



Holston Business Development Center

A report to the City of
Kingsport Tennessee

September 2015

City of Kingsport Tennessee

Holston Business Development Center

At the request of Mayor John Clark and City Manager Jeff Fleming, the Municipal Technical Advisory Service (MTAS), an agency in the Institute for Public Service of the University of Tennessee, was engaged to conduct a review of the Holston Business Development Center (HBDC) for the purpose of identifying future directions due to the pending retirement of the executive director.

To assist MTAS in the review, several interviews were held with members of the Kingsport community that had direct knowledge, and close contact, with the operation of HBDC. Persons interviewed included:

- Mayor John Clark, Kingsport
- City Manager Jeff Fleming, Kingsport
- Jeff McCord, President, HBDC
- Diana Blankenship, Executive Director, HBDC
- Mile Burdine, President and CEO, Kingsport Chamber of Commerce
- John Campbell, Executive Director, AccelNOW
- Mike Housewright, Assistant Director, AccelNOW

A number of foundational documents were requested for this review, including the charter, Interlocal agreement, bylaws, grant agreements, operating policies and procedures, and others. Unfortunately a number of key documents were not available.

MTAS Management Consultants Pat Hardy and Jeff Broughton were tasked with the assignment and are responsible for the finding and conclusions contained herein.

The following observations and recommendations are offered for consideration as summarized in five (5) general areas:

- I. Foundation
- II. Facility and Rental Policies
- III. Financial
- IV. KOSBE Management Proposal
- V. Final Thoughts

I. Foundation

The Holston Business Development Center (HBDC), located at 2005 Venture Park in Kingsport Tennessee, opened in August 2003 and provides entrepreneurial support for start-up companies as a small business incubator. With a tagline of cultivating small business for a positive outlook, the mission of HBDC is to “support and nurture an entrepreneurial spirit to create diverse businesses and jobs which benefit the citizens of the Greater Kingsport and Hawkins County area.”

A number of foundational documents were requested for review to understand the legal structure and operational workings of Holston Business Group (HBG), incorporated on February 15, 2001 as a private not-for-profit Tennessee corporation.

- Charter – A copy of the charter was not available for review.
- Interlocal Agreement – A copy of the Interlocal Agreement between the City of Kingsport, Hawkins County, and BAE Systems related to a U.S. Department of Economic Development Administration grant, was not available for review.
- EDA Grant Contract – A copy of the EDA grant contract providing for funding to construct the HBDC, as well as terms and conditions therein was not available for review.
- HBG Bylaws – Amended and restated by-laws were adopted by the board on May 18, 2011. The board is comprised of fifteen (15) members, ten of whom are ex officio and five elected at-large. The at-large members must be from business or industry including one from a banking organization. Other salient provisions:
 - Officers serve a one-year term of office
 - At-large members are limited to two, consecutive 3-year terms of office
 - Two standing committees are established: (1) executive and (2) budget & finance
 - The annual meeting is held in January; special meetings are held on-call
- Policies & Procedures Manual – A policy and procedure manual was established in November 2003 guide the personnel process and benefits of HBG employees.
- Kingsport Annual Funding Agreement - The City of Kingsport provides operational funding to Holston Business Group to operate the small business incubator program at HBDC. A contract for services is authorized annually setting forth the amount and use of city funds, as well as performance measures. The city agreed to provide \$27,000 in fiscal 2016 in equal quarterly payments. The contract may not be assigned without prior written approval. Performance metrics included in fiscal 2016 are:
 - Number of start-ups assisted: 21
 - Total employment of assisted start-ups: 35
 - Announced capital investment: \$910,000
 - Graduation rate: 4%
 - Jobs created: 37

As a consequence of the unavailability of key foundational documents, MTAS was not able to provide a comprehensive evaluation of options and approaches as tasked by the city. Thus the status quo of hiring a new staff member to manage the facility, or turning management over to another entity, are the only viable options.

Observation: The bylaws have been amended within the past few years and thus should meet the current needs of the organization.

