

**CITY OF EL PASO, TEXAS
AGENDA ITEM
DEPARTMENT HEAD'S SUMMARY FORM**

DEPARTMENT: Planning and Economic Development

AGENDA DATE: May 31, 2011

CONTACT PERSON/PHONE: Ernesto Gamboa, Deputy Director 541-4670

DISTRICT(S) AFFECTED: All

SUBJECT:

Discussion and action on the Hub of Human Innovation Inc. grant funding request for a Hub and Clean Energy Incubator program, a Proof of Concept program, a Certification Center and Odyssey program as detailed in the Hub of Innovation's Proposal to the City of El Paso for activities over a four year period in the amount of \$2.035 Million Dollars.

[Planning and Economic Development, Ernesto Gamboa, (915) 541-4670]

BACKGROUND / DISCUSSION:

This item is to approve funding for programs that encourage entrepreneurship, innovation and technology in order to create higher paying jobs within the city. The programs detailed in the Hub of Innovation's Proposal to the City of El Paso are in the need of secure funding to help maximize the impact they will bring to the community as measured by new company formation and job creation that will help drive economic development in the El Paso region.

PRIOR COUNCIL ACTION:

N/A

AMOUNT AND SOURCE OF FUNDING:

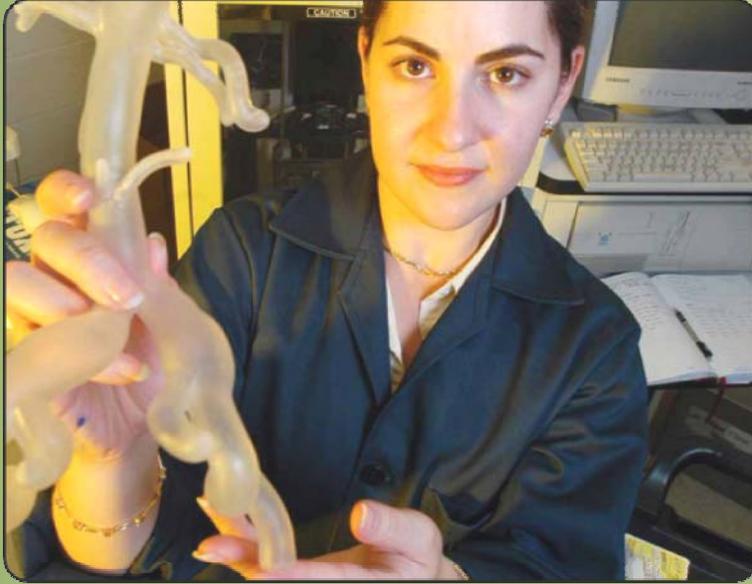
2.305 Million Dollars over 4 years; restricted fund as described in Ordinance 17460

BOARD / COMMISSION ACTION:

N/A

*****REQUIRED AUTHORIZATION*****

DEPARTMENT HEAD: _____



Proposal to the City of El Paso Economic Development

Economic Development Incentive Policy for "Energy-related, Targeted Growth and Investment, and/or Technology Development Projects"

BY THE HUB OF HUMAN INNOVATION, INC.

500 W. OVERLAND AVE., SUITE 230, EL PASO, TEXAS 79901

MAY 25, 2011

Contact: Gary E. Williams; gewilliams@utep.edu

EXECUTIVE SUMMARY

Business incubation creates wealth and improves community and national competitiveness. Business incubators help build healthy, lasting firms for a low cost while providing communities with significantly more jobs (up to 20 times more) at far less cost than other public works. A market analysis shows that the 5 year success rate of incubated new businesses is 87% compared to 20% for non-incubated ones. And approximately 84% of business incubator graduates conduct business within 20 miles of the incubators.

Two new-to-the-region incubators have been established in El Paso. The Technology Incubator--The Hub of Human Innovation--was established in December 2010 by a partnership consisting of UTEP's Center for Research Entrepreneurship and Innovative Enterprises (CREIE), the Bi-National Sustainability Laboratory (BNSL), the City of El Paso Planning and Economic Development Department, Innovate El Paso, the Paso del Norte Group, the U.S.-Mexico Foundation for Science Border Office (FUMEC), and the Medical Center of the Americas (MCA) Foundation to serve the El Paso/West Texas, Southern New Mexico, Ciudad Juarez, Mexico and Chihuahua, Mexico region. A Clean Energy Incubator (CEI) was funded for \$200k through the Austin Clean Energy Incubator and also established to accelerate the formation of both start-up companies and other emerging and existing companies that are focusing on Clean Energy products and services. The CEI is part of The Hub of Human Innovation and is located at The Hub facility in downtown El Paso.

