# City of San Antonio

## Agenda Memorandum

### File Number: 16-3435

**Agenda Item Number:** 29.

**Agenda Date:** 6/16/2016

**In Control:** City Council A Session

**DEPARTMENT:** Economic Development

**DEPARTMENT HEAD:** Rene Dominguez

**COUNCIL DISTRICTS IMPACTED:** City-Wide

**SUBJECT:**

A Chapter 380 Economic Development Grant Agreement with Tech Bloc San Antonio in an amount up to $800,000 over four years for the Techstars Talent Retention Pilot Program.

**SUMMARY:**

Staff is requesting City Council consideration and action related to the following Ordinance approving a Chapter 380 Economic Development Grant Agreement in an amount up to $800,000 with Tech Bloc San Antonio (Tech Bloc) to establish the Techstars Talent Retention Pilot Program, and identifying Tech Bloc as the Program Manager to administer grants of up to $50,000 (dispersed over three years) in order to retain and help grow up to 16 companies graduating from the Techstars Cloud Program.

**BACKGROUND INFORMATION:**

As part of its long-term planning, the City's SA Tomorrow Comprehensive Plan (SA Tomorrow) lays out specific, long-term goals to address key economic challenges in the areas of economic geography and diversity, workforce development, and business attraction and retention. The plan also stresses the role of the City's Targeted Industries, cultural and creative industries, and the need to nurture and support entrepreneurial development and innovation. In addition, the community's economic development strategic plan, Forefront SA, (led by the San Antonio Economic Development Foundation) complements SA Tomorrow by outlining goals and support for greater growth through a number of shared strategies, such as entrepreneurial development.

Specifically, both SA Tomorrow and Forefront SA articulate related goals of increasing household income in San Antonio through growth in employment in the City's Targeted Industries, and stress the central role of innovation, entrepreneurship, and startups in the community's development.

Across the United States, the highest performing large metro economies - as ranked by the Milken Institute - have a common ability to not only attract, but also retain tech entrepreneurs from all over the world that seek venture, angel and other forms of growth capital. This type of capital and investment is associated with the high

-growth, high-wage, high-skill enterprises that account for a disproportionate amount of the job growth in these high performing economies. The increased concentration of like-minded entrepreneurs and the technical and business talent that support them then creates a local culture that is complemented by an environment commonly described as the ecosystem.

San Antonio itself has seen marked growth and improvement in this area over the past few years. From the establishment and growth of Rackspace, the seeding of the McDermott Fund, expansion of cybersecurity missions, to the rise of Geekdom, Café Commerce, the Open Cloud Academy, the Techstars Cloud program, and the expansion of Google Fiber, San Antonio's ecosystem continues to strengthen. The refocus on business downtown, the increase in available lifestyle amenities, and the growth in the City's ecosystem continue to raise interest in San Antonio as a place to live and do business.

Since 2012, the San Antonio Techstars Cloud program has been a key member of the ecosystem. The program has been responsible for attracting tech entrepreneurs from around the globe to San Antonio, and has helped develop nearly 50 companies' ability to secure venture, angel and other forms of growth capital, thereby accelerating their maturity within the cloud technology industry. A part of the larger Techstars network of accelerators, the Techstars Cloud program operates as a "vertical" program focused on companies building cloud technologies, developer platforms and other technical, cloud focused products. Techstars Cloud is located downtown in the Rand Building, is staffed by a full time Managing Director and Project Manager, and has completed four programs in San Antonio, with 44 companies participating since 2012. These 44 companies have raised over $177 million of capital, three (3) have been acquired and 93% are still operating, yet only 8 of the 44 (18%) companies have chosen to remain or relocate their operations to San Antonio.

