City of San Antonio

Agenda Memorandum

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Agenda Date: 2/14/2019

In Control: City Council A Session

DEPARTMENT: Economic Development

DEPARTMENT HEAD: Rene Dominguez

COUNCIL DISTRICTS IMPACTED: 2

SUBJECT:

Texas Research and Technology Foundation's establishment of the VelocityTX bio and life sciences innovation center and the redevelopment of the Merchant's Ice complex.

SUMMARY:

Staff is requesting City Council approval of two items relating to the redevelopment of the Merchant's Ice complex and the establishment of the VelocityTX bio and life sciences innovation center:

(A) A performance-based Chapter 380 EDIF Grant Agreement with TRTF valued at up to $750,000 over five years for the development of VelocityTX, a nonprofit organization dedicated to attracting companies in the tech, bio, and life sciences industries, stimulating company formation and research, leveraging local industry assets, and creating high-wage, high-skill jobs.

(B) Staff is also seeking City Council approval for a TIRZ Development Agreement in the amount of up to $5 million over seven years to offset the cost of public improvements made to the Merchant's Ice complex located at 1304 and 1305 East Houston St in Council District 2.

BACKGROUND INFORMATION:

Founded in 1984, the Texas Research and Technology Foundation (TRTF) is a non-profit organization that focuses on life science and technology-based economic development in San Antonio, with an emphasis on emerging technologies and commercialization. The organization owns and operates the Texas Research Park (TRP), located in the City's Extraterritorial Jurisdiction (ETJ) in west Bexar County, and since 2010, has

provided technical assistance to bio and tech companies and has invested in startup companies through the McDermott Pre-Seed Fund. In recent years, TRTF has been monetizing the remaining TRP acreage and repurposing proceeds to develop a planned community incubator/ accelerator for emerging tech companies.

In August 2017, TRTF acquired the 4-acre Merchant's Ice complex at 1305 E. Houston Street and the surface lot across the street at 1304 E. Houston Street on the City's near eastside. The Merchant's Ice complex was built between 1909 and 1957 and has sat vacant and underutilized for nearly 20 years. TRTF also established VelocityTX in 2017 as the organization's innovation, commercialization, and entrepreneurial development-focused subsidiary. TRTF intends to establish a life science and technology-focused Innovation District at the Merchant's Ice property. VelocityTX's programs and operations will further the organization's goals of attracting companies in the tech, bio, and life sciences industries, stimulating company formation and research, leveraging local industry and institutional assets, and creating high-wage, high-skill jobs.

Within the Merchant's Ice property, TRTF intends to build an incubator and innovation center to serve multiple target industries, with a focus on the bio and life sciences industry as well as other emerging technologies, and provide a broad array of resources to entrepreneurs. TRTF estimates that when completed, the Innovation District will support approximately 665 jobs with combined wages and benefits of over $78 million annually, and TRTF intends to recruit on the eastside for all available positions. The four-phase redevelopment effort is anticipated to span ten years for a total investment of approximately $227 million.

As a targeted industry, the bio and healthcare industry is a cornerstone of the community's economy, and a leading driver of local economic activity. The Chamber of Commerce's *2018 Economic Impact Study* found that the industry contributed an economic impact of over $40 billion in 2017, with over $9.8 billion in wages paid to over 180 thousand employees. The report found that more than one in six San Antonio employees work in the bio and healthcare industry.

The community has a set of unique industry assets, from leading universities doing cutting edge research to private institutions and companies tackling a variety of healthcare challenges and needs. San Antonio is also the home of military medicine, with the U.S. Army Institute of Surgical Research (USAISR), U.S. Air Force 59th Medical Wing, and Naval Medical Research Unit San Antonio (NAMRU) all conducting advanced research and clinical work around combat casualty care. Each of these industry leaders and assets produce innovative ideas, medical technologies, and healthcare solutions, and all would benefit from the increased promotion of commercialization and entrepreneurship at VelocityTX.

The project presents an excellent opportunity to secure the presence of an innovative life sciences tenant and to develop a bio and life sciences business incubator on the east side that will be available to the community. The project will also add new resources and opportunities aimed at increasing intellectual property development and technology commercialization, and serve as a hub aimed at spurring greater innovation in the life sciences and technology industries.

