



**CITY OF ELK GROVE
CITY COUNCIL STAFF REPORT**

AGENDA TITLE: Consider a resolution establishing the Startup Elk Grove Incentive Program and authorizing the City Manager to take all actions reasonably necessary to implement and administer the Program

MEETING DATE: August 22, 2018

PREPARED BY: Darrell A. Doan, Economic Development Director
Luis Aguilar, Economic Development Specialist

DEPARTMENT HEAD: Jason Behrmann, Interim City Manager

RECOMMENDED ACTION:

Staff recommends that the City Council adopt a resolution establishing the Startup Elk Grove Incentive Program and authorizing the City Manager to take all actions reasonably necessary to implement and administer the Program.

BACKGROUND INFORMATION:

Competitiveness in the regional, state, and national marketplace is increasingly defined by a local economy's ability to innovate and commercialize new products, processes, and platforms. Developing an innovation-based economy in Elk Grove by fostering the launch, growth, and support of startup companies is one way Elk Grove can develop a more competitive and sustainable economy.

The City Council has established the following Strategic Imperatives:

1. Identify incentives for local innovation and entrepreneurship, and expand outreach to successfully market an innovation support network within the City; and
2. Identify potential small business startup and scale-up candidates and support their launch and growth to foster future major employers.

The existing business startup environment in Elk Grove is very limited. One measure of its limits is its lack of significant representation in a prominent regional database of startup assets developed by startupsac.com. InnoGrove, a City-supported Elk Grove co-working space, and Yellow Circle, an Elk Grove non-profit educational startup, are the only Elk Grove assets listed in this database. Additionally, while Elk Grove has several large established technology companies such as Apple and AllData in the Sacramento Startup Directory, which is published by startupsac.com, out of 186 startups listed for the region, only one (Yellow Circle) is in Elk Grove.

Local incentives for startup companies are an emerging tool that communities can use to attract and grow startup companies that can one day become large anchor employers. Startup companies increasingly view local government grants and technical assistance as an important funding source because local government assistance doesn't implicate company equity or control, as does traditional venture capital, and it provides immediate cash flow for relocation and scaling of operations.

By way of example, in 2016, Sacramento amended its primary \$14 million economic development incentive fund policy, known as the Innovation and Growth Fund, to authorize the creation of new programs to expand the startup pipeline. Through these programs, the City of Sacramento provides Innovation Incentives to key entrepreneurs and startups to locate, grow, and create jobs in Sacramento. Under its Innovation Incentives Program and its Rapid Acceleration Innovation & Leadership in Sacramento (RAILS) Program, Sacramento has been effective at attracting tech startup companies. Funds in the amount of \$1.2 to \$1.5 million per year are set aside for startup assistance. In 2017, the RAILS Program alone made a total investment of \$970,000 to grant recipients that included business incubators, accelerators, and co-working and maker spaces.

Despite the emerging state of the Elk Grove startup environment, staff believes that through targeted startup investment and support provided by the City, Elk Grove can begin to develop an innovation economy. Having a startup-specific incentive program such as Startup Elk Grove that provides quick access to capital and technical assistance will set Elk Grove apart from other cities in the region and can be a determining factor in regional location decisions of startup and scaling tech companies. Despite recent press surrounding Amazon's and Apple's quests for secondary headquarter facilities in the U.S., Fortune 500 companies rarely relocate; thus, Elk

Grove is far more likely to foster the growth and development of a major corporate business from within, than it is to attract one from without.

ANALYSIS:

The Startup Elk Grove Incentive Program is designed to support the launch, growth, and attraction of innovative startup companies in and to Elk Grove by providing a mix of financial, site selection, and entitlement and permitting support to entrepreneurs, startup companies, and operators of co-working, incubator, and accelerator spaces.

Startup Elk Grove will specifically target and assist:

- A. Entrepreneurs seeking to establish a startup company in Elk Grove;
- B. Existing startup companies looking to scale operations in Elk Grove;
and
- C. Operators of co-working spaces, business incubators, and startup accelerators looking to locate in Elk Grove.

