

PURPOSE:

Determine if RBTC has adopted the **business incubator operations(training through graduation)** best practice standards for its **tenant business incubator** program identified by the US Department of Commerce Study and substantiated by the National Business Incubator Association (NBIA). Identified in workpaper C4 tab 'Incubator Operations-Pacesetters'.

SOURCE:

Dan Calloway, Business Officer RBTC
Commercial Real Estate Market Research:
http://www.cassidyurley.com/Research/MarketReports/Report.aspx?topic=Raleigh_Office_Q1_2013_Market_Report&action=download C4d(3)
Tina Townes, Facility Manager
Lease Application C4d(2)
RBTC Current Tenant List C4d(1)
NBIA Graduation Domain cites a survey addressing length of tenancy:
http://www.nbia.org/resource_library/peer/benchmark/resource_library/graduation.php

Methodology:

Met with Dan Calloway (4/10/13), Bob Robinson, and Tina Townes, Facility Manager at separate times.

Identify and analyze evidence of business incubator operations best practices that are followed or are potentially followed. See summary of assessment and narratives below.

Review list of current tenants.

Request tenant information for past few years to review length of tenancy for each tenant for the time period covered.

Document overall conclusion.

CONCLUSION:

The tenant incubator program operates like a low rent facility with shared services. Criterion addresses that a tenant should be a small business but there is no other criterion for selecting tenants. The current program admits small businesses for tenancy but does not offer a formalized coaching and mentoring program, there are no goals or plans for each tenant, and there are no graduation requirements to when a tenant should move one to allow space for another.

A review of the current list of tenants shows that there is a major non-profit organization that has its home in another state occupying space.

We requested a list of tenants since 2008 in an email, see workpaperC4d(4) for the email request. We were not provided the information. Instead we were provided a current list of the tenant lease dates without the tenant information. From this information we can see that there are two tenants that have been in the facility for at least nine years, rooms 102 and 109, which have been in the facility nine plus years. These organizations do not appear to be service providers based on the current list and the room numbers it appears that the tenants are Metro Development and Netronix, not organizations recently (2011, 2012) paid by the RBTC. Most of the tenants have been in the facility 3 years, longer than the RBTC planned time but within reason in comparison to general business incubator tenancy.

Slow or non-payment procedures are not documented.

<u>Assigned Reference # from w/p C4</u>	<u>NBIA Standards</u>	<u>Auditor Assessment:</u>	<u>Meets Standards</u> Based on information documented in this workpaper
22,42,41, 44,53	<p>Meet with clients for progress reporting - Graduation - The incubator regularly monitors client progress toward achieving graduation criteria.</p> <p>Showcase client success to the community - Marketing and PR - This incubator showcases clients to the community through its web site, open houses, press releases and other means.</p> <p>Evaluate outside service providers - Serving Clients - This incubator adds, removes, or changes business assistance services as the result of systemic evaluation based on its mission statement, changes changes in clients or business conditions, surveys of client needs/requests and other factors.</p>	<p>There are no preset goals or graduation requirements for incubator tenants.</p> <p>The only marketing efforts related to tenants is with the employer partners and tenants are invited to networking opportunities.</p> <p>There are no services directly provided. Referrals are made to individuals as requested.</p>	No

	Evaluate services - Serving Clients - The incubator evaluates its services at least annually.		
43	Graduation - This incubator has implemented a graduation process based on established criteria that promote incubator and graduate success.	No criteria for graduating an incubator tenant.	No
43, 45	Graduation - This incubator has implemented a graduation process based on established criteria that promote incubator and graduate success. This incubator discusses graduation and exit strategies at regular client meetings.	There are no regular meetings for coaching, follow up as there is no needs assessment or plan created for tenants. Meetings would be at the request of the tenant.	No
44-45	Graduation - This incubator regularly monitors client progress toward achieving graduation criteria. This incubator discusses graduation and exit strategies at regular client meetings.	There are no regular meetings for coaching, follow up as there is no needs assessment or plan created for tenants. Meetings would be at the request of the tenant.	No
31	Selecting Clients - During the selection process, incubator management gains each company's commitment to providing revenue, investment, employment and other necessary data throughout the incubation period and for at least five years thereafter.	No information is gathered about the tenants revenue, investments, or employment and there is no commitment gained to do so.	No
28	Selecting Clients - The incubator has implemented an effective application and screening process that identifies companies that can help the incubator achieve its current mission,	Small businesses or startups are eligible but no other criteria is used.	No

30	Selecting Clients - The selection process identifies a potential client's needs and indicates how the firm could benefit from the incubator's services	Small businesses or startups are eligible to be tenants but no other criteria is used.	No
32	Selecting Clients - This incubator offers a comprehensive program of business assistance services.	The RBTC business officer is available at the request of the tenants with several types of services and referrals are made when in house is not available.	Needs Improvement
29	Selecting Clients - This incubator successfully selects entrepreneurs who support the incubator's goals, are willing to take advice and share information, and contribute to a positive atmosphere of entrepreneurial support within the incubator.	Small businesses or startups are eligible to be tenants but no other criteria is used.	No
18	Staffing - This incubator makes use of community mentors, business advisors and other experts to supplement services provided by staff	The RBTC business officer is available at the request of the tenants with several types of services and referrals are made when in house is not available.	Needs Improvement
49, 57 - 59	<p>Serving Clients - This incubator maintains regular contact with its graduates to obtain impact data, to assist current clients and/or to become potential project funders and supporters</p> <p>Measuring Impact - This incubator at least annually collects quantifiable data and information to ensure the incubation program is meeting its mission</p>	No impact information is gathered to determine the effect of the incubator on the business.	No

	<p>This incubator at least annually collects impact data (revenue, employment, investments etc.) from current clients</p> <p>This incubator collects impact data (revenue, employment, investment, etc.) from graduates on an annual basis for a minimum of at least five years</p>		
27	<p>Incubator Finances - This incubator collects amounts due from its clients, has mechanisms for dealing with slow payment or nonpayment and consistently uses those mechanisms.</p>	<p>RBTC has procedures that are not documented</p>	<p>Informal</p>

Business Incubator Tenants

Based on discussions with the facility manager, anyone that has a small start-up company can apply for tenancy. Sister or parent companies are not identified as small start-ups and will not be considered, for example a real-estate agent for a major company.

