**REQUIREMENTS FOR EDA INVESTMENTS THAT SUPPORT INCUBATORS**

**(CONSTRUCTION OR NON-CONSTRUCTION)**

Business incubators can play a pivotal role in a community’s job development effort by stimulating and nurturing business enterprises. Incubators offer support to entrepreneurs during start up and/or expansion and can increase the probability of survival and growth at the most precarious time for their businesses. Because support of these activities closely parallels EDA’s objectives, the number of funding requests for incubators is increasing. However, EDA’s experience has demonstrated that there are best practices that are strong predictors of incubator success which should be considered during the project selection phase. When evaluating investments for potential business incubators, Regional Office staff should ensure that the following items are included in the application:

a. *Feasibility Study,* establishing the market demand for the specific start-up companies proposed for incubation (technology, general business, bio-tech, manufacturing, etc.), presence of necessary resources, and community support for the facility;\*

b. *Financial Capacity Verification*, detailing that the applicant has the financial capacity to operate the facility and reach a positive cash flow within a reasonable period of time, which EDA generally expects to be three years; *and*

c. Management Plan for operation of the facility that, *at a minimum,* includes a/an:

i. *Tenant/Client Selection Policy* that includes a description of the types of businesses sought and any established selection criteria;

ii. *Tenant Lease Agreement\*\** that enumerates the shared services to be provided; delineates the incubator’s business assistance policy, including the provision of management, technical, and training, assistance and the incubator’s graduation policy; and establishes periodic access to the tenant’s business records to permit assessment of the health of the tenant’s business;

iii. *Business Assistance Policy* that outlines the various types of assistance that the incubator will provide to start-up firms, including how the incubator will support tenants/clients with access to capital markets needed to successfully grow their businesses;

iv. *Staffing Plan* that details the talent and resources that will be dedicated to supporting the specific startup companies proposed for incubation;

v. *Tenant Graduation Policy* that is documented as a provision of the tenant lease agreement with clear requirements for tenant graduation from the facility or services of the incubator to maintain operations as an incubator; and

vi. *Incubator Performance Plan* that includes how the incubator will track the success of incubator tenants/clients, specifically identifying what performance measurement data the incubator proposes to collect from tenants/clients and for what period of time during and after the service period the data will be collected. This should also include who the oversight policy board for the incubator will be that will be responsible for setting goals of the incubator, selecting staff, establishing and reviewing policy, and monitoring performance.

\*In all likelihood, the feasibility study will include the pro-forma to establish that there are adequate financial resources to operate the facility. EDA will expect the pro-forma to reflect the facility becoming self-sustaining within three years and will expect a commitment from the sponsor or an external source to support the operation if pro-forma expectations are not realized.

\*\*The tenant lease agreement should enumerate the shared services to be provided, delineate the business assistance (management/technical/training) policy, and establish periodic access to the tenant’s business records to permit assessment of the health of the tenant’s business. A provision of the lease should establish a clear graduation policy that stipulates length of tenancy to maintain operations as an incubator rather than a simple real estate development. [Conventional wisdom suggests that a graduation period of 3 to 5 years is usually sufficient[[1]](#footnote-1).] EDA encourages the conversion of existing buildings for use as business incubators. Such buildings should be of sufficient quality to accommodate the type of activity which will be conducted at the site. Applications for facilities that include space for non-tenant activities or which propose substantial space for anchor tenants will be closely scrutinized.

1. EDA staff members are encouraged to reference National Business Incubator Association research for current information, including the recent EDA-funded report on incubators, available at: <http://www.eda.gov/PDF/Incubating%20Success%20Report.pdf>. [↑](#footnote-ref-1)