

BUSINESS INCUBATOR FEASIBILITY STUDY FOR LEA COUNTY, NEW MEXICO

Final Report
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Prepared for

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EXECUTIVE SUMMARY

Greenwood Consulting Group, Inc. (GCGI) has completed its analysis and concludes that a business incubator is conditionally feasible for Lea County, New Mexico. This conclusion has been reached after approximately 30 interviews, 84 market survey responses, and data collection from published and electronic sources were used to assess the feasibility of an incubator in this area based on six criteria in GCGI's feasibility model. Those six criteria are market, champion, real estate, business assistance, development funding, and financial self sustainability.

GCGI concludes that there is only a modest-sized potential market for an incubator in the Lea County area based on both primary and secondary data. Primary data include a survey completed by 84 persons, of which only 12 respondents expressed an interest in being a tenant of such an incubator. This represents a small number of potential tenants, both relative to the number of tenants needed to achieve reasonable occupancy levels of an incubator and in comparison to other communities in which GCGI has done incubator feasibility studies and market assessments. Secondary data include statistics for microbusinesses (i.e., those with no employees) in Lea County that show there is a relatively low level of entrepreneurial activity in the area, although the microbusinesses in the area are healthy in terms of their revenues and growth in those revenues over time. A very positive aspect to the market analysis is the interest among five existing firms in becoming anchor tenants of the incubator; anchors are a common phenomenon in business incubators, and their inclusion in the Lea County project could provide both an adequate tenant base until more entrepreneurship is nurtured in the area and meet an important need for existing local firms to have expansion room during the current tight real estate market in Lea County. Another positive part of the market analysis was identification of significant interest among survey respondents in becoming suppliers to the National Enrichment Facility, which could help strengthen and diversify existing local firms. The proposed incubator could play an important role in helping firms establish and maintain supplier relationships with NEF. GCGI concludes its assessment of the market for a Lea County incubator with a split score: if proponents of the incubator are willing to dedicate a substantial fraction of the incubator's space to anchor tenants, then the score is "4" or significantly above average, while if the proponents do not allow anchor tenants to play a significant role in the incubator, then the score is "2" or below average.

GCGI concludes that there are several possible candidates for champion of the incubator, including the City of Hobbs, the New Mexico Junior College Small Business Development Center, and the Economic Development Corporation of Lea County. GCGI also believes that a new entity with representation from these organizations, the private sector, and others also has merit as the possible champion. The EDC has a high level of support in the community to serve as the incubator champion, but received two negative scores from potential incubator tenants who ranked EDC in the market survey as "not very helpful" in their assistance to their businesses. In contrast, the NMJC SBDC received good support from survey respondents, but does not enjoy much support among community leaders. GCGI believes EDC is probably the best candidate to serve as champion, but the reasons for and magnitude of the negative rankings on its services must be resolved among small and start-up firms that would be the tenant base for the proposed incubator. GCGI scores the Lea County area as a "3" on this criterion, which is slightly above average.

Survey respondents expressed mixed preferences for the location of the proposed incubator, although downtown Hobbs and north Hobbs seem to receive the greatest overall support. Within these areas, three potential sites for the incubator were identified, including vacant land on the edge of the NMJC campus and in the Hobbs Industrial Air Park, and an existing vacant building at Sanger and Turner Streets in Hobbs. All three locations are viable, although GCGI found the existing building, a former Furrs Super Market, to be particularly appealing given that the time/effort to get a new building constructed could be avoided and the location is good for reasons stated in this report. At the same time, GCGI acknowledges some community leaders believe the Furrs location should be used for other economic development purposes. Because of the availability of several alternatives, the positive attributes of the alternatives, and some degree of consensus among survey respondents on the best location, GCGI assigned the real estate criterion a score of “4” or significantly above average.

GCGI found some evidence of unmet need for business assistance among entrepreneurs and small business owners in the Lea County area. Survey respondents indicated that several issues related to finances and financial analysis and recordkeeping were areas in which they needed assistance. Other areas of need included assistance with marketing and business planning. Diversification into other markets was noted by some survey respondents as a need, although GCGI believes more small firms in Lea County should be concerned about this, given historical high dependence on the oil and gas industry. Those survey respondents interested in becoming incubating tenants or anchor tenants in the proposed incubator had similar concerns, although they also expressed a need for legal assistance in business matters and intellectual property protection. GCGI concluded that the proposed incubator could meet many of the unmet needs expressed by survey respondents.

GCGI does not believe that the incubator should compete with existing sources of assistance, if those sources provide competent assistance at an affordable rate. As a measure of competency/affordability, survey respondents were asked to rate existing business service providers in the Lea County area as being “helpful,” “very helpful,” or “not very helpful.” Some service providers received higher marks than others, and some were relatively under utilized based on the number of survey respondents who said they had not used them. For-profit business service providers, such as accountants and attorneys, are used almost as heavily as non-profit and public sources, and receive similar satisfaction ratings. While community leaders interviewed by GCGI during this project had some problems with the NMJC SBDC, that same organization received reasonably favorable ratings by survey respondents. GCGI also spoke with several existing service providers to determine if they saw the proposed incubator as a competitor, and therefore would be less likely to support it; GCGI did not find any signs of such competitive concerns. Overall, GCGI gave Lea County as score of “3” or slightly above average on the business assistance criterion.

GCGI’s considered four scenarios for the Lea County incubator in its financial analysis, ranging from a newly constructed 12,000 square foot incubator facility to an incubator housed in the 47,000 square foot former Furrs Super Market building in Hobbs. This wide range reflects a very small incubator proposed by the City of Hobbs in its previous pre-application to EDA, and the availability of the Furrs building in a very tight local real estate market. Given the wide range of facility sizes, the expectation was for a wide range of potential development costs. The range is \$1.8 million for the 12,000 square foot facility to \$4.4 million for a newly constructed 30,000 facility in HIAP. The 47,000 square foot remodel of the Furrs building falls in between, at about \$3.2 million, which is seen as a good alternative to the 12,000

square foot new construction option because it represents almost 400% the space at only 177% the cost.

A lengthy list of possible funding sources for the Lea County incubator was developed, including Federal, state and local resources. Major dependence is placed on grant funding from the U.S. Economic Development Administration (EDA), which is the largest funder of incubators of all Federal agencies. Other major sources include city and county governments, state government, private local donations, zero coupon bonds, Community Development Block Grant (CDBG) funds, loans, and proceeds from the sale by the EDC of the former Levi Strauss building to the Lea Regional Medical Center. GCGI believes this project will require securing and coordinating multiple funding sources; the number depends on the scenario chosen for the incubator, but would range from about 4 to 9. As the number of required funding sources increases, GCGI becomes more concerned about the risk of one or more source not approving funding (and the project not being able to cover the resulting gap from any of the other sources), and coordinating various reporting requirements and expectations of so many funding sources. GCGI assigned a score of "4" to the Lea County incubator project on this feasibility criterion, to reflect the project's apparent ability to cover its development costs through strong local sources and early indications of EDA's interest in the project.

GCGI considered the operating budgets for the first five years of the Lea County incubator under each of the four scenarios, as well as variations on two of the scenarios. GCGI concludes that the 12,000 square foot new construction scenario has the weakest potential to break even and become financially self sustainable. Strongest is the scenario based on purchase of the 47,000 square foot Furrs building that would accommodate both a sizable incubator as well as one or more large anchor tenant. This scenario is so strong that financial break even might occur as early as the incubator's first year of operations, and at a very low occupancy level. Second most viable is that same Furrs-based scenario, but with a greater reliance on mortgage/loans instead of grant money. Much better financial viability might be achieved if significant contributions of staffing, utilities, and/or maintenance were received, but these were deemed as premature for inclusion in this analysis. Assuming the Lea County incubator is not based on the 12,000 square foot model used in the previous EDA pre-application, but instead one of the other scenarios is used, then GCGI would rate this project as a "4" on the financial sustainability criterion in our feasibility model, because several of the other scenarios have reasonable opportunities to become financially self sustaining.

Using its model, GCGI rates the feasibility of a Lea County mixed-use incubator (defined as an incubator that houses small and start-up businesses in a variety of industries) at approximately 74 points, with 100 being a perfect rating and 50 being that of an "average" incubator project (on an "academic" scale, this score is approximately a "B"). However, if the proponents of the Lea County incubator do not allow for substantial accommodation of anchor tenants, and if they pursue the 12,000 square foot new construction scenario for the incubator, then the Lea County incubator project's score drops to 65 points, which equates to an academic score of a "B-."

GCGI concludes that a business incubator is conditionally feasible in Lea County, which means that we believe an incubator can be successful in the community but also that there are some problem areas that we think should be addressed before the incubator gets developed.

The primary areas of concern, in GCGI's opinion, about the viability of an incubator in Lea County include:

- Very modest number of market survey respondents interested in locating their small or start up business in the proposed incubator;
- Some level of concern among some potential tenants about the proposed incubator champion;
- Mixed opinions about the SBDC at NMJC, which along with the survey respondents' concerns about the possible incubator champion, could reduce the market for the incubator and/or splinter community support for the project; and
- Number of funding sources required, under some scenarios, to cover development cost of the incubator and the risk that one or more will not back the project and therefore leave the project short of the necessary funding level

GCGI believes that these areas of concern can be mitigated and, if they are, GCGI would remove the "conditionality" from its conclusion of the feasibility of a business incubator in Lea County.

Given the conclusion of conditional feasibility and the problem areas identified, GCGI recommends that the following actions be taken:

1. Continue to identify possible tenants for the incubator through actions such as holding focus groups with bankers, business leaders, Chamber of Commerce and Hispanic Chamber of Commerce members, and others who might be able to identify emerging candidates for the incubator. Also, hold several additional workshops, probably not in conjunction with the NMJC SBDC, on topics of interest to small and start-up businesses, especially microbusinesses. Attendees of those workshops should be briefed on the idea of an incubator in Lea County and asked to complete incubator surveys because they may be prime candidates for tenants or clients of the project. Workshops should be scheduled at varying times and days of the week to determine if those variables impact the likelihood of attendance.
2. Establish dialog with companies that expressed interest, on the market survey, in becoming tenants of the Lea County incubator, to confirm their level of interest and preferences (especially location) in the incubator. Keep them apprised of the project's progress, preferably via periodic emails, and use them as sounding board for ideas for what might be included in the incubator in the way of features, programs, assistance, etc.
3. The potential anchors in the incubator should be contacted to determine their level of interest and motivation, timing of their space needs, type of space required, and under what rental structure and related terms would they participate in the incubator. The lack of suitable alternative space for these firms also should be confirmed.
4. Community leaders should discuss the question of including a large amount of space for anchors in the proposed incubator, and come to a decision on the issue. If they agree that anchor tenants are important to the project, both for its financial viability but also for the other reasons that an anchor can be a valuable addition to an incubator (see Section 2.1.1.2), then GCGI believes the project has greater potential; if they believe anchors should be omitted, then GCGI would conclude a Lea County incubator is infeasible and not recommend that it be developed.

5. The EDC, perhaps through a neutral third party, should contact the survey respondents who are interested in becoming tenants of the incubator and who indicated that EDC was not very helpful when they sought its assistance. This should be used as an opportunity to confirm whether the dissatisfaction stems from past problems at the EDC, or current practices or perceptions that could be rectified. EDC has good support among community leaders, but must also have a good reputation with small and start up business owners for the EDC to serve as champion of this incubator project. Survey respondents who did not offer an opinion about the quality of EDC's services also might be contacted as part of this effort.
6. Once the City of Hobbs receives feedback from EDA on its rejected pre-application, it should be assessed and a new pre-application should be submitted based on a viable scenario as presented in this feasibility study.
7. In the EDA application, as well as any application to the New Mexico EDD for certification or funding, the Lea County incubator proponents should take credit for actions they have taken to address these recommendations and therefore reduce the "conditional" caveat on GCGI's feasibility conclusion. If significant progress can be made in these six areas, GCGI would revise its assessment of the feasibility of a business incubator in Lea County such that the project would be deemed to be feasible rather than conditionally feasible.

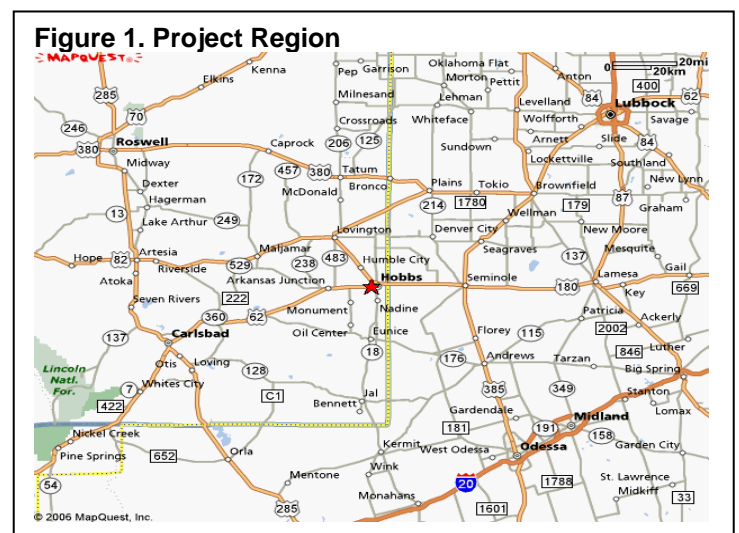
1.0 INTRODUCTION

The purpose of this project was to determine the feasibility of developing and operating a small business incubator in Lea County in far southeastern New Mexico. An incubator is defined as a facility, services, and programs that collectively provide a supportive environment for new and small businesses to grow and prosper. There are approximately 1,000 incubators throughout the United States, including approximately seven in New Mexico. A feasibility study is designed to answer two questions:

- Will an incubator likely survive and thrive in the area?
- Would an incubator help meet the economic development goals and objectives of the area?

This project was commissioned by the J.F. Maddox Foundation (Foundation), a local foundation headquartered in downtown Hobbs, New Mexico. Greenwood Consulting Group, Inc. (GCGI), which has over 30 years of collective experience in the incubator industry and has prepared feasibility studies and similar incubator projects for almost 50 communities throughout the United States, was selected to lead the project.

The study area consists of Lea County, New Mexico. The map in Figure 1 shows



that the study area borders Texas to the east and south. Lea County is about 300 miles southeast of Albuquerque and approximately 100 miles southwest of Lubbock, Texas. The city of Hobbs is located in the Hobbs Metropolitan Statistical Area (mSA), which encompasses all of Lea County.

Hobbs is the largest town within Lea County, with a 2000 population of about 28,700 persons. However, the entire population of Lea County is about 55,500 persons, suggesting there are smaller towns and rural areas in the County in which many Lea County residents live. Figure 2 shows the populations of the five largest communities in Lea County, and also shows that a significant fraction of the County's population lives outside those communities. It is important to note that Lea County has a very high Hispanic segment to its population: According to the US Census Bureau, almost 40% of Lea County's population in 2000 was Hispanic.

Figure 2. Place of Residence in Lea County

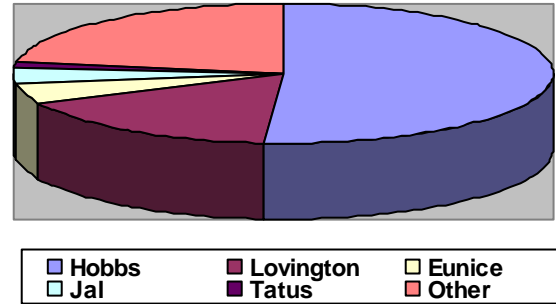


Table 1 (see page 7) shows some demographic characteristics of Lea County and Hobbs, and compares them with equivalent statistics for the United States and the state of New Mexico.¹ While both the US and New Mexico are growing, Lea County and Hobbs actually lost modest numbers of residents between 1990 and 2000. Both Lea County and Hobbs are slightly younger than the New Mexico and US populations, with slightly higher percentages of residents 18 years of age and younger.

Three characteristics in Table 1 suggest the need for better economic opportunities in the Lea County area:

- Average household incomes in Lea County and Hobbs are only 71% and 67%, respectively, of the national average, and both are below the New Mexico average;
- Over 20% of Lea County residents live at or below the poverty level, while almost 25% of Hobbs residents are below the poverty level²; and
- The unemployment rate in Lea County was more than twice the US and New Mexico averages, and the rate in Hobbs was about 75% higher..

One challenge to increasing incomes and reducing poverty is the relatively small fraction of Lea County residents who are high school graduates as well as the fraction that hold Bachelor's or higher degrees. For example, the fraction of Lea County residents with a bachelor's degree or higher is only half of the fraction of US and New Mexico residents with the same educational attainment level. This would make the Lea County area, for example, relatively unattractive for technology-related businesses that require a highly educated workforce.

¹ Much of the most recent data in Table 1 is for the year 2000, or six years before this analysis. GCGI chose to use 2000 data because not all of the demographic characteristics shown in Table 1 are available for more recent years. We felt it was better to show data for a consistent year, realizing this requires the use of older data than might be available for some characteristics.

