partitioning (either by framing or use of portable partitions), electric and data service distribution wiring, and possibly some HVAC distribution mechanism. The cost per square foot to accomplish this interior work should be substantially less than if it included major infrastructure.

Using an estimate of \$50 a square foot for this work for the 6,000 square foot main floor yields an additional cost of \$300,000 to make the main floor suitable for use as an incubator. This figure could vary depending on the ultimate end use, but is considered reasonable for framing out average sized offices and retail spaces. Design of the framing and space could also affect the cost; more elaborate designs could cost much more, barebones design for partial tenant fit-up could cost less. If the City uses new moveable/removable partitions, costs could be the same as framing. We would suggest looking for used, perhaps even donated partitions, which could significantly reduce this cost.

The total estimated cost to develop the incubator is therefore \$1,131,000. To this, it is recommended that you add \$50,000 for fundraising, interim costs, permits and miscellaneous expenses. Some incubators have exceeded this almost astronomically, but this was mostly due to failure to plan, unrealistic expectations and poor execution. The \$50,000 should be enough. The total development cost estimate is therefore **\$1,181,000** or in round figures, \$1.2 million.

No estimate is provided for fit-up of the basement area. Lack of adequate egress facilities probably means that this space cannot be used for much more than logistical support of the first floor tenant operations. If it is to be used for merchandise storage, additional costs will be needed to provide for security.

Component	Estimated Cost
Repair of exterior walls	\$50,000
Replacement of two windows	3,000
Repair of roof	80,000
Installation of restrooms and domestic water supply system	100,000*
Installation of new HVAC system	200,000
Upgrade of electrical system	50,000
Installation of fire suppression sprinkler system	100,000
Replacement of panels in walls and ceilings	100,000
Repair of water leaks in walls	100,000
Removal of asbestos containing materials	40,000
Repair of leak in above ground fuel oil tank	3,000
Inspection for lead based paint and polychlorinated biphenyls	5,000
Total renovation cost identified by ATC Associates	\$831,000

* If the City is able to take advantage of using Creteau Tech Center students to do plumbing work, the \$100,000 cost for “installation of restrooms and domestic water system” could be significantly reduced.

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Possible funding sources for improvements, energy efficiency, LEED certification

Incubators in New Hampshire have generally been developed using some combination of the following sources:

Potential Funding Source	Limits	Special Eligibility Rules
Rochester CDBG/State Pool	\$300,000	Meet HUD rules
State CDBG	\$500,000	Must have committed entitlement community funds before applying
CDFA Tax Credit Program	None; but usually less than \$500K and what can be marketed	Must benefit low income populations. See www.nhcdfa.org
US Dept of Commerce, Economic Development Administration	50% of project	Must be in an "Economic Development District" recognized by EDA.
US Department of Agriculture; Rural Business Enterprise Grant	\$10,000 to \$500,000	Need to qualify as 'rural' by USDA definition. May be negotiable.
Special appropriation through member of congress	No limit but usually \$250K to \$750K	Should be requested in January or February.
New Markets Tax Credit	39% of "qualified investment"	Very complex; expensive to structure, favors large projects of \$3 million plus.
National park Service; Internal Revenue Service Rehabilitation Historic Tax Credit	20% of qualified rehabilitation expenses	Can only be claimed by "owner", requiring a pass through entity to be established.

Community Development Block Grants. Rochester is an entitlement community and controls its own allocation of this HUD resource. Other communities gain access to this funding through the Community Development Finance Authority. Rochester's total entitlement allocation is \$300,000 so, depending on Rochester's priorities, some portion of the capital funding for this project could come from this source, perhaps augmented by funds from the state pool.

Community Development Investment Program. Another program of the Community Development Finance Authority, this program provides tax credits to projects on a competitive basis. It requires private sector participation. The program works by providing 75% credits against the Business Profits tax, Business Enterprise Tax and Insurance Premiums Tax. For example, a business, which invests \$100,000 in an eligible project, would receive \$75,000 in credit against these taxes. The \$25,000 difference is ordinarily deductible for federal income tax purposes and usually results in the net cost after taxes to a donor being in the 12-15% range of the amount donated. Many donors have been commercial banks, which have considered the net outlay a cost of complying with the Community Reinvestment Act.

Donors, obviously, need to be profitable and able to use the credits to reduce their tax liabilities. Incubators have generally done well in competing for tax credits. Marketing the tax credits can be difficult. If Rochester wishes to use this mechanism to help in funding the incubator development, it

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would be best to approach potential donors before going through the application process to assess the level of interest in making donations.

The amount of credits available to a project depends largely on demand. Every year the Community Development Finance Authority (CDFA) receives \$5 million in tax credit capacity (\$3.75 million in actual credits) from the General Court. The credits are awarded to CDFFA on a use-it-or-lose-it basis. There is a good deal of incentive to CDFFA to award credits to projects that have demonstrable ability to attract investors, since an under-subscription of credits in any year could cause the budget-cutters in state government to move to reduce future allocations. Awards to projects have ranged from under \$100,000 to \$1.6 million.

If the local banking and business community has an appetite for CDIP credits, this could be an important part of the funding mix.

US Dept of Commerce, Economic Development Administration. A major source of funding for economic development incubators in the US has historically been the Economic Development Administration (EDA), a unit of the US Department of Commerce. This source can fund not more than 50% of a project. To qualify for EDA funding the community must be part of an “Economic Development District”. Such a district is established by preparing and submitting an application known as a “CEDS” (Comprehensive Economic Development Strategy) on a regional basis. This work is currently in process for Rochester and surrounding communities. It is a long term process but it is definitely worth doing, as it opens up eligibility for EDA. New Hampshire has historically derived outstanding results from EDA, in part because of committee assignments of various members of congress and excellent state administration of the program.

Special Appropriations. Incubator projects are very visible and usually involve the enthusiastic participation of prominent community leaders, so they have the ability to attract the attention of the federal congressional delegation. Some incubator projects have received very significant support from congressional earmarks. There are many intangible factors that go into this process, so it would be best if community supporters of this project discuss it as early as possible with the member of congress or with staff of the member, or both. The support of the staff is important. Also, the time since your last special appropriation may play a role in whether a new project will rise to the top of the pile.

“Earmarks” are under attack at this time, and may be limited or even unavailable. Most (but not all) come from a section of the HUD budget known as the Economic Development Initiative (EDI). Most EDI allocations range from \$250,000 to \$750,000. The more senior the legislator, and whether the member of congress’ party is in the majority or minority, can affect how much earmarking authority the member can receive. Senators get more than representatives.

It is worth exploring the possibility of a special appropriation with the New Hampshire congressional delegation. Earmarks have been in the budget almost from the founding of the republic and have not gone away regardless of the political party in the congressional majority or in the White House. It may well remain a distinct opportunity to pay for part of this project.

Locally Available Funds. Many projects of this nature receive funding from local sources, which can be of many different types. Local economic development funds, CDBG loan repayments, and private foundations with a local focus, among others, can be important sources. Some projects benefit from donations or investments from local businesses and high-net-worth individuals.

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United States Department of Agriculture-Rural Development. It is possible that funding from this federal agency through either its Rural Business Enterprise Grant or Rural Business Opportunity Grant could contribute funds either for capital purposes or for programmatic activities connected to the incubator. Most of the applications seem to be programmatic in nature (business development and assistance), but use for capital or other facility-related purposes should be discussed with RD staff.

Rehabilitation Investment Tax Credit. This joint program of the National Park Service and the Internal Revenue Service seeks to do just what the 55 North Main Street incubator project proposes to accomplish. It is a 20% credit of all eligible expenses against federal income taxes for qualifying buildings. The subject building appears to qualify for the 20% credit, which, assuming all construction expenses are eligible could be more than \$200,000. Although a potentially useful tool, this funding source would require the cooperation of the current owner and assistance from someone with legal and tax credit expertise.

A reasonable strategy would be to raise \$400,000 from each of the principal sources: CDBG, CDFR and a special appropriation. Try to get a read on the most speculative of these, the special appropriation, as soon as possible. CDFR's application cycle is in May (be sure to attend the mandatory application workshop). The CDBG process is controlled by Rochester. In addition, Rochester is currently working with surrounding communities on applying for a CEDS designation for the region. If and when that designation is secured EDA is very supportive of incubator funding.

Operating Cost

It seemed most useful to project operating costs separately for an office application and a retail store configuration. An office uses more water (more people stay there longer) but a store uses more heat (people going in and out with greater frequency). Although Rochester is committed to a primarily retail use for this incubator, without knowing the specific tenants, office use was used as a stand in for low traffic "retail" tenants such as an artist's studio. An average mix of office and retail use seemed to be a better way to plan for all contingencies, as well as a mix of incubator uses, will provide a better on average and is included as well.

The utility assumptions used were factors from the Energy Information Administration, US Department of Energy; the New Hampshire Water Usage Standards; and the average heating load experienced by the Hannaford Brothers grocery chain. No heating load factors for small retail malls were available, so the Hannaford estimate was considered reasonable since, although the amount of traffic in a supermarket is probably much greater than anything 55 North Main Street will experience, the larger store also uses a number of energy saving mechanisms smaller stores would not ordinarily have, such as the large vestibules that reduce outside air intrusion and waste heat recycling capability from refrigeration and other electrical appliances. In any case it is a contrast to the office load and can reasonably be used as a comparative value in evaluating alternatives. If the retail design for the incubator has less heating load than a Hannaford supermarket, so much the better.

Annual energy load for an office building used is 135,000 btu per square foot; for a retail outlet 250,000 btu per square foot.

Different fuel alternatives were considered, though any price assumption in the present environment is highly uncertain. Natural gas, which should be available to the building, is the lowest cost alternative at this time. The price of this fuel has also fluctuated considerably in recent months, and may continue to do so. Recent costs from Unitil Corporation using its G42/T42 tariff were used to estimate costs. For electric power the "all commercial building" rate of 13.4 KWH/square foot was used. Their factors range from 15 for all offices to 12 for small retail, so one in about the middle of the range was chosen. Again, Unitil rates from the G2-UES tariff were used to convert to dollar values.

