



Legislation Text

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Agenda Information Sheet

DEPARTMENT: Economic Development

CM/ ACM: Bryan Langley

Date: February 21, 2017

SUBJECT

Receive a report, hold a discussion, and give staff direction regarding the Stoke Denton's entrepreneur center's first year of operations and the Management Agreement between the City of Denton and the Dallas Entrepreneur Center.

BACKGROUND

During the FY 2014-15 budget process, the Economic Development Department submitted a supplemental budget request entitled "Tech Denton Economic Development Initiative." The purpose of the initiative was to "foster an environment that attracts the technology industry to Denton and fosters the growth of new technology companies." The initiative was focused around four major themes: an innovation district in central Denton; "Collide Village of Denton," a live-work-learn-play transit-oriented downtown development (this portion of the initiative ultimately became The Railyard and Stoke Denton); a "tech park" in Quakertown Park with outdoor wifi; and tech events and programs. Objectives for the initiative included:

- Support entrepreneurship and innovation
- Create and retain successful innovative businesses
- Create substantial investment in Denton businesses
- Diversify and strengthen the tax base
- Develop a workforce that is agile, technologically advanced, and employable
- Increase the average household income in Denton
- Gainfully employ graduates from Denton's universities in order to keep them living and working in Denton
- Foster technology solutions to address community-wide needs
- Encourage infill redevelopment/development and revitalization

The initiative was intended to be a public-private partnership and involve stakeholders from the local technology, business, education, and nonprofit sectors. Its goal was to create a local environment in which entrepreneurs could start up and grow businesses, bringing knowledge-based, high-paying jobs to the community.

Management Agreement with the Dallas Entrepreneur Center

The Dallas Entrepreneur Center (DEC), a 501(c)(3) nonprofit organization, was created to help entrepreneurs

start, build, and grow companies through education, mentorship, and community. The DEC functions as a business support hub for entrepreneurs by offering the knowledge and resources necessary for success - it provides a physical location with direct access to tools, education, guidance, and like-minded peers. It has replicated its operating model in nine locations, including Denton.

The DEC was engaged to manage the daily operations of Stoke Denton and associated programs. The term specified in the contract is October 30, 2016, through March 1, 2017. The agreement states it will be renewed annually for five years. In October 2016, the City authorized a \$65,000 annual payment to the Dallas Entrepreneur Center for the hiring and management of a full-time Director for Stoke Denton. In September 2017, the effectiveness of the position will be evaluated to determine whether future funding is warranted.

Stoke Denton, like other DEC locations, operates on a membership model. Memberships are offered with price points and benefits that are designed to meet the needs of businesses at different phases of development. Membership levels are:

- Virtual (\$75/month)
 - Access to Stoke-coordinated events, mentors, and members-only opportunities; two co-working or conference room bookings per month; access to the online member platform
- Coworking (\$20/day or \$150/month)
 - M-F 8 a.m.-5 p.m. access; community desks; high-speed internet access; printer/copier/scanner services; conference room scheduling services; receive mail
- Dedicated (Desk: \$250/month; Office: \$550/month; Pod of 4 Desks: \$900/month)
 - All benefits included in the Coworking level; 24/7 access to Stoke; permanent location with locking storage; access to the online member platform; access to all Stoke coordinated events

A Passport membership add-on, which allows a member to work out of any of the DEC's nine locations, is also available for an additional \$100.

Membership at Stoke Denton is open to entrepreneurs and businesses ranging from freelancers and consultants to startups and growing young companies; membership is not restricted to those working in the technology sector. The primary screening criteria for membership is that an individual or business is interested in being a part of the "entrepreneurial ecosystem" at Stoke Denton by participating in and contributing to the community of members. Membership agreements (contracts) at Stoke Denton are made directly between the member and the DEC; terms can be month-to-month (desks only) or 6 months or 12 months (offices).

The DEC keeps 90 percent of membership fees generated by Stoke Denton and is to use them for "daily operations of the entrepreneurial space, including but not limited to the following: programming and event expenses; snacks, supplies, and other amenities and benefits; marketing and recruitment expenses." The other 10 percent of membership fees under are to be paid monthly to Rail Yard, Ltd., to be "credited towards the City's operating expense account." (Note: Due to the impracticality the 10% being paid to Rail Yard, Ltd. by the Dallas Entrepreneur Center and credited to the City, all parties agreed verbally that the Dallas Entrepreneur Center will pay the 10% directly to the City quarterly.)

Currently, Stoke Denton is marketed via its website at stokedenton.com and through social media platforms Facebook, Twitter, Instagram, and Google Plus. Word-of-mouth through networks of members, mentors, and event attendees is an organic marketing opportunity that will increase as more members and mentors join and more events are held.

At all its locations, the DEC tracks key metrics to measure success and to determine areas for improvement. For the first year of a new entrepreneur center, quantitative metrics such as the number of events held, number of visitors, number of mentor sessions available/used, and number of entrepreneurs assisted can be used to establish a baseline upon which future goals can be based. While occupancy rates are tracked by the DEC, they can be a misleading metric in an entrepreneur center given that one important measure of success is the number of members who “graduate” or move out of the center due to the growth, stability, or sale of a business. Successful graduations will reduce occupancy rates temporarily. Further, pressure to keep occupancy rates high is counterintuitive to the cultivation of a mutually supportive community environment as it can drive the acceptance of members who aren’t a good fit for the community simply to keep the numbers up.

Summary of Project Occupancy and Activity

From its opening on Aug. 1, 2016, to mid-February 2017, more than 400 people attended events and tours hosted at Stoke Denton. All seven of the offices are occupied, along with 9 of 34 dedicated desks and 12 of 20 coworking desks. There is one Virtual member and three Passport members. The full-time Director of Stoke Denton, who started on January 9, 2017, is focusing on member recruitment, hosting events in the space, and growing the mentorship program.

