

MINUTES OF SPECIAL MEETING (MICRORETREAT) OF THE HONORABLE MAYOR AND CITY COUNCIL OF THE CITY OF CHANDLER, ARIZONA, held in the Council Conference Room, 88 E. Chicago Street, on Monday, April 13, 2015.

THE MEETING WAS CALLED TO ORDER BY MAYOR TIBSHRAENY AT 5:02 p.m.

The following members were present:	Jay Tibshraeny	Mayor
	Kevin Hartke	Vice-Mayor
	Rick Heumann	Councilmember
	Nora Ellen	Councilmember
	René Lopez	Councilmember
	Jack Sellers	Councilmember
	Terry Roe	Councilmember

Also in attendance: Rich Dlugas, City Manager; Marsha Reed, Assistant City Manager; Nachie Marquez, Assistant City Manager; Kay Bigelow, City Attorney; Marla Paddock, City Clerk; Marian Norris, Asst. to the City Manager; David Bigos, Mayor & City Council Asst.

INNOVATIONS INCUBATOR

MS. MARIAN NORRIS introduced Russ Yelton, Yelton and Associates, LLC hired as the consultant for this project. Mr. Yelton introduced Ken Hunt.

MR. YELTON said a study was conducted in three phases. The first phase was to compare the actual operations of the program to benchmarks using National Business Incubation Association's (NBIA) Principles of Effective Business Incubation; and the NBIA's and Tennessee Valley Authority's rubric for assessing the effectiveness of business incubators in ten different practice domains. They also interviewed potential users and also stakeholders and current users to see what the value was. Additionally, a suggested action moving toward updating the business plan.

Mr. Yelton said the results showed insufficient staffing of the building to provide day to day assistance to the companies to oversee their needs and make sure they were connected into the greater community. The glaring issue was the program was not collecting financial data from the companies to explain the financial impact the companies were having with job creation, assets and the investment they would bring into the community. He noted that is a key metric that every program needs to have. Additionally, investment needed to increase either by the city, the landlord or someone to ensure management was actually there to oversee day to day operations; or the whole scenario needed to change. The business plan needed updating and setting entrance and exit criteria, performance accounting and quarterly benchmark goals for the companies was also lacking. He noted the recommendation of additional documents for affiliate companies that may not be in the space, but need the services.

Mr. Ken Hunt said in Phase 2, face to face interviews were accomplished with the Council. The same survey instrument was given to external stakeholders such as Intel, ASU, UofA. Another survey was given to the current clients to determine specific training needs, level of use for other programs, and space needs.

Mr. Hunt said there was clear support for the continuation of the program from both internal and external stakeholders. He reviewed the findings as outlined in the presentation:

- There is a definite need for additional resources and programming for incubated companies.
- You must define “break even” to determine long-term success
- The current financial model must be redefined and additional funding and opportunities explored.
- The program must have day-to day management
- Incubated companies must agree to routine counseling, benchmarks, regular business plan review, and mandatory reporting of financials. This should be implemented as new leases occur.
- A comprehensive intake process and specific exit criteria must be established.
- An advisory board must be established (recommended 8-12 members), to work with the Executive Director to guide the Program. A selection committee (recommended 4 members and the Director) should be established to perform the intake process and review the clients applying to the program and decide when the companies would graduate.
- A mentor’s group should be established.
- An affiliate program should be established.
- The business plan for Innovations should be revised with both full and part-time management scenarios if the City wishes to continue the program.

Mr. Yelton said several scenarios were developed. One is where full time management. Second one is part time management. The third scenario is a virtual program. It does not have a physical building, but would provide services that an incubator does.

Mr. Yelton reviewed:

30-day Operational Plan/Benchmarks:

Address staffing, hold initial company meetings as the companies that came in did not come in with expectations of participation in a program. They could opt in or when their lease ends, graduate them out. This may cause a dip in occupancy but that is a necessary requirement to get everyone participating. During the initial meetings set the requirements for participating companies such as open book accounting, quarterly benchmark reviews, monthly reviews with each client. Begin Advisory Board Development and Selection Committee, and align resources such as Gangplank, Tech Shop and Innovations with City Vision.

60 day Operational Plan/Benchmarks:

Seek external sponsorships (corporate sponsors, Community Reinvestment Act funding), establish a mentor’s group (people to establish at least 2 hours a month of pro bono time), begin monthly lunch and learns, launch rebranding, implement Affiliate Program, other external programs, relationships with Institutes of Higher Learning, and finalize Advisory Board and Selection Committee.

