C. C. 106

City of Cambridge

Unfinished #7

MASSACHUSETTS

In City Council 9/21 1992

of Myers amendment

YEA	NAY	ABSENT	PRESENT	
✓				Mr. Ed Cyr
	✓			Mr. Francis H. Duehay
✓				Mr. Jonathan S. Myers
	✓			Mrs. Sheila T. Russell
	✓			Mr. Walter J. Sullivan
	✓			Mr. Timothy J. Toomey, Jr.
	✓			Mr. William H. Walsh
	✓			Ms. Alice K. Wolf
			✓	Mayor Kenneth E. Reeves
2	6	0	1	

CAMBRIDGE CITY COUNCIL

CITY HALL, CAMBRIDGE, MASSACHUSETTS 02139
(617) 349-4280
FAX (617) 349-4287

Alice K. Wolf
City Councillor
Mayor
1990-1991

C. Wolf (2) Failed 3-5-0-1.

Moved that unfinished business # 7, report of the economic development, training and Employment Committee be approved and further that

the proposed revision of the CDBG year #18 entitlement program for fiscal year '93 as submitted by the City Manager be approved, with the following amendment to the operation of the program:

"All else being equal, an applicant having a greater percentage of Cambridge residents on its payroll will be given priority funding. To be eligible for the CDBG Loan Pool, the company must have 10 % Cambridge employees at the time of the application."

"Once in the program, any company that increases its Cambridge employment by 100%, or achieves 20% Cambridge employment will receive a 1% reduction in its base interest rate to go into affect on the January 1 following the year in which the company meets this target and has maintained it for at least nine months or for the last six months of the year.

Any company that increases its resident workforce an additional 50% or achieves a 25% resident work-force will receive an additional .5% reduction of its interest rate by the same rules stated above."

C. Myers — A 10% to 15% Cambridge employees at the time of application.

(1) A 100% to 33% (Incentives)

Failed 2-6-0-1.

#7

A. Wolf
proposed ~~amendment~~ order

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J. M. moved to raise to 15% threshold
and to ~~raise~~ change 100% to 33%
lower

Roll call
2 - 6 - 0 - 1 failed

C. C. 106

Unfinished
#7
AW order

City of Cambridge

MASSACHUSETTS

In City Council 9/21 1992

YEA	NAY	ABSENT	PRESENT	
✓				Mr. Ed Cyr
✓				Mr. Francis H. Duehay
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	✓			Mr. Timothy J. Toomey, Jr.
	✓			Mr. William H. Walsh
✓				Ms. Alice K. Wolf
			✓	Mayor Kenneth E. Reeves
3	5	0	1	

CITY OF CAMBRIDGE
COMMUNITY DEVELOPMENT DEPARTMENT
City Hall Annex - Inman & Broadway - Cambridge, Mass. 02139

617-349-4600
Fax 617-349-4669

TO: Robert W. Healy, City Manager
FROM: Michael H. Rosenberg, Assistant City Manager for Community Development
RE: Risk and Return: City of Cambridge participation in gap financing of biotechnology industry expansion
DATE: June 18, 1992

Executive Summary The Community Development Section 108 Loan Guarantee program is one of the last federal programs available for economic development in Cambridge. The program allows the City to borrow against future CDBG entitlements. The following memo outlines the risk and returns to the City for using the Section 108 program for gap financing of new construction and the build out of laboratory space and equipment.

Growth of Cambridge's economy will be assisted by the demand for new R&D laboratory space. Presently, conservative estimates gauge that there is a pent up demand for approximately 200,000 - 300,000 square feet of biotech laboratory space in Cambridge. This demand is from the expansion needs of existing companies and the needs of new companies. At full valuation, each 100,000 square feet represents approximately $400,000 annually in new tax revenues. The failure and inability of the banking industry to respond to the needs of the growing biotechnology industry in Cambridge is responsible for the lack of new growth in the city.

The following analysis will show that the returns to the city in the form of increased tax revenues, occupancy, construction and positive arbitrage will outweigh and mitigate the risks associated with the use of the Section 108 program. The examples are taken from real needs identified by prospective applicants. To date the only request for assistance has come from developers looking to build space for R&D tenants and from R&D companies looking to build-out their own leased space and to buy equipment. If we do not take this opportunity to take a proactive stance in retaining our companies other communities will benefit from our losses.

Laboratory Demand Cambridge presently has over 60 biotechnology and related tenants in approximately 1.5 million square feet of laboratory space. Presently there is practically a 0% vacancy rate in class A laboratory space. As one tenant moves out another tenant is ready to move in. Second generation class A lab space is a significant bargaining tool in the successful attraction of biotech tenants as was in the case of ARIAD positive arbitrage to cover expenses for underwriting and loan management and a default reserve. The additional annual net taxes are $142,500. See evaluation of risk factors below.

Illustrative summary of gap and return in examples above

Total gap financing in Examples "A" & "B"	$3,000,000.
City's Annual 108 debt service to HUD (year 1 through 10)	$ (361,527.)
Applicant's Annual 108 debt service to City (year 1 through 10)	361,527.
Annual income from arbitrage on 108 loans (year 1 through 10)	51,498.
Annual income from increased tax revenue	617,000.
Net annual revenue increase	$ 668,498.

