



City of San Antonio

Agenda Memorandum

File Number:13-916

Agenda Item Number: 38.

Agenda Date: 11/21/2013

In Control: City Council A Session

DEPARTMENT: Economic Development Department

DEPARTMENT HEAD: Rene Dominguez

COUNCIL DISTRICTS IMPACTED: City-wide

SUBJECT:

Grant Agreement with the San Antonio Economic Development Corporation (SAEDC) for Establishing the SAEDC Investment Fund

SUMMARY:

This Ordinance approves a Chapter 380 Economic Development Program Grant Agreement with the San Antonio Economic Development Corporation (SAEDC) to provide \$500,000 in funding for the establishment of an SAEDC Investment Fund (“the Fund”) and authorizes the SAEDC Board to approve economic development projects funded at \$50,000 or less from the Fund

BACKGROUND INFORMATION:

On May 13, 2010, City Council established the SAEDC and appointed a 7-member Board, including the Mayor, the Chair of the Infrastructure and Growth Committee (Councilman Rey Saldaña) and the Chair of the Economic and Community Development Committee (Councilman Ray Lopez), the City Manager, and three at-large citizens. The Bylaws authorize the SAEDC to invest in economic development projects and to potentially receive a return on such investment. It is the goal of the City to use any funds earned from investments by the SAEDC to create a self-sustaining economic development incentive fund for investing in future projects. Since May 2010, City Council and the SAEDC Board have approved three economic development projects to include: (1) InCube Labs, TX; (2) the South Texas Research Facility at the UT Health Science Center at San Antonio (UTHSCSA); and (3) Innovative Trauma Care, Inc. The SAEDC has secured an equity interest from each of these projects and investments.

The Brookings Institution recently reported that between 2003 and 2010 startup companies created 56.3% of all new jobs. The SAEDC, therefore, is focused on facilitating economic development by assisting local small business start-up companies and entrepreneurs, particularly in the SA2020 targeted industries of healthcare/bioscience, information/cyber security and renewable energy. To achieve its objective to help promote job creation through local startup companies in these industries, the SAEDC is collaborating with the City's local venture funds - the Texas Research and Technology Foundation (TRTF) Fund and the Targeted Technology (TT) Fund. The TRTF is currently raising \$12 - \$15 million as a follow-on to their successful McDermott Pre-Seed Fund which was established in 2010 and is currently invested in 5 local start-up companies (3 are local university spinouts). TT is currently raising up to \$50 million as a follow-on to their initial \$12 million fund, which was the first life science venture fund in San Antonio. The current TT portfolio of 12 companies has raised over \$125 million in financing, with over 50% from local investors. The TT portfolio also includes 8 local companies which have created over 200 jobs over the past 4 years.

The continued development and support of local venture funds will help facilitate the growth of the City's targeted SA 2020 industries, the development of local entrepreneurs and the attraction of outside venture capital. Both the TRTF and TT approached the SAEDC about establishing a City-funded SAEDC Investment Fund to demonstrate the City's continuing commitment to helping local small business start-up companies and entrepreneurs. On November 21, 2013, the SAEDC Board will consider the establishment of such a Fund. Through the Fund, the SAEDC would collaborate with local venture funds, such as the TRTF and TT, to fund local economic development projects evaluated and funded by these entities. The SAEDC would also consider investing in local projects approved for funding by the Texas Emerging Technology Fund (ETF).

On November 21, 2013, the SAEDC Board will also consider approval of updated Investment Guidelines which are attached to the proposed Economic Development Grant Agreement. The SAEDC will follow these Guidelines in evaluating economic development projects seeking funding from the Fund. The SAEDC intends to loan funds to start-up companies in exchange for a 5-year Convertible Promissory Note with interest and when possible obtain a lien on equipment or other assets with provisions to convert the Note into shares of equity.

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 approved a program in April 2005.

City Council approval is currently required for all economic development projects proposed for funding by the SAEDC, as well as for the distribution of any proceeds from investment opportunities. This Ordinance will appropriate specific funding from the Economic Development Incentive Fund (EDIF) for the establishment of the SAEDC Investment Fund and provide the SAEDC Board the authority to approve projects funded at \$50,000 or less from the Fund. Any projects the SAEDC Board approves for over \$50,000 would still require City Council approval. This level of funding is consistent with the current delegation of funding authority by City Council contained in Administrative Directive 1.6 Purchasing Procedures. The SAEDC will inform City Council of all SAEDC approved economic development projects.

ALTERNATIVES:

Council could choose not to approve this Ordinance. SAEDC staff would then be required to seek Council approval on all proposed SAEDC economic development projects, subject to the availability of funds in the Economic Development Incentive Fund. Staff does not recommend this alternative. By appropriating funds to establish the SAEDC Investment Fund, the City would be demonstrating its commitment to helping grow the community's life science industry, supporting local start-up companies, entrepreneurs and investment funds, promoting investment by local investors in local start-up companies and helping attract more outside venture funding in San Antonio companies.

FISCAL IMPACT:

Funding is available in the Economic Development Incentive Fund to support an economic development grant of \$500,000 for the SAEDC.

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 \$500,000 in grant funding to the SAEDC to establish the SAEDC Investment Fund; and (3) the SAEDC Board to approve the funding of economic development projects at \$50,000 or less from this appropriation.