² Poverty statistics for Lea County and Hobbs are even more dramatic, if family data are considered (vs. individuals). For example, in 1999, 30% of families in the county with children under 5 years of age lived below the poverty level, while the figure for female headed households was an alarming 73%

These data are relevant to understanding the Lea County area and its economy, and its need for and opportunities to support a successful business incubator, as will be discussed later in this report. It also suggests that the Lea County area likely will be a good candidate for incubator funding from the Federal government that is based on adverse economic conditions like poverty and unemployment.

Table 1. Demographics of Lea County, New Mexico

	US	NM	Lea County	Hobbs
Population, 2000			55500	28700
Population change, 1990-2000	13%	20%	-0.44%	-1.6%
Average Household Income	42000	34100	29800	28100
% Poverty	12%	18%	21%	24%
Unemployment rate, 2000	4%	4%	9%	7%
% 18 Years or younger	26%	28%	30%	30%
% 65 Years or older	12%	12%	12%	12%
High School Graduates	80%	79%	67%	66%
Bachelor's degree or higher, popul 25yrs+	24%	24%	12%	13%

1.1 INCUBATOR FEASIBILITY MODEL

GCGI uses a criterion-based methodology for assessing the feasibility of business incubators that incorporates a quantitative analysis and presentation. The GCGI Incubator Feasibility Model[®] begins with a set of criteria that, if satisfied, indicate that the feasibility of the proposed incubator is likely. GCGI uses the following criteria in a feasibility analysis of an incubator:

- evidence of adequate market of potential tenants/affiliates;
- existence of a competent and willing champion;
- availability and suitability of real estate;
- existence of business assistance resources willing to help incubator tenants/affiliates, and evidence of unmet business assistance needs of local entrepreneurs;
- ability to raise sufficient funds and in-kind contributions to develop the incubator; and
- ability of the incubator to become financially self-sufficient or self-sustaining.

These criteria cover the most critical issues in determining feasibility, based on GCGI's experience in developing and managing incubators. They also distinguish two related but very different financial issues, the ability to get a project constructed and started versus the ability to sustain its operations over time.

GCGI assigns each of the aforementioned criteria a weight on a scale of 0 and 5, with 0 being "irrelevant" and 5 being "mandatory." The same weights are used on all GCGI incubator feasibility projects assessed under this methodology so that comparisons among projects are possible (an exception is the adjustment of the weights over time, as changes in the incubator industry or overall business environment occur). Section 3 will further define the weights assigned to each criterion in the GCGI Incubator Feasibility Model[®].

GCGI offers two cautions regarding our feasibility analysis of an incubator. First, the purpose of the feasibility analysis is to determine if adequate opportunities exist to meet the six criteria in our model, but not to specify the exact location, content, market, and other variables of the

incubator. These specifics are better left for the business plan, which should be prepared if the results of the feasibility study are sufficiently promising. Second, we do not believe that the feasibility assessment can be reduced to a simple “go/no go” decision based on a numeric score or grade. There are qualitative factors that must be considered, and often GCGI has offered conditional feasibility assessments meaning that the likelihood of feasibility is enhanced if the community takes appropriate actions to mitigate certain weaknesses identified in the feasibility study.

In the next section, how well Lea County meets these six incubator feasibility criteria will be addressed in detail.

2.0 EVALUATION OF LEA COUNTY RELATIVE TO THE SIX INCUBATOR FEASIBILITY CRITERIA

2.1 Market Criterion

Evidence of a market for the incubator is a critical component to the feasibility study—it does not matter that the other five criteria are satisfied if there is not an adequate pool of entrepreneurs who might utilize the incubator and its programs and services. GCGI collected both primary data on potential tenants and clients by surveying entrepreneurs about their needs and interests, and secondary data about the market.

An important initial issue in assessing the market is estimating the number of companies that would need to be attracted as clients of the incubator to ensure viability of the project. Using data in two National Business Incubation Association (NBIA) reports, GCGI estimates that the “average” tenant in a mixed-use incubator³ occupies between 1,700 and 1,900 square feet⁴ of space. Because we believe that companies in the proposed Lea County business incubator would be smaller and younger than the national average, we conservatively estimate the average tenant in the Lea County incubator would occupy only 600 square feet.

Assuming that 75% of the incubator space is available for lease (i.e., 25% is dedicated to common areas like conference rooms, restrooms, reception area, and hallways), the number of tenants that would be housed in a mixed-use incubator in the Lea County area at various occupancy levels and building sizes is shown in Table 2 (see page 9). The four building sizes listed in Table 2 are consistent with several possible sizes for the Lea County incubator. The 12,000 square foot facility corresponds to the preliminary application submitted by the City of Hobbs to the U.S. Economic Development Administration in October 2006 for an incubator. The 16,000 square foot facility is consistent with the original size proposed in that pre-application for funding for the incubator (and also could be used to estimate the number of tenants required in a bigger facility if part of it is dedicated to anchor or non-incubating tenants). The 30,000 square foot size is consistent with incubator industry norms. The 47,000 square foot size corresponds to a specific available building for the incubator. Note that these estimates also can be used if an “anchor tenant” (see Section 2.1.1.2) is included in the incubator; for example, a 30,000 square foot facility in which one or more

³ A Mixed use incubator caters to a variety of business types, and is usually best suited to rural and small towns where the overall market for an incubator is smaller. A mixed use incubator is inclusive of manufacturing entrepreneurs, which was suggested as a major focus for a Gallup incubator, but is broad enough to include other industries such as services.

⁴ *Business Incubation Works (1997)*, and *1998 State of the Business Incubation Industry*, National Business Incubation Association. An update in 2002 to the State of the Business Incubation Industry report does not differentiate tenant from non-tenant clients and therefore is not used here

anchor tenants occupies 14,000 square feet could still accommodate as many tenants as shown in Table 2 for a 16,000 square foot incubator.

Table 2 indicates that a relatively large number of tenants is needed to occupy significant fractions of a Lea County mixed-use incubator. For example, an incubator of 16,000 square feet of gross space would need 16 tenants to have an 80% occupancy level, and about 30 tenants are required to achieve 80% occupancy in a 30,000 square foot incubator. Note that this number climbs to 47 tenants to achieve 80% occupancy in a 47,000 square foot incubator.

Table 2. Number of Tenants Served at Various Occupancy Rates

Gross Incubator Area	Percentage of Leasable Space Occupied						
	30%	40%	50%	60%	70%	80%	90%
12,000 sf	5	6	8	9	11	12	14
16,000 sf	6	8	10	12	14	16	18
30,000 sf	11	15	19	23	26	30	34
47,000 sf	18	24	29	35	41	47	53

2.1.1. Primary Market Analysis

2.1.1.1 Survey Responses from Area Entrepreneurs

GCGI surveyed local entrepreneurs to determine their level of interest in a possible Lea County business incubator. A written survey form was developed, and was distributed throughout the area. Efforts to disseminate the survey included distribution to membership list of the Economic Development Corporation of Lea County, and client list of the Small Business Development Center at New Mexico Junior College. The survey also was disseminated at a “challenges of starting and operating a small business seminar at NMJC in October 2006. The survey was available in both paper form (returnable by mail with prepaid postage or fax), and on GCGI’s website where respondents could complete and email the survey back.

Based on these considerable efforts during the Fall of 2006, approximately 1,400 surveys were disseminated, of which 84 were completed and returned by a mid October deadline. The fraction of surveys that were returned is small (about 6%), but this is not unusual for direct mail surveys. The actual number of responses was one of the largest among the incubator feasibility studies conducted by GCGI, and is due in large part to the dedicated efforts of local organizations.

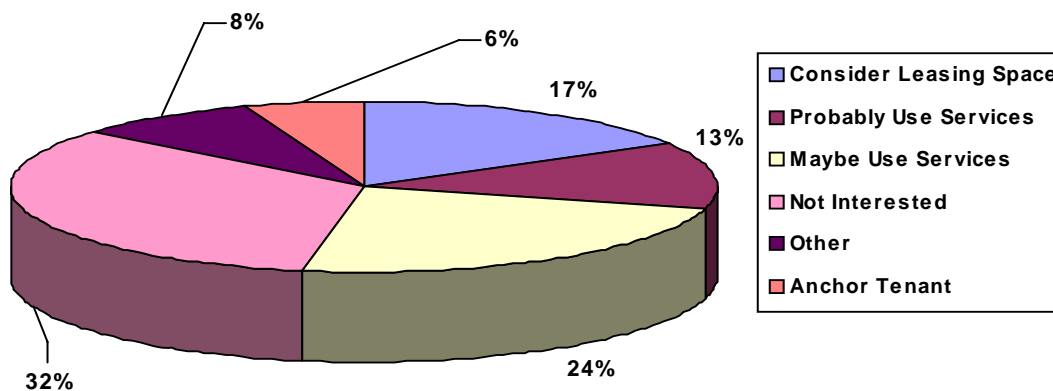
Appendix A to this report includes the tallied responses for those replies. Some of the more significant results, in terms of the market for an incubator, are:

- 96% of the respondents indicated that they thought a business incubator was a good idea for the Lea County area;
- 12 respondents, or about 14% of the surveys received, indicated an interest in becoming a tenant of a Lea County business incubator,
- another 4 respondents indicated interest in becoming “anchor tenants” of the incubator, as described later;

- another 26 respondents, or about 31% of the surveys received, expressed interest in using common resources and services at the incubator;
- 24 respondents (29%) said they did not anticipate having a need for the incubator for their own business, which is probably a reflection of the survey being completed by some existing, more mature businesses given the overall strong support for the idea of an incubator in Lea County;
- the primary resources sought at a Lea County incubator would be business assistance, loans, and networking opportunities. office and light manufacturing space are the most desired types of space in the proposed incubator; and
- areas of business assistance most highly sought in the incubator are financing, marketing, taxes, business planning, accounting, and personnel recruitment/retention/management.

Most of these results are positive in terms of the market for a Lea County incubator; however, the modest number of respondents interested in becoming tenants of the incubator is a concern. The relative levels of interest in the incubator are shown graphically in Figure 3.

Figure 3. Level of Incubator Interest Among Survey Respondents



Twelve respondents expressing interest in becoming a tenant of the incubator is very modest, both compared to the number of tenants needed to achieve various incubator occupancy levels (see Table 2), and the number/fraction of survey respondents who expressed interest in becoming a tenant of the incubator. An example of the latter being modest is a incubator feasibility study conducted by GCGI for McKinley County/Gallup, New Mexico in early 2006 where only 33 surveys were returned but eight, or about 24%, expressed interest in becoming a tenant of the incubator.

A positive outcome from the survey was the significant number of respondents interested in serving as anchor tenants to the proposed incubator. This outcome, and its importance, is discussed in the next subsection.

Appendix B summarizes the responses to the survey from only the firms and entrepreneurs who expressed an interest in becoming a tenant of the Lea County business incubator. In general, the results of this subset track those of the overall pool of survey respondents, with several significant differences:

- A greater fraction of the potential tenants are start-up businesses rather than existing firms; 58% of potential tenants are start ups, versus 26% of all survey respondents;
- But only 10 of the 22 start up firms responding to the survey expressed an interest in being a tenant of the incubator; therefore, the incubator concept is not attractive to a large fraction of newly forming businesses in the Lea County area;
- Potential tenants were more anxious about having high speed Internet access in the incubator than were survey respondents as a whole, and also were more concerned about inclusion of common resources like conference room and reception area;
- Potential tenants predominantly sought office space, with little interest in manufacturing or laboratory space. Also surprisingly, there was substantial interest among potential tenants in the incubator containing shared commercial kitchen space; and
- Potential tenants were more interested in assistance with intellectual property protection than were survey respondents as a whole.

Of the survey respondents interested in becoming tenants of the Lea County incubator, the following business descriptions were offered:

- Pack & ship, document storage & destruction
- Website, IT services, technology consulting
- Rehabilitation office
- IT servicing, technology products, design & development
- Commuting mkts with inventory control
- Service, dump truck hauling
- Day care for parents who have fallen through cracks of government programs
- Run tools for oil field wells
- Independent insurance agency
- Not sure—maybe education?
- Donut & coffee lounge

These types of businesses might be best accommodated in a mixed-use incubator, with primarily office space and some light manufacturing space. Some of the heavier industrial uses may not be suitable, in which case not all of these tenant candidates could be accommodated in the incubator.

Specific results from this important subset of the survey respondents will be discussed throughout this report, because the viability of the incubator would be heavily dependent on meeting the needs and expectations of prospective tenants.

The level of interest in Lea County, as expressed through the survey, is indicative of only a modest market for an incubator in this community. For example, when the survey results are considered in light of the number of tenant companies needed to achieve various levels of occupancy of an incubator (see Table 2 on page 9), this level of response would be consistent with an initial occupancy level of about 35% in the 30,000 square foot incubator facility. However, additional measures of the market for a Lea County incubator are considered here, to determine if they might reveal additional market opportunities for the proposed incubator.

2.1.1.2 Identification of Potential Anchor Tenants

As mentioned in the summary of the market survey conducted during the Lea County incubator feasibility study, there were several companies that expressed an interest in becoming part of the incubator as anchor tenants. An anchor tenant in a business incubator is defined as a firm that is sufficiently mature to not need the services and programs typically provided to new and early stage businesses. Four such firms indicated their interest through the incubator survey, while a fifth was interviewed by GCGI during the feasibility project. These companies are in information technology, oil & gas, tire sales and service, frozen food products, and trucking. The unusual level of interest among firms in being an anchor to the Lea County incubator may be caused by several factors: first, the booming oil and gas industry in Lea County at the time of this feasibility analysis left little available space for existing firms to expand into. Second, ground breaking on the National Enrichment Facility in Lea County during this study also was creating additional demand for space for firms expanding rapidly as the NEF development effort ramped up. And third, GCGI believes in some instances the potential anchors perceived the importance of an incubator-like project to expanding and diversifying the Lea County economy, and wanted to support the initiative.

GCGI believes these potential anchors are important to the proposed Lea County business incubator for several reasons. First, anchor tenants sometimes serve as mentors or role models for other tenants that are start-up and early stage entrepreneurs. Second, anchor tenants sometimes represent market opportunities for other tenants, as they may purchase goods and services from them. Third, anchor tenants can enhance the financial viability and stability of the Lea County incubator, and (as discussed in the preceding section) likely reducing the number of incubating tenants required to achieve critical occupancy levels. Fourth, the tight commercial and industrial real estate market in Lea County is undoubtedly restraining some existing firms from expanding, which is detrimental to stated efforts to diversify the area's economy—that deterrent can be mitigated, at least in part, by aggressively including anchor tenants in the proposed Lea County incubator.

A final reason why an anchor tenant would be a valuable feature of a Lea County incubator is the opportunity that exists to begin creating an information technology (IT) "cluster" around one such anchor tenant candidate. This candidate is an existing IT business that has recently experienced substantial growth as it has sought and received sizable contracts related to the National Enrichment Facility. This IT anchor could serve as the starting point for a "cluster" of IT-related businesses in the proposed incubator. In fact, two of the 12 respondents to the incubator market survey who are interested in becoming tenants are in IT, and appear to be good candidates to support and leverage the work of the proposed IT anchor. Put another way, information technology would be a good local industry to encourage in the Lea County area, and the identified and interested anchor tenant could be a major determining factor in whether an IT cluster can be developed in the incubator.

It should be noted that anchor tenants are often included in business incubators. The 2002 State of the Business Incubation Industry by NBIA indicates that "at least half of all [incubator programs surveyed] had anchors," and those anchors occupied an average of 19,000 square feet of space. Both the NBIA study and a 2004 survey of business incubators in Appalachia indicate a typical incubator has one or two anchor tenants. It also is not necessary for the anchor to be in the same facility as the rest of the incubator, although such a division is not optimal since this reduces opportunities for the synergistic interactions between the anchor and incubating tenant companies.

It is possible, through some combination of the firms mentioned above, that anchor tenants could occupy 20,000 to 30,000 square feet of the proposed Lea County incubator. This obviously would expand dramatically the overall initial occupancy in the incubator. However, the proponents of the Lea County incubator must be comfortable not only with inclusion of anchor tenants, but also with anchors occupying a substantial fraction of the incubator facility.

Therefore, with the assumed anchor tenants, the primary market data collected through the market survey demonstrated a much more viable market for a business incubator in the Lea County area.

2.1.2. Secondary Market Data

As part of the analysis of the market for the Lea County business incubator, GCGI looked at a number of secondary market data sources. There are two reasons for looking at secondary data. The first is to see if they are consistent with the conclusion, based on the number of surveys received, that there is only a modest market of entrepreneurs and small businesses for an incubator in the Hobbs area. The second is to look for indicators that could further define the types of companies that might be candidates for the proposed business incubator.

The most important conclusions from the secondary sources are based on data for microbusinesses in Lea County.

2.1.2.1. Microbusiness Market

Statistics reported by the U.S. Census Bureau, which are derived from tax returns to the Internal Revenue Service, indicate that there about 2600 microbusinesses in Lea County. Microbusinesses are defined here as those that are so small that they do not have any employees. Most are sole proprietorships of “self employed” individuals, although nationally about 10% are partnerships or corporations without employees. These microbusinesses represent a good market opportunity for a business incubator, since microbusinesses (except for those intentionally set up as part-time endeavors or “hobby businesses”) are growth candidates and could benefit from the environment of an incubator.

