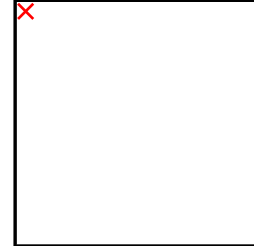


CITY OF FLAGSTAFF
STAFF SUMMARY REPORT

To: The Honorable Mayor and Council
From: David McIntire, Community Investment Director
Co-Submitter: Charity Lee
Co-Submitter: Stacey Brechler-Knaggs
Date: 11/27/2018
Meeting Date: 12/04/2018



TITLE:

Consideration and approval of the renewal of the Business Incubator and Accelerator Master Lease (Master Lease) and the Agreement For Services for the Business Incubator and Accelerator (Services Agreement): Flagstaff Business Incubator and Accelerator Agreements with Northern Arizona Technology and Business Incubator, Inc doing business as the Center for Entrepreneurship and Technology (NACET).

STAFF RECOMMENDED ACTION:

Approve the Renewal of the Master Lease and Services Agreement with NACET for the Flagstaff Business Incubator and Accelerator located at 2225 and 2201 North Gemini Drive respectively.

Authorize the City Manager to make any non-substantive changes to the Master Lease and Services Agreement.

Executive Summary:

The City of Flagstaff and NACET wish to renew a Master Lease and Services Agreement for both the Business Incubator and Accelerator in order to continue incubation and acceleration of eligible businesses. The attached documents are drafts and there may be minor changes to the documents with the final agenda. The option for renewal is being presented to the Council for consideration and possible approval.

Financial Impact:

The new agreements will allow the Incubator and Accelerator to both be managed under NACET in a manner consistent with the existing management of the Accelerator. The changes should result in a net zero anticipated change in profit and loss for NACET and the City is anticipated a net zero for revenue and expenditures. There will be changes in responsibility that increase both the potential risk and potential reward for the City. This is because the City will take on responsibilities for utilities and revenue from tenants instead of receiving and paying fixed amounts.

Financial Impact Points

NACET:

- Pays \$25,000 in annual rent for the management of the buildings and use of specific office space.
- Provides services for both the Incubator and Accelerator such as tenant customer service, rent collection, conference room scheduling, marketing and leasing, and calls for service.
- Responsible to maintain and collect rent for tenants in the Incubator Co-Working space. This space includes a fixed desk and lockable filing cabinet, key card access, and WiFi.
- Responsible for marketing in collaboration with the City.
- Responsible for Minimum Lease Occupancy Requirements.
- Ensure occupancy of 75% of the leasable square footage of the buildings with Qualified Tenants.
- If NACET fails to satisfy the Minimum Lease Occupancy Requirement for a period of ninety (90) consecutive days or more, the City may withhold ten percent (10%) of the monthly payment to NACET for services as compensation to the City for NACET's failure to comply with its Minimum Occupancy obligation.
- Will assist the City with keeping the building in good condition and maintaining good relations with the subtenants.
- Will provide performance reporting to the City.
- An alcohol policy is included consistent with previous permission.

City:

- Will pay NACET \$268,000 (\$208,000 for business services and \$60,000 for a property manager) for services including business support, incubation, acceleration, and general duties.
- Will receive all rent payments from both buildings.
- Will collaborate with NACET on marketing.
- Will pay for janitorial service and supplies.
- Will provide for building maintenance.
- Will provide for internet in common areas and utilities for both buildings.

The FY2019 budget includes \$495,000 for the Incubator and Accelerator programs within the Economic Development Section and is sufficient to cover the cost of the City's responsibilities listed above. The City of Flagstaff received funding through the Economic Development Administration (EDA), Arizona Commerce Authority (ACA), and Northern Arizona University (NAU) for the design and construction of the Business Incubator and Accelerator.

Policy Impact:

None

Connection to Council Goal, Regional Plan and/or Team Flagstaff Strategic Plan:

Economic Development - Grow and strengthen a more equitable and resilient economy.

Has There Been Previous Council Decision on This:

Yes, in September 2008, Flagstaff City Council authorized the master leases for both the Business Incubator and Accelerator and the Service Agreement, as well as subsequent amendments to the master leases and the services agreement in January 13, 2015, September 1, 2015, April 4, 2017, November 11, 2017, and July 3, 2018.

Options and Alternatives:

- 1) Approve the Master Lease and Service Agreement and authorize the renewal and adjustment of the relationship with NACET as proposed.
- 2) Approve the agreements proposed with amendments.
- 3) Not approve the Master Lease and Service Agreement and direct staff to either manage the facilities internally or to execute a procurement process to identify a new provider.

Background and History:

The Business Incubator was constructed in 2008 and the Business Accelerator followed in 2014. Both facilities are currently operated by Northern Arizona Center for Entrepreneurship and Technology (NACET) but under different models of management. Currently, NACET pays utilities and receives rent payments for the Incubator while the City pays utilities and receives rent payments for the Accelerator. The Business Accelerator also serves as the primary Gemini Emergency Operations Center for first responders to efficiently deliver vital services to communities and tribal nations during emergent incidents.

The Master Lease and Service Agreement will allow NACET to continue to provide business services and property management with a reduced service payment (NACET receives) and a reduced rental fee (NACET pays). This change allows the two buildings to be under one agreement and provides consistency in program management.

NACET provides business development, incubation, and retention to start-up companies and entrepreneurs using both the Business Incubator and Accelerator. These successful companies enhance the prosperity of the community by generating jobs and a providing a culture of entrepreneurship and science.

Inform