Startups are different from traditional small or local businesses in that startups are typically built and established for the purpose of commercializing an innovative idea, rapid growth, and a clear exit, often through an Initial Public Offering (IPO) or acquisition by larger competitors.

The overriding goal of the Program is to identify and invest in new and innovative companies that will grow rapidly and become future large company anchors of the Elk Grove economy. The Program also seeks to develop and support a robust entrepreneurial ecosystem in Elk Grove that is plugged in to the regional ecosystem by investing in entrepreneurs, companies, and physical spaces that will promote a local clustering of startup businesses that will in turn attract resources and equity capital to the City to support these companies.

Startup Elk Grove has three components:

- I. **LAUNCH** – This component provides small grants to startup entrepreneurs with a high potential concept who agree to develop and attempt to launch their business in Elk Grove. Entrepreneurs are eligible for grant amounts up to \$10,000 as well as City-paid membership or tuition at Elk Grove co-working and business incubator facilities. Funds are to be used for a combination of

operating, product development, equipment, and other customary product development and business launch costs.

- II. **SCALEUP** – This component provides financial incentives and non-monetary assistance (i.e. site selection, entitlements, and permitting) for startup companies that demonstrate high growth potential and are looking to scale operations in Elk Grove. Startup companies are eligible for grants between \$30,000 and \$150,000 to be used for a combination of relocation, expansion, operating, product development, equipment, and other customary scaling business costs. Scaleup incentives will be structured as loans that convert to grants, with requirements for companies to operate in Elk Grove for a minimum of three years, and report regularly to the City on business progress.

For purposes of Startup Elk Grove, a startup company is defined as a private, for-profit entrepreneurial venture, formed as a business entity, with the goal of rapid growth spurred by the validation, development, and commercialization of an innovative product, service, process, or platform. Companies will fall into the following or similar verticals: hardware, software, software as a service (SaaS), mobile, e-commerce, artificial intelligence (AI), augmented reality (AR), virtual reality (VR), robotics, AgTech, HealthTech, BioTech, internet of things (IoT), GreenTech, CleanTech, FinTech, blockchain, and big data.

- III. **SPACES** – This component provides financial incentives for operators of co-working spaces, business incubators, or startup accelerators located in the City of Elk Grove. Funds may also be used by the City to purchase, lease, or improve commercial spaces suitable for these types of operations.

For purposes of the Program, a “co-working space” is defined as a physical space that provides a community innovation-focused working environment for startup businesses and entrepreneurs looking for a better alternative to working from home or traditional commercial space; a “business incubator” is a physical space that provides the benefits of co-working, but includes a prescribed program designed to take an entrepreneur from business concept to business startup in a short amount of time through an array of business support resources and services that includes required and optional classes, coaching and mentorship, networking, and could

include access to capital; a “startup accelerator” is a fixed-term, cohort-based program, that includes the benefits of co-working and incubation, but that is specifically designed to accelerate the growth of an already existing startup venture.

Eligible operators for space incentives may receive the following:

- a) Up to \$100,000 for costs associated with establishing and operating a co-working space.
- b) Up to \$150,000 for costs associated with establishing and operating a business incubator.
- c) Up to \$250,000 for costs associated with establishing and operating a startup accelerator.
- d) Professional site selection assistance and expedited Planning and Building permits and approvals.

Spaces incentives will be structured as loans that convert to grants, with requirements for companies to operate in Elk Grove for a minimum of three years. Funds are to be used to cover costs associated with establishing and operating startup facilities in Elk Grove.

Incentives will be considered on a case-by-case basis. For all Program components, staff will review applications for funding and make funding recommendations to the City Manager who will make final determinations or recommendations to the City Council depending on incentive amounts. Incentives valued at less than \$50,000 will be processed administratively under the City Manager’s authority. Incentives valued at \$50,000 or more will require City Council approval. Incentive amounts, payment terms, and performance standards will be negotiated and established through an Economic Incentive Agreement between the City and the applicant. Staff will establish application procedures, evaluation protocols, and decision timelines. Applications will be accepted by invitation only; however, staff may elect to use such processes as Notice of Funding Availability (NOFA), Request for Proposals (RFPs), or pitch contests to identify suitable applicants. Staff may also use review panels made up of startup industry experts to assist with application review and funding recommendations.