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At the present time the 55 North Main Street building has an obsolete #2 fuel oil heating system. ATC Associates has recommended complete replacement and has included an estimate that is quite generous and would pay for a new oil system, a propane system or a natural gas system. So if we accept and fund the ATC Associates estimate there is no real 'payback' analysis we can do with the information provided. We would have to obtain a much more detailed estimate of the comparative costs of installing these three heating systems.

The estimate by Budel Construction appears to include a renovation/upgrade of the existing oil system. This is much more modest, \$50,000 compared to the \$200,000 comprehensive replacement budget put forth by ATC Associates. If it is a valid estimate it gives us a basis for comparison. It is clear that both ATCs estimate and Budel's are not detailed estimates for this specific location and facility. In both cases a 'per square foot' engineering standard estimate was used; obviously a much higher one by ATC. It would probably be a very good investment to get a local HVAC contractor to look at the facility and give a more detailed and specific estimate. If there were any funds left over this would be a good way to use them.

If we assume that the difference of \$150,000 is the difference between a complete replacement of the existing heating plant with a new natural gas system and an upgrade renovation of the existing oil heating plant, the payback years will be the \$150,000 divided by the annual savings using natural gas. For an office building this comes to about \$5,400 a year, for a market it is about \$12,400 a year and for the average of the two it is about \$9,000 per year. These savings yield payback periods of about 27 years for an office, 12 years for a market and 17 years for the average of the two. If the lease is ten years, with no purchase option, it is not worth doing a new natural gas system. If the plan is to own the facility ultimately, it may be worth a new system.

It should also be kept in mind that the price of natural gas may be unnaturally low at the moment. It has fallen steeply in the last year. There is now much more concern about the environmental impact of the extraction method used in the United States. It might not be a wise choice to count on continued significantly lower costs for this fuel.

For water and sewer the current Rochester rates of \$4.19 per cubic foot for water and \$5.59 per cubic foot for sewer were used. The assumption is that water in equals sewer out, so a combined rate of \$9.78 was used. Conversion of cubic feet to gallons was done at 7.5 gallons/cubic foot. Water use at NH Water Usage Standards rates of 15 gallons per day per square foot for offices and 5 gpd/day for retail were used.

These figures and intermediate calculations are shown on the model "Rochester Incubator Projections 1" tabs "Operating Estimates", "Energy" and "Water-Sewer".

An estimate of insurance cost was kindly provided by Gerry Gilbert of Profile bank. The estimate is considered reasonable for either an office or retail design, with the proviso that no deep frying will be included in any food service operations housed in the 55 North Main Street facility.

Cost of common area cleaning (restrooms cleaned twice a week, halls vacuumed twice a week, windows cleaned monthly) at \$200 per week is based on consultant experience, as is the \$500 per month for building maintenance services.

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Using all these factors and assuming heat by natural gas, the following estimates of annual cost of operation are calculated:

Cost Category	Office Space	Retail Space	Average
Heating (Natural Gas)	\$13,623	\$22,632	\$18,128
Electric Power	8,844	8,844	8,844
Insurance	5,000	5,000	5,000
Cleaning of Common Areas	10,400	10,400	10,400
Building Maintenance	6,000	6,000	6,000
Water & Sewer	4,284	1,428	2,856
Depreciation/Replacement Reserves	0	0	0
Snowplowing	0	0	0
Real Estate Taxes	0	0	0
Total	\$48,151	\$54,304	\$51,228

Please note that figures shown 'to the dollar' do not imply that level of accuracy. They are only the results of the application of factors. Also, we have assumed "0" property taxes, but this will vary depending on the City's final decision of the issue.

As cost per square foot, assuming 30% common areas or donated space, the figures come out as follows:

Cost of Operation	\$48,151	\$54,304	\$51,228
Gross Area (square feet)	6,000	6,000	6,000
Less Common Area & Donated (30%)	(1,800)	(1,800)	(1,800)
Net Rentable	4,200	4,200	4,200
Cost Per Net Rentable Square Foot	\$11.46	\$12.93	\$12.20
Cost per month for 600 sq ft space	\$573	\$647	\$610
Cost per month for 600 sq. ft. @ \$8.50	\$425	\$425	\$425
Subsidy needed to reduce cost to \$8.50/ft ²	\$12,432	\$18,606	\$15,540

The last two lines are shown to indicate how much external subsidy would be needed to reduce the tenant rent to, say, \$8.50 a square foot. This would be considered an attractive rate for prime space with all utilities in most locations.

To put it another way, monthly rent to tenants for various sized units would be:

	Office Space	Retail Space	Average
Cost per month for 12' by 12' unit at unsubsidized cost	\$137.52	\$155.16	\$146.4
Cost per month for 10' by 30' unit at unsubsidized cost	\$286.50	\$323.25	\$305.00
Cost per month for 12' by 12' unit at subsidized \$8.50 per square foot	\$102.00	\$102.00	\$102.00
Cost per month for 10' by 30' unit at subsidized \$8.50 per square foot	\$212.50	\$212.50	\$212.50

These are the operating cost parameters that result from the use of the factors described. They are only estimates, and can be improved by evaluation and adjustment of the factors used.

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LEED Certification Funding

Rehabilitating this facility includes bringing it up to code, installing significantly improved insulation and other energy saving attributes, to provide a “box” in which moveable partitions are reconfigured to the needs of the tenants. The rehabilitation will improve the building’s energy efficiency. However, LEED certification is extremely expensive and unlikely to be able to access sufficient funds to off-set the cost of becoming certified. See the LEED application flow chart below for further information.

LEED APPLICATION PROCESS FLOW CHART -- Copyright © 2009 Flynnindustries, LLC
1. Project Registration
<ul style="list-style-type: none">•Access to LEED-Online-LEED Score Card & Credit Forms-Cost depends on USGBC membership (\$450 for members, \$600 for non-members)
2. Design Application Phase (optional)
<ul style="list-style-type: none">•Submit via LEED-Online-Comes back "Anticipated" or "Denied" (25 days)-No points awarded•Clarification Request (25 days)•Final Design Review (15 days)-Project team can:<ul style="list-style-type: none">-ACCEPT: goes to Construction Application Phase-APPEAL: goes to Design Appeal Phase
3. Design Appeal Phase
<ul style="list-style-type: none">•\$500.00 per appeal•Changes made and submitted once again-Comes back "Anticipated" or "Denied" (25 days)•No clarification requests•Final Design Review (15 days)
4. Construction Application Phase
<ul style="list-style-type: none">•Submit via LEED-Online (both design & construction)-Comes back "Anticipated" or "Denied" (25 days)-No points awarded yet•Clarification Request (25 days)•Final Construction Review (15 days)-Project team can:<ul style="list-style-type: none">-ACCEPT: goes to Certification/Denial Phase-APPEAL: does to Construction Appeal Phase
5. Construction Appeal Phase
<ul style="list-style-type: none">•\$500.00 per appeal•Changes made and submitted once again-Comes back "Anticipated" or "Denied"•No clarification requests•Final Construction Review (15 days)
6. Certified / Denial Phase
<ul style="list-style-type: none">•After Final Construction Review is ACCEPTED:<ul style="list-style-type: none">-LEED certified: Certified, Silver, Gold or Platinum-Denied: project closed (appeals should be done in prior phases)

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Building Lease Considerations.

Our understanding is that the lease on the building will be rent free for ten years in return for doing capital improvements to the structure. In effect, the project will be trading approximately a million dollars of public money for ten years rent and the opportunity to advance the small business sector in Rochester. The imputed rent is therefore about \$100,000 a year or about \$17 a square foot. It is possible that some funders may object to this. Under most federal programs there is a prohibition against ‘undue enrichment’ of a private business entity through the use of public funds.

For the most part, undue enrichment is in the eye of the beholder. It is highly subjective. It may be that just returning the building to productive commercial rental at the end of ten years would be considered a worthwhile use of public funds. Keeping improvements under \$10 per square foot to avoid the perception of undue enrichment to a private owner would counteract any perception of undue enrichment and avoid causing the project to be less compelling in the pursuit of grant funds for the implementation of the incubator.

It might be well to try to build into the lease transaction certain provisions that would serve to preserve the public investment for the benefit of the City of Rochester. Two such possibilities are a purchase option or a right of first refusal. The owner may not be willing to entertain the first, but might be amenable to the latter. It is probably worth a try. Including either could mitigate the perception of undue enrichment, if it becomes an issue at all.

The increase in the term of the lease has definite advantages and would certainly be an important alternative to pursue. The math is quite simple, at ten years the imputed “rent” is \$100,000 a year and \$17 a square foot; at a fifteen year term the imputed “rent is about \$67,000 or \$11 a square foot, and at twenty years the figures are \$50,000 and about \$8.50 a square foot. The latter two figures would probably be much more acceptable to grantors; and from the project’s perception point of view, than the figures based on ten years. In addition, the Community Development Finance Authority typically looks for a commitment of twenty years of public benefit for its funds, if this source is to be utilized in the funding mix. Other funders probably have similar requirements. These might be negotiable, but the benefits of a longer term would include reducing the need to seek such waivers, if indeed they are possible at all.

Similarly, obtaining a capital contribution from the owner would not affect the operating estimates, as there are no capital-related costs included, but would certainly improve the perception of the project and reduce the amounts that must be sought from public sources. The approach to the owner could be based upon the need to meet the most egregious code compliance issues or the need to provide basic operating infrastructure such as a functional heating system. The perception of “undue enrichment” could also be used to justify a request for a capital contribution.

One approach might be to propose that the owner purchase the present value of the depreciated improvements as a contribution. Using a project value of \$1 million, for example, and an average replacement life of thirty years (some of the improvements will probably last much longer, like the structural repairs and roof, some will need replacement sooner, perhaps major elements of the heating system) the improvements will be depreciated to \$667,000 after ten years and \$333,000 after twenty years. If we assume that an investor would require a five percent after-tax return then the present values of the assets would be about 60% after ten years and 39% after twenty years. The present value of the improvements after ten years would then be about \$400,000 after ten years and about \$130,000 after twenty years. These are rounded figures; no sense carrying a guess to four decimal places.

