

COMMUNITY & ECONOMIC
DEVELOPMENT
COMMITTEE

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SUBJECT: CITY INCUBATOR PROGRAM

In 1994, the Redevelopment Agency Board approved the establishment of a business incubator program to provide support to start-up companies in key industry sectors, with the intention of helping these companies locate and grow in San Jose. The Redevelopment Agency's incubator program advances the Agency's and City's economic development goals by stimulating corporate growth and innovation, job creation, and economic diversification.

The Agency currently sponsors four business incubators, the Software Business Cluster (SBC), the Environmental Business Cluster (EBC), the San Jose BioCenter (BioCenter), and the U.S. Market Access Center (US MAC). The SBC and EBC provide office space and business development services to start-up companies involved in the development of software products, clean energy, and clean technology. The BioCenter offers similar services to innovative life science start-ups, and also provides laboratory space and common equipment facilities. The US MAC offers office space and consulting services to foreign governments and companies, helping them access Silicon Valley markets.

The Agency supports the SBC, EBC, and US MAC by paying 100% of the leases on Downtown office space to house these programs. In Fiscal Year 2006-07, the Agency's estimated lease payments will total approximately \$690,000. In the case of the BioCenter, the Agency has invested over \$7.5 million in tenant improvements to a shell building in Edenvale, installing wet labs, dry labs, offices, and conference facilities. The Agency has also spent \$1.2 million to acquire major pieces of chemistry and biology analytical equipment in order to support the BioCenter tenants' research needs and increase revenue-generating opportunities for the facility.

The San Jose State University Research Foundation ("Foundation") manages and operates the four incubators on behalf of the Redevelopment Agency. The Foundation is the incubators' fiscal and administrative agent, and provides

incubator companies with connections to San Jose State University faculty, students, and other resources. In exchange for these services, the Foundation charges the incubators an administrative fee equal to 10% of each program's expenses.

Since 1994, the Agency has invested \$20.6 million in the incubator program. The returns on this investment have been significant. In the past twelve years, the incubators have assisted over 450 companies that have generated more than 3,300 jobs. SBC companies alone have raised more than \$650 million in equity funding, much of which is spent locally on salaries, equipment and supplies, and business services; the incubator has also been instrumental in creating a cluster of software companies in Downtown San Jose. Furthermore, it has been estimated that incubator companies have generated at least \$12 million in sales tax revenues for the City.

Looking ahead, the Agency has hired a consultant to assess the space requirements and management and operating structure of the incubator program. This report, which is currently being prepared, evaluates the current physical needs, lease arrangements, and management structure of the four incubators. The report will be completed by early summer 2007.

The Agency has also received a \$200,000 grant from the U.S. Economic Development Administration to plan an advanced transportation R&D facility in San Jose. Known as the "Electronic Transportation Development Center" (ETDC), the ETDC would be San Jose's fifth project related to incubation and innovation. The Agency is currently working with the EBC, the City Manager's Office, and the Department of Transportation to develop the ETDC.

Brief descriptions of each incubator program are below.

Software Business Cluster

Founded in 1994, the Software Business Cluster provides office space and business development services to start-up companies. The SBC has graduated over 120 companies, almost three quarters of which are still located in San Jose and employ over 1,500 workers. Since its inception, six SBC companies have gone public - Agile Software, Callico Commerce, eGain Communications, deCarta (formerly TelConTar), Moscape, and Callidus Software. In 2000, the SBC was awarded the National Business Incubation Association's "Incubator of the Year" award for excellence in the provision of incubation services. Currently, the SBC

has seven tenant companies that employ 91 people. The SBC shares 24,300 square feet of space at 2 North First Street with the EBC. The Agency's projected Fiscal Year 2006-07 lease payment for this space is approximately \$426,000.

Environmental Business Cluster

The Environmental Business Cluster, also founded in 1994, is a technology commercialization center that specializes in clean energy and clean technology. To date, the EBC has assisted over 120 companies with approximately 1,000 employees. In 2003, the EBC was selected by the California Energy Commission (CEC) to provide advisory services to CEC grant recipients, with the goal of helping clean energy companies commercialize their technologies. The EBC has received over \$1 million from the CEC to provide services to client companies. In 2006, the EBC was rated first in a British survey of 110 clean energy incubators around the world, based on the number of technologies that it has successfully taken to the marketplace. With 24 client companies that employ 135 people, the EBC is currently the largest clean energy commercialization center in the United States that is not operated by federal or state governments.

U.S. Market Access Center

The U.S. Market Access Center, formerly called the "International Business Incubator", was established in 1995 to attract international firms to San Jose. The US MAC offers home office and business development services to international clients, including extensive research and consulting services. The incubator has provided services to over 150 companies which have employed hundreds of people in San Jose.