The attached Startup Elk Grove Incentive Program Policies, Guidelines, and Procedures document provides further details on eligibility requirements, application processes, review processes, and funding terms. The Program has been developed in coordination with representatives from

the economic development, investment capital, small business, and startup industries.

ALTERNATIVE ACTIONS:

Do not proceed with establishing the Startup Elk Grove Incentive Program at this time. Staff recommends against this alternative because it would not further the Council’s Goals and Strategic Imperatives related to supporting local innovation and entrepreneurship. The City Council may also provide further direction as deemed appropriate.

FISCAL IMPACT:

Staff anticipates interest in the program to be strong and estimates funding up to \$800,000 of grants in FY 19. As detailed below, this amount of money is currently available in the City’s economic incentive funds. If the program is successful and Council wishes it to continue, funds for future years will need to be identified.

All economic development incentives are primarily funded out of two funds: the Economic Development Fund – 105; and the Small Business Economic Incentive Fund – 108. Current and future fund balances are as follows:

105	Current Balance	\$ 90,000
	FY 19 Budgeted Funds	<u>\$ 100,000</u>
	Total Funding Available	\$ 190,000
108	Current Balance	\$ 1,071,835
	FY 19 Budgeted Funds	\$ 200,000
	FY 19 Projected Interest Earnings	<u>\$ 15,000</u>
	Total Funding Available	\$ 1,286,835
	Total All Funds:	\$1,476,835

ATTACHMENTS:

1. Resolution

Exhibit A: Startup Elk Grove Incentive Program Policies, Guidelines, and Procedures

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF ELK GROVE
ESTABLISHING THE STARTUP ELK GROVE INCENTIVE PROGRAM AND
AUTHORIZING THE CITY MANAGER TO TAKE ALL ACTIONS NECESSARY TO
IMPLEMENT AND ADMINISTER THE PROGRAM**

WHEREAS, economic development efforts are important for the City of Elk Grove to ensure a vibrant, healthy, and diverse local economy; and

WHEREAS, the City Council of the City of Elk Grove has established as Strategic Imperatives, among other things, to "...identify potential small business startup and scale-up candidates and support their launch and growth to foster future major employers," and to "Identify incentives for local innovation and entrepreneurship, and expand outreach to successfully market an innovation support network within the City"; and

WHEREAS, competitiveness in the regional, state, and national marketplace is increasingly defined by an economy's ability to innovate and commercialize new products and processes; and

WHEREAS, making the City of Elk Grove a hub for innovative and scaling businesses by providing a strong entrepreneurial support system to make the City's economy competitive is key to implementing the City's economic development mission of ensuring a robust and diverse economy that returns value to the City and its residents, oriented towards creating jobs, attracting capital investment, and growing the City's commercial tax base; and

WHEREAS, the establishment of the Startup Elk Grove Incentive Program will further the Council's Goals in all these regards.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Elk Grove hereby establishes the Startup Elk Grove Incentive Program, adopts the Startup Elk Grove Incentive Program Policies, Guidelines, and Procedures attached hereto as Exhibit A and incorporated herein by reference, and authorizes the City Manager to take all steps reasonably necessary to implement and administer the Program.

PASSED AND ADOPTED by the City Council of the City of Elk Grove this 22nd day of August, 2018.