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The estimates can be refined. The items included in the project may change. The average useful life might be longer or shorter than thirty years, and the ultimate project cost might be different. The example above illustrates the principle. As the scope and costs of the project come into closer focus, the more current values can be plugged into the present value calculation. Any amount obtained from the owner will likely be a negotiated figure in any case; this method may be a place to start the process.

Including new sources such as an owner contribution and possibly the Rehabilitation Investment Tax Credit would change the sources and uses statement to reduce the amount that is needed from grant requests. The effort needed to request the funds will still be needed, but asking for a smaller amount should improve chances of obtaining awards.

Originally it was proposed that a \$1.2 million project might be funded in equal parts from CDBG, CDFA tax credits and a special appropriation. If we assume some contributions from the owner and the RITC, as well as some of the project cost reductions that have been identified in building assessments done before the ATC Associates estimate was done, perhaps a sources and uses might look like this:

Use of Funds	Amount	Source of Funds	Amount
Project Cost	\$1,000,000	Owner Contribution`	\$200,000
		RITC	\$100,000
		CDBG	\$200,000
		USDA RBEG	\$100,000
		CDIP (tax credits)	\$150,000
		Special Appropriation	\$250,000
Totals	\$1,000,000		\$1,000,000

Obviously this could play out in a number of different ways. More might be realized from the RITC than the 50% net yield assumed here, less might be obtained from the owner, earmarks may be eliminated by Congress, the CDIP credits may be impossible to place with banks or other investors, the lease arrangement might preclude some sources, etc.; there are any number of possibilities. Only going out and working on them will tell.

Capitalizing a Revolving Loan Fund.

A useful feature you may wish to consider adding to the overall incubator project is a revolving loan fund focused on tenant businesses.

Lending to new businesses is a risky venture and management of risk will be the major challenge. This is particularly true if you use borrowed funds, such as USDA Rural Development’s Intermediary Relending Program, which is highly recommended as a potential source of loan capital.

Loans are usually being made in a very narrow risk band between projects that are “bankable” (able to secure loans from a commercial bank) and projects that are highly speculative and carry unreasonable risk of loss.

While commercial banks cannot risk depositors’ money in loans to most start-up or early growth businesses, they will sometimes participate in smaller development loans with alternative funders such as a local RLF if the risk is not excessive and the amount of the loan is relatively small. Such participation is partly marketing, since new businesses that are successful may prove to be good loan customers in the future. All businesses were start-ups at some point.

Funds can come from repayments of loans made with public funds, such as CDBG, Rural Business Enterprise Grants, etc. or from the aforementioned Rural Development Intermediary Relending Program

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(IRP). The IRP funds are awarded to development entities as a loan, with interest at 1% over thirty years. Generally, only communities with 25,000 or less in population are eligible, but this should be discussed with the Rural Development office. Perhaps a way can be found to use this excellent program for the benefit of Rochester area businesses.

Capitalizing and managing a revolving loan fund for economic development is an enormous subject area, well outside the scope of this study. The City currently has a small revolving loan fund. Increasing its capitalization is an effort that could pay big dividends in facilitating a healthy and vibrant small business community. In areas where there are well-run small business assistance RLFs, there are some really impressive success stories of business sector growth. The Council of Development Finance Agencies (www.cdfa.net) and Association for Enterprise Opportunity (www.microenterpriseworks.org) are resources where more information about business development loan funds can be found.

Need

The question of “need” for this project really relates to three interrelated groups – (1) the City of Rochester as a whole; (2) the business community, especially the business community located or interested in locating in currently available buildings; and (3) the entrepreneurs that would benefit and be interested in locating in a small business incubator in the downtown. The information in this section of the report speaks to the interests and concerns of the first two groups. The potential tenants’ need was tested in the survey described in the Community Input section above and is discussed in greater detail in the section on “Market Feasibility” later in this report.

In August 2006, a Rochester Economic Development Plan was developed for the City by RKG Associates. Among the key findings were:

- ✦ The shifting retail environment towards big box retail and retail “power centers” has moved into the Seacoast Region and Rochester. This can present challenges to traditional downtown retailers. *In order to complement this retail shift, the City should look to reposition the downtown as a clean, attractive, and safe, retail, dining and entertainment destination with ample parking.*

And among the implementation actions proposed was to:

- ✦ Leverage funds to encourage the repositioning of underperforming properties in the City. These include facilities that are not being operated at their highest and best use (for example, manufacturing operating in prime retail space and underutilized upper floors in downtown buildings).

The report noted that the downtown of 2006 contributed both weaknesses and strength to Rochester’s economy. The strengths were:

- ✦ Daytime downtown destinations (Library, financial institutions, Court, City Hall)

Among the weaknesses were:

- ✦ Insufficient quantity of after-hours, downtown destinations (restaurants, cafes, retail, etc.)
- ✦ Lack of investment in downtown area neighborhoods.

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The report also noted economic opportunities provided by the downtown including:

- ✦ *Underutilized properties*
- ✦ Downtown riverfront development

As discussed in the introduction to this report, this strategic plan combined with the Economic Development Chapter of the Rochester Master Plan, led to the initial consideration of developing a small business incubator at the 55 North Main Street site. As an interim step to looking at the feasibility of the incubator, in November 2009, Rochester's Economic Development Manager Karen Pollard presented a Downtown Business Retention Program that was grounded in survey of Rochester businesses. A portion of the survey specifically looked at the downtown. Some of the comments about the downtown made by those who were surveyed included concerns about:

- ✦ Negative image, crime, bar fights, "gauntlet"
- ✦ Cycle of disinvestment
- ✦ Residents not visiting downtown businesses or events
- ✦ Cycle of negative conversations
- ✦ Negative reinforced in the media
- ✦ Multiple volunteer efforts in past
- ✦ Success has been limited, organization, finance
- ✦ Time for concentrated initiative combining multiple efforts
- ✦ Focus on "internal" results
- ✦ **Reverse the negative cycle of conversation.**

The proposed remedies for these problems were wide ranging and included an image improvement campaign that would:

- ✦ Generate word of mouth and positive buzz
- ✦ Generate enthusiasm by residents and businesses
- ✦ Get more people visiting downtown businesses and events
- ✦ Boost downtown revitalization efforts
- ✦ Provide professional guidance for a comprehensive program.

Economic impact

The most generally used study of incubator economic impact is one done for the Economic Development Administration of the US Department of Commerce ("EDA") by the accounting firm of Grant Thornton.

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(United States Department of Commerce, Economic Development Administration, *Construction Grants Program Impact Assessment Report, Volume I-Report on Investigation and Results*, September 20, 2008) This 2008 report builds upon an earlier report done by Rutgers University in the late 1990s and uses some of the data included in the earlier study.

The Grant Thornton study showed that a business incubator generated 46 to 69 jobs per \$10,000 of EDA investment. Since EDA will only fund 50% or less of a project’s total cost, this translates to 23 to 34 jobs per \$10,000 of total investment in the project (EDA + other sources of funding).

Below is the table of cost per job created with EDA dollars.

Local Jobs Generated Per \$10,000 EDA Investment and Federal Cost Per Job Project type	Estimated local jobs created (per \$10,000 EDA investment)	Federal cost per job
Business incubators	46.3-69.4	\$144-\$216
Commercial structures	9.6-13.4	\$744-\$1,008
Roads & other transportation	4.4-7.8	\$1,291-\$2,293
Industrial park infrastructure	5.0-7.3	\$1,377-\$1,999
Community infrastructure	1.5-3.4	\$2,920-\$6,872

Break even for investment

This break even analysis is based on the table “Rochester 55 North Main Street: Cost/Revenue Estimates per Year and Break Even Analysis” which appears in the Financial Feasibility section of this report. For purposes of this analysis it is assumed that all costs are fixed in the short term. The layout of the facility essentially means that it will all have to be heated regardless of any vacancies; cleaning, insurance and other costs will all continue to be incurred regardless of occupancy. Electric power and water and sewer may vary with occupancy, but this effect will likely be negligible.

In practical terms, therefore, the total fixed costs of operating the facility will need to be covered in order to break even. Unlike a manufacturing or sales business this venture has a fixed amount of ‘product’; the net rentable square feet of space available. This is assumed to be 70% of the gross square feet on the main floor of 55 North Main Street. The 30% difference is the assumed amount of circulation space (corridors, etc.), common space (lobby, shared office equipment space, etc.) and unusable space such as that occupied by walls, structural elements, etc. and any space donated for *pro bono publico* uses. The basement is not considered to be rentable at this time because of limited egress that would preclude legal occupancy. So for the 6,000 square foot main floor, the unrentable space of 30% amounts to 1,800 square feet and the net rentable space amounts to 4,200 square feet.

The following table sets forth the fixed costs and the rent needed to cover them. In practical terms, the amount of fixed costs IS the break even volume needed (dollar values rounded).

	Office Space	Retail Space	Average of Both
Total Costs	\$48,000	\$54,000	\$51,000
Rent needed/Sq Ft for 4,200 rentable square feet	\$11.50	\$13.00	\$12.25

MARKET FEASIBILITY

Market Demand for an Incubator

The first step taken to determine the market demand was to distribute a brief, computer-based survey (using “Survey Monkey”) to the 90+ registered home-based businesses in Rochester, to advertise the survey widely and to announce the survey on a Facebook page developed for the project. Results of the survey are reported below.

Do you currently operate a business?

We received responses from 28 individuals. Half are currently operating a business and half are not. Those who answered the hard copy survey -- two who did operate a business and one who was considering it.

What type of business?