Commercial Lease and Incentive with Rail Yard, Ltd.

The Martino Group and Links Construction (two operating entities of Orison Holdings, LLC) began construction of the mixed-use Railyard development in mid-2015. The transit-oriented development consists of multi-family housing and restaurant/retail/office space inside a redeveloped 28,000 square-foot warehouse facility at 608 E. Hickory,

The City entered into a five-year commercial lease agreement with Rail Yard, Ltd., (an operating entity of Orison Holdings, LLC) for about 9,000 square feet of space to be used for Stoke Denton. The term of the lease is March 1, 2016, to February 28, 2021. A security deposit of \$17,280 was required, and monthly lease and NNN costs currently total about \$11,000. Per square foot costs are anticipated to increase 3.5% per year.

The City granted Rail Yard, Ltd. a \$380,000 incentive (paid in annual installments of \$76,000 for five years) out of the Tax Increment Reinvestment Zone Number One (“Downtown TIF”) fund.

PRIOR ACTION/REVIEW (Council, Boards, Commissions)

April 7, 2014 - Economic Development staff presented program components of what would become the Tech Denton Economic Development Initiative during a joint meeting of the City Council and the Economic Development Partnership Board; staff was directed to develop the program

July 31, 2014 - Staff presented a Budget Workshop to Council requesting \$220,000 to fund the Tech Denton Economic Development Initiative

August 19, 2014 - Staff presented a Work Session to Council regarding the request for \$220,000 to fund the Tech Denton Economic Development Initiative

October 1, 2014 - Tech Denton Economic Development Initiative is funded in the FY 2014-15 budget

October 14, 2014 - The Economic Development Partnership Board recommended that staff proceed to the Tax Increment Reinvestment Zone Number One (“Downtown TIF”) Board for a vote on using TIF funds for an incentive related to the Tech Denton Economic Development Initiative

January 16, 2015 - The Tax Increment Reinvestment Zone Number One (“Downtown TIF”) Board recommended approval of an incentive to Rail Yard Partners, Ltd.

September 15, 2015 - Council adopts Ordinance #2015-300 approving a 5-year commercial lease agreement with Rail Yard Partners, Ltd. for 608 E. Hickory, Suite 128 and a 5-year incentive grant (\$76,000 annually) to

Rail Yard Partners, Ltd.

October 30, 2015 - Council adopts Ordinance #2015-328 authorizing the City Manager to execute a management agreement with the Dallas Entrepreneur Center for the management of the entrepreneur center to be located at 608 E. Hickory, Suite 128

TIMELINE FOLLOWING LAST COUNCIL ACTION

March 1, 2016 - Commencement date of the commercial lease; approximate commencement date of the management agreement

June 17, 2016 - Certificate of Occupancy issued for 608 E. Hickory, Suite 128

July 15, 2016 - Economic Development Program Administrator Julie Glover asked to serve as temporary director of Stoke Denton

August 1, 2016 - Stoke Denton opens

October 31, 2016 - The City authorizes a \$65,000 annual payment made in quarterly installments to the Dallas Entrepreneur Center for the hiring and management of a full-time Director for Stoke Denton

January 9, 2017 - The Dallas Entrepreneur Center's Director of Stoke Denton begins work

FISCAL INFORMATION

The attached "City Stoke Operating Budget and Expenditures" report from the Finance Department shows a grand total operating budget for Stoke of \$675,751 and expenditures (FY 14-15 and FY 15-16 actuals plus FY 16-17 estimate) of \$615,128. The budgeted numbers in each fiscal year include one FTE.

The attached "City Stoke Revenues and Expenditures" report from the Finance Department reflects estimated FY 16-17 revenues of \$60,132, including revenue to the Downtown TIRZ Fund and the City's General Fund from ad valorem taxes on The Railyard development and the DEC's remittance of 10% of membership fees to the City. This report also shows the expense for two years of the five-year Downtown TIRZ Incentive Grant to Rail Yard, Ltd., a total of \$152,000.

RECOMMENDATIONS

Staff recommends establishing Stoke Denton baseline metrics for: number of events held, number of visitors, number of mentor sessions available/used, and number of entrepreneurs assisted. Initial baseline numbers captured over the next 6 months can then be used to set specific goals should the management agreement with the DEC continue.

Staff recommends the following amendments to the management agreement with the Dallas Entrepreneur Center:

- Modify the language regarding the term to read "*may* be renewed annually" instead of "*will* be renewed annually."
- Change the agreement expiration date from March 1, 2017, to September 30, 2017.
- Add a general 30-day prior written notice termination option.
- Add an "appropriations clause."
- Specify remittance of the 10% of membership fees directly to the City of Denton instead of to Rail Yard, Ltd.

STRATEGIC PLAN RELATIONSHIP

The City of Denton's Strategic Plan is an action-oriented road map that will help the City achieve its vision. The foundation for the plan is the five long-term Key Focus Areas (KFA): Organizational Excellence; Public Infrastructure; Economic Development; Safe, Livable, and Family-Friendly Community; and Sustainability and Environmental Stewardship. While individual items may support multiple KFAs, this specific City Council agenda item contributes most directly to the following KFA and goal:

Related Key Focus Area: **Economic Development**

Related Goal: **3.4 Encourage development, redevelopment, recruitment, and retention**

EXHIBITS

Exhibit 1 - DEC Stoke Denton Membership Information

Exhibit 2 - DEC Stoke Denton Events and Tours Information

Exhibit 3 - Stoke Denton Sample Membership Agreement

Exhibit 4 - City Stoke Operating Budget and Financial Summary

Exhibit 5 - Presentation

Respectfully submitted:

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Director of Economic Development