Leon County R&D Authority
Budget Narrative
For the fiscal year ending September 30, 2023

The proposed budget reflects $12.7 million in revenue expected to be recognized for grant and matching funds earned on the North Florida Innovation Labs (NFIL) project, as will be further explained below. This amount obscures the typical operating and capital budget comparisons with prior years. While it must be included in the budget, the amount has been pulled out and separately stated at the bottom of the budget to illustrate its impact and provide meaningful comparative information. "Cash Flow Before CAPEX and NFIL" in the budget is comparable to the components of the prior year's "Net Operating Loss". References to "current year" below means Fiscal Year 2021-22, while the proposed budget year means Fiscal Year 2022-23.

The proposed budgeted Net Operating Loss is $402,900 compared to the current year budgeted Net Operating Loss of $54,413. The current year actual is forecasted to be a Net Operating Loss of $55,840, or about $1,428 worse than budget. Variances between the current year budget and forecasted current year amounts are included in a separate attached report.

<u>Assumptions:</u>

The budget is built based on all known leases, grants awarded, service contracts and other non-contractual service arrangements. Utilities, repairs and maintenance, and cleaning are based on historical experience with allowances for contingencies and adjusted for known changes not included in historical experiences. The "Grants and Other Income Schedule" detail specific grants and other income expected to be received and expended in the current year.

<u>Significant changes from the Current Year Budget and other assumptions:</u>

Revenue:

a) Rent revenue will drop approximately $52,000 due primarily to the loss of leases with FSU for the COVID lab and offices in the Morgan building ($37.6k), and the reduced rent from the renegotiated FDOT lease in the Phipps building ($23.8k) and offset by CPI increases in the National Park Service lease in the Johnson Building ($4.4k).
b) As mentioned above, Grant Revenue of $12.7 million for the NFIL project is recognized in the proposed budget. This amount represents the proportionate share of the estimated project expenditures expected to be incurred during the year relative to the grant and matching contributions for the EDA (62.7626%), FSU Research Foundation (13.1634%), and Office of Economic Vitality (12.6571%).
c) The current year Grant Revenue-Other budget included an expected but not awarded $115k for program grants awarded by FAMU, and ARPA grant revenue of $9.5k which was earned by, and related expenses paid by Innovation Park TLH, Inc. (IPTLH). The FY2022-23 grant revenue is detailed in a separate schedule including $57,800 remaining from the ARPA grant.
d) Other income in the current year includes $268,500 in funding from the Juggernaut/Danfoss MOU with OEV while the proposed budget includes the remaining funding of $92,500 expected to be used in the Morgan building renovations. These funds are earned as authorized expenses are incurred (see the Grant and Other Income schedule). Another $268,500 will be earned upon issuance of a certificate of occupancy (CO) for the Danfoss expansion. The completion of the facility within the

proposed budget year is uncertain and has not been budgeted. These additional funds are expected to be used to support LCRDA's matching contribution for the NFIL project, subject to OEV approval.

e) Interest Income has been estimated based on declining fund balances due to matching contributions for the North Florida Innovation Labs construction.
f) Operating expense reimbursement increased due to FSU's share of an increased cost of the elevator refurbishment being pushed from the current year to next year.

Operating Expenses:

g) Authority Employee Expense increased due to the addition of a Business Manager position ($88k), and elimination of the Executive Director's deferred compensation ($18k). Remaining staff salaries were increased 4% ($6k).
h) Utilities: The increase in utilities is due primarily to expected rate increases.
i) Maintenance and Repairs: The proposed budget reflects current year maintenance cost experience.
j) Cleaning and Improvements: The current year budget included $200,000 for flooring, paint and ceiling tiles in the Collins and Morgan Buildings funded from the OEV MOU related to the Danfoss project. Only the Collins building is expected to be completed in the current year, while the proposed budget includes the remaining $80,000 to complete the Morgan building (see the Grant and Other Income schedule).
k) Services: Services cost increases due primarily to consulting costs related to the elevator modernization project ($7k).

Administrative Expenses:

l) Professional fees have been increased by $48,000 to reflect professional search services for the Executive Director position. Current year grant writer fees of $12,000 have been moved to the Grant Expense account for the proposed budget year.
m) Grant Expense reflects reimbursable expenses to be expended in FY2022-23 for the ARPA grant (see the Grant Schedule for details), and grant writer fees ($12k).
n) Other Program expenses includes the TechGrant ($8k), TechTopics ($1.6k), and other events ($2k). The TechGrant expenses are offset by sponsorship revenue included in "Other Program Income".
o) Marketing and PR of $31,560 in the proposed budget is approximately 5% of potential lease revenue for leasable vacant space to fund more deliberate marketing efforts. $12,500 of the expense is planned to be offset by funding from the OEV MOU related to the Danfoss project (see the Grant and Other Income schedule).
p) Other Expenses represented the increase in the Talcor contract cost approved by the Board.
q) Property Insurance: P&C renewal quote has not yet been received. The broker expects an increase of 5%. Changes received prior to the final approval of the budget will be presented at that time for any needed amendment to the budget.

r) Capital Budget (see Capital Projects and Major Maintenance schedule):

- $15,000 is provided in the event of the need to replace HVAC units; this amount may be used for repairs in lieu of total replacements.
- The proposed budget includes $234,000 for elevator refurbishment for the Fuqua and Johnson Building Elevators based on recently received bids. These refurbishments must be done to meet code requirements and to be more attractive to prospective tenants.

- $10,000 is provided for the replacement of the office copier. We've been advised that due to the age of the existing copier, parts are no longer available to repair it.
- $2,000 is provided for a computer for the new business manager.

s) North Florida Innovation Labs

This section illustrates the components of the remaining $470,563 of LCRDA's required matching contribution in the proposed budget and assumes $1,800,000 is of LCRDA's match is paid in the current budget year. These funds will be paid from invested reserve funds. Construction expenditures are estimated, and the timing of these expenditures can vary substantially. The loan amount also makes assumptions about timing and will be drawn on the $4,000,000 debt facility with the FSU Research Foundation.

Summary:

The proposed budget year deficit compared to current year budget has many causes as explained above. Perhaps easier to grasp is comparing the proposed budget to the "forecast" for the current year which reflects how we've actually been operating. The proposed budget Net Operating Loss is $347k worse than the current year forecast. The major components of these changes total $339k and include: reduced rent, grant and other revenue net of elevator renovation reimbursement ($112k), increased salaries ($112k) due to added staff and filled vacant position, increased professional fees due to the Executive Director search ($48k), increased grant expense ($33k) due to reduced expense offsets (grant revenue that can be used to offset existing expenses), increased other program expense ($10k) due to timing of the TechGrant and other programs, and an increase in marketing and PR ($24k) due efforts needed to lease space and build the NFIL membership.

If these losses continue unabated, reserve funds would be depleted by 2025. While increasing grant revenue is one possible option, grants generally requiring incremental spending rather than offsetting current expenses. The obvious, albeit not simple, solution to the deficit problem is to lease more space. The potential gross profit from leasing vacant space is approximately $420k. Occupancy of 80% would generate $336k. Efforts must be undertaken to lease space. Traditional leasing efforts have not been successful, and other options need to be urgently explored by the Board.