Competitive position Cambridge is now competing for the expansion of our existing tenants and for new tenants with Boston, Lowell, Waltham, Worcester, etc. One of the keys to success in maintaining our strength in this industry will be in ensuring that space exists for them and that laboratory space will be built (whomever builds the space first gets the tenant). The BRA is in the process of a Section 108 Loan Guarantee for a developer for the build-out of laboratory space, Worcester has the Massachusetts Research Biotech Park, and Lowell is developing a revolving loan fund/banking consortium.

If Cambridge does not move to address the credit gap for laboratory space soon we will loose our key position in this industry. Biotech is a capital intensive industry with long term interests. Of the few resources the City may have to bring to this situation, the Section 108 Loan Guarantee Program may be the most useful since it is not diverting any funds from prior funded programs.

Alphabet agencies There is an extensive list of private, public and quasi-public agencies attempting to deal with the issue of attraction and retention of "key" industries in Massachusetts. Biotechnology is one of these key industries. To date there is no state sponsored program which is effectively dealing with the needs of biotechnology. Some of the alphabet agencies will provide loans or loan guarantees up to $1 million. A gap still exists even when these alphabet agencies become involved since capital demands are so high.

Due diligence By structuring a lending program that includes banks and quasi public lenders, the City of Cambridge can use the experience and due diligence of the other lenders to establish a base level of risk analysis. Typically the City may be the last lender to come into the pool and will be reviewing the loan documents and evaluating the risk analysis made by others rather than having to establish such due diligence on its own.

Risk analysis The risk factors in providing financial assistance to the biotech industry are minimized when one considers that these companies deal in a valuable commodity, knowledge, and have been well received on Wall Street and in the private marketplace. The people we have spoken with at Ernest & Young, the Massachusetts Biotech Council, the Cambridge Biohazards Commission and various developers have all stated that they are not aware of any companies which have gone bankrupt up in Cambridge and it is typical that a company will be acquired or merged with another company or go back to the market if they need additional funds. Biotechnology has been well received on Wall Street and with the private investor. (See attached news clippings.) Two Cambridge companies, Vertex Pharmaceuticals and Alkermes, each raised in excess of $40 million last year.

Default Reserve In considering the probabilities of a default, given the risk factors discussed above, it is prudent to assume that a default will occur 20% of the time, even though prior lending experience does not show any default among lab tenants. Supposing a total 108 loan amount of $10 million, then the city would need tc establish a default reserve over time of $2 million. Defaults will not need to be paid out in a lump sum, but rather at the rate of the loan commitment made by the defaulting party. If the example in Appendix I is duplicated five times for a total of $10 million from the Section 108 program, then conservatively $1.2 million of new tax revenues would be generated yearly and a 20% default rate would be covered easily by the new revenues and positive arbitrage of successful loans (see table below).

Loan No.	Loan Amount	Interest Rate	Term	Taxes/ year	Positive Arbitrage	Default Payment
1	$ 2M	11%	20yr.	$400,000	$ 54,000	NA
2	2M	11%	20yr.	400,000	54,000	NA
3	2M	11%	20yr.	400,000	54,000	NA
4	2M	11%	20yr.	400,000	54,000	NA
5	2M	11%	20yr.	**default**	**default**	$193,343
	$10 M			$1,600,000	$216,000	$193,343

The above table assumes there is a default on the $2M Section 108 Loan repayment and taxes are also in arrears. The income generated from the other performing loans will still result in a positive income stream of $1,622,657 yearly.

In the event of a default, HUD does not call the entire loan, rather HUD works with the City to establish a loan repayment schedule. Since these loans are for lab space and equipment, experience shows that class A lab space will be back in service with another company within a few months. Therefore a loan loss

In the past developers could absorb the cost of building labs and amortize it to lab tenants. Today, because of the credit environment in real estate, other capital is essential. The pattern emerging in Cambridge and Boston is to divide the risk among many parties. By taking approximately 10 - 15% of this risk, the City of Cambridge can become the keystone which makes all the other parts of the financial structure lock into place.

Potential Return

Example "A" New Construction

Current taxes from unimproved commercial land (value = 32,650 sf x $150/sf - 33%) x .0229	$75,000.00
New taxes from improved commercial land (value = 32,650 sf x $150/sf) x .0229	$112,000.00
New taxes from new lab/R&D construction (125,000 sf x $3.50/sf)	$437,500.00
NET ADDITIONAL TAXES (annually)	$474,500.00

NOTE: See appendix "A". The project cost in this example is $17 million. The gap is $2 million. There is no annual cost to the city which would not be covered out of the repayment of the twenty year Section 108 loan made to a private entity (assume a borrowing rate to the city of 9.0% and a reloan rate of 11% to a private party) the city would receive an additional $31,791/yr in positive arbitrage to cover expenses for underwriting and loan management and a default reserve. The additional annual net taxes are $474,500. See evaluation of risk factors below.

Example "B" Conversion of a warehouse to biotech lab and manufacturing facility.