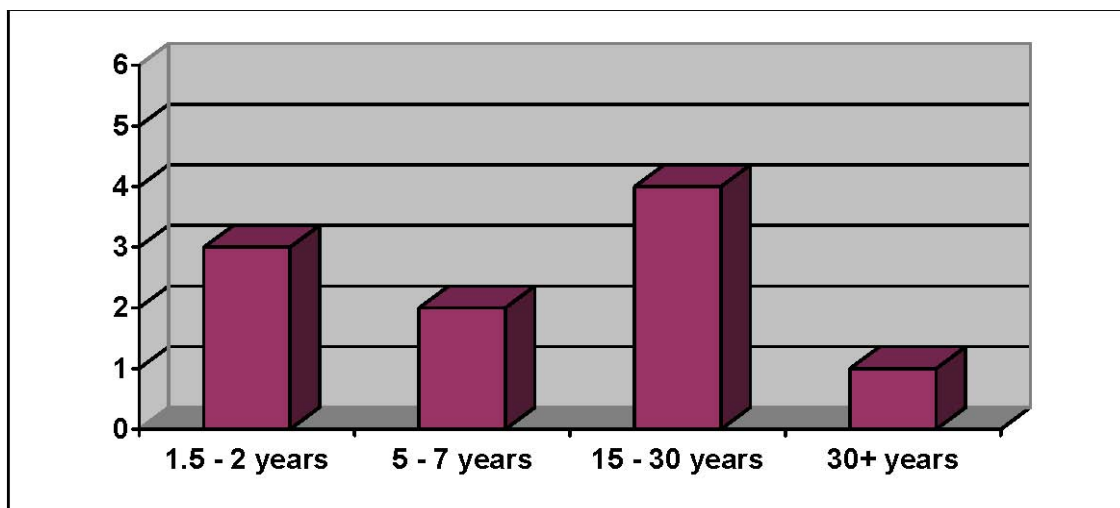
Out of the 14 respondents currently operating a business, 11 answered this question and listed the type of the business. Of the hard copy surveys, one was a baker, one an artist and one a crafter.

The on line responses were as follows:

- Website design & marketing
- Advocate
- Promotional products distributor
- Collectibles
- Arts: performance, design, education
- Marketing/advertising
- Art
- Period restoration
- Architect
- Craft
- Gallery, design, art school

How long have you operated this business?

Of the 10 respondents that answered this question, 5 had been operating their business longer than 15 years, 3 of which were 24 years or more. Of the remaining 5 businesses that answered, 3 had been operating 18 months to 2 years. The last 2 businesses had been operating 5+ to 7 years. Of the hard copy respondents, one has been in operation for one year and one for “a few years”.



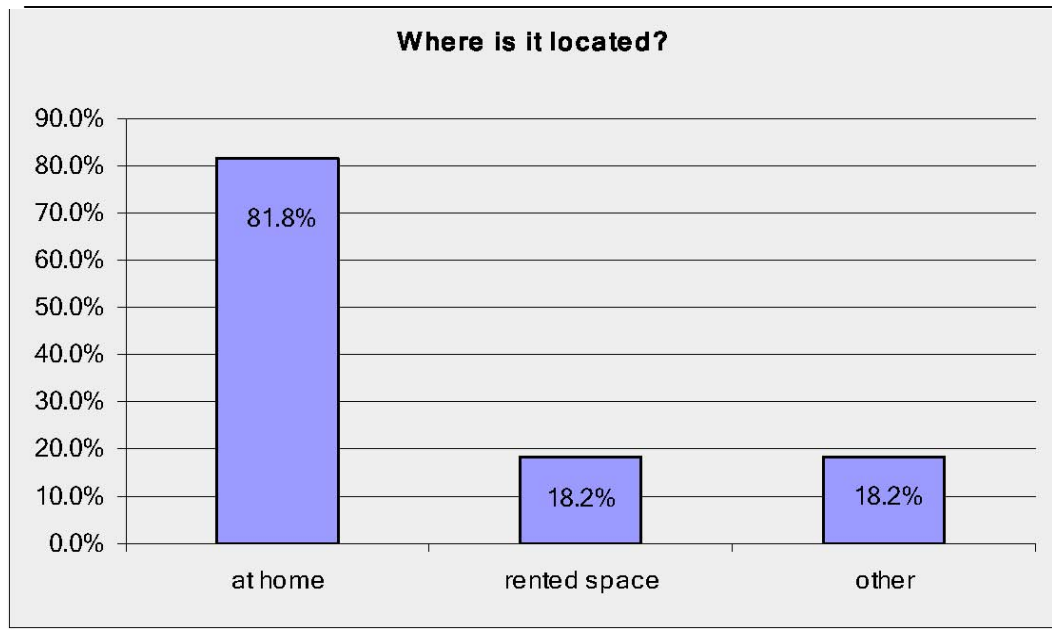
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Where is it located? - at home, rented space, other

Eleven respondents answered this question. The majority are home-based businesses, with one of those also falling under rented space and other based on their particular business. All three hard copy respondents were home based.

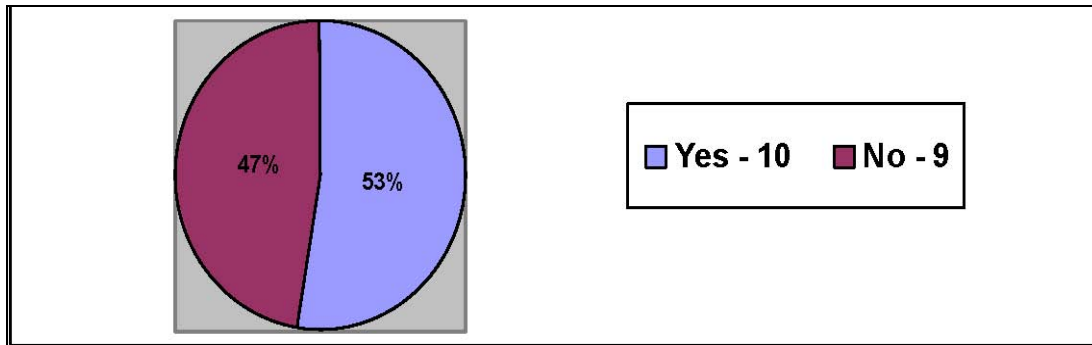
If you answered other, please indicate where

Only one respondent fell solely in this category and answered owned space; however, another respondent indicated s/he fell under all three categories



Have you ever written a business plan?

Nineteen answered this question. Just over half said they have written a business plan.



Discussion about the type of tenant that might be a good fit have centered around businesses involved in the arts, crafts (such as woodworking) and specialty foods (perhaps with a shared kitchen). Does your business fit any of these categories?

Nineteen answered this question. Eight said that their business fit one of those categories, while 11 stated their business did not fit any of those categories. All hard copy respondents were a good fit.

Would you agree that the types of tenants listed above would be a good fit?

Out of the nineteen respondents, more than 80% said yes as did two of the hard copy respondents.

If you answered no, please indicate why not and what type of tenant you think would be a good fit.

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Only 2 of the 3 respondents that answered no to the above question responded. Their responses were:

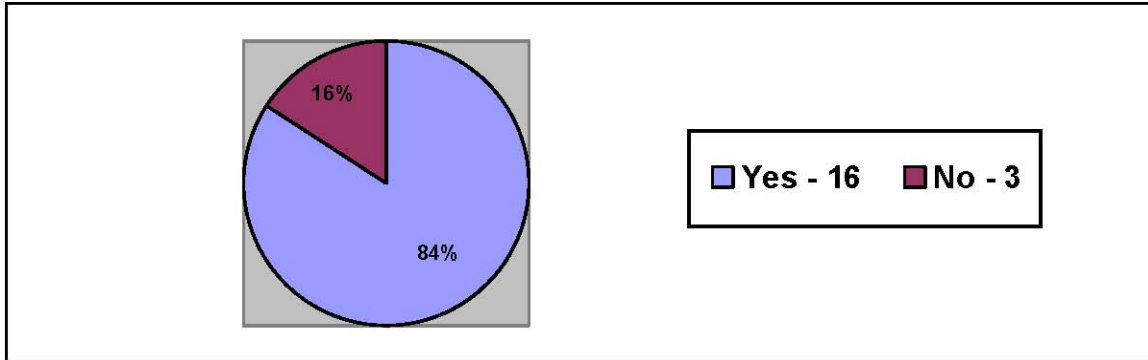
- Businesses that would not be doing “production” work, more service oriented.
- Since I don’t know the space, it’s just a guess.

Would you be interested in learning more about the 55 North Main Street Incubator?

Fourteen responded to this question, 10 answered yes. Two of the hard copy respondents answered yes.

Please give us your contact information so that we may contact you about the project.

Ten responded with contact information as did all three of the hard copy respondents.



Please let us know your thoughts about this project.

Nine answered this question. In general, responses seemed to be favorable:

The concept is certainly worth researching. It would be interesting to see if other small businesses such as my one or two person web design company would be a reasonable fit within the environment you are envisioning.

I think it is an excellent idea. Am looking forward to seeing the growth and perhaps being able to participate as well. I think Rochester has so much potential and am glad to be local.

I thought this might be more of an office environment vs. a workshop/retail shop.

We have to be careful of existing businesses. With the closing of the 103, it is apparent that another restaurant is not what Rochester needs.

I think Rochester needs to generate sustainable businesses that change the public perception of Rochester and type of people who do business here.

I'd love to see more interesting businesses downtown, and Rochester seems on the verge of being able to support more quality businesses (Portable Pantry has done well, among others), so I applaud your efforts and initiative, even though the shopping centers and malls have done a lot to pull people out of downtown. A great shame.

The arts have had a positive impact in many cities and towns trying to revive their core communities.

I am so pleased that this is being considered. I need to know more to have an idea of what this implication would have on me and my neighbors.

I think it would be great to have that building occupied, but we need to qualify viable businesses, so there are not lots of turnover and empty spaces.

