



MEMORANDUM

Date: September 21, 2017

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 "CH Huckelberry", is written over the typed name and title.

Re: **Accelerate Diagnostics**

As requested during the September 19, 2017 Board of Supervisors meeting by the District 1 Supervisor, I am once again providing information regarding our economic development efforts to attract this biotech startup. I will also summarize the direct return on investment for the County. Accelerate will be graduating from our facility and hopefully partnering with the County in a new building at the Kino Campus. If they choose to remain on the Kino Campus in a new building, I will certainly recommend the Board offer a new short-term lease to Accelerate until a new building is ready for occupancy.

I have explained to the Board of Supervisors on numerous occasions the financial analysis of the County's leases with Accelerate. A February 11, 2016 memorandum is attached that responded to Supervisor Ally Miller's questions regarding the lease for the premises located at the Herbert K. Abrams Public Health building. Their lease term with the County was six years - three years initial lease and three one-year options. We are now nearing the last one-year option. During the initial term of the lease, Accelerate more than repaid the County's investment of \$1,874,372 to retrofit the Fourth Floor of the Abrams Building for their offices, laboratories and engineering space.

Regarding the three one-year options, Accelerate will pay the County an additional \$3.1 million for no additional County capital investment. The current lease rate for their office space is approximately \$19.80 per square foot, which is equal to or greater than current market rate for office space lease in the area.

In addition, Accelerate has invested \$1.2 million in the approximately 6,200 square foot manufacturing facility. These improvements will transfer to the County at the termination of their lease. In total, their economic return for the County will be over \$6.4 million on our investment of \$1.9 million – hardly a bad deal for the taxpayer as expressed by Supervisor Miller.

Accelerate has been a tremendous economic development success for Pima County. To imply otherwise ignores plain and verifiable facts. Accelerate has grown from 20 employees when they first located in the Abrams Building to now 146 employees with efforts to add

The Honorable Chair and Members, Pima County Board of Supervisors

Re: **Accelerate Diagnostics**

September 21, 2017

Page 2

another 75 employees within the next 6 to 18 months. Further, these 146 employees have an average annual wage of over \$87,000 delivering an outsized economic impact for Pima County.

I have also begun initial discussions with Accelerate Diagnostics' Chief Executive Officer, Lawrence Mehren, for the possibility of a private-public partnership with the County on a new multi-story office building on the Kino Campus. If there are members of the Board that would prefer I not pursue this opportunity, please place the matter on an agenda and provide such direction at a public meeting.

With regard to the item that was actually on the agenda, the lease extension for the manufacturing facility; the lease rental rates were \$9.24 per usable square foot for the existing premises (3,827 square feet); and \$5.00 per usable square foot, for the building expansion of 2,380 square foot, built by Accelerate directly adjacent to the existing premises for which they paid \$1.2 million. The market lease rental rates for manufacturing facilities are approximately \$7 per square foot, per year, based on the Real Estate Market Snapshot for Tucson, Arizona, Second Quarter of 2017; therefore, the rates in the lease would be considered market. In addition, this same reference for the second quarter of 2017 placed office rental rates at approximately \$19 per square foot, per year; therefore, the office rental rates would also be considered market.

CHH/anc

Attachment

c: Joseph Snell, President and CEO, Sun Corridor Inc.
Tom Burke, Deputy County Administrator for Administration
Lisa Josker, Director, Facilities Management



MEMORANDUM

Date: February 11, 2016

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

From: C.H. Huckelberry
County Administrator 

Re: **February 16, 2016 Consent Calendar Item 3 Regarding Accelerate Diagnostics**

Supervisor Miller has requested additional information regarding the annual lease extension for Accelerate Diagnostics for the Fourth Floor of the Abrams Public Health Center. She requested the total funding Accelerate has paid to Pima County since the company relocated here from Colorado in 2012.

Accelerate actually moved into the Abrams Building in February 2013. Since their occupation of the building, Accelerate has expanded on a number of occasions and now occupies the entire Fourth Floor. Attachment 1 shows the total amount paid through January 2016 – \$1,265,019. Accelerate will be paying an additional \$674,617 through October 2016; which would bring the total expected rent to nearly \$2 million.

This is consistent with the information in my January 21, 2016 memorandum to the Board of Supervisors (see Attachment 2) and confirms the total payments received through October 2016 will offset the capital improvements of the County to construct the facilities.