STEVE LY, MAYOR of the
CITY OF ELK GROVE

ATTEST:

APPROVED AS TO FORM:

JASON LINDGREN, CITY CLERK

JONATHAN P. HOBBS,
CITY ATTORNEY

EXHIBIT A

STARTUP ELK GROVE INCENTIVE PROGRAM POLICIES, GUIDELINES, AND PROCEDURES

Program Overview

The Startup Elk Grove Incentive Program (“Startup Elk Grove” or “Program”) is designed to support the launch, growth, and attraction of innovative startup companies in and to Elk Grove, California by providing a mix of financial, site selection, and entitlement and permitting support to entrepreneurs, startup companies, and operators of co-working, incubator, and accelerator spaces. Startup Elk Grove will specifically target and assist: 1. entrepreneurs seeking to establish a startup company in Elk Grove; 2. existing startup companies looking to scale operations in Elk Grove; and 3. operators of co-working spaces, business incubators, and startup accelerators looking to locate in Elk Grove.

The overriding goal of the Program is to identify and invest in new and innovative companies that will grow rapidly and become future large company anchors of the Elk Grove economy. The Program also seeks to develop and support a robust entrepreneurial ecosystem in Elk Grove by investing in entrepreneurs, companies, and physical spaces that will promote a local clustering of startup businesses that will in turn attract resources and equity capital to the City to support these companies.

For purposes of Startup Elk Grove, a startup company is defined as a private, for-profit entrepreneurial venture, formed as a business entity, with the goal of rapid growth spurred by the validation, development, and commercialization of an innovative product, service, process, or platform. Entrepreneurs are those individuals or founders seeking to establish startup companies. Typical characteristics of startups assisted by this Program will include:

- a) Has attracted or is positioned to attract capital from seed, venture, or other similar capital investment sources.
- b) Have or be prepared to hire at least five employees, which can include founders and owners.
- c) Have the potential to grow rapidly in terms of employees, commercial space occupied, and/or local tax generation.
- d) Is less than five years old, has less than 100 employees, has less than \$50 million of annual revenue, and is valued at less than \$500 million. Often, companies assisted through this Program will be much smaller than these thresholds.
- e) Falls into the following or similar verticals: hardware, software, software as a service (SaaS), mobile, e-commerce, artificial intelligence (AI), augmented reality (AR), virtual reality (VR), robotics, AgTech, HealthTech, BioTech, internet of things (IoT), GreenTech, CleanTech, FinTech, blockchain, and big data.
- f) Has a Minimum Viable Product (MVP), defined as a commercial offering developed with sufficient features to satisfy early adopters.

Program Components

Startup Elk Grove has three components.

- I. **LAUNCH** – This component provides financial incentives to startup entrepreneurs with a high potential concept who agree to develop and attempt to launch their business in Elk Grove.
- II. **SCALEUP** – This component provides financial incentives and non-monetary assistance (i.e. site selection, entitlements, and permitting) for startup companies that demonstrate high growth potential and are looking to scale operations in Elk Grove.
- III. **SPACES** – This component provides financial incentives for operators of co-working spaces, incubators, or accelerators located in the City of Elk Grove. Funds may also be used by the City to purchase, lease, or improve commercial spaces suitable for these types of operations.

Program Guidelines

I. LAUNCH

Eligibility: Entrepreneurs with an innovative concept or idea and that are ready to develop their concept and attempt to launch a business around it, will be considered by invitation. The entrepreneur will be required to locate in an Elk Grove co-working space or business incubator; assistance may be provided to entrepreneurs in advance and in anticipation of locating in such spaces if facilities or vacancies do not yet exist.

Incentive: Eligible entrepreneurs may receive the following:

- a) A one-time grant up to \$10,000 to be used for a combination of operating, product development, equipment, or other legitimate and customary product development and business launch costs.
- b) City paid membership or tuition for up to one year in a co-working space or business incubator located in the City of Elk Grove.

Application Requirements and Selection Criteria: The City will accept applications by invitation only or on such other terms as the City determines. To be considered, entrepreneurs must submit the following minimum information:

- a) An application form.
- b) A two-minute pitch video.

- c) A written description of the innovative product, process, or platform which they seek to develop.
- d) A preliminary business plan.
- e) A Statement of how Program funds and assistance will further their ability to develop and launch their business in Elk Grove.