One hard copy respondent answered: *Wide variety, all price ranges \$10-2,000 [of rent]. Provide space for tiny businesses.*

Special needs/gaps in service /demand for specialty services

Of the 14 who responded to the survey, five did not fit into the three categories that are rising to the top of the list of businesses already beginning to aggregate in Rochester and therefore good candidates for the incubator. Of these, four could generally be identified as in “marketing”. Two were in the website design & marketing category, one was marketing/advertising, and one was promotional products distributor (the final one was an “advocate”). These businesses could be accommodated in existing second floor space in the downtown. The challenge is that they do not need large spaces and in some cases would like the visibility of Main Street. They could also benefit from the technical assistance proposed to be developed for incubator tenants. Assisting these businesses, and others like them, in working together to find suitable space and giving them access to the technical assistance that incubator tenants would receive could be both helpful to the individual businesses and a way of assuaging some of the concerns that downtown landlords have expressed about the incubator concept.

An in depth discussion of recommendation for specialty services to incubator tenants and other Rochester entrepreneurs appears in the Management Feasibility section of this report. The small businesses that were involved in the development of this report did not have anything to add in terms of specialized technical assistance or other specialized needs.

Focus/tenant mix

As reported in the survey responses above, respondents were told that early discussions about the type of tenant that might be a good fit for an incubator had centered around businesses involved in the arts, crafts (such as woodworking) and specialty foods (perhaps with a shared kitchen). Almost half of those who answered this question were operating such businesses. In addition, attendees at the community meetings that were held at the beginning of this project supported concentrations of businesses already beginning to aggregate in Rochester, which they identified as including

- Arts
- Crafts/woodworking
- Specialty foods and a commercial kitchen

This mix was also supported by the various groups that attended meetings during the month of October. Attendees also developed the wish list noted above that included apparel and a book store.

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55 North Main Street Incubator Feasibility Study

TECHNICAL FEASIBILITY

ATC Associates LLC conducted the bulk of the technical feasibility portion of this project. CI assisted on evaluation and identification of building features, building and energy improvements evaluations. The full report, including photographs of conditions highlighted here, appears in the appendix to this report. It is summarized, with estimated costs, below.

A summary of estimated costs is presented in the following table. The costs are intended to be preliminary estimates, Additional architectural or engineering studies will be required to develop more accurate cost estimates.

1	Repair damaged exterior CMU walls, remove peeling paint and paint exterior CMU walls, remove and replace window, door, and masonry joint sealants.	\$50,000
2	Remove and replace two windows at northeast corner of building.	\$3,000
3	Remove existing roof membrane, inspect and replace water damaged roof decking and structural wood, and install new roof insulation and membrane system.	\$80,000
4	Design and install restrooms and domestic water supply system.	\$100,000
5	Design and install new HVAC system to facilitate planned usage for the building.	\$200,000
6	Design and install upgraded electrical service and distribution system.	\$50,000
7	Design and install fire suppression sprinkler and alarm system.	\$100,000
8	Remove all gypsum board ceilings and wall and replace, clean and paint concrete floors and walls (Note – Assumes no ACM. Removal of flooring included in asbestos abatement costs below).	\$100,000
9	Investigate potential water intrusion pathways at base of perimeter CMU walls and facade soft joints and repair as needed, replace water damaged structural wood at perimeter of basement ceiling deck.	\$100,000
10	Conduct comprehensive inspection for asbestos-containing materials (ACM) and remove identified ACM in accordance with applicable regulations. (Assume, floor tile and mastic and wood substrate, and window caulking and glazing compound contains asbestos. Removal of ACM roofing included in Recommendation No. 3).	\$40,000
11	Conduct inspection and sampling for lead-containing paint and PCB-containing sealant and light fixture ballasts	\$5,000
TOTALS		\$828,000

Note: ACM is asbestos containing materials; CMU is concrete masonry unit

ATC also conducted an “enviro transaction screen” and that report, too, appears in the appendix to this report. That report included a \$3,000 cost for remediation that would bring total costs to \$831,000. The Executive Summary appears below and on the following page.

ATC Associates Inc. (ATC) has performed this Phase I Environmental Site Assessment (ESA) in conformance with the scope and limitations of American Society for Testing and Material (ASTM) Standard Practice E 1527-05. Any exceptions to, or deletions from, this practice are described in Section 2.0 of this report. This assessment has revealed no evidence of *recognized environmental conditions* in connection with the property, except for the following:

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FINDINGS AND CONCLUSIONS SUMMARY							
Report Section		Further Action?	De Minimis Condition	Recognized Environmental Condition (REC)	Historical REC	ASTM Non-Scope Condition	Description
4.0	User Provided Information	No					
5.1.1	Federal Database Findings	No					
5.1.2	State and Tribal Database Findings	No					
5.1.3	Local Environmental Record Sources	No					
5.3	Historical Records Sources	No					
6.2	Hazardous Substance Use, Storage and Disposal	No					
6.3	Underground Storage Tanks	No					
6.4	Aboveground Storage Tanks	YES		X (1)			1) Leaking heating oil AST in the basement of the property building.
6.5	Other Petroleum Products	No					
6.6	Polychlorinated Biphenyls (PCBs)	No					
6.7	Unidentified Substance Containers	No					
6.8	Nonhazardous Solid Waste	No					
6.9	Wastewater	No					
6.10	Waste Pits, Ponds and Lagoons	No					
6.11	Sumps	No					
6.12	Septic Systems	No					
6.13	Stormwater Management System	No					
6.14	Wells	No					
7.0	Interviews	No					
8.1	Asbestos-Containing Material (ACM)	YES				X (2)	Due to the age of the property building, ACM may be located in the building.

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FINDINGS AND CONCLUSIONS SUMMARY						
Report Section	Further Action?	De Minimis Condition	Recognized Environmental Condition (REC)	Historical REC	ASTM Non-Scope Condition	Description
8.2	Radon	No				
8.3	Lead in Drinking Water	No				
8.4	Lead-Based Paint (LBP)	YES			X (3)	Due to the age of the property building LBP may be located in the building.
8.5	Mold Screening	YES			X (4)	4) Water intrusion observed in multiple areas of the property building.
8.6	Additional User Requested Conditions	No				

1. ATC observed two approximately 275-gallon heating oil aboveground storage tanks (ASTs) within the basement of the property building. The age of the ASTs is unknown. ATC observed a leak from the fuel line to one of the ASTs. Staining was observed on the concrete floor in the vicinity of the AST. No floor drains were observed in the vicinity of the ASTs. The property building has been vacant since the mid 1980s and the heat was turned off at the time of the 2010 site visit. Based on the observed conditions, the leaking AST is considered to represent a *recognized environmental condition* to the property.

2. The property building was constructed in approximately 1915. Therefore, it is possible that asbestos containing materials (ACM) are located at the property. ATC observed the following suspect ACM at the property: vinyl floor tile, drywall, peg board, joint compound, mastics, and caulking/sealants. Observed suspect ACM were noted to be in fair to poor condition at the time of the site reconnaissance. Based on the observed conditions, the presence of suspect ACM is considered to represent an environmental concern to the property at this time. Asbestos testing was not included in the scope of this investigation.

3. ATC performed a visual inspection of suspect lead-based paint (LBP) at the property. The property building was constructed in approximately 1915. Therefore, it is possible that LBP is located at the property. Painted surfaces at the property were observed in poor to fair condition at the time of the site reconnaissance. Based on the date of construction and observed conditions, LBP is considered to represent an environmental concern to the property at this time. LBP testing was not included in the scope of this investigation.

4. ATC conducted a limited screening survey for readily observable mold and conditions conducive to mold on the property. The screening consisted of an interview and physical observations of the building. The purpose was to report obvious or suspect mold growth at the property and evidence of water/moisture infiltration. No sampling or testing was performed as part of this assessment. ATC observed evidence of

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55 North Main Street Incubator Feasibility Study

water intrusion around the first floor windows, on the ceiling throughout the property building, around the garage door, and around the basement perimeter. ATC did not observe evidence of mold. Based on the observed conditions, the water intrusion is considered to represent an environmental concern to the property.

Significant Data Gap Summary

The following is a summary of *significant data gaps* identified in this report.

SIGNIFICANT DATA GAP SUMMARY		
Report Section		Description
3.5	Current Uses of Adjoining Properties	No <i>significant data gap</i> identified.
4.2	Environmental Liens or Activity and Use Restrictions (AURs)	<u>Lien/AUR search was not a part of the scope of work for this assessment.</u>
5.1	Standard Environmental Records	No <i>significant data gap</i> identified.
5.2	Physical Setting Sources	No <i>significant data gap</i> identified.
5.3	Historical Records Sources	No <i>significant data gap</i> identified.
6.1	Methodology and Limiting Conditions	No <i>significant data gap</i> identified.
7.0	Interviews	No <i>significant data gap</i> identified.

Recommendations

Based on information collected from the Phase I ESA, ATC offers the following recommendations for further action:

- Repair of the leak in the heating oil AST or replace the entire AST system.
Cost estimate: **\$3,000**
- An ACM inspection of the property building: Please see the Limited Building Condition Assessment report, prepared by ATC, dated November 15, 2010, for a cost estimate.
- A lead paint inspection of the property building: Please see the Limited Building Condition Assessment report, prepared by ATC, dated November 15, 2010, for a cost estimate.

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Suitability of the Site

There are three aspects of evaluating the suitability of the site. (1) The first is the physical analysis of bringing the building up to code that is provided in this section by ATC. The conclusion of the ATC study clearly shows that building can be brought up to code, including addressing minor environmental issues, without going to any extraordinary lengths. As expected, the long term vacancy and delayed maintenance mean that all systems need upgrading or replacement, but the building structure is sound and the first floor can be one big vanilla box waiting to be configured through the use of moveable partitions as the need arises.

(2) The second aspect is “will the rehabilitated building meet the project’s needs?” Here we refer back to the earlier discussions in the Community Input section of this study. There, participants at the various community meetings said, about the building:

Why locate at 55 North Main Street?