90 day operational Plan/Benchmarks:

Report out progress to Council, expand media coverage, begin speaker series, Business Pitch Competition, Tech Demo Day, Begin Shadowing/Executive in Residence program, and perform quarterly benchmark review of incubated companies.

Mr. Yelton said consideration should be given to the following success criteria: The number of tenant clients within the incubator, evaluation of services by incubator clients through a semi-annual survey, growth in the number of applicants, the number of companies that successful graduate (term of about 5 years, especially if any product is FDA related), the number of jobs created on an annual basis within the incubator, the percentage of graduates that stay in the community, (NBIA reports 5% of all incubated companies remain in the community they are incubated in, but the percentage is higher for communities that actual facilitate investment into the companies), calculation of incremental tax revenue, (last report in Flagstaff they invested .5 million a year into the program and the university calculated they received \$620,000 from direct taxes from the companies), have third party come in and validate what is happening. Increasing the level of community support for incubated business, and review the number of patents, revenues and capital.

Benefits of Continuing an Incubation Program:

80% of companies that start in an incubator after 5 years are still in business. Reduced barriers to entry, network and mentoring, increased visibility and stature.

Benefits to the Community: job creation, enhanced image, increased entrepreneurialism, business development, and increased tax revenue

Mr. Yelton displayed information showing best practices of successful incubation programs and how Innovations ranks.

He stated they were asked to look at priorities if a \$125,000 budget allotment was made. He said the priority of staffing of at least a part-time basis, working with the companies, connecting resources, creating programming. He said \$125,000 would probably allow for part-time management. Additionally, a recommendation to seek grant and other types of external funding to increase staffing and menus of services to incubated clients.

He reviewed the Charge to Council: develop a collective definition of "break even" using the financials, benchmarks, and success criteria provided in the plan. Determine what success means to you.

Councilmember Sellers said the input he has had from folks at ACA would suggest that one item very needed in these types of operations is web lab space. Mr. Yelton said there is a fair amount of wet lab space being used now. He noted that one of the things they liked was "shared bench" for those who don't need an entire lab space. It is also actively advertising what Chandler has available.

Mr. Yelton explained "CORE lab" which is shared equipment that companies need access to on a limited basis. He explained they started AZCorelabs.com a few years ago to connect core labs across the state and is also a great way to partner with universities.

Councilmember Heumann asked the time frame for hiring. Mr. Yelton said he would expect the city to issue an Request for Proposals and go through normal city processes. The 30 day window would begin when someone is on board.

Councilmember Heumann asked if the city was receiving the appropriate amount of rent on the wet lab space or just an average. Ms. Norris said it's an average. Mr. Yelton has been involved in programs where that is a graduated rent. That is part of looking at the financials.

In response to a questions from Councilmember Ellen, Mr. Yelton said the Director could be an organization that provides incubation related services, or could be an individual that has incubation experience. He felt it was important for the person to know incubation. He gave the opinion it would be important for the person to get the program started, get the companies engaged, create that environment, streamline the application process, and identify grant availability.

In response to a question from Councilmember Sellers, Mr. Yelton said part time staffing will get a piece of the programming started, but their recommendation to do it correct is full time staffing.

Councilmember Heumann asked what is different in the plan than what Council was updated on. Mr. Yelton said identifying the actions needing to be taken and a progress update. In addition, the day to day management was lost. The city's role has migrated into being a landlord.

Councilmember Heumann asked what oversight measures are in place today, different than 5 or 6 years ago. Mr. Dlugas replied the discussion occurred on what would be needed to have a successfully incubator, but for many reasons it never developed. By putting money in the budget for next year, there would be dedicated staff to oversee and develop the program. The desire would be to work on a Request for Proposal immediately to facilitate staffing in order to provide Council with additional information by next summer to make a determination on the lease for the facility.

Councilmember Ellen asked who would oversee the Innovations management. Mr. Dlugas said he would recommend the person or company report to the Economic Development Director Micah Miranda as he has experience with incubators. Updates to Council would also occur. Mr. Yelton said the city would not realize its full return on investment without full time oversight of this.

Adjournment: The meeting was adjourned at approximately 5:43 p.m.

ATTEST: _____
City Clerk Mayor

Approved: May 14, 2015

CERTIFICATION

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the special meeting of the City Council of Chandler, Arizona, held on the 13th day of April, 2015. I further certify that the meeting was duly called and held and that a quorum was present.

DATED this _____ day of May 2015.

City Clerk