Current taxes from a 45,000 sf unimproved warehouse ($1.50/sf)	$ 67,500.00
Taxes on an improved warehouse building and land for an R&D/lab tenant ($3.50/sf)	157,500.00
Taxes on a new 15,000 sf lab addition ($3.50/sf)	52,500.00
NET ADDITIONAL TAXES (annually)	142,500.00

NOTE: The project cost in this example is $9 million (assuming a $150/sf cost of renovation and new construction including lab build-out). The gap is $1 million. There is no annual cost to the city which would not be covered out of the repayment of the ten year Section 108 loan made to a private entity (assume a borrowing rate to the city of 8.0% and a reloan rate of 11% to a private party the city would receive an additional $19,707/yr in

Pharmaceuticals, Inc. decision to locate in University Park (43,000 SF) taking over space formerly occupied by Alkermes, Inc.

The banking industry is unaccustomed in dealing with a project containing non conventional tenants (biotech R&D) who are initially capitalized with millions of dollars, but will need to raise additional cash in a matter of a few years. They perceive the credit risk to be higher with biotech tenants and are looking either for an impossibly high loan to value ratio or to lay off risk among other parties. The result is a gap in the financing covering the most at-risk portion of a loan which no lender wants to take. It is also a time when the traditional credit mechanisms are not working at peak performance.

Gap financing An example of a Cambridge laboratory financing with a gap would look as follows:

USE OF FUNDS	
COST OF LAB SPACE	$ 5,000,000
COST OF LAB EQUIPMENT	$ 5,000,000
	$10,000,000
SOURCE OF FUNDS	
Traditional bank loan	$ 6,000,000
Traditional equipment loan	2,000,000
Quasi-Public agency loan	1,000,000
	$ 9,000,000
GAP	$ 1,000,000

Mitigation of risk There is no known biotech tenant in Cambridge that has defaulted on its loans. Typically as companies grow they are acquired or merged with another company or raise additional capital to continue their research. A recent example of this is the majority acquisition of Genetics Institute by American Home Products. Another example is Angenics, Inc. which consumed over $10 million before being closed down by its venture capitalists. Angenics' diagnostic products were acquired by Cambridge Biotech Corp. where they continue to generate over $2 million annually in licensing fees for former Angenics' investors.

One question frequently asked about biotech companies is, "If these companies have tens of millions of dollars in the bank, why don't they build their own lab space?". According to the presidents and chief financial officers of these companies, the answer is that the money raised through equity is very expensive and it is better to use lower cost term money for laboratory build out and equipment and use the expensive money for research. Paying for lab space on a monthly basis is an effective use of equity capital, but sinking millions of dollars of equity capital into labs on day 1 is too costly.

reserve should be designed to cover a gap in revenue rather than a catastrophic loss of the entire loan.

Depreciation Typically expenses for labs and equipment are heavily depreciated on the day they are first put in service and as a result the collateral value for the loan declines rapidly. Because of the cost and shortage of biotech lab space, rental rates for used labs in Cambridge have not declined over time. It is therefore a reasonable assumption that the loan loss reserve discussed above would also be adequate to cover the depreciation of lab space and equipment in the event of any default. At most, the City may wish to establish a larger loan loss reserve for equipment loans.

Program Recommendations The resources available to Cambridge through the Section 108 program are limited and the demand for program monies is extraordinarily high. The city has a total lending capacity of approximately $15 million. We could utilize up to $10 million of this capacity for gap financing for new construction and for the build-out of laboratory space and equipment.

Construction of new buildings should be eligible for up to $2 million of subordinated debt with a maximum 20 year term. Lab build out and equipment should be eligible for up to a $1 million loan with a term of 5 - 7 years. Interest rate should be at least market rate and may be slightly higher depending on the level of risk.

The return from the program will be lower than the examples illustrate if we provide financing for the actual building construction and then wish to finance one or several tenants in the building. We would receive the highest return by financing only single user buildings or the actual development of a multi-tenant building. The owner of a multi-tenant building could apply to the program on behalf of his tenants up to $2.5 million ($50/sf of actual lab build-out, up to 50,000 sf of lab space per building) and pass the cost onto his tenants through their rent at an amortization of 10 years. This would assist a building owner in marketing a building and assist a tenant with the financing of a significant portion of their build-out financing. No one building would be eligible for more than $2.5 million in program financing.

Eligibility criteria should at a minimum include the following:
1. Project must meet one of the CDBG National Objectives and other applicable regulations;
2. Project must provide a high degree of leverage of other resources at a minimum of a 2:1 leveraging ratio eg. equity, private lenders, state and quasi public agencies;
3. Applicant must participate in training programs and make

reasonable efforts to hire Cambridge residents;
4. Project must be within one of the development districts, CARD areas, University Park, Central Square, Light Industrial Zone or North Point.
5. Applicant and all ownership concerns should be up to date on taxes owed tc the City.

<u>Implementation</u> Once a program is developed it should be publicly announced and proposals generally solicited. Each project will be evaluated in regard to degree of public benefit (taxes generated, jobs generated, businesses retained or attracted) and likelihood of success.

