



COUNCIL AGENDA: 12-13-11
ITEM: 9.1

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Dennis Hawkins, CMC
City Clerk

SUBJECT: SEE BELOW

DATE: 11-30-11

**SUBJECT: TRANSITION PLAN FOR THE SAN JOSÉ INCUBATOR PROGRAMS
AND ENTREPRENEUR CENTER**

RECOMMENDATION

As recommended by the Community and Economic Development Committee on November 28, 2011 and outlined in the attached memo previously submitted to the Community and Economic Development Committee; accept the Transition Plan for the San José Incubator Programs and Entrepreneur Center



Memorandum

TO: COMMUNITY AND ECONOMIC
DEVELOPMENT COMMITTEE

FROM: Richard Keit
Managing Director

SUBJECT: SAN JOSE INCUBATOR AND
ENTREPRENEUR CENTER
TRANSITION PLAN

DATE: November 14, 2011

Approved

Date

Nov. 14, 2011

COUNCIL DISTRICT: # 2 & 3

RECOMMENDATION

Review the Transition Plan for the San Jose Incubator Programs and Entrepreneur Center and recommend the Transition Plan be adopted by the Redevelopment Agency Board (Agency).

BACKGROUND

At the August 24, 2011 Rules and Open Government Committee meeting, the Mayor recommended that the Community and Economic Development Committee direct staff to prepare a transition plan for the incubator programs that would eliminate the RDA's rental subsidy for the incubator programs that San Jose State University Research Foundation (SJSURF) operates in two buildings that are subleased from RDA. Further direction was given for the Transition Plan to be reviewed by the Community and Economic Development (CED) Committee on November 28, 2011 and by City Council on December 6, 2011. The Committee Report from the November 28th meeting would be cross-referenced for Council in December 13th.

Redevelopment law limits the Agency's involvement in the daily operation of incubation and Entrepreneur Center (eCenter) programs. Thus, the Redevelopment Agency entered into long-term master leases for the BioCenter and Innovation Center buildings (see Master Lease Matrix in EXHIBIT A) which are subleased and operated by the SJSURF and the Humboldt State University Sponsored Program Foundation (HSUSPF) (see EXHIBIT B for Description of the Incubator and eCenter programs).

Agency staff, in coordination with the Office of Economic Development (OED), SJSURF and HSUSPF developed a transition plan that a) eliminates or greatly reduces the Agency's annual \$865,000 lease payment financial obligation for the BioCenter and Innovation Center buildings and (b) retains established life science, biomedical, environmental and international companies

and eCenter service providers in San Jose (see complete list of companies and 501c 3 service providers in EXHIBIT C).

TRANSITION PLAN FOR THE SAN JOSE BIOCENTER

Transition Strategy 1: San Jose State University Research Foundation Negotiates a New Master Lease with Mission West Properties

The San Jose State University Research Foundation (SJSURF) wishes to continue to operate and manage the BioCenter after the Agency Master Lease terminates in August 2012. In concurrence with the San Jose State University President office, the SJSURF is preparing an analysis to demonstrate that BioCenter revenues are sufficient to support entering into a long-term master lease. The SJSURF plans to negotiate a long-term lease, with concessions, which would allow the program to become self-sufficient. Other ways by which self-sufficiency can be achieved include increased tenant rent, grants and sponsorships. If requested, Agency staff will assist the Foundation in the lease negotiation process. Negotiations are expected to commence immediately after the Agency Board accepts the Transition Plan.

Transition Strategy 2: San Jose State University Research Foundation seeks an Investor-Partner

Various Silicon Valley and life science corporations have supported the operations of the BioCenter over the past seven years. This strategy could result in a more permanent partnership for SJSURF. This strategy may also include seeking lease concessions, tenant rent adjustments and grants.

Note:

In the event that neither of the two strategies can be implemented the Agency and SJSURF will further communicate with the landlord who has indicated interest in retaining the existing companies in the BioCenter building and the Edenvale Technology Park.

TRANSITION PLAN FOR THE SAN JOSE INNOVATION CENTER

Transition Strategy 1: Agency Issues A Joint Request for Interest with the SJSURF and HSUSPF for the Assignment of the Remaining Lease (July 2012 – September 2014)

Both the SJSURF and HSUSPF have indicated their interest to continue to operate and manage the two incubators and Entrepreneur Center located in the Innovation Center building.

The Agency and the Foundations will issue a joint Request for Interest (RFI) seeking partners to support the lease obligation for the Innovation Center building between July 1, 2012 and September 30, 2014, when the Agency Master Lease expires. The RFI will be issued immediately after Agency Board approval of the Transition Plan. The Agency will also seek rent concession from the landlord.

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Transition Strategy 2: Issue A Request for Interest for the Innovation Center for the Assignment of Remaining Lease (July 2012 – September 2014)

If there are no responses to the joint RFI with the Foundations, three months after the RFI was issued, the Agency will issue a second RFI to lease the entire building through the remainder of the Agency's Master Lease. The RFI will be open to all for profit or non-profit organizations.

CONCLUSION

Eighty-five incubator companies and six small business service providers are in located in the BioCenter and Innovation Center. In the event the Transition Plan is not successful in achieving the objectives the landlords will be encouraged to facilitate direct leases with as many of the established companies as possible to keep companies and jobs in San Jose.

Agency staff and its partners look forward to receiving feedback from the Community and Economic Development Committee on the Transition Plan. New alternatives or modification to the transition strategies are welcome.



RICHARD A. KEIT
Managing Director

For questions please contact Richard Keit, Managing Director, at (408) 795-1849.

Attachments

- Exhibit A San Jose Incubator & Entrepreneur Center Master Lease Matrix
- Exhibit B Description of the San Jose BioCenter and Innovation Center
- Exhibit C Listing of Incubator Companies