Other entrepreneurial activities have also been identified that can aid the acceleration of new start-ups to be formed and existing and emerging companies to grow. A Proof-of-Concept program—the Texas Ignition Fund (TIF)--funded by the University of Texas System has been shown to have a very positive impact on start-up creation and an idea for a Certification Center for testing, evaluating and certifying new renewable energy products requires a business plan before decisions can be made on how to maximize the value creation. Furthermore, a 30-week applied entrepreneurship program for women called the Odyssey Program has been launched. The program teaches women how to evaluate and start high growth technology-based companies. Finally, the MCA Foundation has funding needs to accelerate the completion of the business strategy and create a new bioscience research facility in downtown El Paso. It is requested that the City Council approve the request to set aside the appropriate funds out of the City of El Paso Economic Development Incentive Policy for “Energy-Related, Targeted Growth and Investment, and/or Technology Development Projects” to fund these important initiatives. These activities will complement the attraction and retention economic development activities already underway.

INTRODUCTION:

A Paso Del Norte Organization for Economic Co-operation and Development (OECD) study underscored the region's need for a Technology Incubator. *"The major challenge for the Paso del Norte Region and its higher education institutions is to develop effective human capital and innovation systems which operate across the bi-national, tri-state region."* A new regional model is needed which will focus on entrepreneurs, innovation and technology in order to create higher paying jobs and break the cycle of poverty and decline in the region.

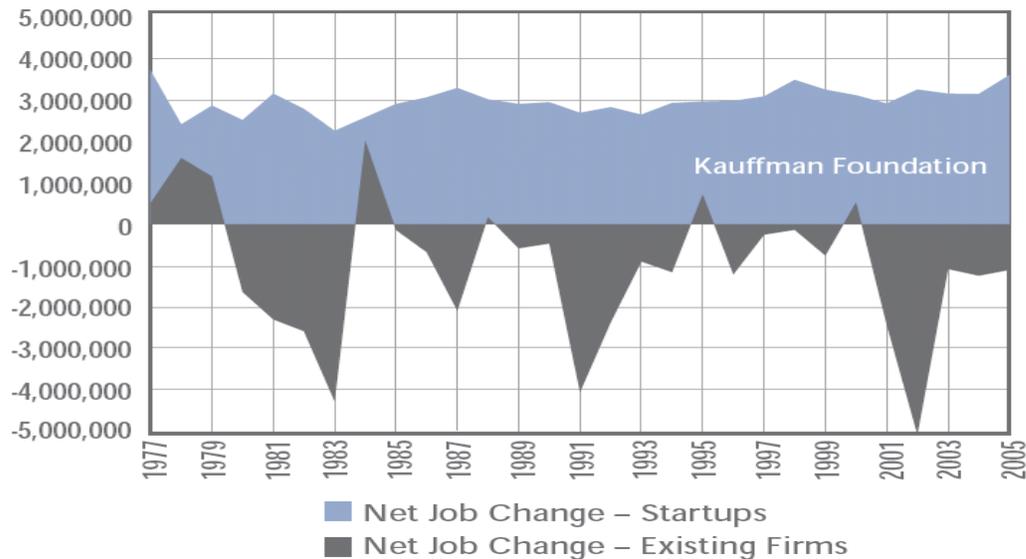
To address this unmet need, a regional partnership consisting of The University of Texas at El Paso's Center for Research Entrepreneurship and Innovative Enterprises (CREIE), the Bi-National Sustainability Laboratory (BNSL), the City of El Paso Planning and Economic Development Department, Innovate El Paso, the Paso del Norte Group, the U.S.-Mexico Foundation for Science Border Office (FUMEC), and the Medical Center of the Americas (MCA) Foundation established a Technology Incubator, named the Hub of Human Innovation (The Hub for short) to serve the El Paso/West Texas, Southern New Mexico, Ciudad Juarez, Mexico and Chihuahua, Mexico region. The Hub was established in December 2010 to provide incubation and related business-development services to appropriate emerging technology and high growth companies. This was done as part of the effort to transform the culture of the region to one of innovation and entrepreneurship, to help drive economic development and to create jobs. The Hub is located in downtown El Paso at 500 W. Overland Ave., Suite 230. The Hub opened its doors on May 5, 2011 and is currently accepting clients and anchor tenants.