<u>Implementation Steps</u>

1. Refine eligibility and program selection criteria,
2. City Council resolution approving program,
3. Advertise the availability of the program,
4. Establish an inter-department evaluation team,
5. Evaluate proposals,
6. Hold public hearings,
7. Work with HUD on packaging application, and
8. Submission to HUD for loan approval.

<u>Operations</u>

The City is not a bank and should not strive to be a bank. We will need to retain underwritiers and loan procesing and servicing consultants out of the fees generated from the loans. Initially the City will need to pay for these services up front or retain the consultants and pay them directly from the fees at closing.

The program will be managed from the Community Development Department as a business retention and attraction program.

APPENDIX A

Example Pro-Forma

New Construction

125,000 SF Biotech Building

CONSTRUCTION COSTS	
125,000 sf @ $125 sf	15,625,000.00
contingencies (10%)	1,562,000.00
TOTAL	17,187,000.00
	$ 17,000,000.00
FINANCING STRUCTURE	
Equity	3,000,000.00
1st Mortgage 20yrs @ 10%	10,000,000.00
2nd Mortgage 20yrs @ 11%	4,000,000.00
TOTAL	$ 17,000,000.00*

* Assumptions: $10M private lender 1st; $2M quasi-public and $2M Section 108 shared 2nd.

MONTHLY EXPENSES	
1st	96,500.00
2nd	41,288.00
Operating Costs @ $10 sf*	125,000.00
TOTAL	$ 262,788.00

* includes taxes, utilities, insurance, parking, etc.

REVENUE REQUIREMENTS

$262,800/mo debt service requires $27.00 sf rent with 6.5% vacancy rate to break even

* a typical rent for biotech tenants can easily reach $30 sf. At $30 sf a 16% vacancy rate could be tolerated.

SECTION 108 LOAN debt service

$2M 20yrs @ 11%	$ 20,644.00/mo.	$ 247,725.00/yr

TAXES	
Building: 125,000 sf x $3.50/sf	$437,500.00
Land: 32,650 sf x $3.45/sf	$112,000.00
TOTAL TAXES	$549,500.00

NOTE: Unimproved commercial land would generate approximately $75,000 yearly in taxes resulting in a net positive gain of nearly $475,000.00.

ATTACHMENT A

CITY OF CAMBRIDGE
CAMBRIDGE, MASSACHUSETTS 02139
TEL 349-4300
FAX 349-4307

EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

RICHARD C. ROSSI
Deputy City Manager

June 22, 1992

The Honorable, the City Council:

The attached memo outlines the opportunities for the City in providing financial assistance for the expansion of the biotechnology industry in Cambridge. The Community Development Department has been researching the needs and resources of this industry and the potential programs available to address them.

Cambridge is home to over 60 biotechnology and related businesses and is a leader in this field. Biotechnology is one of the growth industries with potential identified by the Community Development Department in their report on "Jobs, Training, and the Evolving Cambridge Economy". The biotechnology industry is at a point in its maturation where it has raised an unprecedented amount of equity funds and is needing to grow and in some cases build production facilities. The banking industry is unable or unwilling to fully address the financial needs of this growing industry and their ability to expand is being constrained. During this time of limited traditional financial resources we have a window of opportunity to become involved in reinforcing Cambridge's position as a leader in the biotechnology industry. This window will close as the industry satisfies their present space and laboratory needs and the traditional sources of financing begin to understand and respond to the industry's financial needs.

The Cambridge economy is at a virtual standstill with respect to new construction activity projected for the coming year. There is a projected pent up demand for biotechnology laboratory space of approximately 200,000 square feet from existing Cambridge companies. This figure increases when one considers the needs of other companies which are presently not in Cambridge. Providing gap financial assistance would give Cambridge a competitive advantage in retaining our existing companies, allowing them to continue to mature in Cambridge and in attracting businesses that will provide additional stimulus to the economy and potential employment opportunities for residents.

One of the last federally assisted financial programs available for economic development is the Community Development Block Grant Section 108 Loan Guarantee Program. The Section 108 Program can be used as a direct loan and/or as a source of credit enhancement to be used with the Cambridge Industrial Development Finance Authority or other financial programs.

Due to the timeliness of the issue I am requesting a speedy referral to the Council's Committee on Economic Development for review of the potential for utilizing the Section 108 Loan Program to assist the biotechnology industry in Cambridge.

