



MEMORANDUM

Date: January 21, 2016

To: The Honorable Chair and Members
Pima County Board of Supervisors

From: C.H. Huckelberry
County Administrator

A handwritten signature in black ink, appearing to read "CHH", is written over the printed name "C.H. Huckelberry".

Re: **Fiscal Analysis of County Economic Development Incentives Provided to Accelerate Diagnostics**

Introduction

Given the recent comments regarding our decision to support the space startup World View Enterprises, it is important to review the experience of Pima County with another technology startup company.

In summer 2012, Pima County, along with other regional partners, through Sun Corridor Inc. (then known as Tucson Regional Economic Opportunities, Inc.), competed to locate the startup bioscience/biotechnology company Acceler8 in Pima County. At that time, Acceler8 was located in Denver, Colorado and wanted to expand their bioscience research and development, as well as the production and manufacturing of specialized medical equipment.

Our region competed with multiple locations, including California, locations in the Midwest and Acceler8's then headquarters of Denver, Colorado. All of the competing locations offered financial incentives, including discounted or no-cost infrastructure assets. The most significant infrastructure assets included vacant or underused "wet-lab" space essential for the operation of the firm. The Pima County space identified by Sun Corridor Inc. in its comprehensive regional search included two empty furniture stores and a former supermarket. The lack of appropriate lab space and the related cost to convert the available space into lab space put the region at a significant competitive disadvantage. If Pima County was to win this relocation, the company's cost gap of \$1 million needed to be closed. A number of incentives were provided by the City of Tucson, Pima County and the Arizona Commerce Authority to entice Acceler8, now known as Accelerate Diagnostics, to relocate to Pima County in Tucson.

Other factors that led Accelerate to choose our region included our ability to attract and provide the necessary workforce and talent, the presence of a major research university, and an existing biotech community.

County Action Needed

In the final competition, the regional proposal was approximately \$1 million short of competing offers. Based on a competitive fiscal analysis of the company, Pima County or the region needed to provide an additional incentive to win the economic development competition. Pima County provided that incentive by offering a below-market lease rate and tenant improvements to Accelerate if they would relocate to Pima County's Abrams Public Health Center (Abrams).

The initially discounted rental rate and provided tenant improvements were sufficient to tip the balance in this region's favor, and Accelerate began operations in January 2013 in 15,000 square feet of space at Abrams.

Fiscal Analysis of Lease and Incentives – Economic Development Incentive Repaid

The lease agreement called for Accelerate to pay a lease rental rate to the County of \$9.25 per-square-foot-per-year and pay a share of their utilities. The County provided the space, as well as the capital tenant improvements costing \$1,874,372, for Accelerate Diagnostics. Hence, the County invested nearly \$2 million in this startup company.

Since then, Accelerate has expanded their use of Abrams three times. They now occupy over 45,000 square feet there, as well as an adjacent 6,207 square foot startup manufacturing facility for their medical devices.

Accelerate's annual lease rate has increased in accordance with our lease agreement. As of this month, Accelerate Diagnostics is now paying market lease rent of \$19.80 per square foot on 41,722 square feet of space and \$17.63 per square foot on 4,163 square feet of space, as well as paying their utility bills.

In addition to taking over an additional building that previously housed Facilities Management staff at the Kino Complex, they also invested \$1,242,491 of their capital funds in expanding the building for their use.

As of October 2016, Accelerate Diagnostics, through their lease payments to Pima County, will have fully repaid the nearly \$2 million front-end capital cost provided by the County as an incentive to attract them to the region. They have also fully paid their operating and maintenance cost for their use of the building. Accelerate has grown from 20 employees to now over 120 full-time; and their average employee salary is \$79,000 annually. In addition, the company was recently very successful in a public stock offering that raised \$109 million for commercialization of their medical devices.

Accelerate continues to grow and has requested additional space at Abrams. We are evaluating how best to accommodate their needs for the remaining term of their lease, which is three years. We intend to fully cooperate with Accelerate and, if necessary, relocate some of our employees from Abrams to accommodate their expansion.

The table below shows the four different phases of Accelerate's expansion within the Abrams building and their lease rates going forward from January 2016 to the end of their current lease.

Accelerate Lease Payments Based on Increased Rates Beginning January 13, 2016.

Location	Square Feet	Rent Per Square Foot	Monthly Rent	Annual Rent
Original Labs and Offices Phase 1	15,096	\$19.80	\$ 24,908.40	298,900.80
Office Expansion Phase 2	4,551	19.80	7,509.15	90,109.80
Engineering Portion of Phase 3	3,594	19.80	5,930.10	71,161.20
Shipping and Receiving Portion of Phase 3	4,163	17.63	6,116.14	73,393.69
Northeast and Remaining Areas of Floor Phase 4	18,481	19.80	30,493.65	365,923.80
Rent Without Tax: 01/13/16 – 01/12/17	45,885		74,957.44	899,489.29
Rent Without Tax: 01/13/17 – 01/12/18			74,957.44	899,489.29
Rent Without Tax: 01/13/18 – 01/12/19			74,957.44	899,489.29
Total Rent Without Tax for Extension Term			\$224,872.32	\$2,698,467.87
Electricity Based on Three Sub-meters			11,767.00	141,204.00
Total Utilities for Three-year Extension Term				423,612.00
Total Estimated Revenue for Extension Term				\$3,122,079.87

The economic development decision to attract Accelerate Diagnostics to a County facility has been a major success for all parties. Accelerate Diagnostics wins with our economic development incentives, which have helped them grow significantly. Our region wins with the very positive economic impact of Accelerate's increasing employment and salaries; their employees live and work in the region and they shop and buy homes here. Pima County wins because our initial capital investment has been completely repaid. We stand to receive \$3 million in additional lease payments; confirmation that Accelerate is invested in the region and desires to expand and increase employment.

It is very important we continue to support this successful startup firm as it grows and ultimately expands to a new, larger and permanent facility in Pima County.