Observation: The use of a funding agreement by the city is a best-practice and satisfies all statutory requirements for providing funding assistance to not-for-profit corporations

Recommendation: Performance measures as required by the city, and other metrics, should be incorporated into the annual HBG work plan by the board of directors to serve as a mechanism to evaluate operational success, and to measure progress over time.

Recommendation: Due to its age, the HBG board should cause a review of its personnel policies to ensure that it is relevant and appropriate.

Recommendation: Efforts should be expended by HBG and other parties to locate all foundational documents to provide clarity on controlling provisions affecting its operation.

Recommendation: The size of the HBG board of directors (15 members) likely complicates governance and should be evaluated for reduction going forward. A board not exceeding 9 members should maintain the support of the governments and community, while at the same time engaging its members more thoroughly.

- End of Section -

II. Facility and Rental Policies

The 13,000 square foot, single-story facility includes 22 business suites suitable for office space and light manufacturing. Twenty-one 400 square foot suites and one 225 square foot suite are available (Attachment 1).

The facility includes a conference room with video conference equipment, a training classroom with presentation equipment, and a small business counseling room, a staffed reception area, and a kitchen/break room. Limited office furniture is also available to tenants.

Client amenities include mentoring partnerships, a network of business related service providers, utilities including high-speed internet service, and ample on-site parking; as well as clerical assistance and office equipment access on a billable basis.

Our walk-through of the facility found it to be well-maintained, pleasing to the eye, and functionally adequate given its limitations in the type of space, and use.

A full and complete client application packet has been developed for use to screen prospective tenants (Attachment 2). Information requested in the packet includes business financial information, a cash flow projection worksheet for the business, a narrative of the business plan.

An escalating rent policy is in place with the objective of allowing ease of entry into the facility while at the same time encouraging business graduations:

400 Square Foot Suite

First 5 months	-	\$225 per month	
6 th to 9 th month	-	\$300 per month	
10 th to 12 th month	-	<u>\$375 per month</u>	First year: <u>\$3,450</u>
Years 2, 3, and 4	-	\$400 per month	Annual cost: <u>\$4,800</u>
Year 5	-	\$500 per month	Annual cost: <u>\$6,000</u>
Year 6	-	\$600 per month	Annual cost: <u>\$7,200</u>
Year 7	-	\$700 per month	Annual cost: <u>\$8,400</u>
Ongoing	-	Plus \$100 per month per year	

It is our understanding that the rates have not been modified since inception.

An affiliate program is available for small businesses that are not ready for office space. Under this program a small business owner receives a professional office address or a place to conduct meetings outside the home. HBDC offers two levels of assistance: basic for \$70 per month and advanced for \$100 per month. Office and clerical assistance is available, as is use of the conference room, internet access, and office equipment.

Observation: It is our assessment that HBG is in business as a facility-provider, rather than a service provider as is found with some small business incubators. If HBDC is to remain essentially only a provider of space, then the staffing needs are very much different than if it

programmatically migrates to higher-end services such as business coaching and training, management and technical assistance, development of benchmarks to measure the entrepreneur's advancement within specified areas of business training, and strategic planning and CEO training and development. The board of directors should evaluate its purpose and objectives and move the organization in the direction deemed most advantageous to the success of the corporation and the community.

Recommendation: A policy should be formalized by the board setting forth the criteria for tenant eligibility. Currently no such policy exists. With such a policy, the staff should be empowered to administer the policy without the formality of board action authorizing individual tenancies.

Recommendation: A review of the rental rates should be made to ensure that policy objectives are being met. It is noted that on a cost per square foot, the rate is higher than market rents will bear.

Recommendation: The need for sensitive business information and plans should be reviewed in context with rental policies, as the application packet itself may be a discouragement to potential tenants. Key to this review is the policy objective of the HBG board to either focus on serious entrepreneurial opportunities or rather to maintain high occupancy levels and rental income.

Recommendation: A single monthly rental rate should be established in the first year to simplify payment and marketing efforts.