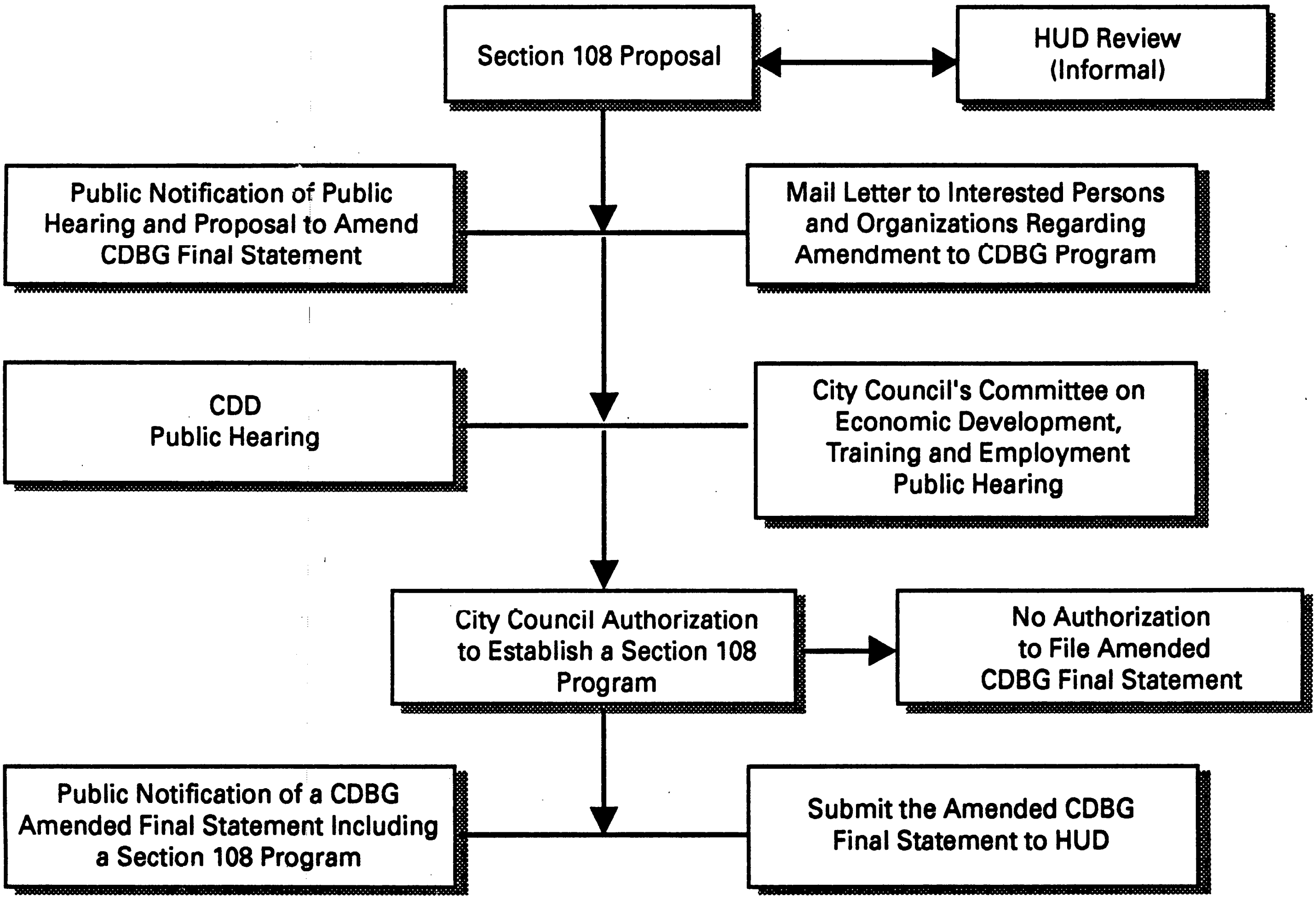
Very truly yours,

Robert W. Healy

Robert W. Healy
City Manager

ATTACHMENT B1

Process to Add a Section 108 Loan Guarantee Program to the Community Development Block Grant (CDBG) Program



Step #6 - No Authorization to File Amended CDBG Final Statement Were the City Council's subcommittee to forward an unfavorable recommendation on the Section 108 proposal, the City Council might then decide (at its **August 3rd** meeting or later) to close out the application process or to require that changes in the proposal be made.

Step #7 - Submit the Amended CDBG Final Statement to HUD This will satisfy the Federal requirement that the City notify HUD of the change in the current-year Cambridge CDBG program and budget, and that the change was made in conformity with all citizen participation and other regulations.

Step #8 - Public Notification of a CDBG Amended Final Statement including a Section 108 Program This required notification is accomplished through legal notices in the Cambridge TAB and Chronicle.

PROCESS TO ADD A SECTION 108 LOAN GUARANTEE PROGRAM TO THE COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) PROGRAM

Notes To Accompany Flow Chart

Step #1 - Section 108 Proposal City staff members develop Section 108 Loan Guarantee proposal for use in assisting Cambridge biotechnology and related industries.

Step #2 - HUD Informal Review City staff reviews proposal with HUD on informal basis.

Step #3 - Public Notification of Public hearing and Proposal to Amend CDBG Final Statement Public notification is accomplished by placing Legal Notice in Cambridge TAB on **July 20th** and in Cambridge Chronicle on **July 23rd.**

Step #4 - Mail Letter to Interested Persons and Organizations Regarding Amendment to CDBG Program Assistant City Manager for Community Development sends out letter **(July 21st)** on public hearing and proposed change in CDBG Program. Letter goes to CDBG mailing list and is also made available at City Hall and City Hall Annex, and to persons who telephone for copies, as advertised in TAB and Chronicle.