- ✦ Address negative perceptions about Main Street through addressing this specific site
 - ✓ Long term vacancy (20+ years)
 - ✓ Representative of disinvestments in Rochester’s Main Street
 - ✓ Self esteem issue: “Rochester Main Street not worth saving”
- ✦ Build on positive attributes of the site
 - ✓ Central location
 - ✓ Off-street parking
 - ✓ Buildings on either side have been significantly improved
 - ✓ Opportunity to turn a long-term negative into an exciting positive

Vision for 55 North Main Street

- ✦ Restore and fill a long term vacant Main Street building
- ✦ Assist new entrepreneurs in developing their business
- ✦ Provide stable, economically viable tenants for Main Street building owners
- ✦ Keep businesses that might have gone someplace else in Rochester’s downtown
- ✦ Support concentrations of businesses already beginning to aggregate in Rochester

The 55 North Main Street site, by definition meets all of the criteria above.

(3) The third is a discussion of the financial “suitability”- is the cost appropriate to the scale of the project. That discussion appears in the “Financial Feasibility” section.

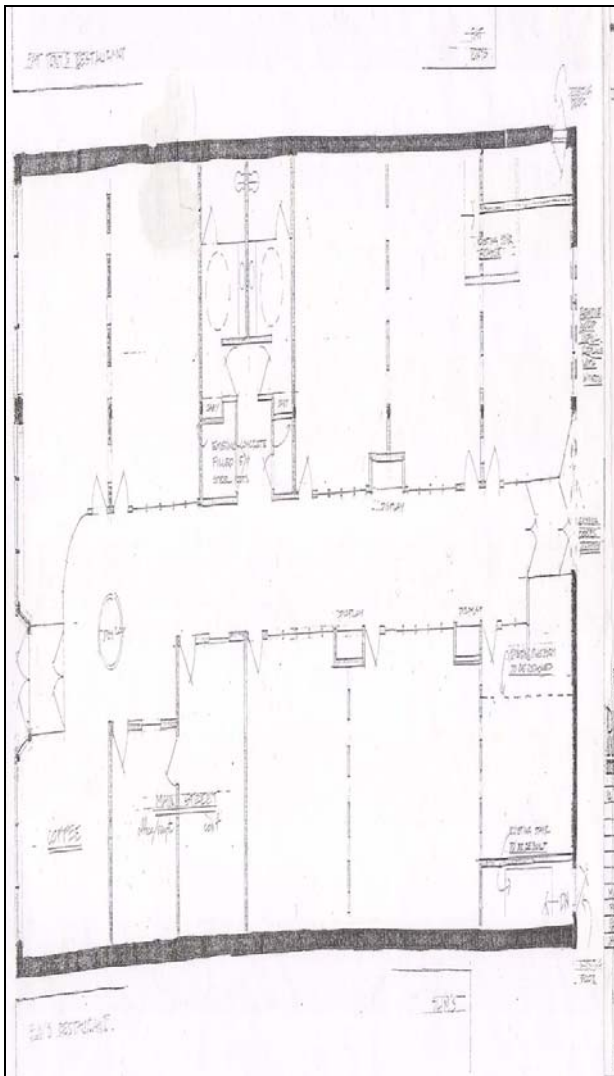
Environmental Concerns/Environmental Transaction Screen

A summary of the ATC report appears on pages 26, 27, 28 and 29. The environmental issues are minimal; with suggestions for a few more in depth assessments than are included in a standard environmental transaction scan.

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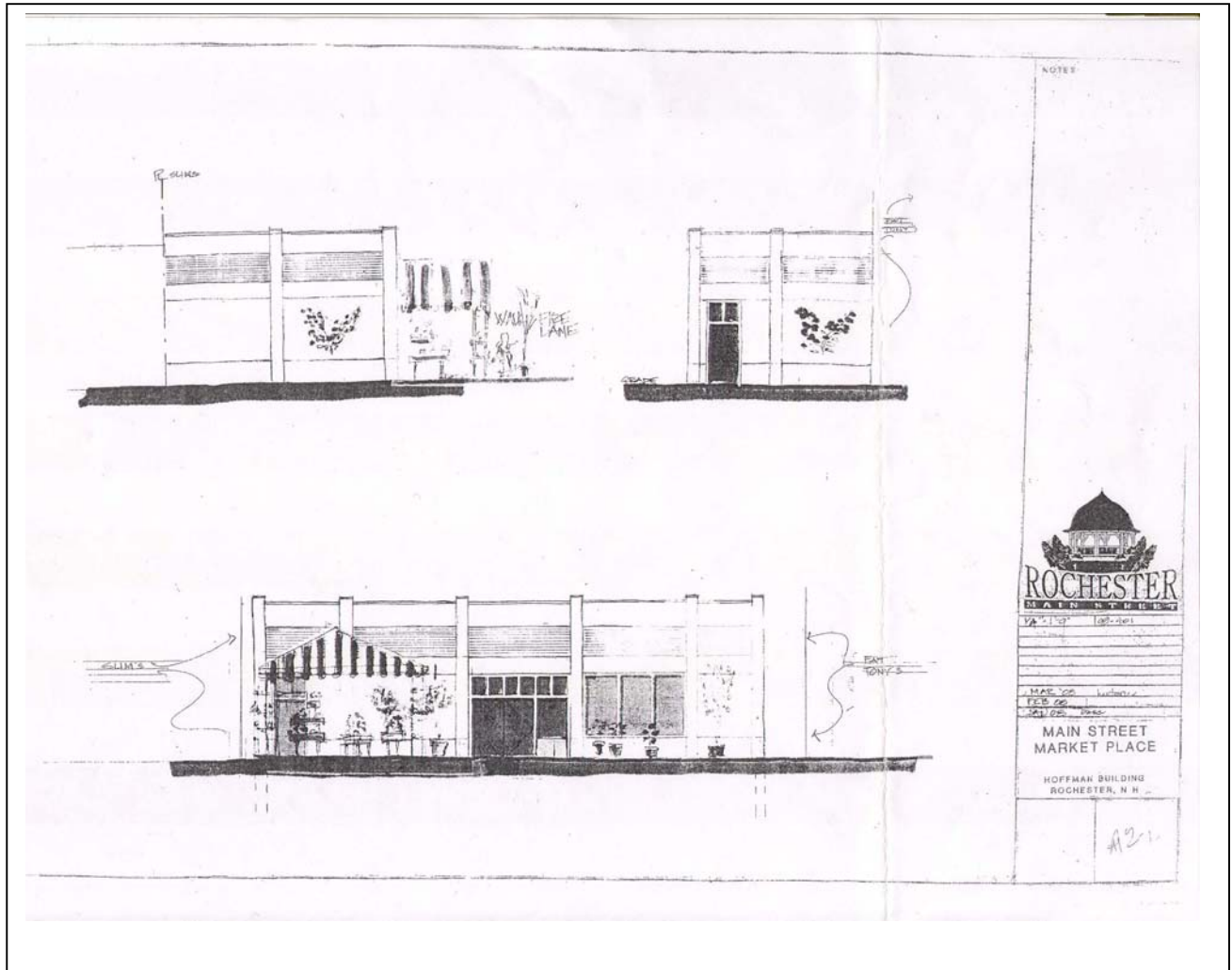
Suitability of Interior and Exterior of Property/Sketches of Improvements

Providing, as it does, a completely “vanilla” building centrally located on Rochester’s North Main Street with entrances straight through from the street to the municipal parking lot make this site suitable for its intended use. Improvements proposed for the building in ATC’s report are primarily to bring the building up to code, including improved energy efficiency, better fire protection, handicapped accessibility, and first floor bathrooms. With the proposed partnership with Creteau Tech Center, the interest in a commercial kitchen has been moved from on-site to joint use of the new, state-of-the art tech center facility. That also means that, for now, the basement, which would require extensive code upgrades, would not be used. Building fit-up would be limited to decorative (paint, flooring, etc) and moveable partitions that allow for reconfiguring individual retail spaces for specific tenants. In an earlier feasibility study for the project, a floor plan was developed that showed a central walkway from North Main Street to the back door with tenant spaces on either side. It was here that the use of moveable partitions was proposed. The floor plan appears below with Main Street at the bottom of the page and the parking lot at the top. Façade sketches are on the following page. With effective signage indicating a covered path, this would be a great way to bring people inside, especially in problematic New England weather.



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The proposed exterior of the site involves little more than decorative touches aside from what appears to be the opening up of the window on the left of the front doorway for summer “Al Fresco” dining. We would recommend leaving all decorative efforts to the facades alone for now and enlisting tenants and community volunteers in designing and installing exterior upgrades once the facility is tenanted and in operation.



Appropriateness and Return on Investment (“ROI”) of incorporating Energy Saving Technology into the facility

Rehabilitating this facility includes installing improved insulation, all new systems, and other energy saving code requirements, to provide a flexible “box” that can be reconfigured easily to the needs of the tenants. Since the building cannot be used unless it is brought up to code the question of the ROI is not to the point – the question is only whether doing the project is financially feasible.

List of Recommended Building Features

Throughout this report the resulting facility is referred to a plain or flexible “vanilla box”. By definition that means it is featureless – beyond those features which it currently has – front and back doors that allow access between North Main Street and the municipal parking lot; display windows on North Main Street; a rectangular shape that will allow a double loaded central hall or walkway. Added to that will be main floor, handicapped accessible bathrooms. Interior walls, floors and ceilings will be repaired, upgraded, painted. Windows will be repaired and replaced where needed. But the bulk of the money will go into upgrading and replacement of the things that aren’t visible – roof, HVAC system, electrical system, etc. Even the walls, when they are installed, will be moveable/removable.

But what that means is that the 55 North Main Street Incubator will be a clean, blank canvas for the tenants and the community to design and create the signs, banners, wall decorations, and perhaps even some of the furniture and fixtures. Even the name of the facility is nondescript, waiting for someone to come along with a much more engaging name to entice people into the store on Rochester’s North Main Street.