Recommendation: A firm graduation policy, not to exceed five (5) years, should be established to wean tenants from the facility on a systematic basis and make way for new entrepreneurial start-ups.

- End of Section -

III. Financial

Financially, the HBDC has been operating at a loss for the past four years.

The Fiscal 2014 audit finds that HBG has total net assets of \$909,669, a decrease from \$956,997 the year before. Current assets include cash and cash equivalents of \$247,705, a \$20,248 reduction from 2013.

Total revenue and support in FY 2014 totaled \$179,463 including a \$30,000 contribution from Hawkins County and a \$27,000 contribution from the City of Kingsport. The financial contribution from Kingsport decreased by 10% from the previous year due to an across-the-board funding reduction to outside agencies. Before that, the funding contribution from the city and county remained unchanged during the previous five years.

Tenant rent and in-kind facility rental was the largest revenue source in 2014 at \$89,537, the highest level in the past six years. Rental income during the prior five years was as low as \$51,824 (2011), and averaged \$70,949 since 2009.

Total expenses were \$196,791 in 2014 of which compensation and related expenses were the largest expenditure category at \$86,250. Expenditures have increased from \$167,524 since 2009 for an average yearly increase of 3.5%.

A financial summary since fiscal 2009 follows.

Revenue and Other Sources	Fiscal					
	2009	2010	2011	2012	2013	2014
City contribution	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 27,000
County contribution	30,000	30,000	30,000	30,000	30,000	30,000
Rent (plus in-kind)	78,880	56,340	51,824	63,999	85,111	89,537
Other	5,758	4,634	8,795	9,689	2,522	2,926
Total unrestricted revenue & support	144,638	120,974	120,619	\$ 133,688	\$ 147,633	\$ 149,463
Net assets released from restrictions	\$ 40,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000
Total revenue and support	\$ 184,638	\$ 150,974	\$ 150,619	\$ 163,688	\$ 177,633	\$ 179,463
Total Expenditures	\$ 167,524	\$ 148,346	\$ 180,967	\$ 167,517	\$ 190,008	\$ 196,791
Increase / (decrease) in unrestricted net assets	17,114	2,628	(30,348)	(3,829)	(12,375)	\$ (17,328)

Based on full occupancy, the facility must generate nearly \$17,000 monthly in rent to cover operating expenses. This equates to an average monthly rental rate of \$750 per month per suite. This rate is higher than the rent paid by a company in its seventh year of operation as a tenant, and is thus not achievable, or responsible, given the purpose of the facility.

Accordingly, the funding model is not sustainable without continued governmental support or absent new revenue streams to offset ongoing costs. The only other option is to reduce costs which are seen only as a short term, stop-gap measure.

As of this writing, approximately one half of the rentable space in the facility is vacant, while two companies are participating in the affiliate program at the basic level. Consequently, there is ample opportunity to increase tenancy and efforts should be devoted to that cause expeditiously following several key policy decisions that should be revisited by the board as discussed herein.

- End of Section -

IV. KOSBE Management Proposal

At the request of HBG President Jeff McCord, the Kingsport Office of Small Business Development & Entrepreneurship (KOSBE) was requested to submit a proposal for the management of the business development center.

KOSBE was formed in 2004 by the Kingsport Chamber of Commerce and City of Kingsport to specifically nurture, counsel and encourage the continued robust growth and development of startups and existing small businesses in Kingsport. KOSBE is a 501(c)(3) non-profit economic development organization. In 2011, a partnership was formed with the Tennessee Small Business Development Center (TSBDC) becoming the TSBDC at ETSU Kingsport Affiliate Office, covering the counties of Grainger, Hamblen, Hancock, Hawkins and Sullivan. The TSBDC Network is comprised of over 40 locations throughout the State of Tennessee, whose primary function is to provide counseling services and educational opportunities to entrepreneurs and “for profit” new and existing small businesses.