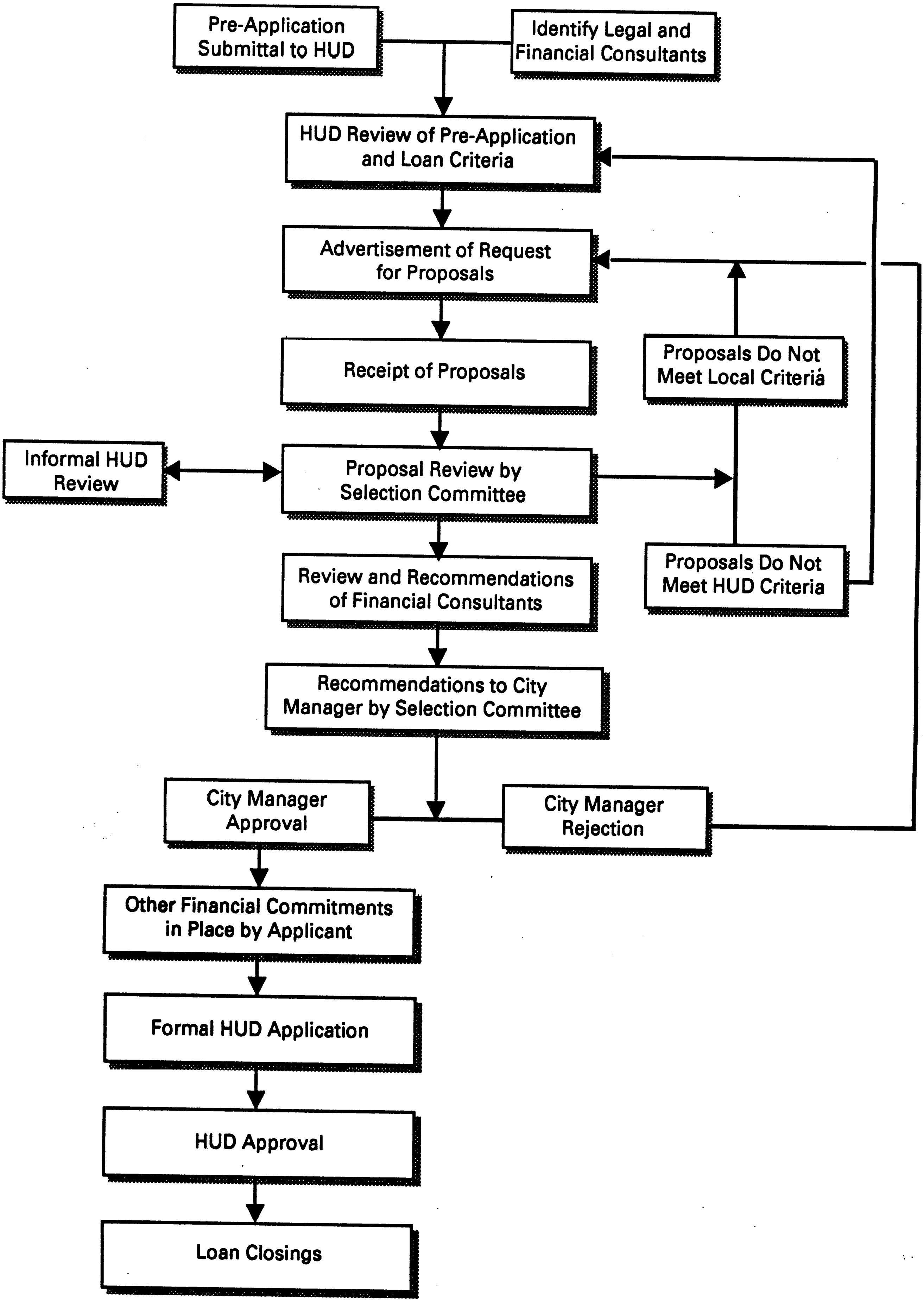
Step #5 - City Council's Committee on Economic Development, Training and Employment - Public Hearing This public hearing of **July 23rd** is part of the City Council's own review of the Section 108 loan proposal. The Federal Government requires both citizen review <u>and City Council approval</u> of the filing of the application.

Step #6 - CDD Public Hearing The Community Development Department (CDD) holds a **July 28th** public hearing on the proposal to amend the CDBG current-year program and budget (Final Statement) in order to incorporate a $5,000,000 Section 108 Loan Guarantee Program.

Step #6 - City Council Authorization to Establish a Section 108 Program If City Council receives favorable recommendation from its subcommittee (following July 23rd hearing) it may then authorize the filing of an application to HUD for approval of a Section 108 Loan Guarantee Program. This could take place at the City Council's summer meeting of **August 3rd**, or at a later meeting.

ATTACHMENT B2

Section 108 Application Process for the Biotechnology and Related Industries Financial Program



insufficient number of proposals that meet the HUD loan criteria, and a substantial number that nearly meet the criteria and are satisfactory from all other standpoints, The City will now work with HUD to determine whether reasonable adjustments in the loan criteria could be made in order to qualify the proposals in question.