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FINANCIAL FEASIBILITY

Capital Requirements	35
Cost/Revenue Estimates per year and break-even analysis	36
Estimated Energy Costs	37
Estimate of Water and Sewer Costs	38

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55 North Main Street Incubator Feasibility Study

Rochester 55 Main Street					
Capital Requirements					
	Capital Needs As Estimated By:				
	ATC		Budel/Planet		ATC Less Basic
	Associates		2008 (Note 1)		Usability Items
	(#1)		(#2)		Paid by Owner
					(#3)
Repair exterior walls	50,000			50,000	50,000
Replace two windows	3,000			3,000	3,000
Repair roof	80,000		Contruccion/Roof	75,000	80,000
Restrooms/domestic water supply	100,000		Plumbing (Note 2)	15,000	Note 4
HVAC system	200,000		HVAC	50,000	Note 4
Upgrade electrical system	50,000		Electrical	55,000	Note 4
Install sprinkler system/life safety facilities	100,000		Fire Alarm	10,000	Note 4
Replace walls and ceilings	100,000		Sprinkler	60,000	100,000
Fix leaks in walls	100,000			100,000	100,000
Remove asbestos-containing materials	40,000			40,000	Note 4
Repair leak in above ground oil storage tank	3,000			3,000	3,000
Inspect for lead paint and PCBs	5,000			5,000	5,000
			Sign/Security	15,000	0
			Contingency	68,000	0
	831,000			549,000	341,000
Interior Finishing for End Use					
Assume \$50 per square foot (Note 3)	300,000			120,000	120,000
Total Estimated Cost	1,131,000			669,000	461,000
Note 1: Where Budel/Planet did not provide estimate, ATC Estimates are used					
Note 2: Plumbing costs may be reduced with assistance from Creteau training program					
Note 3: Interior finish in scenarios 2 and 3 assumes used or donated room partitions					
Note 4: Assumes investment by owner in basic habitability and usability infrastructure.					

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Rochester 55 Main Street					
Cost/Revenue Estimates per year and break-even analysis					
		Office Space	Retail Space	Average	
Revenues					
Rents					
Cash Support from City					
Other					
Total Revenues		0	0	0	
Expenses					
Heating by natural gas		13,623	22,632	18,128	
Electricity		8,844	8,844	8,844	
Insurance		5,000	5,000	5,000	
Replacement Reserves					
Cleaning Common Areas (\$200/wk)		10,400	10,400	10,400	
Maintenance (\$500/month)		6,000	6,000	6,000	
Plowing		0	0	0	
Water & Sewer		4,284	1,428	2,856	
Total Expenses		48,151	54,304	51,228	
Per gross square foot		\$ 8.03	\$ 9.05	\$ 8.54	
Per rentable square foot assuming	30%	is common or nonpaying area.			
Per rentable square foot		\$ 11.46	\$ 12.93	\$ 12.20	
Net rentable square foot equal to	70%	4,200	4,200	4,200	
To break even you would need to rent	4,200	square feet at the "Per rentable square foot" rate.			

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Estimated Energy Costs					
Rochester Incubator Bldg					
					Natural Gas MCF=
Heating Cost	Heating Load Per Square Foot	Heat Required for 6000 sq. ft.	Oil Use #2 Gal=139K btu	Propane Gal=91.6K btu	1,034K btu (inc meter chg of \$254/mo)
Office Building (EIA)	135,000	810,000,000	5,827	8,843	783
Supermarket (Hannaford)	250,000	1,500,000,000	10,791	16,376	1,451
Annual Heating Cost			\$3.25	\$3.00	\$13.50
Office Building			18,939	26,528	13,623
Supermarket			35,072	49,127	22,632
Per Square Foot					
Office Building			3.16	4.42	2.27
Supermarket			5.85	8.19	3.77
Average					
Assume average of office, retail	192,500	1,155,000,000	8,309	12,609	1,117
Cost for average			27,005	37,828	18,128
Cost per month			2,250	3,152	1,511
Average of Averages-Per Month				2,304	
Average of Averages-Per Year				27,654	
Average of Averages-Per Sq. Ft.				4.61	
<i>Natural gas cost from Unutil Corp G42/T42 tariff. MCF=10.34 therms</i>					
Electric Power	Factors Used				
EIA factor 13.4 KWH/square foot for all commercial buildings	13.4				
Range from 15 for offices to 12 for small retail					
Unitil G2-UES tariff shows about 10.8¢ per KWH EIA avg 14.65¢	\$0.11				
Cost per square foot estimate	\$1.47				
Cost for 6,000 square feet		Daily \$24.23	Monthly \$737	Yearly \$8,844	
Power costs DO NOT include meter charges and KW demand charges					
Meter charge is \$11 per meter per month or \$132 per year.					

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Rochester Main Street Incubator				
Estimate of Water and Sewer Cost				
Usage Estimate from NH Water Usage Standards		Daily Gallons For 6,000 sq. ft.	Monthly Gallons For 6,000 sq. ft.	Yearly Gallons For 6,000 sq. ft.
Offices	15gpd/100 sq ft	900	27,375	328,500
Retail Store	5gpd/100 sq ft	300	9,125	109,500
Cost for Water is \$4.19 per 100 cubic feet	\$4.19			
Cost for Sewer is \$5.59 per 100 cubic feet	\$5.59			
Assume water flow = sewer flow	\$9.78			
Assume 7.50 gallons per cubic foot		Daily Cubic Ft	Monthly Cubic Ft	Yearly Cubic Ft
Offices		120	3,650	43,800
Retail Store		40	1,217	14,600
Cost at \$9.78 per 100 cubic feet				
Offices		\$11.74	\$357	\$4,284
Retail Store		\$3.91	\$119	\$1,428
Average		\$7.82	\$238	\$2,856

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MANAGEMENT FEASIBILITY

Project Management

Fiduciary responsibility for the incubator rests with the Rochester City Council. The Rochester Economic Development Commission assisted by the Rochester Economic Development Director will act as leaseholder for the project and provide incubator management oversight.

On a day-to-day basis, the Rochester Main Street Executive Director has offered to move the Rochester Main Street Office to the incubator and to serve as Incubator Manager with the assistance of (and while contracting for building maintenance):

- ✦ The Incubator Advisory Committee – for developing and implementing incubator recruitment, intake programs, and mentoring
- ✦ The Seacoast SBDC Regional Director – for developing training programs and coordinating with area education providers.

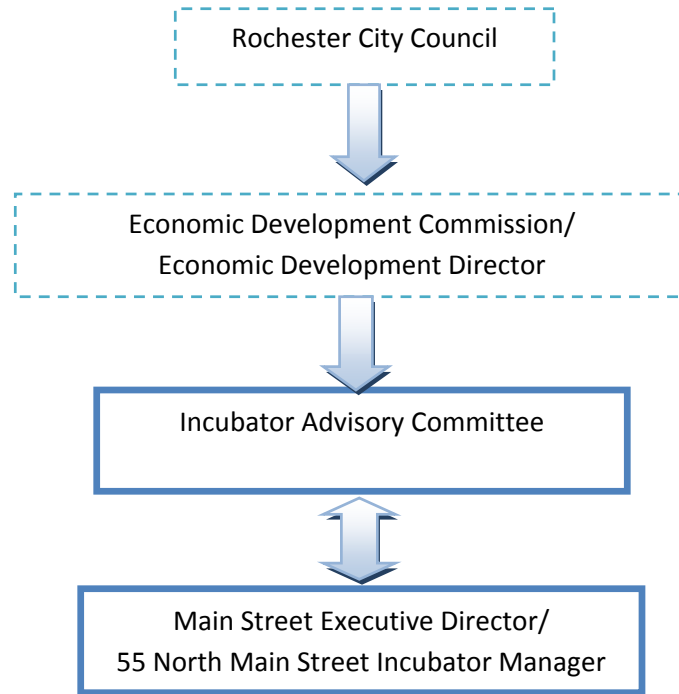
Potential Partners

The 55 North Main Street Incubator has a strong Advisory Committee that represents the “core” group for this project. In addition, the outreach portion of the feasibility study brought together a wide range of Rochester-area businesspeople, educators, and others very interested in being a part of this project. They included:

- | | |
|--|--|
| ✦ Elaine Lauterborn | Rochester City Councilor |
| ✦ Alan Reed-Erickson | Rochester City Councilor |
| ✦ Chuck Grassie | Rochester City Councilor |
| ✦ Gerry Gilbert | Profile Insurance Group, Rochester Chamber of Commerce |
| ✦ Christine McCluskey | Metrocast |
| ✦ Amy Sharpe, Leslie Simpson
Vicki Routhier | Laconia Savings Bank |
| ✦ Dennis McCann | SEDC |
| ✦ Jean Gill | SEDC |
| ✦ Lynn Durgin | Great Bay Community College |
| ✦ Lynn Tamulonis | Great Bay Community College |
| ✦ Tessa McDonnell | Granite State College |
| ✦ Wayne Chick | Fosters |
| ✦ Courtney Ritchings | Spaulding High School/Creteau Tech Center |
| ✦ Dave Robbins | Spaulding High School/Creteau Tech Center |
| ✦ Kent Hemingway | Rochester School Department |
| ✦ Terri Beyer | Congresswoman Carol Shea-Porter’s Office |
| ✦ Christine Davis | DRED |
| ✦ Ralph DiBernardo | JetPack Comics |
| ✦ Susan Jackson-Rafter | Portable Pantry |
| ✦ Mary-Jo Monusky | artstream |

Each person mentioned in the list above expressed a strong interest in being a partner, some of who are discussed in other sections of this report. Others who attended – small business people, artists, craftspeople – all expressed an interest and a willingness to help the process move forward.

55 North Main Street Incubator Management Chart



Skills/Gap Analysis

This project has drawn a wide range of offers to assist in the various aspects of the project. The challenge is not to fill any gap in skills but to organize and coordinate the wealth of skills available from those who have offered to help. The sections on “range of services” and “project management” address this challenge.

Equipment Needs

With the recommendation that the commercial kitchen aspect of this project be addressed by working to develop a program using the Creteau Tech Center facility, equipment needs would then be limited to office machinery – copy machine, telephone/intercom system, etc.