A proposal from KOSBE dated August 7, 2015 (Attachment 3) offered to provide a number of services, including but not limited to:

Administrative

- Administrative support to the board, including reports and metrics
- Managing the occupancy process
- Identification of new funding sources / revenue model

Tenant Assistance

- Implementation of GrowthWheel[®], including screening and tracking of tenants
- Tailored training
- One-on-one business assistance
- Access to capital and loan package development
- Customer identification
- Access to market research

The cost for these services was proposed at \$45,000 annually. It is our understanding that this amount will result in a small savings to HBD over the status quo. In addition, an unspecified dollar amount for marketing and promotion was also indicated necessary that, if provided, could negate savings. A minimum three year commitment was desired.

A presentation was made to the HBG board of directors at its August 21 meeting by KOSBE staff. No formal action was taken at that meeting.

Recommendation: If this approach advances, a detailed contract for services should be negotiated between HBG and KOSBE setting forth the specific terms of the agreement. MTAS will be pleased to review any agreement drafted by the parties if desired.

Recommendation: A key provision of the contract should be approval authority by HBG to select, and if necessary change, the person employed by KOSBE to serve as its ‘executive director.’

Recommendation: We urge caution in the transfer of reserve funds in any significant amount to KOSBE for marketing and promotion. This recommendation is based on the success that has been achieved in the past by word of mouth and business and industry connections to keep occupancy levels historically high, which should be strengthened due to the networking capabilities of KOSBE. Furthermore, the financial condition of HBG warrants that said reserve funds be preserved as much as possible to meet the operational exigencies of the organization.

If such funds are to be provided, it is recommended that a marketing plan be developed by KOSBE and approved by the board in advance of any financial commitment, with such funds to be reimbursed upon presentation of paid invoices by KOSBE, or be paid directly to the vendor.

Recommendation: It is suggested that a performance based contract be examined for use, with a compensation rate to be established that can increase or decrease based upon agreed metrics and measures. Underlying any performance based contract is an improvement in the financial condition of HBG from its own sources, sans governmental contributions. The long-term goal of HBG should be self-sufficiency and to wean itself of revenue contributions from the city and county.

- End of Section -

IV. Final Thoughts

The options available for the management of the small business incubator are seen as follows:

- (1) Maintaining the status quo - This option continues the historical management practice of HBDC of employing an executive director to oversee its operations and carry forth the policies established by the board. Auguring in favor of this approach is a single focus and commitment to the mission and objectives. Auguring against this approach is a limited budget to recruit and retain a new executive director with the experience and skillset to advance the facility to new levels of success; the lack of organizational depth to provide resources beyond its own; and uncertainty as to whether the position requires a full-time person given the scope of duties, and breadth of services, the facility currently provides.
- (2) Placing management under the city or county – This option provides for either the City of Kingsport, or the County of Hawkins, to be assigned management control of the facility. Given its proximity to the Kingsport office and its staff and resources, the most likely placement would be with the city. A person already on city staff working in economic development, or a new person employed for such role, could ably manage the facility pursuant to the policies adopted by the board. The institutional resources of the city augur in favor of this option, including facility maintenance expertise, as does the potential for a person to serve in this role while also handling other city tasks and responsibilities. Auguring against this option is the governmental trust and cooperation that must be achieved, and maintained, for a city-managed facility. The continuation of funding by both governments could become challenged as the historical memory of such a change in management, and reason therefore, become cloudy or lost over time.
- (3) Contract management – This option places the management of HBDC under another economic development entity, such as KOSBE. Auguring in favor of this approach are the institutional resources that can be drawn upon from a larger entity; the business and industry network already established, and the consolidation of related entities into a ‘single shop.’ Auguring against this option is the commitment that may be given to a small operating unit of the larger entity, and contract management and oversight.

We prefer options (2) and (3) over option 1. Based on the approach made, the other recommendations aforementioned herein should be reviewed for relevancy and incorporated into any contracts, bylaws, or other guiding documents.