Accelerate has three additional one-year options. Consent Calendar Item 3 is the option for lease of the entire Fourth Floor until January 12, 2017; therefore, Accelerate is entitled to two additional years, or through mid-January 2019. The additional years' rent are discussed on Page 3 of my January 21 memorandum, which indicates the total estimated payments from Accelerate, including their utility payments, will be approximately \$3.1 million in addition to what they have already paid. Accelerate Diagnostics is scheduled to leave the Abrams Building by January 2019.

Upon Accelerate's departure from the Abrams Building, all of the capital improvements made by Pima County must be left in place and would be available to another bioscience startup.

CHH/mjk

Attachments

c: Tom Burke, Deputy County Administrator for Administration
Robin Brigode, Clerk of the Board
Keith Dommer, Director, Finance and Risk Management
Lisa Josker, Interim Director, Facilities Management

ATTACHMENT 1

**Accelerate
Rent, Utilities, Taxes, Late Fees and Misc.
Inception-to-Date through Jan 2016**

Fiscal Year 2012-13			Fiscal Year 2013-14			Fiscal Year 2014-15			Fiscal Year 2015-16 (through Jan 2016)		
Date	Receipt Number	Amount	Date	Receipt Number	Amount	Date	Receipt Number	Amount	Date	Receipt Number	Amount
2/5/13	13 *4021	7,225.14	6/19/13	13 *6632	14,920.63	6/20/14	14 *6777	19,506.59	6/17/15	15 *6989	69,395.17
2/8/13	13 *4190	11,432.72	7/16/13	14 *0268	14,920.63	7/16/14	15 *0282	19,506.59	7/22/15	16 *0395	69,395.17
4/4/13	13 *5267	14,920.63	8/14/13	14 *0819	14,920.63	8/20/14	15 *0940	19,506.59	8/25/15	16 *0884	69,395.17
4/5/13	13 *5269	14,920.63	9/19/13	14 *1520	14,920.63	9/24/14	15 *1685	58,101.34	9/16/15	16 *1500	69,866.37
5/8/13	13 *5606	14,920.63	10/17/13	14 *2036	14,920.63	10/17/14	15 *2165	30,417.75	10/7/15	16 *1958	462.63
5/20/13	13 *6121	14,920.63	11/13/13	14 *2591	14,920.63	11/25/14	15 *2993	31,515.35	10/26/15	16 *2125	61,061.84
			12/18/13	14 *3400	14,901.86	12/12/14	15 *3416	959.60	11/24/15	16 *2783	62,573.85
			1/16/14	14 *3900	14,901.86	12/24/14	15 *3538	38,307.92	11/23/15	16 *2788	15,479.50
			2/28/14	14 *4589	19,506.59	1/20/15	15 *3991	38,307.92	12/2/15	16 *3232	12,093.24
			3/14/14	14 *4942	19,506.59	2/20/15	15 *4588	38,307.92	12/3/15	16 *3242	824.24
			4/17/14	14 *5564	19,506.59	3/18/15	15 *5276	38,307.92	1/5/16	16 *3514	65,300.32
			5/15/14	14 *6093	19,506.59	4/16/15	15 *5836	38,307.92	1/21/16	16 *3660	7,413.53
			2/25/14	14 *4583	5,264.20	6/3/15	15 *6474	95,279.79	1/8/16	16 *3918	13,716.53
						7/6/15	16 *0019	5,508.28			
						7/6/15	16 *0019	(4,758.87)			
Fiscal Year 12-13		<u>\$ 78,340.38</u>	Fiscal Year 13-14		<u>\$ 202,618.06</u>	Fiscal Year 14-15		<u>\$ 467,082.61</u>	Fiscal Year 15-16		<u>\$ 516,977.56</u>
through January 2016											

- \$ **1,265,019** Total Rent, Utilities, Taxes, etc. paid through January 2016
- \$ **674,617** Approximate total for nine more additional monthly payments through October 2016
- \$ **1,939,636** Expected total Rent, Utilities, Taxes, etc. through October 2016



MEMORANDUM

Date: January 21, 2016

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

From: C.H. Huckelberry
County Administrator 

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.

ATTACHMENT 2

The Honorable Chair and Members, Pima County Board of Supervisors
Re: **Fiscal Analysis of County Economic Development Incentives Provided to Accelerate
Diagnostics**
January 21, 2016
Page 2

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.

ATTACHMENT 2

The Honorable Chair and Members, Pima County Board of Supervisors
 Re: Fiscal Analysis of County Economic Development Incentives Provided to Accelerate
 Diagnostics
 January 21, 2016
 Page 3

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.

CHH/mjk