Education Components

Three key partners in meeting the potential education needs of the incubator tenants are Granite State College, the R.W. Creteau Regional Technology Center, and the Seacoast Small Business Development Center.

In a meeting with Dean Tessa McDonnell of GSC and subsequent correspondence, the following services were cited as contributions available from GSC to a downtown Rochester incubator:

- ✦ Provision of business ‘boot camps’. These local 3- to 4-hour workshops would be open to incubator tenants and the general public, with preferential fees for the former. GSC would collaborate with the SBDC in creating content and providing instruction. The Incubator Advisory Board would provide input on desired topics. The workshops could include:

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Starting a Business in New Hampshire

Creating a Business Plan

Finding Money to Start a Business

Small Business Marketing

Hiring and Managing Employees

- ✦ Project-based research. Students at GSC, particularly those in business management courses, regularly engage in research that connects to the local community. Such research could prove beneficial to incubator tenants in marketing, for example.
- ✦ Education planning guidance. On-site advisement on education plans would be provided for business owners and their employees.
- ✦ Internships. GSC students enrolled in Service Learning/Internship would contribute supervised time in the incubator for the mutual benefit of student and incubator business.

The text of Granite State’s letter of support with more detailed descriptions appears in the Appendix to this report.

Potentially available contributions from the Creteau Regional Technology Center were enumerated in correspondence from Courtney Ritchings, School-to-Career Coordinator (text of the letter appears in the appendix to this report). They include:

- ✦ Use of commercial kitchen facility. In the event that the incubator is tenanted by value-added food producers, the commercial kitchen facility at the Technology Center might be available for use as an off-site shared kitchen outside traditional school hours. While it is not currently available for this usage due to ongoing construction, there is the potential for its availability in a year’s time.
- ✦ Student involvement. If the kitchen could be shared, Technology Center students could provide assistance at the Center to producers from the incubator in the context of internships, service learning experience, or cooperative education plans.
- ✦ Evening courses. CTE instructors have offered evening instruction in the past. Potential courses could include:
 - ✓ *Food safety (ServSafe)*
 - ✓ *Restaurant management*
 - ✓ *Catering*
 - ✓ *Baking*
 - ✓ *Cake decorating*
 - ✓ *International and regional foods*
- ✦ Contributions to incubator construction project.

The Seacoast Small Business Development Center is already involved with Rochester businesses, having an office on Main Street. SBDC Director Warren Daniel has been an active participant in the planning process for the incubator. The SBDC currently works, in part, out of an office on South Main Street that is provided by the Rochester Chamber of Commerce to NH SBDC and the Rochester Main Street Program. Warren has expressed an interest in working with Granite State College on the training programs and development of a “boot camp”. In addition, the SBDC will continue in its role of one-on-one technical assistance provider, and has extensive on line training programs and a resource library that includes assistance, for example, in:

- ✦ Starting a business (www.nhsbdc.org/starting-and-growing-your-business)
- ✦ Writing a business plan (www.nhsbdc.org/need-business-plan)
- ✦ Financing a business (www.nhsbdc.org/resource-library/financing-a-business)

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Christine McCluskey of Metrocast, the local cable provider expressed an interest in putting a recording studio in the basement of 55 North Main Street. That probably is not possible initially – there is much work to be done to make using the basement feasible. She also offered the possibility that initially Metrocast would be interested in/willing to partner with the project by making use of their 21 Jarvis Street facility available to the program for broadcasting trainings, meetings, etc. She also suggested that any contract relationship by the incubator with Metrocast might be possible as a part of the City’s contract with the company.

Proposed Education Programs

The programs discussed with the education partners described above fall roughly into four categories:

- ✦ Making classes currently available through existing educational partners easily available to incubator tenants and other Rochester small businesses by locating them at accessible locations (including potentially the incubator itself) or at other Rochester area sites.
- ✦ Tailoring new or revised classes provided by education partners specifically for incubator tenants and Rochester entrepreneurs that might include:
 - ✓ *Retail marketing*
 - ✓ *How using the web can help to grow your business*
 - ✓ *Bookkeeping for your small business*
- ✦ Working with the educational partners to package a selection of web-based, distance learning programs for incubator tenants and other Rochester small businesses.
- ✦ Modifying the “boot camp” program currently run by GSC, which consists of three to four hour, non-credit business workshops. These workshops are open to the public as well as to individuals involved in the project. A Boot Camp run by Middlebury College, called Digital Bridges, (<http://www.digitalbridges20.net/home>), provides an interesting variation of the concept. Begun initially as an intensive weekend training for entrepreneurs held at the College, this program has become a student-supported outreach program to area entrepreneurs which now includes:
 - ✓ The Middlebury Solutions Group (MSG) offers free venture-coaching services aimed at helping early-stage and start-up enterprises get from concept to implementation. Clients get help conducting market research, opportunity assessment, and competitor analysis; developing enterprise models, marketing plans and Web-presence; and presentation coaching.
 - ✓ An Entrepreneur’s Forum
 - ✓ An Annual Conference on more philosophical topics (social responsibility, goal setting, venture capital)

Length/Exit Strategy

Currently, the incubator project itself is a 10-year plan – tied to a 10 year lease with the building owner, with a right of first refusal if the owner has a buyer after the first 10 year lease period. During that first 10 year period those involved with the incubator would determine if this model should be replicated in another building in Downtown or if it has been so successful in facilitating new business creation and filling Downtown storefronts that its mission has been fulfilled.

As for the incubator tenants, according to the National Business Incubation Association, small business incubators are programs “designed to accelerate the successful development of entrepreneurial companies through an array of business support resources and services, developed and orchestrated by incubator management and offered both in the incubator and through its network of contacts. Incubators vary in the way they deliver their services, in their organizational structure, and in the types of clients they serve. Successful completion of a business incubation program increases the likelihood that a start-up company will stay in business for the long term (historically, according to NBIA, 87% of incubator graduates stay in business).” Retail incubators are a newer version of the small business incubator, which started out as

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a support system for technology companies needing specialized services and significant amounts of investment capital, and were most often connected to research universities. Other types of incubators developed later, for manufacturing, the arts, food, and retail. Regardless of the business occupying the incubator, they all have some basic similarities:

- ✦ Shared common areas and basic business/office assistance/access to equipment
- ✦ Access to other start-up businesses for idea sharing – the “water cooler” effect
- ✦ Technical assistance programs in skills needed to run a successful business
- ✦ Assistance in accessing capital
- ✦ Subsidies to the incubator that help reduce the cost of doing business (whether it is for space, shared marketing, or other assistance)

Range of Services

An effort has been made, in discussing the range of services that could be offered to incubator tenants and Rochester area entrepreneurs, to make use, as much as possible, of existing education and training providers so that the incubator does not need its on-site management to develop or coordinate this function.

1. Commercial Kitchen

One of the services that rose to the top of many people’s “wish list” in support of potential incubator tenants was a commercial kitchen that would be used by specialty foods producers and a hoped for small café for the site. However, putting in a commercial kitchen would have either taken up valuable space on the main floor or been extremely expensive to do in the basement, not only for the usual reasons that such installations are expensive both to install and to maintain according to regulations for such operations, but also for the added expense of bringing the basement up to code. The resolution of this question was two-fold.

- a. A local café/caterer is very interested in setting up a satellite operation at the incubator. This would provide the products and management for an on-site café which could do all cooking at the “home” site, pay rent for the space, and generally take all responsibility for the business while providing the service to incubator tenants and customers as well as Main Street customers without problematically competing with an established business.
- b. As discussed in greater detail in the letter from the Creteau Tech Center which appears later in this report, the Tech Center’s new commercial kitchen will be completed and fully permitted in a year’s time. The incubator project has been encouraged to negotiate facility use with the programs director. In addition, the Center believes that use of the facility could also come with possible student assistance in the form of interns, work experience or cooperative education plans.

2. “Boot Camp”

The letter that appears later in this report from Granite State College describes the “Boot Camp” concept as currently offered by GSC at the North Country Campus. Boot Camps consist of three to four hour, non-credit business workshops. These workshops would be open to the public at-large as well as to individuals involved in the project. Faculty hired to lead the workshops will be qualified in the content areas and will be drawn from GSC faculty, the Small Business Development Center and appropriate local practitioners. Implementing the program in Rochester would seem to be fairly simple and include:

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- a. This program could also be offered at the GSC Rochester Campus, or at the incubator site. The program is fee for service, but at the North Country Campus contributions from ,among others, Laconia Savings has kept those fees to \$50 a session. Given Laconia’s participation in the feasibility study process, it can be hoped that they will provide similar services in Rochester.
- b. It would be useful to research Boot Camps as they are operated by other institutions – notably Middlebury College’s Digital Bridges. This could provide some interesting additional ideas for programs that GSC might consider offering.

3. One-on-One Technical Assistance

The SBDC works and will continue to work directly with individual entrepreneurs to provide technical assistance in such things as writing a business plan, in concert with its extensive menu of online training programs. At times it works in concert with GSC on the Boot Camp and other training programs.

In addition, there was interest among those professionals who attended the various community meetings about establishing a team of lawyers, accountants, bankers, and insurance brokers, to provide professional assistance at a discounted price – with the expectation that as the business grew, it would become a loyal customer. Gerry Gilbert of Profile Insurance expressed an interest in assembling such a group of technical assistance providers.

Who should run/operate the facility?

As outlined earlier in this section, the Rochester Main Street Executive Director will have an office in the incubator and will serve as Incubator Manager with the assistance of (1) the Advisory Committee for developing and implementing incubator recruitment programs; (2) the Seacoast SBDC Regional Director for developing training programs and coordinating with area education providers; and (3) the Rochester Economic Development Commission assisted by the Rochester Economic Development Director for overall incubator management.

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APPENDIX

Text of letter from Tessa McDonnell, Granite State College	Separate Document
Text of Letter from Courtney Ritchings, Creteau Tech Center	Separate Document
Limited Building Conditions Assessment	Separate Document
Phase I Environmental Assessment	Separate Document