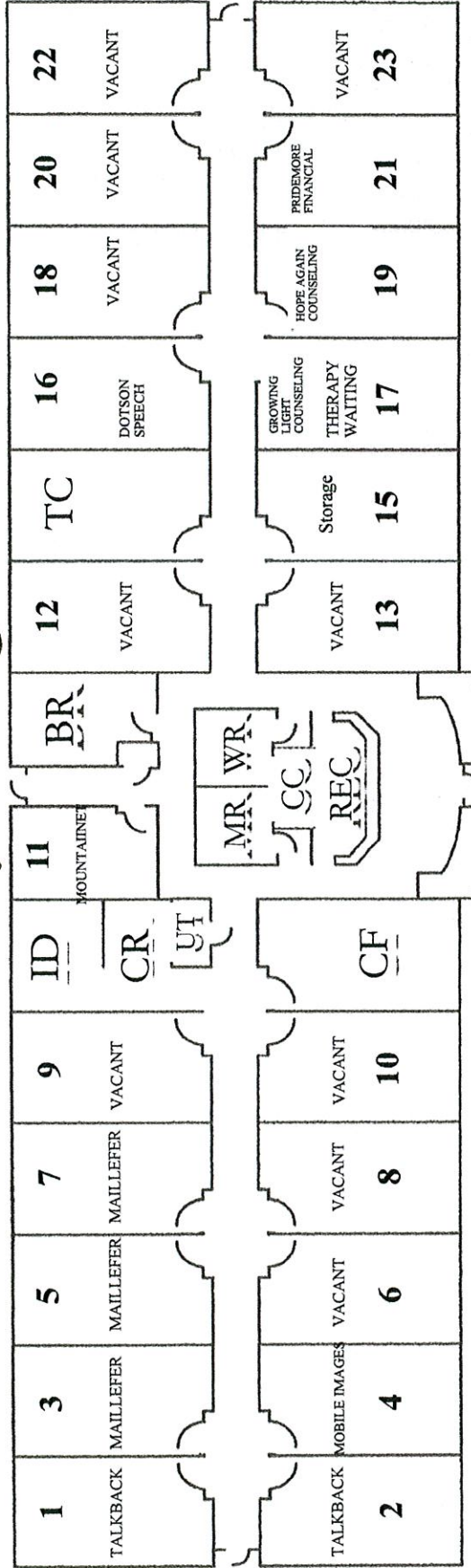
In the final analysis, the city must be comfortable that the Holston Business Development Center meets a programmatic need of the community, and further, that it is willing to provide sufficient funding to support its operations in the future. Once those threshold questions are answered affirmatively by the city, the city members on the HBG board of directors – the mayor and city manager - can take a leadership role in assisting the other members of the board in reaching a policy decision on the management of HBDC that best serves HBG, and the city and county, going forward.

Attachment 1



Holston
Business Development Center

Facility Diagram



HBDC features 21 Full Suites at 400 Square Feet, and 1 Half Suite at 225 Square Feet

Legend:

- ID- Incubator Director's Office
- CR- Small Business Counseling Room
- REC- Reception Area
- CF- Conference Room with Video Conference Equipment
- CC- Communications Center
- TC- Training Classroom with Presentation Equipment
- BR- Break Room
- MR- Men's Restroom
- WR- Women's Restroom
- UT- Utility Closet



(423) 578-6235

www.hbdc.org

Attachment 2



Holston
Business Development Center

CLIENT APPLICATION

CONFIDENTIAL

I. GENERAL INFORMATION

Name of Applicant: _____

Current Address: _____

Former Address if less than two years at current address: _____

Telephone: (H) _____ (W) _____ (Cell) _____

Social Security Number: ____ - ____ - ____ E-mail: _____

Business Name: _____

Type of Company: Sole Proprietorship Partnership
 LLC Corporation

Is your business currently in operation? Yes No

If yes, year business was founded? _____

If no, where are you employed? _____

Do you currently have a valid Tennessee/Hawkins County/ Kingsport business license? Yes No

Do you have a business plan? (If yes, please attach) Yes No

II. INFORMATION ON BUSINESS PRODUCT/SERVICE

Briefly describe your product or service: _____

Briefly describe the market for your product/service (your target customer): _____

In what geographic area are your customers located? _____

II. INFORMATION ON BUSINESS PRODUCT/SERVICE (Continued)

Who are your competitors? (Name at least two): _____

Why do you think you have the competitive advantage? _____

How do you market and distribute your product or service?

