



Department of Planning & Community & Economic Development
Economic Development Division

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TO: Board of Estimates

FROM: Matthew B. Mikolajewski, Office of Business Resources Manager *MBM*

SUBJECT: Legislative File # 14002 (BioLink Commercialization and Business Center)

DATE: March 23, 2009

In advance of the March 23, 2009 City of Madison Board of Estimates meeting, the City Council and Board of Estimates was presented with a business plan for a 21,000 s.f. BioLink Commercialization and Business Center ("BioLink"). Despite a contribution of \$930,000 to the initial operations of BioLink by the U.S. Economic Development Administration (EDA), the business plan for a 21,000 s.f. facility included an operating deficit beginning in the third year of operation.

During a presentation to the City Council on March 17, 2009, Alderpersons expressed concern about this operating deficit. City staff subsequently contacted the EDA, and the EDA responded with an offer to provide an additional \$1,000,000 to construct a larger facility. A larger facility will provide operational economies of scale reducing the previously noted operating deficit. The following pages present an amended Sources and Use Table, Economic Impact Statement, and Cash Flow Analysis for a 31,000 s.f. BioLink facility.

Under this new scenario, each year's operating deficit will be significantly less than found within a 21,000 s.f. facility. Further, the EDA operating contribution during the first three years will provide expense savings in the third year of operation that could be applied to future operating deficits. Accordingly, Economic Development Division staff recommends proceeding with the larger 31,000 s.f. facility.

With a 31,000 s.f. facility, total capital project costs will increase from \$4,593,750 to \$6,192,250 (an increase of \$1,598,500). The EDA's contribution would increase from \$3,500,000 to \$4,500,000. Under this scenario, the City's TIF contribution would increase from \$1,450,750 to \$2,049,250 (an increase of \$598,500). Under both scenarios, \$930,000 of the EDA contribution would be used for operations and in addition to its TIF contribution, the City would provide property valued at \$573,000.

EDA Sources and Use Table

Sources/Uses Table—Simplified 23-Mar-09

	EDA	City	Others	TOTALS
Capital Costs				
Building	\$3,570,000	\$855,500	\$0	\$4,425,500
Land/Site Infrastructure	\$0	\$773,000	\$0	\$773,000
Machinery/Equipment/Technology	\$0	\$775,000	\$0	\$775,000
Capital Costs	\$3,570,000	\$2,403,500	\$0	\$5,973,500
Contingencies (4%)		\$218,750		\$6,192,250
Operational Costs				
Salaries	\$450,000	\$0	\$0	\$450,000
Utilities/Maintenance/Contract Admin	\$480,000	\$0	\$0	\$480,000
Operational Costs	\$930,000	\$0	\$0	\$930,000
Totals	\$4,500,000	\$2,622,250	\$0	\$7,122,250
% Project Funding	63.18%	36.82%	0.00%	100.00%

Regional Economic Impact of BioLink: 31,000 SF Facility

Projections of economic development benefits from the BioLink Commercialization Center are shown below. The reader should be careful not to add job benefits to investment dollars in that the former numbers are reflective of a portion of the later investment numbers. Private Investment are cumulative in year 2020.

Year	2011	2012	2013	2014	2015	2020**
New Client Companies	2	2	2	2	2	X
Cumulative Companies	2	4	6	8	10	20
Graduate Companies	0	0	0	1	2	7
Direct Jobs	15	25	50	75	100	200
\$M (@ \$65K/Year)	0.98	1.63	3.25	4.88	6.5	13
Indirect Jobs*	38	63	100	178	250	500
\$M (@ \$50K/Year)	1.9	3.15	5	11.57	12.5	25
Cummulative Private Investment, \$M	2	10	30	60	100	250

*Based on a conservative 2.5 to 1 ratio to direct jobs created.

**Based on an expansion of BioLink in 2016.

CASH FLOW ANALYSIS
 BioLink 31,000 SF Facility
 3/23/2009

Year	2011	2012	2013	2014	2015	2016	2017	2018
Income								
Rental	\$ 945,000	\$ 978,075	\$ 1,002,527	\$ 1,027,590	\$ 1,053,280	\$ 1,079,612	\$ 1,106,602	\$ 1,134,267
Other	\$ 1,680	\$ 1,680	\$ 1,680	\$ 1,680	\$ 1,680	\$ 1,680	\$ 1,680	\$ 1,680
GPI	\$ 946,680	\$ 979,755	\$ 1,004,207	\$ 1,029,270	\$ 1,054,960	\$ 1,081,292	\$ 1,108,282	\$ 1,135,947
Vacancy	\$ (708,750)	\$ (489,038)	\$ (200,505)	\$ (205,518)	\$ (210,656)	\$ (215,922)	\$ (221,320)	\$ (226,853)
Gross Income	\$ 237,930	\$ 490,717	\$ 803,702	\$ 823,752	\$ 844,304	\$ 865,369	\$ 886,962	\$ 909,094
Expenses								
Property Taxes	\$ 80,000	\$ 82,800	\$ 85,698	\$ 88,697	\$ 91,802			
Water & Sewer	\$ 15,000	\$ 15,525	\$ 16,068	\$ 16,631	\$ 17,213			
Gas & Electric	\$ 180,000	\$ 186,300	\$ 192,821	\$ 199,569	\$ 206,554			
Insurance	\$ 5,000	\$ 5,175	\$ 5,356	\$ 5,544	\$ 5,738			
Maintenance & Repair	\$ 90,000	\$ 93,150	\$ 96,410	\$ 99,785	\$ 103,277			
Management	\$ 240,000	\$ 248,400	\$ 257,094	\$ 266,092	\$ 275,406			
Admin.	\$ 70,000	\$ 72,450	\$ 74,986	\$ 77,610	\$ 80,327			
Other 1	\$ 20,000	\$ 20,700	\$ 21,425	\$ 22,174	\$ 22,950			
Other 2	\$ 30,000	\$ 31,050	\$ 32,137	\$ 33,262	\$ 34,426			
Total Operating	\$ 730,000	\$ 755,550	\$ 781,994	\$ 809,364	\$ 837,692	\$ 867,011	\$ 897,356	\$ 928,764
Replacement reserves	\$ 18,000	\$ 18,000	\$ 18,000	\$ 18,000	\$ 18,000	\$ 18,000	\$ 18,000	\$ 18,000
Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 748,000	\$ 773,550	\$ 799,994	\$ 827,364	\$ 855,692	\$ 885,011	\$ 915,356	\$ 946,764
NOI	\$ (510,070)	\$ (282,833)	\$ 3,707	\$ (3,612)	\$ (11,388)	\$ (19,642)	\$ (28,395)	\$ (37,670)
EDA Annual Contribution	\$ 510,070	\$ 282,833	\$ 137,097	\$ 3,612	\$ 11,388	\$ 19,462	\$ 28,395	\$ 37,670
EDA Reserve--Balance by Year	\$ -	\$ -	\$ 140,804	\$ 137,192	\$ 125,804	\$ 106,342	\$ 77,947	\$ 40,277

*Income stream assumes no other grants, foundation assistance, professional service fees, or corporate sponsorship.