Approval Process:

- 1. Upon invitation, completed application and all required materials are submitted to Economic Development staff.
- 2. Staff reviews applications.
- 3. Economic Development Director makes funding recommendation to City Manager as warranted. In some cases, no funding recommendation will be made.
- 4. City Manager makes final funding determination, if any.
- 5. An Economic Incentive Agreement is executed by the applicant and City of Elk Grove.
- 6. A typical approval or denial process will take approximately 45 calendar days from the date that a completed application is received.

II. SCALEUP

Eligibility: Existing startup companies located in or willing to locate in Elk Grove will be considered by invitation.

Incentive: Eligible startup companies may receive the following:

- a) A loan, convertible to a grant, on terms to be negotiated ranging from \$30,000 to \$150,000 to be used for some combination of relocation, expansion, operating, product development, equipment, or other legitimate and customary scaling business costs.
- b) Concierge services that include site selection assistance and expedited Planning and Building permits and approvals.
- c) Loan recipients will be required to agree to the following key terms and conditions:
 - I. Operate the business in Elk Grove in a co-working, incubator, accelerator, or commercial space for a minimum of 36 months.
 - II. While operating, no loan payments will be due, but interest will accrue.
 - III. For each year of operation, 1/3 of the loan amount will convert from a loan to a grant.
 - IV. If operations cease prior to 36 months, all unpaid principal and accrued interest will become due and payable.
 - V. Provide regular quarterly reports to the City on business progress and use of funds.

- d) Non-profit startup companies will be evaluated on a limited and case-by case-basis, at the discretion of the City Manager.

Application Requirements and Selection Criteria: The City will accept applications by invitation only or on such other terms as the City determines. To be considered, entrepreneurs must submit the following minimum information:

- a) An application form.
- b) A written executive summary that includes a full description of the business, its history, and potential growth.
- c) A two-minute pitch video.
- d) A fully developed business plan.
- e) A Statement of how Program funds and assistance will further their ability to scale their business in Elk Grove.

Approval Process:

1. Upon invitation, completed application and all required materials are submitted to Economic Development staff.
2. Staff reviews applications.
3. Economic Development Director makes funding recommendation to City Manager as warranted. In some cases, no funding recommendation will be made.
4. The City may choose to utilize a panel review process, which may be comprised of City staff and/or outside parties.
5. City Manager makes funding determination, if any, for funding of \$50,000 or less.
6. An Economic Incentive Agreement is executed by the applicant and City of Elk Grove.
7. A typical approval or denial process will take approximately 60 calendar days from the date that a completed application is received.
8. City Council approval of the Economic Incentive Agreement is required for any amount over \$50,000 (this will typically add 30 calendar days to the approval process timeline).

III. SPACES

Eligibility: Operators of co-working spaces, business incubators, or startup accelerators located in or willing to locate in Elk Grove will be considered by invitation.

For purposes of the Program, a “co-working space” is defined as a physical space that provides a community innovation-focused working environment for startup businesses and entrepreneurs looking for a better alternative to working from home or traditional commercial space; a “ business incubator” is a physical space that provides the benefits of co-working, but includes a prescribed program designed to take an entrepreneur from

business concept to business startup in a short amount of time through an array of business support resources and services that includes required and optional classes, coaching and mentorship, networking, and could include access to capital; a “startup accelerator” is a fixed-term, cohort-based program, that includes the benefits of co-working and incubation, but that is specifically designed to accelerate the growth of an already existing startup venture.

Eligible operators must meet the following criteria:

- a) Be an existing or to be formed operating entity that has previously operated a co-working space, business incubator, or startup accelerator and has a demonstrable track record of success; and
- b) Have identified, placed under contract, or acquired viable commercial space in Elk Grove for the facility.