Table 3 includes relevant data about microbusinesses in Lea County, and for New Mexico and the United States, for comparison. One measure of microbusiness activity is the number of microbusinesses formed per each private business establishment that has employees. Lea County is significantly below both the national and state averages, suggesting that there are relatively few entrepreneurs within the Lea County economy. In fact, the number of Lea County microbusinesses dropped between 1997 and 2003, while the state and nation experienced increases of 34% and 42%, respectively, in the number of microbusinesses.

Table 3. Microbusiness Activity in Lea County and Elsewhere

	Lea County	New Mexico	USA
# microbusinesses, 2003	2630		
# microbusiness per private establishment	1.9	2.5	2.6
# microbusinesses per 1000 residents	48	57	66
growth, micro, '97-'03	-8%	34%	42%
\$ receipts/microbusiness 2003	\$41,400	\$36,100	\$44,500
Growth, receipts per microbusiness, '97-'03	33%	21%	17%

However, the data for Lea County microbusinesses is not all negative: the average microbusiness in Lea County had higher revenues than the average microbusiness in New Mexico, and the growth in those revenues between 1997 and 2003 was 33%. Therefore, although the number of microbusinesses in Lea County declined between 1997 and 2003, the average microbusiness saw very healthy revenue gains in that same time period. This suggests that, although there are relatively few microbusinesses in Lea County, those microbusinesses that exist are larger, contributing more to the local and regional economy, than a typical microbusiness elsewhere in New Mexico. Note also that the average receipts of a Lea County microbusiness, at \$41,400, far exceeds the average household income in the County of \$29,800 (see Table 1); this suggests that microbusinesses might be a viable way for the average household in Lea County to improve its income and overall standard of living, which in turn would reduce the high incidence of poverty discussed earlier in this report.

Table 4 can be used to identify those industries in which the microbusinesses of Lea County are found. The categories listed on the left side of the table represent the 2 digit codes for the North American Industry Classification System (NAICS), which in 1997 replaced the Standard Industrial Classification (SIC) system. The table shows both the number of Lea County microbusinesses in each category, as well as what fraction of Lea County microbusinesses are in the category. And, once again for comparative purposes, data are shown for microbusinesses throughout the state of New Mexico.

Lea County has an unusual number of microbusinesses in the mining industry, which is not surprising given the dominance of the oil & gas industry in the county. The same industry also accounts for the higher incidence of transportation-related microbusinesses in Lea County. Other categories, such as retail, are more prevalent in Lea County but GCGI does not have a good explanation for the difference. It is disappointing that there are few microbusinesses in the professional, scientific and technical category (representing 8% of

Table 4 Distribution of Microbusiness Establishments by NAICS Category, 2003

NAICS	# of Microbusinesses Lea County	% of All Lea County Microbusinesses	% of All New Mexico Microbusinesses
Forest	31	1%	1%
Mining	334	13%	1%
Util	11	0%	0%
Construct	247	9%	9%
Manuf	49	2%	3%
Wholesale	46	2%	4%
Retail	349	13%	10%
Transp	120	5%	3%
Info	12	0%	1%
Finance & Ins	49	2%	3%
Real Estate	197	7%	10%
Prof/Sci/Tech	204	8%	14%
Mgmt of Cos/Admin/Waste	165	6%	5%
Educ	11	0%	2%
Health care	217	8%	11%
Arts/entertain	67	3%	6%
Accommod/food	42	2%	1%
Other	479	18%	13%
Sum	2630	100%	100%

Lea County microbusinesses, vs. 14% statewide), as this NAICS industry classification is one that could help diversify the county's economy and provide higher per capita incomes. However, GCGI believes that the introduction of the National Enrichment Facility to Lea County may lead to more microbusinesses in this category because consultants and contractors to NEF may fall into this classification.

Some categories in Table 4 are not reasonable markets for a mixed-use incubator, such as Accommodations/food and retail. However, there are a significant number of microbusinesses in other categories that might be suitable, including construction, manufacturing, wholesale trade, professional/ scientific/technical, management/administration, and education. As highlighted in Table 4, these categories alone include about 700 microbusinesses in Lea County.

Manufacturing is an area of interest in the Lea County economy, yet Table 4 suggests there are few microbusinesses in this classification.⁵ Most of the other categories that are highlighted in Table 4 could be accommodated in a mixed-use incubator that includes primarily office space, with some open bay space to accommodate light manufacturing/assembly, warehousing functions, and other uses that would not be inconsistent with the dominant office space.

GCGI believes a business incubator would contribute to the growth and development of microbusinesses in the Hobbs area. While microbusinesses are small firms with no employees, they represent a substantial fraction of the economic activity in Lea County. They also represent an opportunity for growth so that additional jobs and business revenues might be created in the area. GCGI believes these microbusinesses are a good opportunity and market for economic development in the area and should be supported with initiatives such as an incubator. As an example of the possible impact of microbusiness growth, if only half of such firms in Lea County could be assisted and subsequently they were able to increase their revenues by 20%, this would result in the generation of about \$22 million in additional local business revenues. However, as outlined in this section, microbusinesses in

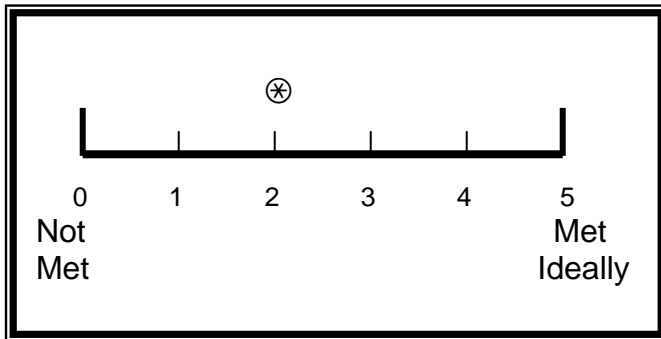
⁵ The definition of what is meant in Table 4 by "manufacturing" is explained in this quote from the US Census Bureau: "The boundaries of manufacturing and the other sectors of the classification system can be somewhat blurry. The establishments in the manufacturing sector are engaged in the transformation of materials into new products. Their output is a new product. However, the definition of what constitutes a new product can be somewhat subjective. As clarification, the following activities are considered manufacturing in NAICS: Milk bottling and pasteurizing; Water bottling and processing; Fresh fish packaging...; Apparel jobbing (assigning of materials to contract factories or shops for fabrication or other contract operations) as well as contracting on materials owned by others; Printing and related activities; Ready-mixed concrete production; Leather converting; Grinding of lenses to prescription; Wood preserving; Electroplating, plating, metal heat treating, and polishing for the trade; Lapidary work for the trade; Fabricating signs and advertising displays; Rebuilding or remanufacturing machinery (i.e., automotive parts) Ship repair and renovation; Machine shops; and Tire retreading.

"Conversely, there are activities that are sometimes considered manufacturing, but which for NAICS are classified in another sector (i.e., not classified as manufacturing). They include: (1)Logging, ...Agriculture, Forestry, Fishing and Hunting...; (2)The beneficiating of ores and other minerals... is considered part of the activity of mining; (3)The construction of structures and fabricating operations performed at the site of construction by contractors...; (4)Establishments engaged in breaking of bulk and redistribution in smaller lots, including packaging, repackaging, or bottling products, such as liquors or chemicals; the customized assembly of computers; sorting of scrap; mixing paints to customer order; and cutting metals to customer order..., Wholesale Trade..., Retail Trade, produce a modified version of the same product, not a new product; and (5)Publishing and the combined activity of publishing and printing..., perform the transformation of information into a product where as the value of the product to the consumer lies in the information content, not in the format in which it is distributed (i.e., the book or software diskette)."

Lea County need considerable help since their numbers are declining, and they represent a relatively small fraction of the local economy when compared to the state and nation as a whole. Therefore, microbusinesses represent a good market opportunity for the proposed incubator, but also reinforce the results of the market survey that indicate only a modest market of small and start up businesses exist for the proposed incubator.

2.1.3 Market Criterion Conclusion

GCGI usually assigns a single score to each criterion in its business incubator feasibility model, based on how well the community/incubator being evaluated satisfies the criterion. However, GCGI feels it is appropriate to assign two different scores to the Lea County project on the market criterion. The first score is based on the “hard facts” that, despite getting a large number of surveys from its incubator market survey, GCGI received very few expressions of interest in becoming tenants of the incubator. The number of surveys

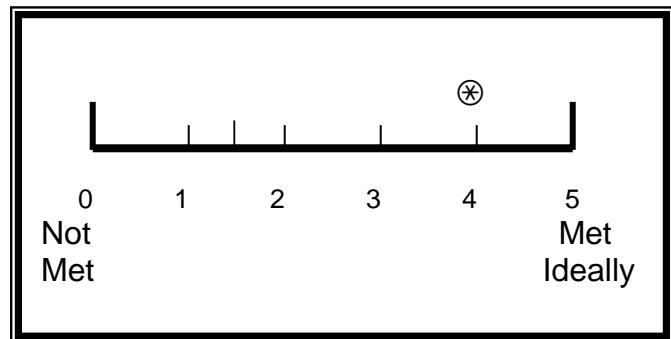


respondents willing to consider becoming incubator tenants is so small that it would represent an occupancy level of only 30-35%, which is very low. The secondary data collected on microbusinesses reinforces the conclusion that there are relatively few start-up and small businesses in Lea County that could benefit from the incubator. Therefore, on this basis, GCGI has assigned a score of “2” to the Lea

County incubator on the market criterion. This represents a below average score, in comparison with the “typical” community pondering an incubator.

However, Lea County has a unique opportunity to expand the market for its incubator to accommodate a substantial square footage of space for firms that are willing to become non-incubating anchor tenants. By accommodating one or more of these anchor candidates, the Lea County incubator would not only help local firms needing expansion room in the current tight real estate market, but also would create opportunities to create clusters in new industries, like the information technology cluster discussed in this section. Put another way, if the Lea County incubator focuses only on small and start up companies, GCGI doubts that it will succeed because of the dearth of such firms in the area, but if the incubator is

expanded to serve and accommodate anchor tenants, exciting other opportunities may open up. A final advantage of the Lea County incubator accommodating anchor tenants is that the incubator will be able to rely on these anchor tenants for financial stability (i.e., rental revenue) while it works diligently to lead and support efforts to diversify the local economy. Most incubators do not have the luxury of being



able to support such long-term diversification efforts, but the Lea County incubator would be uniquely situated to do so because of the preponderance of anchor tenant candidates. Therefore, the second score assigned to Lea County on the market criterion is “4,” which means Lea County can be substantially above average in terms of the market for the incubator if a substantial commitment is made to serving and accommodating anchor tenants.

2.2 Champion Criterion

The champion criterion measures the availability of an organization or individual who is committed to leading the incubator through its development and early operational stages. This champion must have the ability and tenacity to see the project through its difficult times, and also have the respect of others involved in the project so that they will continue to follow the champion's lead.

GCGI identified several possible champions during the course of its study: City of Hobbs, the Small Business Development Center at New Mexico Junior College, the Economic Development Corporation of Lea County, and a new entity.

The City of Hobbs, through its Planning Department, has been aggressively pursuing funding from the U.S. Economic Development Administration (EDA) for a new incubator in Lea County. Given this aggressiveness, the City is seen as one candidate for championing the proposed incubator. However, the City did not express an interest in championing the incubator, and seemed to be more supportive of the EDC taking on that role. The city did not garner strong support from the respondents to the incubator market survey conducting during this project; although the vast majority of respondents felt the city had been "helpful" to them, an equal number of respondents said that the city was "not very helpful" as said it was "very helpful." GCGI also believes that public or governmental entities, like the city, often are not good champions because they are not part of the private sector, which is the segment of the local economy that the incubator is supposed to support. Further, it may be hard for an incubator manager who is a city employee to gain the respect of tenant companies, since those firms may feel the manager does not live with the same day-to-day business issues (like cash flow shortages) that they face. Therefore, GCGI does not believe that the City of Hobbs would be a strong candidate as the Lea County incubator champion.

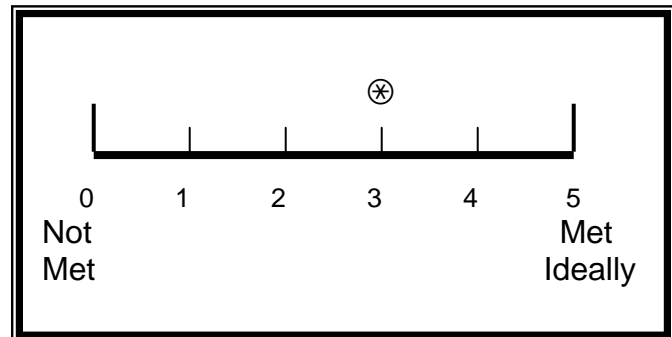
The Small Business Development Center at New Mexico Junior College is another candidate to serve as champion of the proposed Lea County incubator. SBDCs provide business counseling and training to small and start up businesses, as well as individuals deciding whether to start a new business. SBDCs often are linked to a business incubator because of the consistency between their role and the services provided by a typical incubator. In the market survey conducting during this feasibility study, the NMJC SBDC received high marks from many respondents as being "helpful" or "very helpful" to their small businesses. However, GCGI did not hear the same level of confidence or support of the NMJC SBDC during our interviews with entrepreneurs and community leaders that we conducting during this project. Therefore, we do not believe that the NMJC SBDC would be a suitable candidate to serve as the Lea County incubator champion, as we do not believe it could garner the necessary level of community support.

The Economic Development Corporation of Lea County, during this study, was most often mentioned as the most appropriate entity to serve as the incubator champion. The EDC has lead responsibility in the County for economic development activities, and supporting small and start up businesses within an incubator would be a reasonable part of those actions. GCGI's concerns with EDC serving as the incubator champion are two fold. First, while there is apparently strong community support for the current EDC staff and board, there is clearly a checkered history at the EDC in terms of its stability and activities, and that history continues to influence some local residents' perceptions of the EDC. Some of that history includes

EDC's role in managing the original Hobbs incubator, located in the former Levi Strauss plant on the Lovington Highway, which some feel was not successful in part because of inconsistent and hands-off management by EDC. Second, and this may be related to the first concern, the EDC received ratings of "not very helpful" in the incubator market survey by some of the survey respondents who would consider becoming tenants of the Lea County incubator and who said they had sought help from EDC.⁶ Put another way, the market for the Lea County incubator is small, and could become even smaller if the EDC is designated as the incubator champion and can't garner support from the small and start up businesses interested in becoming tenants of the incubator.

A remaining option for the Lea County incubator champion is to create a new non-profit entity with representation of multiple interested entities including the City of Hobbs, NMJC SBDC, EDC, and others such as the SBDC from Texas Tech University. The option of creating a new entity sometimes makes sense if there is a lack of a clear champion that is anxious to take on this incubator project (and one that is an ideal fit for the role). This new entity also could include board members who are local entrepreneurs which helps ensure that the needs and interests of the tenant and client companies of the incubator are met. The disadvantages of forming a new entity include (a) possible negative public perception that "yet another economic development group" is being formed, and (b) the diversion of resources away from incubator development and toward the organizational and legal tasks associated with forming the new entity. Further, GCGI did not interview anyone who felt strongly that a new entity should be formed to champion the incubator project.

On balance, GCGI believes that the EDC represents a reasonable champion for the Lea County incubator project. The EDC Executive Director seems enthusiastic about the incubator concept and has the drive to pursue the project and support from community leaders. GCGI believes that EDC's role as champion might be strengthened if it speaks with survey respondents who indicated EDC has not been very helpful to them in their business endeavors, and if it speaks openly and publicly about its commitment to the incubator as a priority project of the corporation. The opportunity for the EDC to bolster community support for its role as champion of this incubator results in our assignment of a score of "3" to Lea County on this criterion, or slightly above average in terms of satisfying the champion criterion.



2.3 Real Estate Criterion

In the feasibility analysis conducted under the GCGI model, the real estate criterion addresses whether there appear to be suitable sites for the proposed incubator, with possible sites ranging from raw or redevelopable land to existing buildings. Implicit in this analysis is the determination of whether those suitable sites are in geographical areas favored by local entrepreneurs.

⁶ While only 2 of the 12 potential tenants said EDC was "not very helpful" on their survey responses, this is one-third of the number of those respondents who had consulted with EDC in the past. It is not clear whether these two respondents are "outliers" or are representative of other potential tenants, so an additional benefit to contacting these negative respondents is to better answer this question.

