



City of San Antonio

Agenda Memorandum

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Agenda Item Number: 37.

Agenda Date: 11/21/2013

In Control: City Council A Session

DEPARTMENT: Economic Development

DEPARTMENT HEAD: Rene Dominguez

COUNCIL DISTRICTS IMPACTED: City-Wide

SUBJECT:

Economic Development Grant Agreement with the San Antonio Economic Development Corporation (SAEDC) for StemBioSys, Inc. (SBS).

SUMMARY:

This Ordinance approves a Chapter 380 Economic Development Grant Agreement in the amount of \$200,000 with the San Antonio Economic Development Corporation (SAEDC) to help fund the retention and continued growth of local bioscience start-up company, StemBioSys, Inc. (SBS). This Ordinance also authorizes the SAEDC to loan these grant funds to SBS in exchange for a Convertible Promissory Note which provides the SAEDC options to convert the Note into shares of stock in SBS.

BACKGROUND INFORMATION:

StemBioSys, Inc. (SBS) is a local bioscience startup company formed in November 2010 by Dr. Xiao-Dong Chen (University of Texas Health Science Center San Antonio - UTHSCSA) and Dr. Steve Davis (local dermatologist). SBS is located at 12500 Network Boulevard (District 8) with 4 full-time employees and plans to add at least 2 employees in the next 12 months. While at UTHSCSA, Dr. Chen discovered a way to isolate and expand adult stem cells for research, diagnostics and therapeutic treatments. SBS has secured 2 patents on its stem cell technology platforms with 3 other patents pending. In May 2011, SBS signed an agreement with UTHSCSA to license, develop and commercialize Dr. Chen's technologies in the regenerative medicine market which is expected to grow by 48% over the next 6 years. The SBS CEO is Peter Savas, and the SBS Board Chair is Dr. Davis.

SBS is seeking a \$200,000 economic grant from the SAEDC to help fund their continued research and product development, as well as to establish a certified Good Manufacturing Practice (cGMP) facility in San Antonio to do initial manufacturing of stem cells using the SBS patented technology. SBS plans to collaborate with and lease space at local nonprofit BioBridge Global (formerly the South Texas Blood and Tissue Center) and invest about \$100,000 in equipment to create a cGMP compliant stem cell production space. The SAEDC would obtain a lien on this equipment through its loan of funds to SBS and execution of a Convertible Promissory Note.

Staff has conducted its due diligence on the company and its principals with no negative findings. Staff also secured a third party consultant evaluation of the SBS economic development project by Andrew Nat, a former life science advisor to the Texas Emerging Technology Fund. The consultant verified that SBS has 3 proprietary stem cell technology platforms, the potential for developing market share and profitability, significant local investors/financing, and an experienced management team and board. The consultant found that SBS substantially met the SAEDC's Investment Guidelines and recommended the SAEDC consider an investment in this local startup company. As a result, the SAEDC Board will consider approval of the project on November 21, 2013, and authorize the SAEDC Executive Director to enter into a Grant Agreement with the City in the amount of \$200,000 for the project.

EDD staff recommends City Council appropriates \$200,000 from the Economic Development Incentive Fund (EDIF) for the purpose of granting such funds to the SAEDC for the SBS project. Staff also recommends City Council authorize the SAEDC to invest these funds in SBS through a loan at a 5% interest rate for 5 years in exchange for a Convertible Promissory Note for \$200,000. The Note would provide the SAEDC the option to convert the Note into preferred shares of SBS stock during the term or to accept repayment of the loan at the end of the term with interest (\$255,256). For the loan, the SBS must agree to retain its business operations in San Antonio for the term of the Note or until such time as the SAEDC may exercise its option to convert the Note into shares of equity. SBS must also retain and create a minimum of 6 full-time jobs by December 2014 and pay an average annual salary of at least \$50,000. The proposed Note would not be executed until SBS provides the SAEDC evidence of: (1) an executed lease with BioBridge Global or at another facility in SA; and (2) a matching local investment in SBS equal to or greater than \$200,000.

ISSUE:

Chapter 380 of the Local Government Code authorizes the City to provide economic development grants and loans for the purposes of promoting economic development provided the City has established a program for such purposes. City Council has approved such a program in April 2005.

On May 13, 2010, City Council established the SAEDC and appointed a 7-member Board, including the Mayor, the Council Chairs of the Infrastructure and Growth Committee and the Economic and Community Development Committee, the City Manager, and three at-large citizens. The Bylaws authorize the SAEDC to invest in economic development projects, such as StemBioSys, to receive a return on such investment, and distribute any compensation back to the City. Funds earned by the SAEDC could also be retained to create a self-sustaining economic development incentive fund for the community to invest in future projects. City Council approval is required for any project proposed by the SAEDC, as well as for the distribution of any proceeds from investment opportunities.

ALTERNATIVES:

Council could choose not to approve this Ordinance and funding for the SBS project. Staff does not recommend this alternative, as this project presents an important opportunity for the City to demonstrate its

commitment to invest in local, life science (SA2020 targeted industry) startup companies and to leverage this investment for a potential financial return to help fund other economic development projects. A recent study completed by the Brookings Institution reported that 56.3 percent of jobs created between 2003 and 2010 were from startup companies. Furthermore, this project has received significant local investment and helps promote the development of local entrepreneurs at local universities.

FISCAL IMPACT:

Funding is available in the Economic Development Incentive Fund to provide this grant of \$200,000 to the SAEDC for this economic development project.

RECOMMENDATION:

Staff recommends approval of this Ordinance authorizing: (1) the City to enter into a Chapter 380 Economic Development Program Grant Agreement with the San Antonio Economic Development Corporation (SAEDC); (2) the appropriation of \$200,000 in funding to the SAEDC for the SBS project; and (3) the SAEDC to loan these funds to SBS and enter into a Convertible Promissory Note for the amount of \$200,000.