



City of San Antonio

Agenda Memorandum

File Number: 15-3519

Agenda Item Number: 46.

Agenda Date: 6/18/2015

In Control: City Council A Session

DEPARTMENT: Economic Development Department

DEPARTMENT HEAD: Rene Dominguez

COUNCIL DISTRICTS IMPACTED: City-wide

SUBJECT:

Amendment to the Grant Agreement with the San Antonio Economic Development Corporation for the InCube Labs, LLC. Project.

SUMMARY:

This Ordinance approves an Amendment to the Chapter 380 Economic Development Program Grant Agreement executed on August 4, 2010, with the San Antonio Economic Development Corporation (SAEDC) in support of InCube Labs, LLC establishing a life-science business incubator in San Antonio. This action also authorizes the SAEDC to amend its Economic Development Agreement (EDA) with InCube Labs for the purposes of executing this economic development project supporting the targeted Healthcare and Biosciences industries. The City and its community partners provided \$10 million in grant funding through the SAEDC for this project over five years. The SAEDC is requesting no additional grant funding for this Amendment.

BACKGROUND INFORMATION:

In December 2009, the City led a community effort to attract InCube Labs, LLC ("InCube") to San Antonio. InCube was founded in 1995 by Mir Imran, a prolific healthcare entrepreneur, inventor and builder of life-science companies. The mission of InCube, with operations in San Jose, CA and San Antonio, is to create therapeutic innovations that radically improve patient outcomes. Mir Imran, Chairman and CEO of InCube, holds over 200 patents and has founded 23 life-science companies since the late 1970s with 14 being acquired, including four successful acquisitions in the past two years.

Since initiating life science incubator operations in San Antonio, InCube has relocated/created 5 startup

companies, invested over \$25 million, created and added numerous patents toward product development for its San Antonio companies, collaborated with local universities on commercialization opportunities and mentored several local entrepreneurs. As a result, InCube has made significant contributions toward catalyzing and growing the community's life science ecosystem.

On June 17, 2010, City Council approved a Chapter 380 Economic Development Grant Agreement with the SAEDC to provide \$6 million over five years for the InCube project. Other community partners committed an additional \$4 million toward the project - Bexar County (\$2 million), the Texas Research and Technology Foundation (TRTF - \$1 million) and UTSA and UT Health Science Center (\$500,000 each). With this funding, the SAEDC entered into an Economic Development Agreement (EDA) over five years with InCube whereby InCube agreed to: (1) relocate three companies from San Jose to San Antonio; (2) create two new companies in San Antonio in 36 months; (3) establish a business incubator and laboratory operations in San Antonio for a minimum of five years; (4) raise and spend a minimum of \$15 million of non-public funds in the project; (5) create and retain at least 50 jobs; (6) collaborate with the local universities and TRTF on life science commercialization opportunities; and (7) provide the SAEDC 5% of Founders common stock in a minimum of five companies. The five-year term of the EDA between the SAEDC and InCube ends August 3, 2015.

InCube has created eight full-time jobs in San Antonio and expects to hire 15-20 additional employees over the next 18-24 months as they secure additional financing for their San Antonio portfolio companies. InCube has also raised and spent over \$10.5 million in non-public funds in San Antonio and should meet the \$15 million requirement by the end of 2015. While InCube will meet most of its obligations, the company has requested the SAEDC consider amending the EDA for an additional five-year term to allow more time to meet its obligations related to job creation and investment. For this Amendment, InCube agrees to (1) continue conducting business activities in San Antonio for at least another five years; (2) create 20 jobs by August 2017, 30 jobs by August 2018 and 50 jobs by August 2020 at an average annual salary of at least \$50,000/year; (3) establish medical device manufacturing operations in San Antonio by December 2016; (4) create at least three more companies in San Antonio for a total of eight; and (5) provide the SAEDC and its community partners 5% of Founders stock in at least 3 more companies for a total of eight. InCube has also agreed to provide the SAEDC a pledge of collateral consisting of \$5 million in shares of successful InCube startup company, Rani Therapeutics, to secure the performance of its obligations under this proposed Amendment to the EDA.

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.

On May 13, 2010, City Council established the SAEDC and appointed a seven-member Board including the Mayor, two Council members (currently Councilman Ray Lopez and Councilman Rey Saldana), City Manager Sheryl Sculley, and three at-large citizens Juan Landa, Marianne Watson, and Mike Dwyer. The Bylaws of the SAEDC authorize the entity to invest in economic development projects, such as InCube Labs, receive a return on such investment, and distribute any compensation back to the City and its partners. 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, subject to City Council approval.

In evaluating InCube's request for an Amendment to the EDA, the SAEDC reviewed the financials for InCube Labs LLC and for each of the five InCube companies incubated in San Antonio. The financial review was a coordinated effort between the City's Finance and Economic Development Departments. Based on the information provided and discussions with representatives of InCube, the review concluded that the SAEDC's \$10 million in grant funds have been fully expended by InCube on its Business Activities in San Antonio as

required by the EDA.

The SAEDC also used a third party life science company consultant, Andrew Nat, to evaluate the status and progress of the five incubated companies. The consultant found that InCube has made progress in furthering the development of the three companies relocated from San Jose and in creating two new promising companies. The consultant concluded that InCube's business model employs a deliberate process utilizing minimal employees simultaneously working on multiple companies in the early stages of product development. This model has been highly successful over 20 years for InCube, and the InCube companies currently located in San Antonio provide significant potential for continued success.

As a result of these reviews and the proposed terms, the SAEDC Board recommends approval of an Amendment to the EDA. While progress in job creation has been slower than anticipated, the SAEDC remains confident in InCube's commitment to achieve success and its willingness to provide the additional benefits of establishing medical device manufacturing and creating three additional companies over the next five years. Furthermore, this Amendment will ensure InCube remains in San Antonio at least another five years to help continue growing our life science ecosystem in the targeted Healthcare and Biosciences Industry.

ALTERNATIVES:

Council could choose not to approve this Amendment. If that were to occur, the SAEDC would not be authorized to amend its EDA with InCube and would then be required to pursue remedies available under the EDA in the event of default, to include seeking full repayment of all grants funds. Staff does not recommend the Alternative.

FISCAL IMPACT:

There is no fiscal impact associated with this Ordinance. InCube is not requesting additional funding from the SAEDC nor is the SAEDC proposing any additional funding from the City.

RECOMMENDATION:

Staff recommends approval of this Ordinance authorizing the City to amend its Chapter 380 Economic Development Program Grant Agreement with the San Antonio Economic Development Corporation (SAEDC) for the InCube Labs economic development project and authorizing the SAEDC to amend its Economic Development Agreement with InCube Labs, LLC.