Figure 4a. Locational Preferences, All Respondents

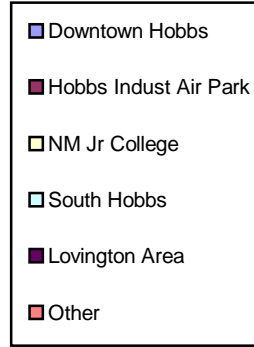
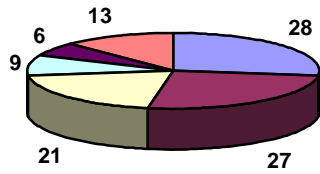
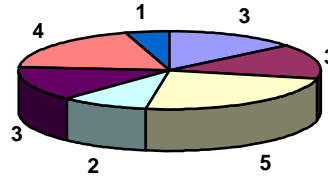


Figure 4b. Locational Preferences, Potential Tenants & Anchors

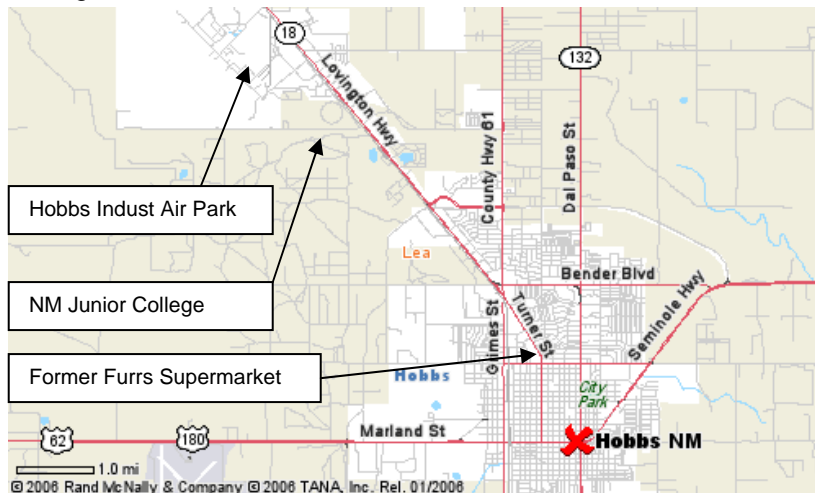


Figures 4a and 4b summarize the locational preferences of the respondents to the Hobbs business incubator survey. Figure 4a shows the choices of the entire pool of survey respondents (n=84), while Figure 4b on the right shows those of only the survey respondents interested in being a tenant or anchor of the incubator (n=16). The latter group is relevant because of the level of commitment that they are potentially willing to make to the incubator. It is important to note that survey respondents were allowed to vote for multiple locations.

When looking at the locational preferences of all survey respondents (Figure 4a), the areas of greatest support are downtown Hobbs, followed by Hobbs Industrial Air Park. A large number of survey respondents also chose to specify a preferred location outside of the categories provided; GCGI interprets the majority of those respondents to favor a mid- to north-Hobbs location for the proposed incubator. The locations receiving the most votes among potential tenants and anchors (Figure 4b) are similar, although the New Mexico Junior College campus got the most votes. Once again, several respondents chose the “other” category, and specified locations GCGI would describe as mid- to north-Hobbs.

Given that HIAP and NMJC are both located along the Lovington Highway, and that a number of respondents specified central or northern Hobbs locations, GCGI believes the preferred location for the incubator would be downtown Hobbs or some point north of downtown, out to and including HIAP. GCGI believes this broadened definition of the preferred location allows us to conclude that there is reasonable consensus in the community as to the best location for the proposed Lea County incubator.

Figure 5. Location of Possible Incubator Sites



Given the current boom of the oil and gas industry, there is little vacant commercial and industrial space in Lea County. GCGI considered three options for the location of the proposed business incubator (see Figure 5): the New Mexico Junior College campus, the Hobbs Industrial Air Park, and the former Furr's supermarket at the corner of Sanger and Turner in the Broadmoor Shopping Center in

Hobbs. The first two sites represent locations favored by respondents to the incubator market survey, while the latter is not inconsistent with those preferences and at the same time is an existing building that might be adapted for use as the incubator.

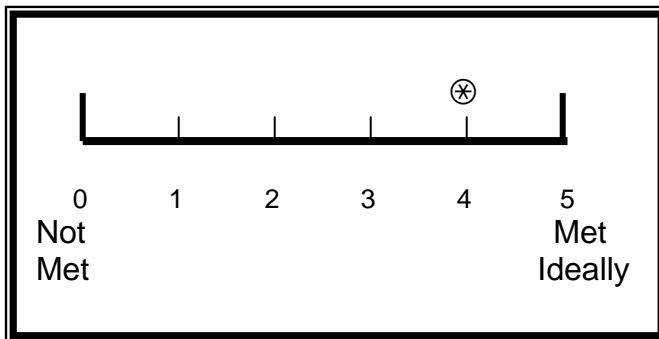
NMJC is initiating construction of a Workforce Development Center on the southwest corner of its campus, near the Zia Park Race Track and Casino. NMJC has expressed interest in expanding the development of this site to incorporate the proposed business incubator. GCGI believes that this site would have several advantages as a location for the incubator. First, it is located on the north side of Hobbs, along the Lovington Highway, and therefore is very consistent with locational preferences stated by survey respondents (in fact, among survey respondents interested in becoming tenants of the incubator, the NMJC site was the most preferred location). Second, the site is convenient to downtown and southern, western, and eastern portions of the greater Hobbs area via Joe Harvey Boulevard and the West County Road Bypass. Third, the site is very convenient to educational opportunities at NMJC, as well as College of the Southwest. Fourth, the site is owned and controlled by NMJC, so no acquisition cost would be incurred. Finally, there may be logical links between the incubator and the Workforce Development Center that can be maximized given this proposed location for the incubator (the business incubator in San Juan County has a similar co-location of the incubator with workforce training activities). GCGI believes the main disadvantages of the NMJC site are three fold. First, there may be potential entrepreneurs and incubator clients who are discouraged by a college site, either by the perception that the incubator is for those with more academic credentials or “white collar businesses,” or that the assistance at the incubator will be academic rather than practical, or simply that “parking is always a pain at a university.” Second, the NMJC site is not visible from the Lovington Highway or other major thoroughfare, which makes it a less desirable location even though the site is very visible to those going to and from the Zia Park Race Track and Casino. Finally, the NMJC campus is not within the city boundaries of Hobbs, which could be a complicating factor because the Hobbs City Government has applied for Federal funding for the proposed incubator, and that would place the incubator outside of the grant recipient’s jurisdiction.

The HIAP is a relatively large industrial park centered around the Hobbs airport and former Air Force base. Like the NMJC site, the HIAP location is relatively convenient to other areas in Hobbs and Lea County via Joe Harvey Boulevard, adjacent Lovington Highway, and the West County Road Bypass. HIAP is within the city limits of Hobbs, thus avoiding the jurisdictional complication found at NMJC and discussed above. The City of Hobbs owns the HIAP, and therefore a site could be made available to the incubator at no out-of-pocket cost. And depending on the exact site selected within HIAP, the incubator might have greater visibility from highly-traveled Lovington Highway. The main disadvantages of the HIAP location include the amount of site preparation that may be required because of the remaining World War II infrastructure still found throughout HIAP, and the further distance from downtown Hobbs, which was a preferred location for the incubator of many survey respondents.

The vacant Furr’s Supermarket in the Broadmoor Shopping Center consists of approximately 47,000 square feet of primarily open space. The building is up for sale, at an asking price of \$950,000. The primary advantages of this location are two fold. First, the location is both visible from heavily traveled Turner and Sanger Streets, is appropriately situated for entrepreneurs favoring a downtown or north Hobbs location, and presumably would be acceptable to even respondents favoring a south Hobbs location. Second, the price for the

basic building is reasonable (about \$20/square foot), which may make this a more cost effective alternative to the new construction required at the NMJC or HIAP locations. And third, the fact that this is an existing building suggests that this option could lead to a much quicker development of the proposed incubator, because only renovation is required. This latter advantage is particularly important given that some potential anchor tenants need space very soon, and because of the extended timeline to get contractors to build new facilities in Lea County due to the high level of economic activity in the area related to the oil and gas boom and the initiation of the National Enrichment Facility. The primary disadvantages of the Furr's Supermarket option include size (at 47,000 square feet, this facility is on the larger side of what is needed for the incubator), and the requirement that the incubator facility be adapted to the limitations of an existing facility. Another possible disadvantage is the proximity to Broadmoor Towers, the owners of which feel that the incubator might be competing with their multi-tenant facility.

Another significant disadvantage with the Furr's supermarket facility is the feeling among some community leaders that this location is better suited to retail businesses, and that the facility and/or its land could be better dedicated to a renovation of the adjacent shopping mall. Therefore, a disadvantage of this location is that community leaders may deem its "highest and best use" to be something other than the incubator. GCGI appreciates this position, but feels that the need and desire to diversify the Lea County economy would be better served with an incubator, that this location is very consistent with the types of businesses anticipated in a mixed-use incubator, and that some of the prospective incubator tenants have retail components (day care, donut & coffee shop, storefront of IT business). One option might be to divide the Furr's building to include retail in one portion (perhaps as an anchor tenant) and a mixed-use incubator in the other.



Although the current economic boom in Lea County has greatly limited available space for commercial and industrial businesses, GCGI feels that the three location options for the proposed incubator are really very good. As indicated in this section, all have advantages and disadvantages, so none emerges at this point as the clearly superior option. However, GCGI believes the former Furr's Supermarket site has the most appeal, on

balance, because of its good location, ample size, reasonable price, and speed with which it could be acquired and renovated to serve as the location of the proposed incubator. On balance, GCGI concludes that the Lea County area scores "4" on the scale of 0 to 5 on the real estate criterion, which puts it at "significantly above average."

2.4 Business Assistance Criterion

This fourth criterion of the GCGI Incubator Feasibility Model[®] addresses the need for business assistance by local entrepreneurs, and the ability and willingness of existing sources of business assistance to work with the incubator in meeting those needs. GCGI believes that it is critical to the success of the Lea County business incubator that it offer a comprehensive set of business assistance services that are highly sought by local entrepreneurs to help meet the needs of local start-up and small businesses, including microbusinesses seeking to expand.

2.4.1 Needed Assistance

Table 5 shows data from the NBIA regarding the services offered by mixed-use incubators. The first column lists a variety of services, divided into the two categories of business assistance and general office services (the latter category includes more basic support services and equipment). The second column shows the percentage of mixed-use incubators surveyed by NBIA that offer each service.

The table shows that most mixed-use incubators offer help with business basics, marketing assistance, accounting, access to funding sources, networking opportunities, links to institutions of higher education, shared administrative/office services, and internet access. However, beyond those services, mixed-use incubators differ considerably in the services that they offer. Three lessons can be learned from this. First, beyond some basic common set of services, mixed-use incubators do not all offer the same package of services to their tenants and clients. Second, an incubator should not feel constrained to offer a certain set of services, but should develop a customized list that meets the needs and demands of its tenants and clients.

Table 5. Business Incubator Services

Service	% Mixed-Use Incubators Offering
Business Assistance Services	
Help with Business Basics	97
Marketing Assistance	82
Assistance with e-commerce	56
Accounting/Financial Management	74
General Legal Services	42
Help with Access to Loans	75-80
Links to Angel Investors/VCS	81
In house investment funds	28
Networking Opportunities	76
Technology Commercialization	41
Links to Higher Ed Institution	70
Management Team Development	44
Shadow boards/Mentors	60
Personnel Development	61
Intellectual property management	31
Inventory mgmt/Customer Assess	55
Linkages to strategic partners	61
Help with Regulatory compliance	59
Federal Procurement Assistance	61
International Trade Assistance	47
Manufacturing assistance	53
Product design, technology	38
Comprehensive bsns training programs	61
Economic literacy training	39
Help with presentation skills	64
Help with business etiquette	61
Child care/services	12
General Office Services	
Shared admin/office services	77
Internet access	79
Specialized equipment/facilities	50

SOURCE: S.Linder, 2002 *State of the Business Incubation Industry*, NBIA, 2003

An additional lesson, which is not reflected in the data in Table 5, is that incubator tenants and clients often value very basic services. A survey in the late 1990s by NBIA in which incubator tenants and clients were asked what services they valued most, the respondents placed great value on networking opportunities with other incubator clients and service providers, and the general office services such as shared administration/office services. This

does not mean that special and high level services should not be provided, but it does suggest that mixed-use incubators, like the proposed Lea County incubator, must ensure that they also provide the basics if they want to meet their tenant and client needs and expectations.

These various incubator industry data can be considered in the context of the responses received to the market survey disseminated during this feasibility study. Areas of business needs were identified in Question #6 of the survey of Lea County area business owners and entrepreneurs (see Appendix A on page 40). The needs indicated by the largest number of respondents include:

- Financing (26 responses)
- Marketing (22)
- Taxes (22)
- Business planning (20)
- Accounting (20)
- Personnel recruitment/management (17)

Three of the highest ranking business assistance needs are finance-related, suggesting there is a broad need for help with everything from keeping books to securing capital. It also should be noted that “financing” may be symptomatic of a need for help in other areas—for example, a firm with insufficient clients will experience financial problems, but the need for money is only a symptom of the real problem which is the lack of clients. GCGI was surprised to see the number of respondents seeking help with business planning, because the majority of survey respondents (about 63%) are existing firms, many of which have been in business for many years. Business planning is often thought of as something required by start up businesses, but the survey respondents seem to indicate a need for continued business planning as their businesses mature, which is a positive indicator from the survey. GCGI was somewhat disappointed to have only 11 survey respondents (about 13%) indicate a need to diversify their businesses into other markets, which a number of community leaders felt was needed to strengthen and stabilize the Lea County economy against fluctuations in the oil and gas industry. In general, the areas of business assistance sought by respondents to the Lea County incubator survey are consistent with services often provided by mixed-use incubators, per Table 5, which suggests an incubator in this area could provide needed assistance to many small and start up businesses.

When only those respondents who indicated an interest in becoming a tenant or anchor of the incubator are considered (see Question #6 of Appendix B, page42), the results are somewhat different from the needs of all survey respondents:

- Financing (9 responses)
- Business legal issues (8)
- Taxes (8)
- Accounting (7)
- Marketing (6)
- Market analysis (6)
- Financial analysis (6)
- Business planning (6)
- Intellectual property protection (5)

“Financing” continues to be the areas of greatest need, with about 56% of potential tenants and anchors seeking help in this area. For unknown reasons, “business legal issues” and “intellectual property protection” both appear among the most frequently requested types of assistance among tenant and anchor candidates, whereas neither was prevalent among survey respondents as a whole. Interestingly, no potential tenants or anchors felt that “diversification of my business into other markets” was an area of need—while this perhaps reflects the number of start up businesses in this segment of the survey who don’t focus on diversification when they are just getting started, it once again suggests that an important community goal discussed during GCGI’s interviews with Lea County community leaders is not at the forefront of small business owners’ concerns. Once again, however, the areas of assistance sought by potential tenants and anchors of the Lea County incubator are consistent with the types of services typically provided by a mixed-use incubator, and therefore there is a good fit between what potential tenants and anchors need and what the proposed incubator might provide. Note that, given the interest in legal issues among potential tenants/anchors, the proposed incubator would be advised to establish relationships with attorneys, both locally and perhaps in Albuquerque and Lubbock if specialization is needed, who can adequately counsel and assist local entrepreneurs and small business owners about their legal concerns.

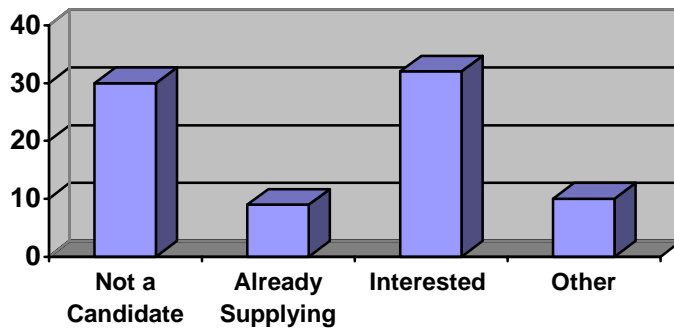
A reasonable level of consistency between the expressed needs of all survey respondents and potential incubator tenants on several categories indicates that the Lea County business incubator could provide some services that would be valued both by tenant companies and outside firms that are not located in the incubator but wish to access services and resources there. Known as “affiliates,” these non-tenant clients can be important participants in an incubator program, and are a very common phenomenon in incubation. For example, the 2002 State of the Incubation Industry survey by the NBIA reports that the average business incubator has 15 such affiliates in their program. And, per Figure 3, about 26 of the Lea County incubator survey respondents (31%) expressed some interest in getting services at the proposed incubator but not locating their businesses there, which demonstrates a local interest in affiliate opportunities to the incubator. Therefore, GCGI highly recommends that the Lea County incubator include affiliate clients, and includes them in the financial projections later in this report.⁷

The incubator survey also asked respondents to comment on their level of interest in becoming a supplier of goods and services to the National Enrichment Facility during its construction and/or operation. Figure 6 (see page 25) shows the results of this survey question. Thirty respondents said they did not feel that they were a likely provider of goods and services to NEF. Nine respondents already are suppliers, and another 32 said they would be interested in becoming an NEF supplier. The remaining 10 respondents offered a variety of answers, but many were consistent with the “interested” category but probably felt their products/services are not needed by NEF.