Step #9 - Review and Recommendations of Financial Consultants At this stage, the City's financial consultants review all proposals that have been determined by the Selection Committee to meet the CDBG regulations and loan criteria. Their review is directed to protecting the City adequately from an underwriting standpoint.

Step #10- Recommendations to City Manager by Selection Committee The Selection Committee now forwards to the City Manager for his review and approval all the proposals it has determined appropriate for financial assistance.

Step #11 City Manager Approval or Rejection The City Manager reviews the recommended proposals and determines which will be moved forward with his approval and which rejected. If in his opinion an insufficient number can go forward, a new Request-for-Proposals is prepared and advertised.

Step #12 Other Financial Commitments in Place by Applicant Successful applicants now move quickly to provide all financial commitments called for by the program.

Step #13 Formal HUD Application Now that the loan criteria approved by HUD at the pre-application stage (or in the second round provided by Step #7 above) have proved workable, the City submits its formal application to HUD for up to $5,000,000 in Section 108 Loan Guarantees.

Step #14 HUD Approval The pre-approved application is now processed by HUD in Boston and Washington and give formal approval.

Step #15 Loan Closings Upon receipt of HUD's formal approval, the loan closings for the approved proposals now go forward.

Section 108 Application Process
for the
Biotechnology and Related Industries Financial Program

Notes to Accompany Flow Chart

Step #1 - Identify Legal and Financial Consultants The City brings together a team of legal, financial and other consultants to assist with the preparation of an application to HUD, in draft form, and in particular to assist with the development of financial and other criteria that biotechnology and related industrial firms will have to meet in order to qualify for Section 108 financial assistance.

Step #2 - Pre-Application Submittal to HUD HUD has agreed that Cambridge can make a pre-application submittal of the draft application in order to be certain that the loan criteria to be placed in its RFP are satisfactory to HUD.

Step #3 - HUD Review of Pre-Application and Loan Criteria Review and negotiations between HUD and the City regarding HUD's loan criteria and required collateral.

Step #4 - Advertisement of Request for Proposals With the pre-application and loan criteria now approved by HUD, the City completes and advertises a Request-for-Proposals (RFP) directed to the field of biotechnology and related industries. Approximately sixty days will be provided for responses.

Step #5 - Receipt of Proposals Proposals will be logged-in and given a "completeness" review during the allowed 60-day period.

Step #6 - Proposal Review by Selection Committee A Selection Committee appointed by the City Manager now reviews the proposals, working with the legal and financial consultants as necessary.

Step #7 - Informal HUD Review Although HUD will allow the City to make its own "up-front" determinations of eligibility (from the standpoints of both CDBG regulations and the agreed-upon loan criteria), the City may request informal HUD review of selected proposals.

Step #8 - Proposals Do Not Meet HUD Criteria If there are an

ATTACHMENT C

CAMBRIDGE INDUSTRIAL DEVELOPMENT FINANCE AUTHORITY

57 Inman Street, Cambridge, MA 02139 617 349-4600 FAX: 617 349-4669

21 July 1992

Councillor Alice K. Wolf
c/o Ms. D. Margaret Drury
Temporary City Clerk
City of Cambridge
City Hall - 795 Massachusetts Ave
Cambridge, MA 02139

RE: Councillor Alice K. Wolf, Chair of the Economic Development Training and Employment Committee
Public Hearing on the use of Community Development Block Grant Section 108 Loan Guarantee Program

Dear Councillor Wolf:

During the last meeting of the CIDFA Board of Directors, the Board voted unanimously to send you a letter voicing their vigorous support of the efforts of the City to attract and retain business through the proposed use of the Section 108 Program. The Board sees the Section 108 proposal as a positive step in business retention activities, enhancing the City's tax base, and in providing quality employment opportunities for Cambridge residents.

The Board would like to offer its time and expertise to the City in the implementation of this program if approved.

Very truly yours,

C. Daly Woodbury

Catherine Daly Woodbury
Executive Director, CIDFA
Planner, Community Development Department

ATTACHMENT D

XGen Corporation

285 Commonwealth Avenue,
Boston, Massachusetts 02115

Tel. (617) 262-9235
Fax. (617) 262-4862

Councillor Alice K. Wolf
Chair of the Economic Development
Training and Employment Committee
Cambridge City Hall
Second Floor, Room 202 City Council
795 Massachusetts Avenue
Cambridge, MA 02139

July 23, 1992

Dear Councillor:

I am writing this letter to support your proposed program to assist biotechnology industry in Cambridge, specifically the use of the Community Development Block Grant Section 108 Loan Guarantee Program to provide gap financing to assist the development of biotechnology-related laboratory space in order to assist the biotechnology industry in Cambridge.

It is extremely important that Cambridge be in the position, as a leader in the biotechnology industry, to provide the means for gap funding. The biotechnology industry is very competitive and requires timely financial resources for development. The gap financial assistance such as you are considering now would give Cambridge a critical competitive edge in developing new biotechnology industry companies in the City. This, as all of us know, in turn would provide a boost to the economy and create potential employment for its residents.