- | | |
|---|---|
| <input type="checkbox"/> Direct Mail | <input type="checkbox"/> Personal Contacts |
| <input type="checkbox"/> Sales Force | <input type="checkbox"/> Publication Advertising |
| <input type="checkbox"/> Internet | <input type="checkbox"/> Other: Explain _____ |

III. BUSINESS EXPERIENCE

Describe your past experience that relates to your product/service and the length of that experience. Attach résumés/CVs if available: _____

List the names and titles of any other officers or key personnel involved with your business. Attach their résumés/CVs if available: _____

IV. BUSINESS SERVICE NEEDS

What types of office support services are you interested in?

- | | |
|--|--|
| <input type="checkbox"/> Receptionist | <input type="checkbox"/> Secretarial/Word Processing |
| <input type="checkbox"/> Copier | <input type="checkbox"/> FAX Machine |
| <input type="checkbox"/> Mail Handling | <input type="checkbox"/> Conference Room |
| <input type="checkbox"/> Computer | <input type="checkbox"/> Product Display Area |
| <input type="checkbox"/> Classroom | <input type="checkbox"/> Other: Explain _____ |

Do you currently have an accountant? Yes No

Do you currently have an attorney? Yes No

Do you need management assistance? Yes No

If yes, what type? _____

Do you need marketing assistance? Yes No

If yes, what type? _____

Would you like

Do you need small business counsel through TSBDC? Yes No

All tenants will be assigned a three-member advisory board of local business professionals. What areas of expertise would you be interested in having represented on your advisory committee? _____

V. FACILITY REQUIREMENTS

Are you currently occupying a facility (either in your home or at a commercial business location)? Yes No

If yes, what is your current square footage?

Office: _____ **Manufacturing:** _____

What is your approximate cost for this facility?

Rent: \$ _____ **Utilities:** \$ _____

If your current square footage use is not adequate, how many square feet does your business require?

Office: _____ **Manufacturing:** _____

If you require manufacturing space, please describe the machinery and equipment to be located on the premises and what service support is needed to maintain this equipment: i.e., electric load, venting, cooling:

If accepted as a tenant, when do you want to start occupancy in this facility?

How many total employees will be occupying space?

	Current	Year 1	Year 2
Full-Time:	_____	_____	_____
Part-Time:	_____	_____	_____

VI. BUSINESS FINANCIAL INFORMATION

What are you projections for total gross sales volume?

Year 1: \$ _____ Year 2: \$ _____ Year 3: \$ _____

What is the amount and source of financing for operating your business?

Existing Loan(s) Amount: \$ _____

Cash/Equity Amount: \$ _____

Operating Expenses are will be covered by sales.

Other: Explain _____

Are you currently seeking additional funding for your business? Yes No

If yes, please state funds needed: \$ _____

How do you plan to obtain these funds? _____

Please list your business's bank references. Include branch location and representative name: _____

VII. OTHER

How did you learn about the Holston Business Development Center? _____

How do you think your participation in this program will benefit your business?

Please attach the following to this application:

- 1. A complete cash flow projection worksheet for your business.**
- 2. A brief typed narrative which generally describes your business, market, and operational plan.**
- 3. Any résumés/CVs that may apply.**

I am applying for admission to the Holston Business Development Center. I understand that the information contained in this application will be held in the strictest confidence. I understand that as a part of the screening process, my credit history and financial references may be investigated. I further understand that this application is subject to review and in no way guarantees my admittance to this program and that no liability will be assumed by the Holston Business Development Center.