Therefore, it appears from the survey responses that there is considerable interest among Lea County entrepreneurs and small business owners in becoming suppliers of goods and services to NEF. The proposed incubator might assist in several ways, including introducing

⁷ Further, as discussed in Section 2.1.2.1, it is believed that significant segments of the microbusinesses in the Gallup area would not want to become tenants of an incubator, but may want and need to access assistance from the incubator.

Figure 6. NEF Contract Interest



incubator tenants/clients to NEF procurement personnel, assisting them in getting on NEF bid lists, helping them structure their pricing, delivery schedules, and other variables on proposals or bids to NEF, and helping them comply with NEF supplier requirements

when they get NEF contracts. The incubator also could play a role in helping tenants/clients evaluate whether they are sufficiently diversified so as to not be overly dependent on NEF contracts, and assisting them to diversify if necessary.

Therefore, it appears from the survey responses that there is considerable interest among Lea County entrepreneurs and small business owners in becoming suppliers of goods and services to NEF. The proposed incubator might assist in several ways, including introducing incubator tenants/clients to NEF procurement personnel, assisting them in getting on NEF bid lists, helping them structure their pricing, delivery schedules, and other variables on proposals or bids to NEF, and helping them comply with NEF supplier requirements when they get NEF contracts. The incubator also could play a role in helping tenants/clients evaluate whether they are sufficiently diversified so as to not be overly dependent on NEF contracts, and assisting them to diversify if necessary.

2.4.2 Sources of Assistance

The survey of Lea County area entrepreneurs and small business owners also asked respondents to indicate from which entities they had sought assistance and how satisfied they were with the assistance. The tallies in Appendix A (page 40) for Question #7 show the overall survey respondents usage and opinion of existing sources of business assistance. Several important conclusions can be drawn from these data and the original surveys:

- Many existing sources of assistance have not been used by a Lea County small and start up businesses. For example, although 51 respondents had used the SBDC at New Mexico Junior College, another 25 had not.
- Unlike some communities, small business owners and entrepreneurs in Lea County have made extensive use of for-profit sources of assistance like attorneys and accountants: as an example, 51 respondents used the NMJC SBDC which provides free business counseling and low cost training, while 43 respondents also sought help from an attorney, for whose services they presumably paid.
- Some of those sources that had been used were not given high satisfaction scores. On a scale where 3 equals "very helpful," 2 equals "helpful," and 1 equals "not very helpful," Table 6 (page 26) shows that City Government scored lowest, followed by Lea County Government and the Chamber of Commerce.⁸ Highest average satisfaction was with management consultants and accountants. The average weighted score of 2.2 suggests survey respondents felt that existing sources of

⁸ These scores and those in Table 7 are based only on the opinions of survey respondents who said they had used the source of assistance and/or chose to complete this portion of the survey.

assistance were helpful, but not overly so. This suggests to GCGI that there is an opportunity for the incubator to bring greater level of satisfaction in meeting the needs of local entrepreneurs and small business owners.⁹

Table 6. Average Satisfaction Level with Business Assistance Sources

Assistance Source	Average Satisf Score
City Government	2.0
Lea County Government	2.1
NMJC SBDC	2.3
Texas Tech SBDC	2.3
Chamber of Commerce	2.1
EDC of Lea County	2.3
Attorney	2.3
Accountant	2.4
Management Consultant	2.5
Weighted Average	2.2

Dissatisfaction with current sources of assistance seems to be more prevalent among potential tenants and anchors of the incubator than the survey respondents as a whole. Table 7 shows the fraction of respondents, who expressed an opinion about the helpfulness of various sources of business assistance, who said a source was “not very helpful.” The first column is for all survey respondents, while the second column is for just potential tenants and anchors.

Table 7. Average Satisfaction, Potential Tenants/Anchors vs. All Respondents

Assistance Source	% of all survey respondents	% of potential tenants & anchors only
City Government	17%	22%
Lea County Government	12%	13%
NMJC SBDC	14%	8%
Texas Tech SBDC	4%	0%
Chamber of Commerce	13%	0%
EDC of Lea County	4%	22%
Attorney	7%	20%
Accountant	2%	0%
Management Consultant	0%	n/a
Weighted Average	10%	11%

Although overall potential tenants/anchors have only slightly higher overall dissatisfaction ratings (11% vs. 10% of respondents), tenants/anchors were much more dissatisfied with city government, the EDC, and attorneys. The implication of the situation with EDC has already

⁹ As indicated earlier, the satisfaction rating for the NMJC SBDC is higher than GCGI expected given comments by community leaders who were interviewed during this feasibility study. It is possible that this organization’s satisfaction score was biased upward by virtue of many survey responses coming from attendees of a small business seminar held at NMJC and co-sponsored by its SBDC.

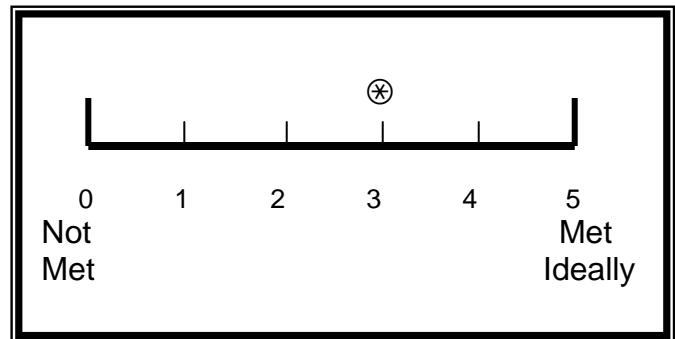
been discussed (see Section 2.2). The incubator could assist tenants/anchors by helping them learn how to “navigate city hall” and referring tenants/anchors to one or more attorneys who got high satisfaction ratings with local small business owners and entrepreneurs.

Given these data, several conclusions can be drawn. First, there appears to be only a moderate level of utilization of sources of business assistance in Lea County. Second, private sources are extensively utilized by local small businesses, in addition to non-profit/public ones. Third, some sources are apparently less able to meet the needs and expectations of local entrepreneurs and small business owners, whether it be in terms of quality of service, breadth of areas in which assistance is provide, or other factors. Fourth, the utilization patterns, and the satisfaction ratings, differ between potential tenants and the survey respondents as a whole, with the potential tenants less likely to be satisfied with city government, the EDC, and attorneys. These conclusions have several implications for the feasibility of a business incubator in Lea County:

- Unmet business assistance needs can be met by the incubator, either directly or by the incubator locating suitable sources of that assistance for its clients and tenants.
- The incubator can be a bridge between its clients and tenants, and credible sources of assistance. At the same time, the incubator must carefully assess the quality of the service being provided by various sources, so as to steer tenants and clients towards high quality service providers.
- As discussed earlier, EDC needs to assess whether its lower satisfaction level with some potential tenants/anchors is based on past problems in the organization that have since been resolved, or if current EDC activities are still an issue.
- The incubator should provide services to non-tenants as well as tenant/anchors, because of the level of unmet need and the significant number of survey respondents willing to consider getting business assistance and other services at the incubator even when they do not want to become tenants.

GCGI interviewed representatives of several public/non-profit and private/for-profit business services providers during the course of this project. We found most to be interested in and supportive of the incubator. Overall, the service providers that GCGI interviewed did not view an incubator as a competitor for their clients. While this attitude might change somewhat if the incubator appears to becoming a reality and/or its specific services and functions are identified, GCGI finds this acceptance to be positive.

GCGI has given a score of “3” (“slightly above average”) to this criterion as it applies to Lee County. There is evidence of some unmet business assistance needs that the incubator might satisfy. There appears to be a role for the incubator in assisting local firms in potentially becoming suppliers of goods and services to the NEF. There are a number of existing service providers who appear willing to cooperate with the incubator in providing services to its clients and tenants, but the modest satisfaction ratings given by potential tenants and other survey respondents may require the Lea County incubator to assess the quality of existing service providers and, depending on the outcome of that assessment, convince tenants to make higher use of existing services or find/create alternative sources of assistance.



2.5 Development Funding Criterion

The fifth criterion in the GCGI incubator feasibility model is development funding. This criterion asks whether the cost of establishing and, if necessary, initially subsidizing incubator operations is reasonable, and whether that cost can be covered by sources that are available (or likely to be available) to the incubator developers.

2.5.1 Estimated Development Cost

To estimate the cost of developing an incubator, GCGI first had to develop possible scenarios for the size and other characteristics of a Lea County business incubator. Table 8 summarizes the four scenarios considered in this analysis. These scenarios are based on the real estate options presented earlier in this feasibility analysis, as well as information from the market section (e.g., inclusion of an anchor tenant). The scenarios range in overall size from 12,000 to 47,000 square-feet, which is consistent with the range of alternatives considered elsewhere in this report. The fraction of space available for incubator tenants differs by scenario from a low of 12,000 square feet in Scenario #1 to 25,000 square feet in Scenario 4. The amount of space dedicated to one or more anchor tenants also differs by scenario: No anchor space is included in Scenario #1, while Scenarios #3 and #4 include 15,000 square feet and 22,000 square feet, respectively, of anchor space. The other variable shown in Table 8 is the new construction/rehab difference: all but Scenario #4 assume new construction of an incubator building, while Scenario #4 is based on purchase and renovation of the existing Furr's Super Market building in the Broadmoor Shopping Center. Note that no scenario involves the lease of property or building from another owner, since no such opportunity was identified during this feasibility study.

Another important row in Table 8 is the one labeled "Office Space," which indicates what fraction of the incubator portion of the facility would be dedicated to office space, instead of manufacturing or high bay space. Most of the scenarios assume only office space, or at least a dominate fraction of office space.

Table 8. Scenarios for Lea County Business Incubator

	Scenario			
	#1	#2	#3	#4
	12k HIAP	16k HIAP	30k NMJC or HIAP	47k Furr's Rehab
Facility Size	12k sf	16k sf	30k sf	47k sf
Incub Size	12k sf	16k sf	15k sf	25k sf
Anchor Size	0 sf	0 sf	15k sf	22k sf
Office Space	12k sf	16k sf	12k sf	22.5k
Lease Obligation	Own	Own	Own	Own

Given the four scenarios, Table 9 (page 29) summarizes the approximate cost to develop a Lea County business incubator. Table 9 suggests that the cost of developing the incubator under these various scenarios ranges from about \$1.8 to \$4.4 million.

The first part of the development cost in Table 9 is for facility acquisition or construction. The scenarios vary in their “Total Facility Cost” from a low of \$1.5 million for Scenario #1 to a high of \$4.2 million for Scenario #3. The most substantial variables in terms of the development cost are (a) the size of the proposed facility and (b) whether new construction or renovation of an existing building is assumed. The impact of expanding the size of the incubator is seen in the Total Facility Cost of Scenario #2 vs. Scenario #3: the latter is almost twice as big as the former, and this results in a Total Facility cost of about \$1.9 million more. New construction vs. rehab of existing facilities is demonstrated by comparing Scenario #1 and Scenario #4: Scenario #4 is almost four times as large as Scenario #1, but its Total Facility Cost is only twice as much, because Scenario #4 is based on a less expensive existing building.

Table 9 Lea County Business Incubator Development Cost Estimate Under Alternative Scenarios

CATEGORY	Scenario			
	#1	#2	#3	#4
	12k HIAP	16k HIAP	30k NMJC or HIAP	47k Furrs Rehab
FACILITY ACQUIS/CONSTRUCT				
Purchase of Building	n/a	n/a	n/a	\$900,000
Purchase of Land	\$100,000	\$100,000	\$100,000	n/a
Renovation/Construction	1,200,000	2,000,000	\$3,750,000	1,880,000
Equipment, Furnishings	50,000	50,000	50,000	50,000
Contingency	100,000	164,000	304,000	154,400
TOTAL FACILITY COST	\$1,450,000	\$2,314,000	\$4,204,000	\$2,984,400
Operating Subsidy	300,000	225,000	180,000	175,000
TOTAL DEVELOPMENT COST	\$1,750,000	\$2,539,000	\$4,384,000	\$3,159,400

Other assumptions relevant to the cost estimates for the incubator facility in Table 9 include:

- New construction cost of Scenarios #2 and #3 is \$125 per square foot, based on estimates provided to GCGI during this project. GCGI believes these are optimistic rates, given that construction costs will be higher due to “prevailing wage” or “Davis-Bacon wages” required when Federal grant dollars are used in the project. Scenario #1’s new construction cost is based on the estimate in the City of Hobbs’s grant application to the EDA of about \$100 per square foot.
- Acquisition of the Furrs Super Market building is assumed at its current asking price minus about 5% or \$50,000.
- Renovation of Furrs Super Market building in Scenario #4 is assumed to cost \$40 per square foot, based on GCGI’s rough estimate of the cost to convert the existing facility to primarily “Class B” office space.
- Land acquisition in Scenarios #1, 2 and 3 is based on the price included in the City of Hobbs’s grant application to EDA. Note that, whether the scenario involves HIAP or NMJC, the value of the land contributed to the project is included here since its “donation” will be valued similarly when sources of funding are considered later in this section.
- Phone systems, furniture and furnishings for incubator common areas total \$50,000 in all scenarios, based on GCGI’s experience elsewhere.

- Contingency on all scenarios equals 8% of renovation/construction and furniture/equipment/phone expenses.

The second part of the development cost for the Lea County business incubator, as shown in Table 9, is the amount of funding needed to cover operating subsidies. Ideally, a relatively minor operating subsidy must be covered during the first few years of operations of the incubator until the project achieves sufficient occupancy and stability when it can cover its own operating expenses out of its operating revenues. As will be seen in Section 2.6, this “break even” objective cannot be met in all of the scenarios considered here. However, at this stage of the feasibility analysis, suffice it to say that the scenarios require different subsidies, as shown in Table 9, ranging from about \$175,000 (in Scenario #4) to an optimistic \$300,000 in Scenario #1.

Some would argue that there is no need to “prefund” the operating subsidies out of the development funding sources because the subsidy funds can be raised once the incubator begins operations. GCGI disagrees for two reasons. First, a more conservative estimate of the cost of developing the incubator can be made when the cost of subsidies is included. Second, and more importantly, once the incubator opens, the incubator manager and board can focus on attracting and serving tenants and clients rather than raise operational subsidy funds if the subsidy cost is already covered out of development funds.

Therefore, per Table 9, when both facility costs and operating subsidy are considered, the total cost of developing the Hobbs business incubator ranges from \$1.8 to \$4.4 million. This is an important factor in determining feasibility and the financial viability of an incubator, with the other factors discussed in the remainder of this section and Section 2.6.

2.5.2. Sources of Development Funding

With the approximate cost of the incubator calculated, attention can now be turned to potential sources of funding. Table 10 (page 31) shows some of the potential funding sources to develop the Lea County area business incubator under each scenario.

The first source shown is the Federal Economic Development Administration (EDA), which is part of the U.S. Department of Commerce. EDA is the largest funder, among federal agencies, of incubator projects in the nation. GCGI has confirmed that Lea County qualifies under EDA’s funding guidelines. EDA is typically willing to fund up to 50% of the eligible costs of developing an incubator, although that fraction may be higher if the community meets special eligibility requirements. Eligible costs, which vary by EDA region, may include acquisition of an existing building, construction of a new building, and leasehold improvements on leased properties (provided the lease is 20 years or longer). Even though EDA is the largest Federal source of incubator funding, there are three primary limitations on EDA funding for the proposed Lea County incubator:

- EDA funding is extremely limited, and may be committed for other projects such that new applications often must wait until the next fiscal year for consideration;
- EDA wants a 1:1 match from non-Federal funding, and preference is given to private sector match (vs. the more common non-Federal public money such as state and local funds); and
- EDA’s application process requires considerable time and effort to prepare and submit both a pre-application and a full application.

Despite these limitations, the City of Hobbs previously received encouragement to apply for EDA funding for a project like an incubator, and the City submitted its pre-application in October 2006. Although that pre-application was not approved by EDA, GCGI has assumed EDA will be a substantial financial partner in all of the considered scenarios.

Table 10. Potential Lea County Business Incubator Development Funding Sources

CATEGORY	Scenario				
	#1	#2	#3	#4	#4a
	12k HIAP	16k HIAP	30k NMJC or HIAP	47k Furr's Rehab	47k Furr's Rehab w/loans
Economic Development Administrati	\$697,000	\$950,000	\$950,000	\$950,000	\$950,000
City/County	200,000	200,000	200,000	200,000	200,000
State Government	n/a	750,000	750,000	750,000	n/a
Levi Strauss proceeds	500,000	500,000	500,000	500,000	500,000
Private Sources	400,000	600,000	600,000	600,000	600,000
Zero Coupon Bond	n/a	n/a	250,000	250,000	250,000
CDBG	n/a	n/a	250,000	250,000	n/a
USDA Loans	n/a	n/a	100,000	n/a	n/a
Other Loans	n/a	n/a	750,000 ¹⁰	n/a	750,000
TOTAL FUNDS AVAILABLE	\$1,797,000	\$3,000,000	\$4,350,000	\$3,250,000	\$3,250,000

The second source, "City/County," reflects an expectation that both Lea County government, and one or more municipal government within Lea County, could contribute to this project. As indicated earlier, this contribution may include the value of land donated at HIAP; a similar land donation at NMJC also could fall under this funding source category. It is assumed that this source could be applied to any of the scenarios considered.