A technology incubator will encourage regional economic development in the area by providing the support structure needed to nurture ideas into self-sustaining companies. It will establish a regional resource center to pool resources and gain critical mass while providing an opportunity to align incentives for a sustained period of time. Private funding sources will be given a chance to invest in "ideas" rather than just real estate. As companies graduate from the Incubator they will provide support for the incubation facilities along with seed funds for new ventures. Target companies are participating principally in Clean Energy, Biomedical, Border Security/Defense, Advanced Manufacturing and industries.

In addition, a \$200k Grant was awarded through the Clean Energy Incubator of Austin, Texas through the Texas State Conservation Office (SECO) to establish a Clean Energy Incubator in the El Paso region. The *Paso del Norte Clean Energy Incubator* program will enable the Paso del Norte region to knit together the preexisting potential of massive regional research programs in clean energy, current entrepreneurial support infrastructure, and the enormous opportunity pull represented by two major sectors: the maquiladora program in Chihuahua, Mexico and the military's renewable energy initiative centered at Fort Bliss in El Paso, providing a local demand-pull for global Department of Defense demand. The Clean Energy Incubator (CEI) will facilitate the identification of technologies for potential commercialization, identification of

companies within and outside the region that will partner with the CEI to commercialize technologies, creation of start-up companies within the region, investment in the start-up companies, creation of jobs in the clean-energy industry and an expansion of the clean-energy ecosystem. The Clean Energy Incubator program is now part of the Hub. The figure below illustrates the impact start-up companies have on job creation.

Startups Create Most New Net Jobs in the United States



Source: Business Dynamics Statistics, Tim Kane

FINANCING REQUEST FOR INCUBATORS:

Currently, financing is being sought to capitalize The Hub and the Clean Energy Incubator program within The Hub beyond the initial investment (estimated at \$315k) that was principally provided by the BNSL, UTEP, and Innovate El Paso for the "soft" launch of both Incubators on May 5, 2011. This is in addition to the \$200k grant for the Clean Energy Incubator program awarded by SECO. As shown in Table 1, beginning in 2012 a total of almost \$800k annually will be required to operate both The Hub and the CEI program. It is requested that funding be awarded from the City of El Paso Economic Development Incentive Policy for "Energy-Related, Targeted Growth and Investment, and/or Technology Development Projects" for the four years beginning June 2011--the amounts being \$380k, \$325k, \$300k, and \$250k, respectively, for a total of \$1,255,000. As shown in Table 1, the balance of the funding or \$1,720,000 will be generated through grants, Hub income and private contributions. In addition other expenses include market reports, targeted software, topic expert consultants, intellectual property costs, workshops, training, travel, rent and miscellaneous supplies and equipment. The funding would be provided to The Hub of Human Innovation, Inc.