As a part of the larger Techstars program, Techstars Cloud is key member of one of the country's premier accelerator programs. Founded in 2006 and headquartered in Boulder, Colorado, Techstars LLC is a mentorship -driven technology startup accelerator and global ecosystem that empowers entrepreneurs to bring new technologies to market. Techstars operates a total of 22 accelerator programs in 16 different cities, including 4 international cities. Each Techstars program evaluates approximately 1,000 applications and selects 10-12 technology startup companies to participate in a 13-week accelerator program at each location. Over 700 companies have participated in Techstars and have cumulatively raised over $2.2 billion in capital with ninety percent still operating or acquired.

In order to proactively support the entrepreneurial ecosystem and impact the number of startup and high growth companies choosing to remain in or relocate to San Antonio, the Economic Development Department (EDD) has worked closely with the IT industry to develop a program that addresses community priorities identified in SA Tomorrow and Forefront SA, such as building the entrepreneurial ecosystem and helping to keep talented individuals and their companies in San Antonio.

With the goal of doubling the number of  innovative, talented IT and cloud technology companies (16) opting to remain in San Antonio over the next four years, EDD is recommending City Council approve $200,000 a year over four years ($800,000 total) to the Techstars Talent Retention Pilot Program. The Pilot is a partnership with local technology industry organization, Tech Bloc, which offers increased support to retain successful graduates of the Techstars Cloud program, but who may be considering growing their companies outside of San Antonio.

Tech Bloc will serve as the Program Manager and facilitate the program's prospect identification and selection process in order to retain and grow successful Techstars Cloud graduates. For each Techstars class through 2020, up to four companies will be offered the opportunity to participate in the pilot that will provide up to $50,000 for the commitment of operating within San Antonio. Each company will be issued payment based on an annual agreement to remain in San Antonio, with an initial payment issued once a company has relocated

and established its presence in San Antonio, and then on a reimbursement basis for specific, identified business costs, such as office space, relocation expenses, and hiring and operational expenses. EDD will formally evaluate both the companies and the program as a whole on an annual basis.

Over the next four years, staff anticipates retaining 16 of the cloud technology companies and their principals who have successfully graduated from the program. Companies accepting grants must create at least one (1) net new job, in addition to the initial founders participating in the Techstars program, per year for a total of two (2) net new jobs, which would lead to the creation of at least 32 new highly desirable jobs. Company principals will also need to contribute to building the local ecosystem by participating in tech education based programs within San Antonio, providing two (2) seminars/classes per year to Geekdom members, or other similar events with local ecosystem entities.

The Techstars Talent Retention Pilot Program is designed to increase support for the local ecosystem by working with proven partners and expanding the impact of investment in entrepreneurial development and retention of talent in a Targeted Industry. By securing 16 companies from Techstars Cloud in San Antonio, the pilot program would effectively double the performance over the last 4-years. For those companies that do not remain in San Antonio, the equity investment also presents an opportunity to recruit companies downstream as they begin to scale.

As part of its annual assessment of the Techstars Talent Retention Pilot Program, EDD will brief the Economic and Human Development Committee (EHDC). The briefing will consist of an evaluation of the companies selected through the pilot program, and along with an annual program review and annual renewal and/or modification.

**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 such a program in April 2005, and maintains such a program today.

**ALTERNATIVES:**

Council could choose not to approve this Ordinance and the associated funding for the Techstars Talent Retention Pilot Program, which could impact the local ecosystem's ability to retain the program's successful graduates. Staff does not recommend this alternative, as these projects present an important opportunity for the City to demonstrate its commitment to investing in and supporting the development of a viable innovation and entrepreneurial ecosystem, as well as a commitment to attracting and retaining promising startup companies in the Targeted Industry of IT and Cybersecurity.

**FISCAL IMPACT:**

Funding is available in the EDIF to provide the $800,000 identified for the establishment of the Techstars Talent Retention Pilot Program.

**RECOMMENDATION:**

Staff recommends approval of an Ordinance authorizing an up to $800,000 Chapter 380 Economic Development Grant Agreement with Tech Bloc to establish and administer, as the Program Manager, the Techstars Talent Retention Pilot Program.