The third source shown in Table 10 is "State Government," which might include either funding through the New Mexico Economic Development Department (NMEDD) incubator program, a direct appropriation by the State Legislature, or other set aside into which the Lea County incubator might tap.¹¹ This funding source is only included in those scenarios where it is needed, given the political effort that will be required to secure it.

The fourth source shown in Table 10 is "Levi Strauss Proceeds." When the EDC sells the facility that formerly housed the Hobbs business incubator to the Lea Regional Medical Center, it has been estimated that the net proceeds will be about \$500,000. It was suggested repeatedly in GCGI's interviews with community leaders that this funding be dedicated to the new incubator project, and therefore it is included in all of the scenarios considered here.

The fifth source shown is assumed funding from "private donations." This source of funding may come in one of several forms. First, the incubator champion might solicit cash contributions from corporate and institutional entities in the community. Second, donations of

¹⁰ In one variation of Scenario #3, Other Loans would be only \$650,000 or \$100,000 less than what is shown in Table 10 for this source.

¹¹ An example of the latter was a \$200,000 request by the Lead Center of the new Mexico Small Business Development Centers (NM SBDC) in a previous Legislative session to support SBDC involvement in existing incubators. That request was not funded, but may be indicative of future efforts by the NM SBDC and others.

goods and property may be accepted; examples would be the donation of land by a local developer or the donation of a photocopier by a local bank. Third, the value of services also may be donated; a common example is for an architect or engineer to offer free or discounted services to the project, or for the general contractor to reduce his/her fee. The magnitude of this source is based on suggestions made during GCGI's interviews of local community leaders.

The sixth source shown is funding from "zero coupon bond," which again was a suggestion made during GCGI's interviews on this project. GCGI does not have experience with this funding source for incubators, and therefore cannot comment on its merits.

The seventh source of possible development funding shown in Table 10 is Community Development Block Grant (CDBG) funding. While some communities are large enough to have an allocation of CDBG funding which they decide how to use, Hobbs/Lea County is sufficiently small that it must compete with other smaller New Mexico communities for an allotment of CDBG funding that is administered through the New Mexico Department of Finance and Administration. Current guidelines call for CDBG to not be more than 40% of non-Federal funds.

The final potential funding source shown in Table 10 is loans. While they are far less desirable than grant money or donations because they create a repayment obligation, loans are sometimes necessary to fill the gap between these preferable sources and the cost of developing an incubator. GCGI has intentionally tried to minimize the use of loans as part of the funding mix. Therefore, only two of the funding scenarios assume some amount of loan in its development funding package. GCGI assumes to funding sources for these loans, each with different payback assumptions. The U.S. Department of Agriculture, which has expressed interested in funding a project in the Lea County area has a no interest loan program with a 10 year pay back term. The other source of loans is assumed to be a single bank, or a consortium of banks willing to share a mortgage on the incubator facility, with terms assumed to be 8% interest and a 20 year term. Note that a variation on Scenario #4, shown in Table 10 as Scenario #4a, involves a sizable loan because this Scenario has the unique ability to service substantial debt.

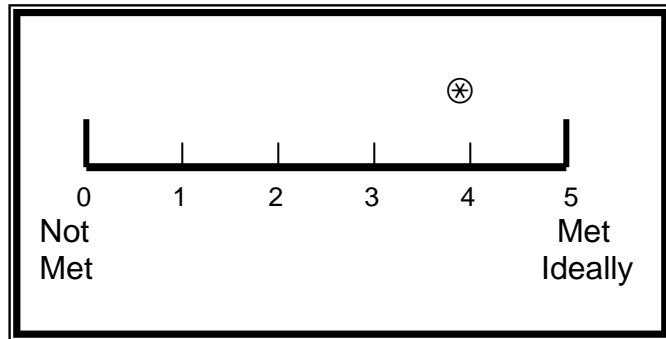
In conclusion, Table 9 suggests that the total cost of developing the Lea County business incubator is between \$1.8 and \$4.4 million. Table 10 shows that there are potential sources of development funds to cover the development costs in all of the four scenarios, under reasonable assumptions.

While there appear to be viable sources to cover the development costs of Scenarios #1 through #4, GCGI is very concerned that the number of sources that must be tapped in some scenarios is abnormally large. The number of sources required to fund the development of the Lea County incubator ranges from a low of four sources (Scenario #1) to a high of nine sources (Scenario #3). In Scenarios like #3, where a large number of sources would be required to fund the Lea County incubator development, there are two adverse implications on the project: first, with so many sources needed, it is more likely that one or more will not be available to the project, for whatever reason, which then puts the funding scenario in jeopardy. And second, the time and effort to not only apply for and secure all of these funding sources, but then to also monitor their use in the project, meet funding source requirements and meet reporting requirements through development and implementation of the project, could be a major burden on the incubator developer/champion.

Variation #4a on Scenario #4, as shown in Table 10, was developed to show how the number of funding sources, and reliance on uncertain sources, could be reduced for this scenario. By assuming a sizable loan, the incubator could reduce the number of funding sources from seven to six, but also eliminate the uncertain State of New Mexico and CDBG funding. As shown in the next section, this scenario is able to handle a sizable loan instead of these uncertain funding sources because of its revenue generation potential.

Primarily because it appears viable to find funding sources for all of the scenarios considered, and because of optimism about local funding and the previous encouragement received by the City of Hobbs to apply for EDA funding, GCGI has assigned Lea County a score of “4” (significantly above average) on this criterion in our feasibility model.

GCGI is being somewhat optimistic in this score, given our concerns about the large number of required funding sources, as discussed above.



2.6 Financial Self-Sustainability Criterion

This criterion, like development funding, is related to the financial viability of the incubator. But unlike the development funding requirement, this criterion pertains to the ability of the incubator to stabilize financially during its operations and to do so without needing a significant operating subsidy beyond its start-up phase.

GCGI’s incubator feasibility model is based on the premise that a business incubator must be able of becoming financially self sustaining.¹² Developing an incubator that is dependent on a continual operating subsidy is, in GCGI’s opinion and experience, a recipe for disaster: communities often lose interest in providing operating subsidies after a limited period of time, and many local governments will not support an incubator if it does not appear to have an ability to become financially self sustainable. Therefore, in this criterion, GCGI explores whether the Lea County incubator could be financially self sustainable.

GCGI has prepared cash flow forecasts for the first five years of operations of the Lea County business incubator to assess its ability to become financially self-sustaining. We prepared these forecasts for all five scenarios introduced in Section 2.5, including variations on some of the scenarios. All of the cash flow forecasts for these scenarios and variations share the following assumptions:

- The incubator will be a mix of primarily office space and, in some cases, a lesser amount of space that would be suitable for manufacturing, assembly, or storage space. The assumed mix is shown for each scenario.

¹² “Self sustaining” means the incubator can cover its operating expenses from “reliable” sources of revenue, including but not necessarily limited to rent, tenant services, etc. “Self Sufficiency” is a more stringent goal, in which the incubator would cover all operating expenses from just revenues derived from the incubator.

- The incubator will include space for anchor tenant(s), with the mix of space types dependent on the needs of the anchor. However, it is assumed that most potential anchors currently under consideration would require primarily office space.
- Rental rates will be at or slightly above market (\$14/square foot/year for class “B” office, \$9.50/square foot/year for light assembly/manufacturing/service space, and \$12/square foot/year for anchor space). Note that these rates are inclusive of utilities, maintenance fees, and common area charges, which may cause them to appear to be higher than market rates in the Hobbs area which often are quoted without inclusion of these additional expenses. These rates are based on estimates offered by several persons interviewed by GCGI during this project who are familiar with the local real estate market
- Some revenues will be derived from entrepreneurs who are not tenants but who want to access resources at the incubator (referred to as “affiliates” of the incubator and charged \$65/month).
- A part- or full-time manager at \$65,000 per year salary and a full-time receptionist/clerical support person at \$30,000 per year salary are assumed in all scenarios, along with a 20% allowance for benefits.¹³ Some scenarios call for a three-quarter-time manager, while others include a full-time manager. It is possible that this staffing could be supplemented with other resources; for example, the EDC has a contract with the SBDC at Texas Tech University to provide business assistance locally, and has indicated an interest in making those resources available to incubator tenants
- Property taxes on the incubator facility are assumed to be waived for all scenarios
- The fraction of the incubator facility that is leasable (i.e., is not devoted to common areas including reception area, conference room, hallways, restrooms, etc) is assumed to be a 75-80% of the gross floor area. Therefore, in a 10,000 square foot building, about 7,500 to 8,000 square feet would be assumed to be available for rent to tenants. This is a reasonable goal, given GCGI’s experience elsewhere. In all scenarios involving newly constructed buildings, the higher rate of 80% leasable is assumed because the facilities can be custom designed for the incubator. In Scenario #4, because it is based on renovation of the existing Furrs Super Market building, the lower leasable rate of 75% is assumed.
- The incubator leases up gradually, starting at only 20-40% occupancy in Year 1 and increasing to only 60-80% by Year 5. Higher initial and Year 5 occupancy rates are assumed for scenarios involving smaller facilities. The starting and ultimate occupancy levels in these scenarios are lower than GCGI assumes in many of our incubator projects to reflect the expectation of only a modest market for the Lea County business incubator.

In Appendix C (page 44), detailed cash flow projections for each of these scenarios and variations thereon are shown. However, Table 11 (see page 35) is presented to summarize the financial viability of the Lea County business incubator under each scenario.

Variations are shown for two of the previously defined scenarios. For Scenario #3, GCGI looked at a variation in which all rental rates are \$1 per square foot per year higher, to assess the sensitivity of the Lea County incubator to rental rates. For Scenario #4, a variation is

¹³ Ideally, an incubator would support the cost of a full time manager, but GCGI does not believe this is possible in most of the scenarios considered and probably not necessary in the scenarios in which the incubator would be have substantial number of anchors occupying significant portions of the facility. Job sharing or a manager who only wants to work part time employment will be needed.

considered in which a substantial fraction of the development cost (see Section 2.5) is covered by loans rather than grants.

Table 11 shows four key variables for each of the scenarios. The first, “Accumulated Operating Deficit,” shows how much funding is required to cover the deficit that the Lea County business incubator would run under each scenario before it would begin breaking even (i.e., the point where annual operating revenues covering annual operating expenses).

CATEGORY	Scenario		
	#1	#2	#3
	12k HIAP	16k HIAP	30k NMJC or HIAP
Accum Operating Deficit	\$300k	\$220k	\$170k
Break Even Year	Yr 6	Yr 5	Yr 4
Break Even Occupancy	90%	75%	70%
Yr 5 Cash Surplus	-\$21k	\$11k	\$25k

Table 11. Operational Cash Flow Projection Summaries, Lea County Incubator

CATEGORY	Scenario		
	#3a	#4	#4a
	30k NMJC or HIAP, \$1/sf more	47k Furrs Rehab	47k Furrs Rehab w/loans
Accum Operating Deficit	\$80k	\$0	\$25k
Break Even Year	Yr 3	Yr 1	Yr 2
Break Even Occupancy	55%	10%	25%
Yr 5 Cash Surplus	\$62k	\$174k	\$120k

As shown in Table 11, Scenarios #3a, 4 and 4a can achieve this for relatively modest amounts of \$80,000 or less; in fact, with Scenario #4, there would be no operating deficit because it appears to be profitable starting immediately in Year 1. However, Scenarios #1, 2 and 3 require significantly larger subsidies, which make it more costly to develop these versions of the incubator. In fact, Scenario #1 is on the brink of not being able to break even, as discussed below, in which case GCGI would not recommend that the Lea County incubator be developed.

The second line in Table 11, “Break Even Year,” indicates how many years the incubator must operate before it generates enough annual revenue to cover its annual operating deficits. GCGI believes a 3 or 4 year break even year is reasonable, and even 5 years can be tolerated—a break even period longer than 5 years is much less desirable, in part because of the amount of operating subsidy usually required to cover such a long period. Scenarios #3a, 4 and 4a take three or less years to break even, making them the best alternative from this standpoint. Scenarios #2 and 3 are acceptable at 4-5 years until break even is achieved, while Scenario #1 requires six years, making it marginally acceptable.

The third line in Table 11, “Break Even Occupancy,” indicates what fraction of the incubator-portion of the building (vs. any anchor space) must be filled to achieve the breakeven year and accumulated operating deficit shown for each scenario. Lower break even occupancy

rates are preferable, since it means the incubator can break even financially even if it does not lease up quickly or fully. Scenario #4 requires a mere 10% occupancy, which is very unusual and very favorable to the incubator's feasibility. Scenario #4a only requires a 25% occupancy to break even, which also is very good. Scenario #3a is good at a 55% required occupancy level, and even Scenarios #2 and 3 are acceptable at 70-75% occupancy required to achieve break even. However, Scenario #1 requires an occupancy rate of 90%, which is beyond GCGI's comfort level: even if there are sufficient tenants to achieve such an occupancy, there is typically enough turn over of tenants that such a high level of occupancy is almost unrealistic.

The fourth line in Table 11, "Year 5 Cash Surplus," gives an indication of how much net revenues the Lea County incubator might generate once it stabilizes in its operations. This surplus could be used to cover unanticipated expenses, expand services and programs, expand the manager to full-time status, or upgrade and renovate the incubator facility. Scenarios #4 and 4a have the potential to provide strong net revenue of \$174,000 and \$120,000, respectively, making these the strongest options in terms of Year 5 surplus. Scenario #3a is also strong at an estimated Year 5 operating surplus of \$62,000. Scenarios #2 and #3 provide much more modest Year 5 net revenues of \$11,000 to \$25,000, but are still very acceptable on this measure. However, Scenario #1 shows a Year 5 operating deficit of \$21,000, meaning that the Lea County incubator would still be losing money in its fifth year of operations under this scenario.

One conclusion that can be drawn from the data presented in Table 11 is that Scenario #1, construction of a very small, 12,000 square foot new building to house the Lea County incubator with no anchor tenants, is at best marginally financially viable as structured in this analysis.

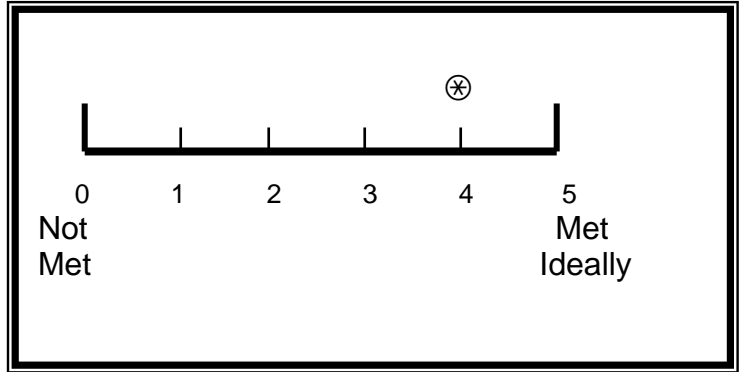
Another significant conclusion is that the financial viability of the Lea County incubator is sensitive to the assumed rental rates. Comparison of the financial data for Scenarios #3 and 3a in Table 11 demonstrate this: when rental rates are increased by only \$1 per square foot per year, the operating deficit decreases by more than 50%, break even takes one year less, break even occupancy drops 15% to only 55%, and the Year 5 cash surplus increases 250%.

The other conclusion is that Scenarios #4 and 4a, in which an existing building is acquired, renovated, and leased both to anchor tenants as well as incubating ones, shows very strong financial projections. In addition to making it possible to have the kind of financial performance shown in Table 11, this also means that these scenarios could allow for more modest assumptions on key parameters (e.g., leave part of the building vacant and even un-renovated, have lower occupancy levels, offer some initial rental discounts to incubating tenants to entice them to join the incubator) and still be financially viable.

One other relevant consideration is the possibility that NMJC would cover maintenance and/or utility costs of an incubator located on its campus, or that EDC would provide much of the staffing of the incubator through its own personnel, thus reducing the majority of the staffing costs assumed in the scenarios. Obviously, such large and generous contributions could make the financial projections much better for some of the scenarios presented here. However, in consultation with the J.F. Maddox Foundation, GCGI believes it would be premature to assume contributions of this magnitude at this stage of the incubator assessment. At such time as these contributions could be confirmed, appropriate revisions to one or more scenarios' financial projections in Appendix C would be appropriate, and likely

would show the Lea County incubator to be much more financially viable. GCGI’s only caution is to determine the duration of such contributions, such that the incubator is not dependent on contributions that cannot be guaranteed into perpetuity.

