

Northern Colorado BUSINESS REPORT

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Innovative financing brings new home for RMII

With city's support, LEED building set to go up in Fort Collins

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FORT COLLINS - Thanks to an initial - and unanimous - go ahead from the Fort Collins City Council on May 12, the home of the Rocky Mountain Innovation Initiative will get a significant upgrade next year. RMII will be tripling its space when it moves into a new four-story, LEED Gold-certified, 31,000-square-foot building on Vine Drive east of College Avenue.

This building, designed to foster innovation, is being made possible through innovative financial support from the city.

"This is a huge milestone for our many innovative entrepreneurs in the region," RMII Executive Director Mark Forsyth said. "We also intend to make this a big win for the community by helping jumpstart the economy and spur redevelopment of the North College area."

Josh Birks, Fort Collins Economic Advisor, explained the unique - and complex - financing package the city came up with to support the building.

The \$7.1 million project includes \$2.8 million in tax increment financing from the city's Urban Renewal Authority and \$1.8 million from the state-supported New Markets Tax Credits. That means the long-term debt to the RMII for its \$7.1 million building is only about \$2.5 million, according to Birks.

"It's a great financing solution for them," he said. "The less money they owe, the lower they can keep lease rates, and the whole goal is to provide below-market-rate space for startup companies to move from idea to proof-of-concept to production, and then graduate out once their business plan has reached maturity and they've secured financing."

The URA financing comes from the building's property taxes; that \$2.8-million portion - about 65 percent of the tax revenue the building is expected to generate over the life of the URA - will be reinvested into the building instead of being paid to the city.

The unique part of the package is the New Markets Tax Credits. Birks said the credits work just like low-income or historic-preservation tax credits, but are meant to incentivize economic development in distressed areas. The city applied for and received a \$7.1 million allocation from the Colorado Housing and Finance Authority, which works out to about \$1.8 million in equity.

"In this case the allocation is going to stay with the project as equity, so the bottom line is it's like we're having an equity partner investing to the tune of \$1.8 million and their only expectation for return is the tax benefit," Birks said. "I hate to say free money, but it's pretty close."

Birks knows of only one other time New Markets credits were used in Fort Collins, on the redevelopment of the Northern Hotel almost 20 years ago. "It's a pretty unique solution and it's certainly a financing tool we're interested in pursuing on other projects," he said.

City acting as banker

The city council's action was in support of loaning \$5 million to the URA, which will then be dispersed to the project in two installments. The money will be paid back to the city through RMII and the tax increment financing. "The city is acting as a banker because our investment policy allows us to use our reserves in that way," Birks said. "It doesn't have any impact on our annual operating reserves."

The URA board agreed to accept the city's loan and lend an initial \$1.1 million to RMII directly for design and development costs. The board will have to meet again in August to take action on the second part of the loan.

"New Markets prefer to act more like a construction loan," Birks explained. "They want the design and site development done before money is disbursed. The (design and development loan) allows us to get that far down the road and then the New Markets structure will be built and put in place."

Groundbreaking is slated for this fall, with occupancy starting in 2010.

The building will include subsidized office space for clean energy, bioscience and technology startup businesses, conference room space, central reception area, bioscience laboratory space, and administrative offices for RMII. In the last two years, RMII has assisted 13 new companies, with nearly 60 full-time employees in its incubation program and more than 50 other companies through its industry cluster initiatives and other programs.

Kelly Peters, RMII's chief operating officer, said all of the incubator's current clients are interested in moving into the space. In the meantime, RMII is also going to open another 6,000-square-foot interim facility in addition to its current 10,000-square-feet of space leased from the city to help accommodate its wait list of startups.

"Just yesterday, I had two clients walk in that may be candidates," she said. "We have a lot of work to do. We have high standards to get into the incubator, and we need to continue to accept quality startup companies and not just look at filling the building."

"I can tell you I've worked for the city of Greeley and Loveland, and these incubators really put out high-quality entrepreneurs," she said. "Startups continue to grow organically in garages and basements but this helps statistically their chances of survival. (The city council vote) was critical. Now we'll have a state-of-the-art, LEED Gold, beautiful project to catalyze that."

Peters added that she's confident that the city's investment will produce a significant return when client businesses graduate from the program and go on to pay full-market rent in the community and stimulate the local economy as they grow.