Demand for the US MAC's services declined after September 11, 2001, as a result of the slump in international commerce. The management team successfully restructured the program, which has since turned around. Today, the US MAC has 38 resident companies and organizations and is providing consulting services to an additional 35 non-resident client companies. The incubator has a partnership with the Japan External Trade Organization (JETRO) and also works closely with trade commissions and incubators from numerous Asian, European, and Latin American countries. The incubator has been recognized by the National Business Incubation Association as one of its three recommended incubators for international business in the United States.

The US MAC is located in 14,700 square feet of space at 111 North Market Street in Downtown San Jose. The Agency's FY 2006-07 estimated lease payment for the space is approximately \$265,000.

San Jose BioCenter

The San Jose BioCenter, the Agency's newest incubator, opened in 2004. The BioCenter provides laboratory space, offices, common equipment facilities, and business development services to start-up companies in the life sciences and nanotechnology, with the goal of giving small companies access to the same amenities that larger companies have. The BioCenter, which currently has 25 companies and is fully occupied, is recognized throughout the life sciences industry as a thriving enterprise that supports the growth of a life sciences cluster in San Jose and the greater Silicon Valley area.

BioCenter companies are creating a wide range of emerging life science technologies, including pharmaceuticals and drug delivery mechanisms, diagnostic tools, medical devices, biotechnology, and bioinformatics. Technologies under development at the BioCenter have been featured in *The New York Times*, *The Washington Post*, *Time*, *Business 2.0*, *BioWorld*, and on CNN and major network programs because of their innovative nature and their likelihood to change the way we live. BioCenter companies have raised over \$60 million in funding from a variety of sources, including National Institutes of Health and Gates Foundation grants, as well as venture financing and major deals with Fortune 500 companies. BioCenter companies employ 150 people, about 75% of whom have Ph.D.'s.

Agency staff is currently working with Mission West Properties, the BioCenter building owner and developer, to explore options for helping BioCenter companies expand to an additional floor of the building where the BioCenter is housed. Staff is also investigating the possibility of creating a pharmaceutical or biotechnology pilot manufacturing facility in Edenvale, to support young life science companies with trial production of their products.

Electronic Transportation Development Center

Currently in the planning phase, the Electronic Transportation Development Center will be a place for established and emerging Silicon Valley technology companies to collaborate on the design and development of clean energy, hybrid commercial vehicles that also meet homeland security and transportation safety needs. On behalf of the Agency and the City, the EBC is currently conducting a technology survey of Silicon Valley companies, with the goal of identifying a pilot technology project to be built within the next year. The Agency and City are seeking state and federal funding for the pilot project. Next steps include identification of a building in a redevelopment project area that will house the ETDC.

RELATED PROGRAMS

In addition to the four incubators, the Agency also sponsors SDForum, formerly called the “Software Development Forum”, and the San Jose Entrepreneur Center (eCenter).

SDForum

SDForum is a non-profit organization established 22 years ago to provide industry information, professional and business development services, and networking opportunities to Silicon Valley’s technology professionals. The Agency supports SDForum by paying 100% of the lease on the office space where the organization is housed; the estimated FY 2006-07 lease payment is approximately \$255,000.

With 1,800 members and 100 volunteers, the Forum educates the technology community on emerging technology trends and best business practices, and provides coaching to help young companies build their businesses. SDForum reaches 12,000 professionals each year through 300 events, including conferences, workshops, and special interest groups. SDForum board members include technology companies like IBM, HP, Microsoft, SAP, and Sun Microsystems; venture capital firms including Hummer Winblad, NEA, Sequoia, and Greylock; and the law firms Wilson Sonsini Goodrich & Rosati, and Pillsbury Winthrop Shaw Pittman. SDForum is located in 7,500 square feet of office space at 111 W. St. John St.

eCenter

Established in 2000, the eCenter is a collaborative effort between the Redevelopment Agency and the U.S. Small Business Administration to provide small businesses and entrepreneurs with a full range of business support services; the facility is one of only two entrepreneur centers in the United States dedicated to small business development. The Agency pays 85% of the lease for the eCenter, for a total FY 2006-07 payment of approximately \$230,000. The San Jose State University Research Foundation is the fiscal sponsor.

The eCenter is home to 11 organizations that offer business and technology consulting services, financial assistance, business training, procurement training, international trade and immigrant business assistance. Organizations housed in the eCenter include the Small Business Development Center, the Service Corps of Retired Executives (SCORE), the Technology Advisory Program (TAP), several

ethnic chambers of commerce, and three micro lending organizations. The eCenter offers approximately 75 training sessions every quarter and about 10,000 patrons attend counseling, special events and training sessions annually; most services are free or at nominal cost. The eCenter is located at 84 W. Santa Clara St.

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