Table 1. THE HUB AND CLEAN ENERGY INCUBATOR PROGRAM CASH-FLOW STATEMENT					
	2011/2012	2012/2013	2013/2014	2014/2015	
Months	12	12	12	12	Total
CLEAN ENERGY INCUBATOR PROGRAM					
Director Salary	\$115,000	\$117,000	\$120,000	\$122,000	\$474,000
Fringes	\$29,900	\$30,420	\$31,200	\$31,720	\$123,240
Travel	\$5,250	\$4,000	\$4,000	\$5,000	\$18,250
Sub-total	\$150,150	\$151,420	\$155,200	\$158,720	\$615,490
Operational Costs					
Topic Experts/patent support	\$61,000	\$61,000	\$61,000	\$61,000	\$244,000
Supplies/Misc.	\$14,600	\$10,000	\$12,000	\$14,000	\$50,600
Sub-total	\$197,100	\$87,500	\$89,500	\$91,500	\$465,600
CEI Total	\$347,250	\$238,920	\$244,700	\$250,220	\$1,081,090
THE HUB OF HUMAN INNOVATION					
Executive Director	\$120,000	\$122,000	\$125,000	\$127,000	\$494,000
Business Specialists	\$65,000	\$65,000	\$67,000	\$100,500	\$297,500
Fringes	\$46,250	\$46,750	\$48,000	\$56,875	\$197,875
Administrative Costs	\$66,200	\$58,750	\$57,000	\$67,500	\$249,450
Marketing programs	\$45,000	\$47,500	\$42,500	\$52,500	\$187,500
Education and Training	\$66,000	\$76,000	\$76,000	\$76,000	\$294,000
Travel	\$15,000	\$16,000	\$16,000	\$22,000	\$69,000
Build-out of offices	\$5,000	\$8,000	\$43,000	\$47,000	\$103,000
Sub-total	\$428,450	\$440,000	\$474,500	\$549,375	\$1,892,325
GRAND TOTAL	\$775,700	\$678,920	\$719,200	\$799,595	\$2,973,415
CEI Grant Income	\$130,905	\$69,095			\$200,000
Other Grants	\$100,000	\$60,000	\$120,000	\$100,000	\$380,000
Income from Incubator	\$65,000	\$100,000	\$150,000	\$200,000	\$515,000
Private Contributions	\$100,000	\$125,000	\$150,000	\$250,000	\$625,000
sub-total income	\$395,905	\$354,095	\$420,000	\$550,000	\$1,720,000
City of El Paso Incentive Policy	\$380,000	\$325,000	\$300,000	\$250,000	\$1,255,000
sub-total	\$775,905	\$679,095	\$720,000	\$800,000	\$4,695,000
GAP	\$205	\$175	\$800	\$405	\$1,585

JOB CREATION AND ECONOMIC DEVELOPMENT:

As shown in Table 2, it is estimated that there will be approximately 49 companies and 421 jobs created by 2014/2015 with average wages of \$52.7k. In addition The Hub is located in the downtown area and will be a catalyst for an increase in the use of restaurants and other services in the area. It is projected that by 2014/2015 time period, 134 jobs will be created in the Clean Energy sector and 92 jobs will be created in the Biomedical sector. This represents over half the jobs created in total. A preliminary economic Impact study for the clean energy and biomedical sectors done by the Institute for Policy and Economic Development at UTEP shows that the total economic impact of these sectors over the period 2011-2020 is \$2.1 billion.

Table 2. Total Incubator Job Creation Impact

Franchise Fee Investment	Year	Companies Formed, Cumulative	Jobs Created, Cumulative	Average Wages
\$380k	2011-12	9	32	\$64.3k
\$325k	2012-13	22	100	\$61.4k
\$300k	2013-14	35	215	\$57.2k
\$250k	2014-15	51	421	\$52.7k

NEW PRODUCT DEVELOPMENTS

It is also estimated that there will be a total of 4 additional new technologies that will be under development or introduced to the market by the 2014/2015 time period. These technologies will come out of The Hub and the Clean Energy Incubator program activities and will be licensed to local existing companies that are participating in The Hub's partnership program.

PROOF OF CONCEPT:

An important part of the incubation activity is the availability of proof-of-concept funds that can be used to accomplish key experiments, analytical testing, market research and other factors that influence the ability to start-up a company or for that matter introduce a new technology-based product or service to the marketplace. As shown in the example below, the University of Texas (UT) System invested \$2.0 million in 45 awards that resulted in at least 9 start-ups--a 20% success rate.

EXAMPLE OF SUCCESSFUL PROOF-OF-CONCEPT PROGRAM AT UT SYSTEM

Texas Ignition Fund (TIF) Activity

5 funding rounds

123 proof-of-concept proposals

13 Universities: UTEP received 3 awards (biomedical; clean energy; advanced manufacturing)

45 awards—average ca. \$45k

Total: \$2.0 million

Results

9 start-ups at 7 UT institutions

3 alternative energy

5 medical breakthroughs

1 non-manufacturing process (nano-fibers)

At least 6 more start-ups in the works

The success of this program illustrates the strategic importance in having Proof-of-Concept funding available to aid the entrepreneur who is short on cash to carry-out targeted work to determine the viability of his technology idea. Recent feedback from the consultants that are helping the MCA Foundation develop a business plan for a new biosciences research building reported that the single biggest success factor in biomedical activities in Baton Rouge, LA, Memphis, TN and Provo, UT was the availability of Proof-of-Concept funding. It is recommended that \$150k/year of funding from the Economic Development Incentive Policy for “Energy-Related, Targeted Growth and Investment, and/or Technology Development Projects” be set aside for investing in Proof-of-Concept activities that will increase the number of start-up companies. The City of El Paso's Economic Development Department would be managing the Proof-of-Concept activities including arranging for vetting of the proposals and keeping a track of progress being made in the specific concept activities carried out by the funded companies.