GCGI has decided to offer an optimistic scores for the Lea County business incubator on the financial self sustainability criterion. The score is a “4” (significantly above average), under the assumption that the Lea County business incubator follows a path different than the one proposed in the October 2006 City of Hobbs pre-application to EDA, which was similar to Scenario #1. GCGI is concerned with the dependence in Scenario #1 of the project on achieving very high occupancy rates, long time break even time frame, and an accumulated deficit that must be subsidized before break even is achieved. This Scenario also leaves virtually no room for under-performance in terms of occupancy levels, rental rates or other key variables, as this scenario makes the Lea County business incubator project very marginal financially.



In contrast, GCGI is impressed that Scenarios #4 and 4a show the incubator has a very good chance of reaching self sustainability almost immediately and with little if any operating deficit and a very modest occupancy level. The possibility of achieving long term commitments that would reduce operating expenses also is very appealing, and would make the other three scenarios even more viable.

3.0 FEASIBILITY CONCLUSION

Section 2.0 consists of a lengthy discussion of how GCGI evaluated Lea County and its proposed incubator against the six criteria in the GCGI Incubator Feasibility Model[®], and included scores we assigned to this incubator according to how well it meets each criterion. The other primary component of our quantitative assessment of the incubator is the relative weighting of each of the six criteria in the GCGI model. A different weight is assigned to each criterion to reflect its overall importance to the feasibility of an incubator project. Weights can range from 0, which means the criterion is irrelevant to the feasibility issue, to 5, which indicates that it is mandatory to the feasibility of an incubator.

GCGI has established the following weights for the six criteria. These weights are used on all of its incubator feasibility projects, although they may change over time as conditions warrant.

<u>Criterion</u>	<u>Weight</u>
Market	5.0
Champion	5.0
Real Estate	3.0
Business Assistance	3.0
Development Funding	5.0
Financial Self-Sustainability Potential	4.0

These weights reflect GCGI's opinion that adequacy of the market, identification of a suitable champion, and availability of realistic funding opportunities for developing the incubator are the most critical elements in determining incubator feasibility. The Real Estate criterion has a lower weight because the dynamic nature of real estate markets suggests that a facility may become available at a later date even if it cannot be identified during the feasibility study. The lower weight for Business Assistance reflects GCGI's opinion that an incubator can survive and provide valuable services to its clients even if other business assistance providers in the area are not cooperative or are not of high quality, although the value of the incubator is clearly enhanced if they are. The last criterion, Financial Self-Sustainability Potential, is assigned a moderate weight to indicate the importance of this aspect of the incubator, but also to acknowledge that too much importance can not be placed on tentative projections that are being made far in advance of the project's completion and operations.

With weights for all of the criteria and scores assigned to each criterion, several quantitative assessments can be made.

First, the project can be assigned a single rating that is equal to the sum of the products of the respective weights and scores for each of the six criteria. Using this approach, and normalizing the result with 100 equaling an "ideal" rating, the proposed Lea County mixed-use incubator earns a rating of 73.6, assuming scores of "4" on the market criterion¹⁴. An incubator project that scores "average" on the six criteria in the GCGI Incubator Feasibility Model[®] would have a score of exactly 50; therefore, a rating of 73.6 would make a mixed-use business incubator in Lea County significantly more feasible than in the "average" community.

It should be clarified that a score of 73.6 does not correspond to an "academic scale" in which such a numeric score might correspond with a letter grade of a "C." Instead, because on the GCGI scale a numeric score of 50 is representative of an "average" incubator, a numeric score of 73.6 is roughly equivalent to a letter grade of "B."

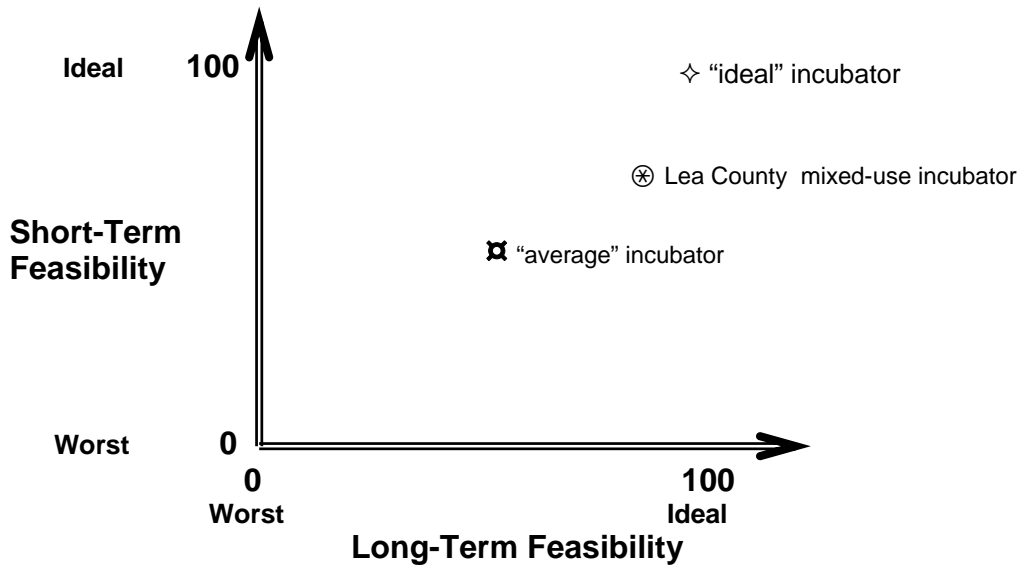
Second, the project can be assigned two ratings, reflecting both short- and long-term feasibility. The short-term feasibility is based on Criteria #1 through #5. The long-term feasibility is based on Criterion #6. The products of weights and scores are summed and normalized to 100 as an "ideal" rating. In this analysis, the Lea County mixed-use incubator receives short- and long-term feasibility ratings of 72 and 80, respectively. An incubator that rates as "average" in the GCGI model would have both short- and long-term feasibility ratings of 50.

The short- and long-term feasibility of the proposed Lea County incubator relative to the "average" incubator is shown graphically below. While falling short of the ideal incubator, the proposed incubator has a long-term feasibility score that is well above average.

However, GCGI believes the Lea County business incubator may score substantially lower on the market criterion, for reasons discussed in Section 2.2. Therefore, under assumption

¹⁴ The reader is reminded from Section 2 that GCGI feels two different scores might be assigned to this criterion depending on major decisions made about the basic Lea County incubator. GCGI initially calculates the Lea County incubator feasibility rating assuming the higher scores of "4" on this criterion; the impact of assuming the lower score of "2" will be explored later in this section.

that this lower score should be used if Lea County decides to not include significant anchor tenants in the incubator, GCGI offers the following analysis of the impact of this decision.



If the market criterion receive a score of "2" on the Lea County business incubator, the overall feasibility rating drops to 65.6, or only modestly above the "average" community's rating of 50. On the academic scale, this rating corresponds to roughly a "B-." If short- and long-term feasibility ratings are isolated, the Lea County business incubator would have ratings of 63 and 80, respectively.

Therefore, if it is decided that the Lea County incubator should not include substantial space dedicated to anchor tenants, the feasibility potential of the incubator drops significantly.

4.0 CONCLUSIONS AND RECOMMENDATIONS

GCGI concludes that a business incubator is conditionally feasible in Lea County. Conditional feasibility suggests that, while GCGI believes an incubator can be successful in the area, there are criteria on which that feasibility hinges.

GCGI was impressed by several parameters of the Lea County environment as it pertains to a project like a business incubator. Among the items that impressed GCGI are:

- Substantial number of existing firms willing to serve as anchors to the proposed incubator, which GCGI believes would be critical to its viability;
- High revenue earnings in the average Lea County microbusiness, and strong growth in those earnings;
- Reasonable alternatives to house the incubator, including the existing Furr's Super Market building which has a number of advantages;

- Unmet business assistance needs, including linking local firms with the supplier needs of the National Enrichment Facility, and a reasonably high level of interest among survey respondents in getting services at the proposed incubator; and
- Superb-to-reasonable break even potential under several scenarios.

The primary areas of concern, in GCGI's opinion, about the viability of an incubator in Lea County include:

- Very modest number of market survey respondents interested in locating their small or start up business in the proposed incubator;
- Some level of concern among some potential tenants about the proposed incubator champion;
- Mixed opinions about the SBDC at NMJC, which along with the survey respondents' concerns about the possible incubator champion, could reduce the market for the incubator and/or splinter community support for the project; and
- Number of funding sources required, under some scenarios, to cover development cost of the incubator and the risk that one or more will not back the project and therefore leave the project short of the necessary funding level

GCGI believes that these areas of concern can be mitigated and, if they are, GCGI would remove the "conditionality" from its conclusion of the feasibility of a business incubator in Lea County.

Given the conclusion of conditional feasibility and the problem areas identified, GCGI recommends that the following actions be taken:

8. Continue to identify possible tenants for the incubator through actions such as holding focus groups with bankers, business leaders, Chamber of Commerce and Hispanic Chamber of Commerce members, and others who might be able to identify emerging candidates for the incubator. Also, hold several additional workshops, probably not in conjunction with the NMJC SBDC, on topics of interest to small and start-up businesses, especially microbusinesses.¹⁵ Attendees of those workshops should be briefed on the idea of an incubator in Lea County and asked to complete incubator surveys because they may be prime candidates for tenants or clients of the project. Workshops should be scheduled at varying times and days of the week to determine if those variables impact the likelihood of attendance.
9. Establish dialog with companies that expressed interest, on the market survey, in becoming tenants of the Lea County incubator, to confirm their level of interest and preferences (especially location) in the incubator. Keep them apprised of the project's progress, preferably via periodic emails, and use them as sounding board for ideas for what might be included in the incubator in the way of features, programs, assistance, etc.
10. The potential anchors in the incubator should be contacted to determine their level of interest and motivation, timing of their space needs, type of space required, and under

¹⁵ GCGI recommends not co-sponsoring with the NMJC SBDC to help determine if there is any bias in the survey responses received at the seminar conducted during this feasibility study

what rental structure and related terms would they participate in the incubator. The lack of suitable alternative space for these firms also should be confirmed.

11. Community leaders should discuss the question of including a large amount of space for anchors in the proposed incubator, and come to a decision on the issue. If they agree that anchor tenants are important to the project, both for its financial viability but also for the other reasons that an anchor can be a valuable addition to an incubator (see Section 2.1.1.2), then GCGI believes the project has greater potential; if they believe anchors should be omitted, then GCGI would conclude a Lea County incubator is infeasible and not recommend that it be developed.
12. The EDC, perhaps through a neutral third party, should contact the survey respondents who are interested in becoming tenants of the incubator and who indicated that EDC was not very helpful when they sought its assistance. This should be used as an opportunity to confirm whether the dissatisfaction stems from past problems at the EDC, or current practices or perceptions that could be rectified. EDC has good support among community leaders, but must also have a good reputation with small and start up business owners for the EDC to serve as champion of this incubator project. Survey respondents who did not offer an opinion about the quality of EDC's services also might be contacted as part of this effort.
13. Once the City of Hobbs receives feedback from EDA on its rejected pre-application, it should be assessed and a new pre-application should be submitted based on a viable scenario as presented in this feasibility study.¹⁶
14. In the EDA application, as well as any application to the New Mexico EDD for certification or funding, the Lea County incubator proponents should take credit for actions they have taken to address these recommendations and therefore reduce the "conditional" caveat on GCGI's feasibility conclusion.

If significant progress can be made in these six areas, GCGI would revise its assessment of the feasibility of a business incubator in Lea County such that the project would be deemed to be feasible rather than conditionally feasible.

¹⁶ Per the City's pre-application of October 24, 2006, EDA is asked to provide \$697,000 support a 12,000 square foot incubator. As discussed elsewhere, GCGI recommends a larger incubator be developed. EDA should be willing to fund up to \$1 million on a project provided that adequate match is available; GCGI believes such match can be shown and therefore the City should request approximately \$1 million rather than the \$697,000 requested in the pre-ap.

Appendix A.

BUSINESS INCUBATOR SURVEY

The purpose of this survey is to determine the feasibility of developing a business incubator in the Lea County area. This is being done in response to various business and community leaders' interest in diversifying our economy and providing for the development and expansion of small businesses.

A business incubator is a facility, a business services provider, and a provider of training/networking programs that collectively support the development and growth of start-up and small businesses with the goal of improving their chance of survival and success. Incubators also can provide initial locations for relocating or expanding industries. A typical incubator might house 10 to 20 businesses, which share common resources like a conference room and reception area to reduce overhead costs, and which can access business assistance services directly from the incubator manager or outside organizations and professionals. Many incubators also house "anchor tenants" that do not use the incubator's services but which have other reasons for wanting to locate in such a facility.

To help us decide whether a Lea County business incubator is a good idea, we are asking you to complete this survey. This is a great opportunity to express your opinions about the proposed incubator, and other parts of the local economic and business development community.

Please complete and return your survey to us by Friday, October 27th. You can mail it back by refolding the survey with the Foundation's address and postage on the outside, faxing it to 397-7266, or emailing it to g-igreenwood@att.net. If you would prefer to complete the survey on line, it can be found on the website www.g-igreenwood.com/hobbsincubator.htm. **Thank you for your input!**

Name: _____ 84 _____ Business: _____
 Address: _____ City/Zip: _____
 E-mail Address: _____ 60 _____

1. Please mark all categories that describe your status

- 22 Thinking of starting a business
 53 Already have a business
 _____ # years in business
 47 Full-time 1 Part-time
 5 Other (please specify) _____

2. If you have a business or are thinking of starting one, please describe what product and/or service you provide and to what market(s) _____

3. One area that might be emphasized in this incubator would be businesses that could supply goods and services to the National Enrichment Facility (enriching uranium to fuel commercial nuclear reactors), during its construction and/or operation. Is your existing or planned business interested in supplying goods or services to NEF? Please mark the appropriate response(s) below

- 30 My business is not likely providing goods/services of interest to NEF
 9 My business already is a supplier to NEF
 32 My business (existing or planned) would be interested in becoming an NEF supplier
 10 Other (please specify) _____

4. How would you rate the climate in Lea County for small and start-up businesses?

21 Excellent 41 Very Good 16 Average 0 Fair 2 Poor

5. Is that climate improving or not? 72 Getting better 0 Getting worse 9 No change

6. If you are a small or start up business, in what areas would you like more help (please mark all that apply)?

- | | | |
|--------------------------------|--|-------------------------------------|
| 22 Marketing | 14 Market analysis | 17 Personnel recruitment/management |
| 26 Financing | 12 Financial analysis | 6 Intellectual property protection |
| 15 Business Legal Issues | 20 Business planning | 2 Product development |
| 22 Taxes | 5 Business registration | 4 Manufacturing process |
| 20 Accounting | 11 Diversification of my business into other markets | |
| 5 Other (please specify) _____ | | |

7. How would you rate the following providers of business assistance in Lea County?

Organization	Very Helpful	Helpful	Not Very Helpful	Not Used
City government	10	33	9	25
Lea County government	11	33	6	24
NMJC Small Business Development Center	24	20	7	25
Texas Tech Small Business Development Center	9	14	1	53
Chamber of Commerce	13	35	7	23
EDC of Lea County	16	27	2	28
Attorney	17	23	3	29
Accountant	21	23	1	27
Mgmt Consultants (specify) _____	2	2	0	45
Other (specify) _____	2	0	0	23

8. Does a proposed business incubator sound like a good idea for Lea County? **75 Yes** **3 No**

9. If you believe the incubator might be useful to your business, please indicate your level of interest:

- 12 I would consider becoming a tenant in the incubator
- 9 I would likely use services at the incubator
- 17 I might use services at the incubator
- 24 I do not anticipate using the incubator for my company
- 4 My firm might be willing to be an anchor tenant (not needing incubator services but interested in leasing space there)
- 6 Other (please specify): _____

10. If you would anticipate using the space or services of the business incubator, please indicate all features of that incubator that would be useful to your business

- 27 Business assistance 6 Angel/venture capital
- 17 Loans 12 High speed Internet access
- 17 Networking opportunities 12 Flexible leases
- 2 Laboratory space 13 Office space
- 3 Manufacturing/assembly space 3 Arts/crafts studio space
- 4 Shared commercial kitchen space
- 12 Shared copier, conference room, receptionist, etc.
- 2 Other (please specify) _____

11. What would be the best location for the Incubator? Please indicate any and all locations that you think would be suitable.

- 28 Downtown Hobbs
- 27 Hobbs Industrial Air Park (HIAP)
- 21 New Mexico Junior College campus
- 9 South Hobbs
- 6 Lovington area
- 13 Other (please specify) _____

12. Do you know anyone else in the region who might be interested in the proposed business incubator who might not receive this survey? If so, please provide name, address, phone number/e-mail address, if possible _____

13. Are there any other comments or suggestions that you would like to make to help us better understand your opinion of the proposed business incubator? _____

Please return your completed survey by Friday, October 27, 2006.

Thank you!