The redevelopment of the site is proposed to occur in four phases over ten years. Phase 1 is a $14.2 million redevelopment of the existing structures on the northeast portion of the site into commercial lab space to accommodate their anchor tenant and the Velocity Incubator and community facility. Site work has commenced on this phase, and TRTF will host an official groundbreaking event on February 19, 2019 with anticipated completion by the end of the year. Phase 2 is a $9.6 million development of a three-story "Collision Center" that will include office space and a food hall available to the public. Construction is anticipated to begin in early 2020 and be complete within a year. Phase 3 is a $172 million redevelopment to include the construction of a Military Medical Research Facility, the renovation of the historic multi-story abandoned structure into a hotel that can accommodate government rates, and a 400-space parking garage at 1304 E Houston St across from the Merchant's Ice site. Phase 4 will include the redevelopment of the existing non-historic structure on

the southeast portion of the site into a 6-story office and community facility. Construction for Phases 3 and 4 is anticipated to commence in 2022 and complete by 2028.

TRTF collaborated with Dr. Steve Nivin to prepare an economic analysis of the innovation center to estimate the direct impact from the incubator and redevelopment, the indirect impacts resulting from business-to-business transactions, and the induced impacts of increased spending at local businesses. The impact is estimated at nearly $737 million in overall impact to the community over five years. The analysis also included an estimated fiscal impact of nearly $23 million to the State and City during the same period.

TRTF's public outreach efforts have been extensive, meeting with over 30 community organizations in the past year including community development groups, neighborhood groups, area schools, chambers, and research institutions. The project has been met with broad-based support.

The project falls in line with several of the key long-term economic goals laid out in the City's *SA Tomorrow Comprehensive Plan*, as well as those presented in *Forefront SA*, the community's economic development strategic plan led by the San Antonio Economic Development Foundation (SAEDF). Such goals include the creation of high-wage, high-skill jobs, and support for the continued growth of the City's targeted industries and entrepreneurship.

ISSUE:

The buildings on the Merchant's Ice site have been vacant and underutilized for nearly 20 years, requiring significant public improvements to successfully redevelop the site into a modern bio and life sciences business incubator, innovation center, and innovation district. The Inner City TIRZ Board members have been briefed on the project, and a board meeting is scheduled for February 27, 2019, for consideration of the Development Agreement in the amount of up to $5 million over seven years to address public infrastructure and improvements such as demolition, perimeter sidewalks, curbing, street lighting, landscaping, entry walkways, exterior façade reconstruction, exterior shell finishing, ADA-compliant elevators associated with the redevelopment, and other improvements. The final contract is subject to Inner City TIRZ board approval prior to contract execution.

Staff is also recommending a performance-based grant in the amount of up to $150,000 each year for five years totaling $750,000 to augment programming and VelocityTX business activities related to startup support including providing lab access and incubator space for life science startup companies, as well as office and meeting space, mentoring, coaching, training, and networking opportunities for startup bio and life science companies. Additionally, VelocityTX will be required to retain seven jobs at the project site and host a Workforce Development Summit for Eastside businesses and entrepreneurs in partnership with development agencies, area schools, and local universities to help develop capacity in this target industry.

The first phase of development includes an investment of approximately $14.2 million to house a life sciences anchor tenant and build the bio and life science business incubator. Construction began in January 2019 and is anticipated to be complete by the end of 2019. In late October, a City development fee waiver was approved for this project valued at approximately $606,000 through the Inner City Reinvestment Infill Policy (ICRIP) Fee Waiver Program, administered by the Center City Development and Operations Department.

ALTERNATIVES:

City Council could choose to not approve the Ordinances authorizing the agreements, which would hinder the

ability of TRTF to deliver on the project, thereby jeopardizing the ability for a new bioscience anchor tenant to relocate on the near eastside, the development of the Innovation District, and leaving the buildings unimproved and vacant.

FISCAL IMPACT:

If approved, the first Ordinance authorizes a performance-based Chapter 380 EDIF Grant Agreement with TRTF in the amount of $750,000 over five years. Funds for this Grant Agreement are available from the FY 2019 Adopted Budget for EDIF.

If approved, the second Ordinance authorizes execution of a Development Agreement between the City of San Antonio, Inner City TIRZ Board of Directors, and TRTF in an amount not to exceed $5,000,000. Projects funded through the Inner City TIRZ are paid solely from the tax increment generated and do not impact the City's General Fund. The Development Agreement is subject to approval by the Inner City TIRZ Board of Directors.

RECOMMENDATION:

Staff recommends approval of the following:

A. An Ordinance authorizing the City to enter into a Chapter 380 Economic Development Grant Agreement with the Texas Research and Technology Foundation in the amount of up to $150,000 each year for five years totaling $750,000.

B. An Ordinance authorizing the City and the Inner City TIRZ Board to enter into an agreement with the Texas Research and Technology Foundation in the amount of $5 million to offset the cost of public improvements made at the Merchant's Ice site.