Signature: _____

Date: _____

RETURN APPLICATION ATTACHMENTS TO:

**INCUBATOR DIRECTOR
Holston Business Development Center
2005 Venture Park
Kingsport, TN 37660**

Attachment 3



We are happy to provide ALL of the services requested for \$45,000. We suggest the current financial process be maintained, with limited oversight by Elaine Bodenweiser, Kingsport Chamber CFO. Regarding facilities, we can oversee/supervise via a separate budget, different from that described herein. We can also utilize the Chamber's maintenance provider(s) if need be. Our services will include:

- Implementation of GrowthWheel® (www.growthwheel.com)
 - Individual GrowthWheel® 360° Screening with each tenant
 - Each tenant to develop an individual Growth Plan that is tracked and measured/monitored
- Tailored training programs, i.e., "Selecting a Location," "Getting Ready for the Bank," "QuickBooks"
- One-on-one business assistance
- Managing the occupancy processes
 - Recommend auto debit/bank draft agreement, and quarterly financial reporting by each tenant
- ALL metrics requested, i.e., # jobs created, retained, sales growth, capital infusion
- All reporting requested, i.e., HBDC Board, annual reports
- Networking and exhibit activities, i.e., business expo, After Hours, Chamber Breakfast showcase
- Access to capital and loan package development
- Customer identification
- Access to market research
- College intern program with real-world experience
- Access to expertise—create a volunteer advisory council
- Develop an area-wide supply chain needs assessment, and corresponding recruitment and matchmaking programs, i.e., post-retirement entrepreneur program, vetpreneur program
- Summer startup project/competition geared to high school students
- Establish task force to identify and pursue new funding sources and revenue models

We would expect a one-time allowance for marketing and promotion, and a minimum three-year commitment.

Make Smarter Decisions —Avoid Blindspots

An Introduction to GrowthWheel® and how to get a 360° perspective on your business

Entrepreneurs and business owners, are you challenged to keep up with the daily routines in your business, knowing you need to do more to focus on growth, but uncertain what to do?

GrowthWheel is a hands-on, action-oriented program designed to help entrepreneurs at all stages overcome their barriers to growth.

Join Tim Montague, Vice President of Sales & Training at GrowthWheel International for a 90 minute introduction to the GrowthWheel toolbox designed to help early stage and growth companies get focus, set an agenda, make decisions and take action.

All businesses, from pre-venture start-ups to established enterprises, must address four key challenges. They need an attractive business concept, lasting customer relations, profitable operations, and a strong organization.

Attendees will participate in a hands-on workshop introducing the GrowthWheel toolkit, and will get a sense of how empowering it can be to work with a Certified Growthwheel Advisor.

How will GrowthWheel help your business?