This survey is being funded by the J.F. Maddox Foundation and the results will be shared with community leaders

8. Does a proposed business incubator sound like a good idea for Lea County? **16 Yes** **0 No**

9. If you believe the incubator might be useful to your business, please indicate your level of interest:

- 12 I would consider becoming a tenant in the incubator
- 0 I would likely use services at the incubator
- 0 I might use services at the incubator
- 0 I do not anticipate using the incubator for my company
- 4 My firm might be willing to be an anchor tenant (not needing incubator services but interested in leasing space)
- 0 Other (please specify): _____

10. If you would anticipate using the space or services of the business incubator, please indicate all features of that incubator that would be useful to your business

- | | | | |
|---|--|---|----------------------------|
| 8 | Business assistance | 3 | Angel/venture capital |
| 7 | Loans | 8 | High speed Internet access |
| 4 | Networking opportunities | 6 | Flexible leases |
| 1 | Laboratory space | 9 | Office space |
| 2 | Manufacturing/assembly space | 2 | Arts/crafts studio space |
| 3 | Shared commercial kitchen space | | |
| 6 | Shared copier, conference room, receptionist, etc. | | |
| 0 | Other (please specify) _____ | | |

11. What would be the best location for the Incubator? Please indicate any and all locations that you think would be suitable.

- 4 Downtown Hobbs
- 5 Hobbs Industrial Air Park (HIAP)
- 7 New Mexico Junior College campus
- 4 South Hobbs
- 3 Lovington area
- 4 Other (please specify) _____

12. Do you know anyone else in the region who might be interested in the proposed business incubator who might not receive this survey? If so, please provide name, address, phone number/e-mail address, if possible _____

13. Are there any other comments or suggestions that you would like to make to help us better understand your opinion of the proposed business incubator? _____

Please return your completed survey by Friday, October 27, 2006.

Thank you!

This survey is being funded by the J.F. Maddox Foundation and the results will be shared with community leaders

APPENDIX C.

CASH FLOW PROJECTIONS FOR LEA COUNTY INCUBATOR SCENARIOS

Table 12. Cash flow projections for Scenario #1, 12k sf New HIAP Incubator Facility

	Year 1	Year 2	Year 3	Year 4	Year 5	
Cash @ Start	\$ -	\$ (77,680)	\$ (143,057)	\$ (194,978)	\$ (232,216)	
Cash In						
Rental: office	\$ 134,400	\$ 139,776	\$ 145,367	\$ 151,182	\$ 157,229	80% leasable @\$14/sf
Rental: manuf/lab	\$ -	-	-	-	-	80% leasable@\$9.50/sf
Rental: anchor(s)	-	-	-	-	-	100% leasable@\$12/sf
Services	8,400	11,025	13,892	17,017	20,421	\$1.75/sf occupied space,5% escal
Affiliates	7,800	8,190	8,600	9,029	9,481	\$65/mo, 5% escalation, 10 affiliates
- vacancy factor	(80,640)	(69,888)	(58,147)	(45,355)	(31,446)	Equal % off/lab BUT NOT ANCHORS
- bad debt factor	(7,140)	(7,540)	(7,963)	(8,410)	(8,882)	5% of rent & svcs
Net cash in	\$ 62,820	\$ 81,563	\$ 101,748	\$ 123,464	\$ 146,802	
Cash Out						
Salaries	\$ 94,500	\$ 98,280	\$ 102,211	\$ 106,300	\$ 110,552	3/4time Mgr @\$65k + \$30k FT receipt+20
Utilities	14,400	15,000	15,600	16,200	16,800	\$1/sf gross+\$\$.50/sf leased of incub
Maint & repair	18,000	19,080	20,225	21,438	22,725	\$1.50/sf gross+6% infl of incub
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -	
Lease payment						n/a
R/E taxes	\$ -	-	-	-	-	Seek city/county waiver
Supplies, phone	3,600	3,780	3,969	4,167	4,376	\$300/mo + 5% inflation
Insurance, misc	10,000	10,800	11,664	12,597	13,605	8% inflation
Net cash out	\$ 140,500	\$ 146,940	\$ 153,669	\$ 160,703	\$ 168,057	
Cash @ End	\$ (77,680)	\$ (143,057)	\$ (194,978)	\$ (232,216)	\$ (253,471)	
Change in Cash	\$ (77,680)	\$ (65,377)	\$ (51,921)	\$ (37,239)	\$ (21,255)	breakeven looks possible @ ~90% occup
% incub occupied	40%	50%	60%	70%	80%	
Rent escalation		4%	4%	4%	4%	

Table 13. Cash flow projections for Scenario #2: 16k SF New HIAP Incubator Facility

	Year 1	Year 2	Year 3	Year 4	Year 5	
Cash @ Start	\$ -	\$ (89,920)	\$ (152,514)	\$ (196,084)	\$ (218,943)	
Cash In						
Rental: office	\$ 179,200	\$ 186,368	\$ 193,823	\$ 201,576	\$ 209,639	80% leasable @\$14/sf
Rental: manuf/lab	\$ -	-	-	-	-	80% leasable@\$9.50/sf
Rental: anchor(s)	-	-	-	-	-	100% leasable@\$12/sf
Services	8,400	13,230	16,979	21,069	27,227	\$1.75/sf occupied space,5% escal
Affiliates	7,800	8,190	8,600	9,029	9,481	\$65/mo, 5% escalation, 10 affiliates
- vacancy factor	(125,440)	(102,502)	(87,220)	(70,551)	(41,928)	Equal % off/lab BUT NOT ANCHORS
- bad debt factor	(9,380)	(9,980)	(10,540)	(11,132)	(11,843)	5% of rent & svcs
Net cash in	\$ 60,580	\$ 95,306	\$ 121,640	\$ 149,990	\$ 192,576	
Cash Out						
Salaries	\$ 94,500	\$ 98,280	\$ 102,211	\$ 106,300	\$ 110,552	3/4time Mgr @\$65k + \$30k FT receipt+20
Utilities	18,400	19,600	20,400	21,200	22,400	\$1/sf gross+\$\$.50/sf leased of incub
Maint & repair	24,000	25,440	26,966	28,584	30,299	\$1.50/sf gross+6% infl of incub
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -	
Lease payment						n/a
R/E taxes	\$ -	-	-	-	-	Seek city/county waiver
Supplies, phone	3,600	3,780	3,969	4,167	4,376	\$300/mo + 5% inflation
Insurance, misc	10,000	10,800	11,664	12,597	13,605	8% inflation
Net cash out	\$ 150,500	\$ 157,900	\$ 165,211	\$ 172,849	\$ 181,232	
Cash @ End	\$ (89,920)	\$ (152,514)	\$ (196,084)	\$ (218,943)	\$ (207,599)	
Change in Cash	\$ (89,920)	\$ (62,594)	\$ (43,570)	\$ (22,858)	\$ 11,344	breakeven looks possible @ ~75% occup
% incub occupied	30%	45%	55%	65%	80%	
Rent escalation		4%	4%	4%	4%	

Table 14. Cash flow projections for Scenario #3: 30k SF New HIAP/NMJC Incubator Facility, 15k SF Anchor

	Year 1	Year 2	Year 3	Year 4	Year 5	
Cash @ Start	\$ -	\$ (81,550)	\$ (134,838)	\$ (167,053)	\$ (166,651)	
Cash In						
Rental: office	\$ 134,400	\$ 139,776	\$ 145,367	\$ 151,182	\$ 157,229	80% leasable @\$14/sf
Rental: manuf/lab	\$ 22,800	23,712	24,660	25,647	26,673	80% leasable@\$9.50/sf
Rental: anchor(s)	180,000	187,200	194,688	202,476	210,575	100% leasable@\$12/sf
Services	7,875	12,403	15,917	21,271	25,526	\$1.75/sf occupied space,5% escal
Affiliates	7,800	8,190	8,600	9,029	9,481	\$65/mo, 5% escalation, 10 affiliates
- vacancy factor	(110,040)	(89,918)	(76,512)	(53,049)	(36,780)	Equal % off/lab BUT NOT ANCHORS
- bad debt factor	(17,254)	(18,155)	(19,032)	(20,029)	(21,000)	5% of rent & svcs
Net cash in	\$ 225,581	\$ 263,208	\$ 293,688	\$ 336,528	\$ 371,702	
Cash Out						
Salaries, Mgt Fee	\$ 114,000	\$ 118,560	\$ 123,302	\$ 128,234	\$ 133,364	FT Mgr@\$65k+\$30k FT receipt+20% fringe
Utilities	39,750	40,875	41,625	42,750	43,500	\$1/sf gross+\$.50/sf leased of incub
Maint & repair	45,000	47,700	50,562	53,596	56,811	\$1.50/sf gross+6% infl of incub
Debt service	\$ 94,781	\$ 94,781	\$ 94,781	\$ 94,781	\$ 94,781	\$750k/10yr/0%, \$300k/20yr/8%
Lease payment						n/a
R/E taxes	\$ -	-	-	-	-	Seek city/county waiver
Supplies, phone	3,600	3,780	3,969	4,167	4,376	\$300/mo + 5% inflation
Insurance, misc	10,000	10,800	11,664	12,597	13,605	8% inflation
Net cash out	\$ 307,131	\$ 316,496	\$ 325,903	\$ 336,126	\$ 346,437	
Cash @ End	\$ (81,550)	\$ (134,838)	\$ (167,053)	\$ (166,651)	\$ (141,386)	
Change in Cash	\$ (81,550)	\$ (53,288)	\$ (32,215)	\$ 402	\$ 25,265	breakeven looks possible @ ~70% occupa
% incub occupied	30%	45%	55%	70%	80%	
Rent escalation		4%	4%	4%	4%	

Table 15. Cash flow projections for Scenario #3a: Same as Scenario #3 but \$1/sf Higher Rents All Spaces

	Year 1	Year 2	Year 3	Year 4	Year 5	
Cash @ Start	\$ -	\$ (54,329)	\$ (77,834)	\$ (78,176)	\$ (43,000)	
Cash In						
Rental: office	\$ 144,000	\$ 149,760	\$ 155,750	\$ 161,980	\$ 168,460	80% leasable @\$15/sf
Rental: manuf/lab	\$ 25,200	26,208	27,256	28,347	29,480	80% leasable@\$10.50/sf
Rental: anchor(s)	195,000	202,800	210,912	219,348	228,122	100% leasable@\$13/sf
Services	7,875	12,403	15,917	21,271	25,526	\$1.75/sf occupied space,5% escal
Affiliates	7,800	8,190	8,600	9,029	9,481	\$65/mo, 5% escalation, 10 affiliates
- vacancy factor	(118,440)	(96,782)	(82,353)	(57,098)	(39,588)	Equal % off/lab BUT NOT ANCHORS
- bad debt factor	(18,604)	(19,559)	(20,492)	(21,547)	(22,579)	5% of rent & svcs
Net cash in	\$ 242,831	\$ 283,020	\$ 315,591	\$ 361,331	\$ 398,902	
Cash Out						
Salaries, Mgt Fee	\$ 114,000	\$ 118,560	\$ 123,302	\$ 128,234	\$ 133,364	FT Mgr@\$65k+\$30k FT receipt+20% fringe
Utilities	39,750	40,875	41,625	42,750	43,500	\$1/sf gross+\$.50/sf leased of incub
Maint & repair	45,000	47,700	50,562	53,596	56,811	\$1.50/sf gross+6% infl of incub
Debt service	\$ 84,810	\$ 84,810	\$ 84,810	\$ 84,810	\$ 84,810	\$750k/10yr/0%, \$300k/20yr/8%
Lease payment						n/a
R/E taxes	\$ -	-	-	-	-	Seek city/county waiver
Supplies, phone	3,600	3,780	3,969	4,167	4,376	\$300/mo + 5% inflation
Insurance, misc	10,000	10,800	11,664	12,597	13,605	8% inflation
Net cash out	\$ 297,160	\$ 306,525	\$ 315,933	\$ 326,155	\$ 336,466	
Cash @ End	\$ (54,329)	\$ (77,834)	\$ (78,176)	\$ (43,000)	\$ 19,435	
Change in Cash	\$ (54,329)	\$ (23,505)	\$ (342)	\$ 35,176	\$ 62,435	breakeven looks possible @ ~55% occupa
% incub occupied	30%	45%	55%	70%	80%	
Rent escalation		4%	4%	4%	4%	

Table 16. Cash flow projections for Scenario #4: 47K SF Rehabbed Furr's Building+22k SF Anchors

	Year 1	Year 2	Year 3	Year 4	Year 5	
Cash @ Start	\$ -	\$ 29,522	\$ 91,296	\$ 187,872	\$ 321,949	
Cash In						
Rental: office	\$ 236,250	\$ 245,700	\$ 255,528	\$ 265,749	\$ 276,379	75% leasable @\$14/sf
Rental: manuf/lab	\$ 17,813	18,525	19,266	20,037	20,838	75% leasable@\$9.50/sf
Rental: anchor(s)	242,000	251,680	261,747	272,217	283,106	100% leasable@\$11/sf
Services	8,750	13,781	19,294	25,323	31,907	\$1.75/sf occupied space,5% escal
Affiliates	7,800	8,190	8,600	9,029	9,481	\$65/mo, 5% escalation, 10 affiliates
- vacancy factor	(203,250)	(184,958)	(164,876)	(142,893)	(118,887)	Equal % off/lab BUT NOT ANCHORS
- bad debt factor	(25,241)	(26,484)	(27,792)	(29,166)	(30,612)	5% of rent & svcs
Net cash in	\$ 284,122	\$ 326,434	\$ 371,766	\$ 420,296	\$ 472,213	
Cash Out						
Salaries, Mgt Fee	\$ 90,000	\$ 93,600	\$ 97,344	\$ 101,238	\$ 105,287	FT Mgr + \$25k FT receipt+20% fringe
Utilities	60,500	61,750	63,000	64,250	65,500	\$1/sf gross+\$.50/sf leased of incub
Maint & repair	70,500	74,730	79,214	83,967	89,005	\$1.50/sf gross+6% infl of incub
Debt service	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$750k/10yr/0%
Lease payment						n/a
R/E taxes	\$ -	-	-	-	-	Seek city/county waiver
Supplies, phone	3,600	3,780	3,969	4,167	4,376	\$300/mo + 5% inflation
Insurance, misc	10,000	10,800	11,664	12,597	13,605	8% inflation
Net cash out	\$ 254,600	\$ 264,660	\$ 275,191	\$ 286,219	\$ 297,773	
Cash @ End	\$ 29,522	\$ 91,296	\$ 187,872	\$ 321,949	\$ 496,389	
Change in Cash	\$ 29,522	\$ 61,774	\$ 96,576	\$ 134,077	\$ 174,440	breakeven looks possible @ ~10% occupa
% incub occupied	20%	30%	40%	50%	60%	
Rent escalation		4%	4%	4%	4%	

Table 17. Cash flow projections for Scenario #4a: Same As #4, But More Loans/Less Grants

	Year 1	Year 2	Year 3	Year 4	Year 5	
Cash @ Start	\$ -	\$ (25,259)	\$ (18,266)	\$ 23,529	\$ 102,825	
Cash In						
Rental: office	\$ 236,250	\$ 245,700	\$ 255,528	\$ 265,749	\$ 276,379	75% leasable @\$14/sf
Rental: manuf/lab	\$ 17,813	18,525	19,266	20,037	20,838	75% leasable @\$9.50/sf
Rental: anchor(s)	242,000	251,680	261,747	272,217	283,106	100% leasable @\$11/sf
Services	8,750	13,781	19,294	25,323	31,907	\$1.75/sf occupied space, 5% escal
Affiliates	7,800	8,190	8,600	9,029	9,481	\$65/mo, 5% escalation, 10 affiliates
- vacancy factor	(203,250)	(184,958)	(164,876)	(142,893)	(118,887)	Equal % off/lab BUT NOT ANCHORS
- bad debt factor	(25,241)	(26,484)	(27,792)	(29,166)	(30,612)	5% of rent & svcs
Net cash in	\$ 284,122	\$ 326,434	\$ 371,766	\$ 420,296	\$ 472,213	
Cash Out						
Salaries, Mgt Fee	\$ 90,000	\$ 93,600	\$ 97,344	\$ 101,238	\$ 105,287	FT Mgr + \$25k FT receipt+20% fringe
Utilities	60,500	61,750	63,000	64,250	65,500	\$1/sf gross+\$.50/sf leased of incub
Maint & repair	70,500	74,730	79,214	83,967	89,005	\$1.50/sf gross+6% infl of incub
Debt service	\$ 74,781	\$ 74,781	\$ 74,781	\$ 74,781	\$ 74,781	\$750k/10yr/0%
Lease payment						n/a
R/E taxes	\$ -	-	-	-	-	Seek city/county waiver
Supplies, phone	3,600	3,780	3,969	4,167	4,376	\$300/mo + 5% inflation
Insurance, misc	10,000	10,800	11,664	12,597	13,605	8% inflation
Net cash out	\$ 309,381	\$ 319,441	\$ 329,972	\$ 341,000	\$ 352,554	
Cash @ End	\$ (25,259)	\$ (18,266)	\$ 23,529	\$ 102,825	\$ 222,484	
Change in Cash	\$ (25,259)	\$ 6,993	\$ 41,794	\$ 79,296	\$ 119,659	breakeven looks possible @ ~25% occupa
% incub occupied	20%	30%	40%	50%	60%	
Rent escalation		4%	4%	4%	4%	