There is a standard application, a credit or trade reference request, and a request for financial statements. The financial statements are reviewed to ensure there is enough capital for the company to make rental payments. Trade references are followed up on to ensure the company is reliable based on their payment history with the reference. The facility manager makes the recommendation to the executive director RBTC and then There are no other criterion considered for entry into the tenant program. An annual lease is agreed upon each year.

Monthly rental rates per rooms are a base rate of \$1.50 per square foot, 50% of the base rate for shared services, plus \$25 per month for internet service. The rates are significantly below market rates for the area. Per a report published by Cassidy Turley, a nationwide commercial real estate services provider, the 2013 snapshot average asking

price of Class A was \$20.98, Class B was \$17.12 and Class C was \$14.73 in the Triangle, downtown Raleigh showed \$23.76.

Shared core services include 8 hours a month of conference room space, janitorial services, 24 hour access to the building, mailbox, and someone to sign for packages. Based on discussions with Bob Robinson and Dan Calloway there are no needs assessments, mentoring, or coaching for tenants. Although Mr. Calloway stated that the RBTC has an assessment tool that they have used for other clients in years past which assesses the current state of a company and helps them develop a plan to implement the results of the assessment. This was done in the past for clients.

Dan Calloway is the Business Officer for RBTC. He is available to assist the tenants or any business that comes into the facility with various elements of their business. He can help establish internal bookkeeping using quickbooks, refer individuals to accountants or cpa's, assist in the preparation of bank loans, review their financials, put together financial projections, strategic planning, help identify funding sources, identify ways to help get companies bonded and insured properly. Calloway also refers Pacesetters and other tenants and other small businesses to contract opportunities through the RBTC network of people and businesses, in particular construction contractors. Mr. Calloway will email contractors if opportunities become available.

Mr. Calloway also refers people to the free resources that are available. He noted that there are a lot of free seminars and other resources that are offered by NCIMED, Durham Women's Business Center, Department of Revenue, and others. RBTC sometimes hosts these events and invites pacesetters and tenants to these events. NC LEAP, SBTDC, and NC Department of Administration.

Late Rental Payments

Tina works with the tenant to come up with a plan to pay current rent and a payment arrangement to pay on outstanding amounts when necessary. There is no set time period to work with a client but if it becomes clear that an arrangement cannot be worked out a review committee made up of 2 board members gets involved to try to work it out then the tenant is dismissed. These procedures are not documented.

Lease Renewals

Based on a review of profit/loss the RBTC executive director may allow an extension of the rental arrangement. Some Pacesetters have graduated out of the building and others have moved out because they were not so successful. The ideal incubation period, per the facility manager, is 24 months. These procedures are not documented.

There is no set exit strategy or graduation for tenants.

Outcomes

The RBTC does not collect any quantifiable data and information about the tenants to ensure the tenant incubation program is meeting its mission.

There is performance information reported to the City of Raleigh about overall programming in workpaper C4e although the information does not reflect on the effectiveness or outcomes of the business incubator services.

Marketing

Tenant incubator clients are promoted through employer partners and can attend networking opportunities. There are no other marketing efforts to promote tenant incubator clients.

Review of Tenant Information

Tina Townes, Facility Manager, had already provided a list of just the current tenants at my request while I was in the RBTC office. This information shows that John Hopkins University – Public Health Study. John Hopkins University is located in Baltimore, Maryland. The organizations listed also include E-Artronics & Creative Forces Studio (owned by Kimberly McClain-Community Connect) and Genuine Accounting Services. These individuals provided services to the RBTC.

We requested a list of tenants since 2008 in an email, see workpaper C4d(4) for the email request. We were not provided the information. Instead we were provided a current list of the tenant lease dates without the tenant information. See workpaper C4d(5) In a conversation, Mr. Wray explained that they felt the information could not be provided because the tenants had not been informed their information would be released. The current tenant list was provided earlier in the audit. We did not get a list of tenants since 2008 as requested so that we could see the pattern and types of organizations coming in and out of the facility. But based on the information provided, we can see the following:

- Tenants in room 102 and 215 have been in the facility nine years or more.
- There are 21 occupied rooms out of 28 rooms which were listed as occupied or were left blank. RBTC labeled rooms were not included in this count.
- 13 rooms leased for 3 or more years.

# of Years in the Facility	# of Tenants in each Year's Category
0	2
1	6
2	0
3	7
4	3
5	1
6	0

7	0
8	0
9	1
10	1

Per NBIA best practice information: "According to NBIA's *2006 State of the Business Incubation Industry* report, clients spent an average of thirty-three months in incubation programs. The range, however, was one to seventy-two months, reflecting the variation in time required for different types of businesses to achieve viability." Excerpted from Colbert, Corinne, Dinah Adkins, Chuck Wolfe and Karl LaPan, *Best Practices in Action: Guidelines for Implementing First-Class Business Incubation Programs, Revised 2nd Edition*, NBIA Publications, 2010, pp. 78-79. Also in this publication, the graduation practices of specific programs are described in "Graduation Requirements" and "Exit Policy and Graduation Criteria," pp. 79-80. (Available from the NBIA Bookstore.)