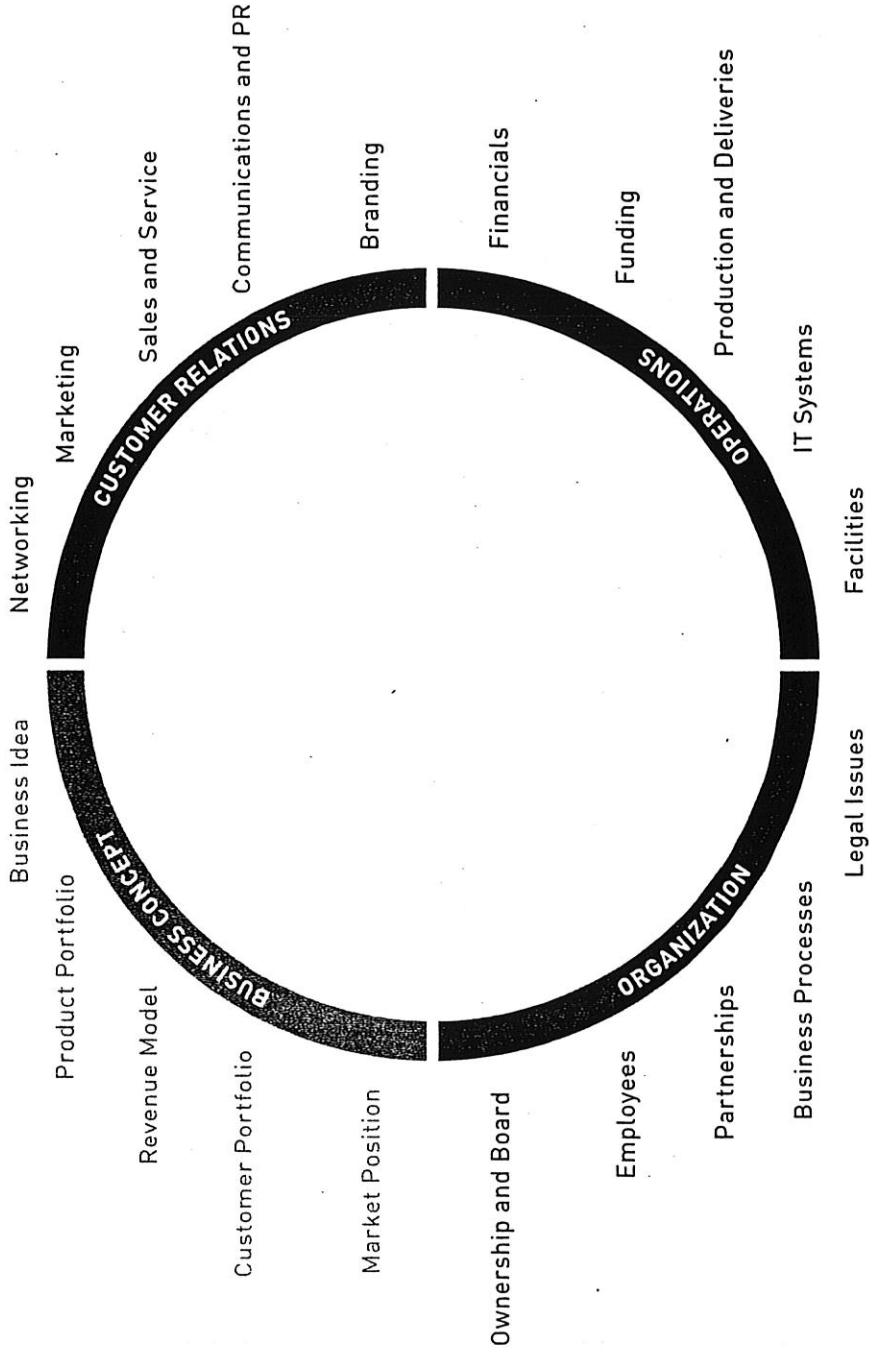
- Supports the decision making that we do every day.
- Supplies a visual toolkit for dialogue, focus, agenda setting, decision-making and action taking.
- Provides a simple action oriented process to help you grow.
- Stays true to the way most entrepreneurs think and work.
- Helps companies determine which areas to focus on to strengthen and grow their business.
- Gives an alternative to the conventional business plan.



GrowthWheel® 360° Screening

Get focus

Date: _____ Name: _____ Company: _____



GrowthWheel® 360° Screening
Three ways to get focus

GrowthWheel helps to quickly get an overview of the most important areas to focus on when starting and growing a business.

There are three different ways to do the screening:



#1: Diagnosing challenges
What are the barriers to growth?

Give a score of 1-4 points indicating how well the company is doing in each of the 20 focus areas. This gives a picture of where decisions need to be made and actions need to be taken.

Choose 1-3 areas that require decisions and actions to overcome the barriers to growth.



#2: Mapping opportunities
What are the opportunities for growth?

Give a score of 1-4 points indicating which of the 20 focus areas that seem most important or attractive to work with right now.

Choose 1-3 areas that require decisions and actions to pursue a window of opportunity.



#3: Evaluating competencies
What skills are needed for growth?

Give a score of 1-4 points indicating the competencies of key persons working for the company, in each of the 20 focus areas. Make a score of different color for each key person.

Identify the 1-3 most important skills and make an action plan of how to get them.