Incentive: Eligible operators may receive the following:

- a) A Loan, convertible to a grant, of up to \$100,000 for costs associated with establishing and operating a co-working space.
- b) A loan, convertible to a grant, of up to \$150,000 for costs associated with establishing and operating a business incubator.
- c) A loan, convertible to a grant, of up to \$250,000 for costs associated with establishing and operating a startup accelerator.
- d) Concierge services that include professional site selection assistance and expedited Planning and Building permits and approvals.
- e) Loan recipients will be required to agree to the following key terms and conditions:
 - I. Operate the facility in Elk Grove for a minimum of 36 months.
 - II. While operating, no loan payments will be due, but interest will accrue.
 - III. For each year of operation, 1/3 of the loan amount and accrued interest will convert from a loan to a grant.
 - IV. If operations cease prior to 36 months, all unpaid principal and accrued interest will become due and payable.
 - V. Provide regular quarterly reports to the City on business progress and use of funds.

Approval Process:

1. Upon invitation, submit a proposal and business plan to Economic Development staff.
2. Staff reviews applications.
3. Economic Development Director makes funding recommendation to City Manager as warranted. In some cases, no funding recommendation will be made.

4. The City may choose to utilize a panel review process, which may be comprised of City staff and/or outside parties.
5. City Manager makes funding determination, if any, for funding of \$50,000 or less.
6. An Economic Incentive Agreement is executed by the applicant and City of Elk Grove.
7. A typical approval or denial process takes 120 calendar days.
8. City Council approval of the Economic Incentive Agreement is required for any amount over \$50,000 (this will typically add 30 calendar days to the approval process timeline).

Application Materials and Processes/Notice to Applicants

At the direction and with the approval of the City Manager, Economic Development staff will prepare application forms and materials, identify required submittals, and define necessary processes needed to receive and evaluate assistance requests under this Program. All applicants must adhere to the City's established application processes. All application materials and processes are subject to change from time to time.

The estimated time from completed application to a funding decision, evidenced by an Economic Incentive Agreement, will vary depending on the quality and completeness of the application, the complexity of the business and product, the responsiveness of the applicant, and the workload of City staff, among other factors. The time frames identified in this document are guidelines and not guarantees.

All applications for funding under the Program shall be considered on a case-by-case basis. Funding is not guaranteed, and the City has complete discretion to approve or deny any application for funding, and to provide full or partial funding, or none at all. All funding decisions, whether by the City Manager or the City Council, shall be final, and the applicant shall have no right of appeal from any decision on any funding application, nor the decision to accept or not accept a funding application, nor the decision to process or not process any funding application. All funding decisions shall be documented by a written Economic Incentive Agreement executed by the applicant and the City setting forth the terms and conditions of any funding under the Program. Applicant shall have no rights in any funding, or otherwise under the Program, absent a fully executed Economic Funding Agreement.

Applicants shall comply with all laws with respect to the receipt and use of any funding under the Program. The City makes no representation as to whether any applicant's receipt or use of such funding would be subject to the state prevailing wage laws, as set forth at Labor Code sections 1720, et seq. To the extent applicable, applicants shall cause all work performed with such funding to be performed in compliance with all applicable laws including, without limitation, state prevailing wage laws pursuant to Labor Code sections 1720, et seq. In the event an applicant fails to comply with any applicable law, including, without limitation, prevailing wage laws, the applicant shall be liable for the payment of all penalties, wages and/or damages

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resulting therefrom, and shall defend, indemnify and hold the City harmless for any violations or alleged violations of law. The provisions will be included in any Economic Incentive Agreements. Applicant is encouraged to seek legal advice through legal counsel of their choosing for further guidance.

California State law requires the City to publicly consider any economic subsidies of \$100,000 or more. In addition, the City will be required to review, hold hearings, and report on those subsidies at five-year intervals. Information regarding incentive recipients including name and address, purpose of the incentive, projected tax revenue resulting from the subsidy, and number of new jobs created must be posted publicly on the City's website.

Questions regarding this program should be directed to:

Economic Development Department
Attn: Economic Development Specialist
8401 Laguna Palms Way
Elk Grove, CA 95758
(916) 627-3212
www.elkgrovecity.org/econdev
econdev@elkgrovecity.org