XGen is a start-up biotechnology company. We have signed a lease for space at 100 Inman Street. We are planning to produce a plasmid DNA extraction kit which would be essential in carrying out the necessary first step in biotechnology research. The production will require not only the professional scientist with advanced degrees but it would also employ semi-skilled technical people who could be trained and even less skilled people. However, XGen requires funding to get to the production stage.

Although we already have technology and methods for the production of the kit, we require financial assistance to build the laboratory and initial production facilities for this product. We are waiting for your council to approve the gap financing program to assist the development of biotechnology-related laboratory space. I would like to also add that one of the reasons for us to start in Cambridge was the prospect of getting the gap financing from the City and assistance from Cambridge Community Development.

Sincerely,

ChoKyun Rha

ChoKyun Rha

CR/emh

City of Cambridge

The Economic Development, Training and Employment Committee held a public hearing on Thursday, July 23, 1992, beginning at 5:30 p.m. in the Sullivan Chamber to consider whether the City of Cambridge can and should use the Community Development Block Grant Section 108 Loan Guarantee Program to provide gap financing to assist the development of biotechnology-related laboratory space. Members present were Councillor Alice K. Wolf and Councillor Jonathan S. Myers.

Councillor Wolf, Chair of the Committee called the meeting to order, introduced City Manager Robert W. Healy, described the format of the hearing. She then requested that Robert Healy provide information about the proposal. Robert Healy's presentation summarized the material set forth in Attachment A to this Report.He said that through this program, the City of Cambridge has an important opportunity to provide needed support for the growth of the biotechnology industry, an important resource to Cambridge, at minimal risk. The Section 108 program allows the City to borrow against future CDBG entitlements. The proposal is to use this federal loan pool to provide gap financing for laboratory build out to address the need for laboratory space. There is currently a 0% vacancy rate for laboratory space in Cambridge.

Michael Rosenberg, Assistant City Manager for Community Development, described the process to add a Section 108 loan guarantee program to the Community Development Block Grant (CDBG) program and the Section 108 application process for the biotechnology and related industries financial program. His presentation summarized the material presented in the charts attached to this report as Attachment B1 and B2. The addition of a Section 108 program to the CDBG program will require City Council approval. There has never been a 108 program in Cambridge before, but the program has been used across the nation since 1977. The Community Development Department has had discussions with many biotechnology firms, and much interest has been expressed.

Councillor Myers inquired as to the risks involved. Robert Healy responded that the 108 program does require that the City guarantee payment of default from its CDBG allocation, over 20 years. He stated that he believed the risks are manageable. Michael Rosenberg added that the loans can be collateralized and that the City would seek adequate collateral.

Councillor Myers stated that he would like to see the City use this as an opportunity to obtain significant commitments in terms of employment and training from the companies that would be aided by this program. He said that there should be more specificity in requirements for applicants for contributing to employment and training. Councillor Myers suggested that a committee with representation from the industry might be helpful in developing such specifics.

The following people spoke in favor of the proposal:

Michael Belanger, 100 Inman Street, sated that he operates a building as a small business incubator in biotechnology, for post-doctorates and other students leaving the universities to establish start-up biotech firms. He is interested in a program which would make small loans, in the range of $50,000.

Dr. J. Morris Weinberg, 130 Mt. Auburn Street, member of the Cambridge Industrial Development Finance Authority (CIDFA), read a letter from the CDIFA in support of the proposal. The letter is attached as Attachment C.

Robert Lewis, Executive Director of the Cambridge Chamber of Commerce, spoke in support of the proposal, and offered the assistance of the Chamber's Biotech/Hightech Committee.

Keith Erlich, Treasurer of Vertex Pharmaceutical, Cambridge, spoke in support of the proposal. He also noted his company's support for employment opportunities for the Cambridge community.

Jay Lamarch, Chief Financial Officer of Ariad, 26 Landsdowne Street, Cambridge, also favored the proposal. He said that this program could help his company and that he had had favorable experience with this program in Wisconsin.
[B

Gregory Gross, Ingram, Rettig & Beaty, 124 Mt. Auburn Street, spoke in favor of the program from a real estate perspective.

Simg-Koo Kim, XGen, 100 Inman Street, spoke in support of the program and read a letter from XGen which is attached as Attachment D.

Gail Friedland, Forest Cities Development, supported the proposal. She discussed the importance of the biotech industry to Cambridge and to employment in Cambridge. She pointed out that the program can be used to provide credit enhancement, which would be a low-risk method of operation.

There was no testimony in opposition to the proposal.

Councillor Wolf announced that this hearing and issue will be reported out of this Committee to the City Council.

The hearing was adjourned at 7:05 p.m.

For the Committee,

Alice K. Wolf

Councillor Alice K. Wolf,
Chair

F-405

COMMITTEE REPORT # 11

Economic Development Training & Employment.

~~Ordinance~~ Committee Report for a hearing held on Thursday, July 23, 1992 relative to whether the City of Cambridge can and should use the Community Development Block Grant Section 108 Loan Guarantee Program to provide gap financing to assist the devlopment of biotechnology-related laboratory space.

9/21/92 Report accepted.

In City Council,

Aug. 3, 1992

Placed on Unfinished business for 9/14/92.