



Department of Planning & Community & Economic Development

Economic Development Division

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TO: Board of Estimates and Common Council

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SUBJECT: Legislative File # 18696 (BioLink)

DATE: June 7, 2010

The purpose of this memo is to provide background information on the BioLink facility, and justification for removal of the 50% pre-lease requirement as outlined in Legislative File # 18696 (BioLink). As it has been over a year since the Council last discussed BioLink, a brief summary of the project is in order. BioLink will be a 31,000 s.f. incubator and commercialization center targeting biotechnology, agriculture, food science, and sustainability related firms. As an incubator facility, many of the tenants will be start-ups. It is the desire of BioLink tenants to grow and graduate out of BioLink into private space elsewhere within the community, thereby helping to grow Madison's BioAg economy. BioLink, to be located within the City's BioAg Gateway, will include office, flex/tech/lab space, controlled environment growth chambers, and greenhouse space. As such, it is a unique, one-of-a-kind facility within Wisconsin. Additional information regarding BioLink can be found within the attached business plan and revised cash flow analysis.

Although the BioLink facility has been under consideration for several years, the ability to fund BioLink became apparent in February 2009 upon learning that the U.S. Department of Commerce's Economic Development Administration (EDA) would likely look favorably upon an application for grant funds for its construction. Working with Madison Gas & Electric, the City retained Dr. Robert Calcaterra, PhD to develop a business plan for BioLink. The City also formed a partnership with the Madison Development Corporation (MDC) to construct and manage BioLink.

The business model originally called for a 21,000 s.f. facility; however, further analysis revealed a structural operating deficit. Consequently, the business model was changed to a larger, 31,000 s.f. facility. The business model calls for a \$4,534,472 grant from EDA, a \$2,049,450 contribution of TIF funds by the City, and the contribution of property by the City valued at \$515,533. Under the time constraints presented by the EDA, the Council expeditiously committed the required local match and authorized execution of all necessary documentation through RES-09-00309 on April 2, 2009.

At the time, the Common Council provided pre-conditions on securing the City TIF funds as outlined within the attached Board of Estimates memo dated March 23, 2009 ("BOE Memo"). The EDA announced the award of its funding on May 11, 2010, and will require execution of its grant award documentation by June 10, 2010. The Wisconsin Department of Commerce also recently announced the contribution of \$200,000 toward the project.

The Madison Development Corporation (MDC) has agreed to, or otherwise resolved, all of the recommendations outlined within the BOE Memo except for the 50% pre-lease requirement. Following is an explanation for why it is necessary and appropriate to remove the 50% pre-lease requirement:

- In developing the BioLink Business Plan, it was recognized that there would be a conservative ramp-up period required to achieve occupancy of the facility. The business plan calls for a minimum 25% occupancy during the first year, 50% the second, and 80% each year thereafter. Recognizing the required ramp-up period, the EDA agreed to provide a \$310,000 per year operating subsidy for each of the first three years. Wisconsin Department of Commerce followed with a \$200,000 operating subsidy during the first year (\$100,000 grant and \$100,000 loan requiring repayment). Per the attached cash flow statement, the facility would not need to be 50% pre-leased at the time of construction to see cumulative positive cash flow.
- City staff and MDC have been actively promoting BioLink; however, without the EDA Grant, a construction timeline, and detailed building plans, it is difficult to receive firm tenant commitments on space. EDA funding, and concurrently the local match (City TIF assistance), is needed to complete the architectural and engineering design work necessary to provide firms with the assurance that BioLink will meet their needs and timelines. This work will take approximately 12 weeks to complete.
- As a business incubator and commercialization center, many of the firms that locate within BioLink will be start-ups or expanding small firms. Unlike large technology companies, these types of firms have very dynamic real estate and technology needs, which lead to short lead times and quick decisions. Consequently, it is unlikely that BioLink will see significant leasing until closer to the date that the facility will actually open.
- BioLink is a unique facility within Wisconsin, and therefore, not in direct competition with other facilities. The University of Wisconsin – Madison's Biotron is perhaps the local facility most closely resembling BioLink, and the Biotron is almost always full. The Biotron also primarily serves UW faculty needs, not private sector businesses.
- MDC has 22 months to complete construction from the May 11, 2010 award date, with construction required to begin within 18 months. Prior to construction, MDC must finalize its TIF Agreement with the City of Madison, hire a construction manager, complete architecture and engineering design, and secure land use approvals. The facility itself will likely require eleven (11) months for construction. As the local match and EDA grant funds will be needed to complete architecture and engineering design (a three (3) month process), it will be challenging to secure 50% occupancy within the 22-month completion timeframe required by the EDA.
- MDC currently has a commitment from Orbitec for approximately 5,000 s.f. (16%) of the facility. To reach the business plan's first year projected occupancy, MDC will be required to lease approximately 2,700 s.f. (9%) of additional space. In addition to the recruitment work of City and MDC staff, BioLink will have a full-time Executive Director hired at the beginning of occupancy. This individual will be able to devote more attention to marketing the facility and securing tenants.

Pre-lease requirements are common for securing real estate financing, and rightfully so. This request to remove the 50% pre-lease requirement for BioLink should in no way be construed as a suggestion that the City not include pre-leasing requirements with other real estate projects utilizing City funds. For office, retail, and residential projects, a pre-leasing requirement provides assurance that the proposed project will be successful in light of other office, retail, and residential projects throughout the Madison market.

BioLink, and the opportunity afforded by the EDA funding, is unique. MDC has already considered its options should leasing fall short of projections. Through the recommendations outlined within the March 23, 2009 BOE memo and the forthcoming preparation of the TIF Agreement with MDC, efforts are being taken to prevent additional financial liability on the part of the City. Removing the 50% pre-lease requirement does not negate these other means of protecting the City's interest.

Finally, the ability of BioLink to advance the biotechnology, agriculture, food science, and sustainability industry sectors for which Madison is already known should not be overlooked. As with all real estate projects, there is risk; however, BioLink also has strong potential to be a great success.