There are also a number of other entrepreneurial-related activities that are currently being investigated or implemented in the El Paso region for which funding can lead to an increased level of commercialization activities. One is the Certification Center for renewable/alternative energy products and services that are being developed and need to be tested and "certified" for performance. Initial work has been done to investigate the potential, but more funding is required to develop a business plan and determine which is the best path to commercialization. If successful, the concept would lead to the development of a Certification Center for which at least 10 new jobs would be created. It is estimated that funding of \$40k is needed to develop a business plan so as to enable a go/go no decision. The Paso del Norte Alternative Energy Task Force, co-chaired by Mark Walker, would be responsible for submitting a specific proposal for this Certification Center activity.

Another activity underway in the community is an innovative program that is geared towards training the female entrepreneur to be able to identify, assess, and commercialize technology-based products and services. The Odyssey Program (which is being sponsored by Innovate El Paso and EPCC) was just introduced to the region and the initial class has 21 women that are participating in the 8 month long educational and practical program. The anticipated result is that at the end of the training period, the individual entrepreneur will have identified licensable technology from a variety of sources in the region such as UTEP and NMSU, develop a business plan, find investment money and launch the business. This program is costing about \$130k in this the inaugural year. The ability to continue to fund this program is vital for expanding the number of people in this region that have the skills, training and aptitude for bringing technology-based innovation to the market place. As a reference point the Odyssey Program in San Marcos, TX had 16 out of 30 women who started businesses in the first year. Out of the 16 women, 3 applied for and 2 received grants from the Texas Emerging Technology Fund (TETF). The 3rd received funding elsewhere. Innovate El Paso--Eli Velasquez, Executive Director--would be responsible for submitting a specific proposal for the Odyssey Program .

A summary of annual funding for these innovation-related activities is shown in Table 3.

Table 3. Technology Innovation Related Activities. Suggested Annual Funding Levels

Year	The Hub and Clean Energy Incubator Program	Proof of Concept Program	Certification Center/Odyssey Program/Other	Total
2011/12	\$380k	\$150k	\$150k	\$680k
2012/13	\$325k	\$150k	\$100k	\$575k
2013/14	\$300k	\$150k	\$100k	\$550k
2014/15	\$250k	\$150k	\$100k	\$500k

Metrics have been developed so that progress can be tracked in each of the key activities. Table 4 illustrates what will be measured.

Table 4. Technology Innovation Related Activities. Suggested Metrics

Year	Incubator Jobs Created, Cumulative	Proof of Concepts Approved	Proof of Concept, # of Companies Launched	Odyssey Program, # of Participants	Odyssey Program, # of Companies Launched	Certification Center, Business Plan Finished
2011/2012	32	6	1	15	3	6 months after start
2012/2013	100	6	1	25	5	
2013/2014	215	6	1	30	6	
2014/2015	420	6	1	30	6	

SUMMARY:

There has been a great deal of progress made in the last two years to increase the amount of entrepreneurial activities in El Paso. These activities have set the platforms in place for a new regional model that was needed with a focus on entrepreneurs, innovation and technology in order to create higher paying jobs and break the cycle of poverty and decline in the region. A number of these programs are mentioned in this proposal and include The Hub of Human Innovation and the Clean Energy Incubator program, the Proof-of-Concept program, the Certification Center, the Odyssey Program and the MCA Foundation strategy. These programs are in the need of secure funding to help maximize the impact they will bring to our community as measured by new company formation and job creation that will help drive economic development in the El Paso region. These activities, in concert with strong attraction and retention efforts, will forge a new way forward. It is recommended that these activities be partially funded out of the City of El Paso Economic Development Incentive Policy for “Energy-Related, Targeted Growth and Investment, and/or Technology Development Projects.” A specific proposal for The Hub and Clean Energy Incubator programs is included in this document.