MEMORANDUM

Date: March 11, 2016

To: The Honorable Ally Miller, Member
Pima County Board of Supervisors

From: C.H. Huckelberry
County Administrator

Re: Your February 23, 2016 Email Regarding Accelerate Diagnostics and Newsletter Regarding the Same Subject

Attached is information compiled by the County’s Business Services Coordinator, Patrick Cavanaugh, regarding this subject (Attachment 1).

You inquired about the standards of the County related to incubator operations and transition of same to successful businesses. There is no one set of specific guidelines; each business is unique and requires different periods from concept to production.

In the case of Accelerate Diagnostics, the County’s view of the period was six years, as reflected in our three-year lease that included a three-year option. This is a relatively short lease period. For comparison, current Arizona law allows the County to lease facilities for 25 years with an option to add another 25 years, for a total 50-year lease period. Given the Accelerate Diagnostic lease with the option is about 10 percent of our statutorily permitted lease period, I would view it as a short-term lease, which fits with general business incubation periods.

In the case of Accelerate Diagnostics, their initial relocation from Denver, Colorado was during the period from concept to regulatory compliance with appropriate federal health regulators. During the first one to two years of their lease, Accelerate increased their technical and scientific staffing capacity. During the latter period of their lease, they have been developing the process necessary to manufacture their medical devices. This has now occurred, and Accelerate Diagnostics has invested $1.7 million in their manufacturing facility at the Kino Health Campus adjacent to their leased facility in the Abrams Public Health Center. As I indicated in previous communication with the Board of Supervisors, I expect Accelerate to vacate the premises in 2018 or 2019 at the end of their lease period; hopefully as a mature, growing and successful biotech firm that will remain in Tucson or eastern Pima County.

Accelerate Diagnostics’ relocation from Denver and growth in Tucson, Pima County has been a positive success for Pima County and our taxpayers. When the company leaves the Abrams Building, the engineering and wet-lab facilities will be fully functional and will have depreciated no more than one-quarter of their useful life. Hence, the space can be successfully used for another bioscience, medical, or research firm.
With regard to your question related to “measure entrepreneur of lifecycle in incubation processes” Attachment 2 to Mr. Cavanaugh’s memorandum is an article by Susan Cohen entitled, “What Do Accelerators Do? Insights from Incubators and Angels.” I believe the article is very instructive; however, I also believe it is difficult to label companies such as Accelerate Diagnostics. When they were attracted from Denver, were they an accelerator or incubator? Labels do not mean a great deal. What matters is that as of February 2016, Accelerate has grown its total employment from approximately 20 to 144 at an average wage of over $90,000 per year. One hundred eleven of these employees reside in Pima County. Further, it is anticipated 50 jobs will be added at Accelerate’s manufacturing facility adjacent to the Abrams Building.

Finally, it is important to note that the performance objectives established during our initial lease agreement with Accelerate Diagnostics have continually been exceeded by the company as their manufacturing processes are perfected and organized within a new structure.

Please let me know if you would like any additional information regarding Accelerate Diagnostics.

CHH/lab

Attachments

c: The Honorable Chair and Members, Pima County Board of Supervisors
Lawrence Mehren, Chief Executive Officer, Accelerate Diagnostics
Steve Reichling, Chief Financial Officer, Accelerate Diagnostics
Patrick Cavanaugh, Business Services Coordinator, Economic Development and Tourism
March 1, 2016

TO: Chuck Huckelberry, Pima County Administrator

FROM: Patrick Cavanaugh, Business Services Coordinator

SUBJECT: Response to Information Request Regarding Incubators and Accelerate Diagnostics

Please see below for information related to Supervisor Miller’s email (“Questions Regarding Accelerate Diagnostics”) that you received Feb. 23, 2016. I’ve also included in Attachment 1 a subsequent District 1 newsletter related to Accelerate Diagnostics that was recently distributed and raises question similar to those included in the email.

**Question 1**

“After the recent renewal of the lease agreement for Accelerate Diagnostics, I have some questions regarding how the incubation process works for start up companies in Pima County. I would like to know what benchmarks or procedures are in place to measure the entrepreneurial life cycle and incubation process for start up companies incentivized by the taxpayers of Pima County. Specifically, what is considered a success and what measures are in place to determine when the next company would move to the incubation facility?”

**Answer:**

It’s important to first note that Pima County does not currently operate any formalized business incubators. By accepted definition, a business or start-up
incubator is often a full service facility and targeted program that nurtures young companies and start-ups. The support provided in an incubator is very specific and usually include mentorship, shared offices and services, hands-on management training, marketing support and access to working capital. Incubators, as well as accelerators and venture capital business development programs, usually have set “entrepreneurial life cycles and (an) incubation process” as referenced by Supervisor Miller in her email - and this may be where the confusion has arisen. A concise explanation of the differences in formalized incubators, accelerators and angel investors has been provided as Attachment 2.

In the limited instances in which Pima County has leased facilities to private sector businesses as an economic development incentive (which would be Accelerate Diagnostics and the effort now underway with World View Enterprises) Pima County extends a lease of county property in return for an economic development benefit for the taxpayers of Pima County – namely, job creation for its citizens and a revenue return that exceeds the expenditure of Pima County funds and satisfies the requirements of the Gift Clause of the Arizona Constitution. The agreement must also be contained in a legally binding and enforceable contract that is approved as a policy decision by the Pima County Board of Supervisors. Provisions for Pima County recourse in the event the county’s economic development goals are not attained are standard in these agreements.

The process Pima County utilizes when approached by a company for a possible lease agreement is wholly driven by consideration of the public benefit derived from the agreement. Pima County staff will initially meet with companies to evaluate their facility needs, job creation numbers (to include salaries and benefits) and the expected return to the taxpayers that would be contained in a structured lease agreement. If directed to proceed by Pima County administration, staff will begin a more in-depth evaluation of the company to identify potential risk, identify conflicts
of interest and evaluate the financial aspects of the company. This due diligence stage often involves sensitive and proprietary company information (such as major customers, investors, executive background, business track record, financial structure, etc.) and Pima County staff will usually sign a non-disclosure agreement with the company. This confidentiality is customary for almost all economic development entity negotiating an incentive with a private-sector company. The Pima County Attorney’s Office, Facilities Management, Development Services and other relevant county departments are often engaged by this point and an economic analysis of the public benefit is conducted. Staff then communicates information and recommendations to Pima County Administration. At that point, a lease may be brought forward with related and relevant information for policy consideration by the Pima County Board of Supervisors.

If a lease incentive is approved for a company, lease renewal requirements, job creation and salary benchmarks and other information would allow the board to determine the ultimate “life cycle” of a company. As a matter of public policy, the board would periodically weigh the economic development benefits and continuing job creation of the company and balance it with other policy considerations such as the county’s facility needs, the company’s need for the incentive or the board’s desire to utilize the facility as an incentive for a different company - or repurpose the facility all together. To the point of Supervisor Miller’s question, it is the Board of Supervisors that will determine as a policy consideration the company’s “measure of success” - and if and when another company may utilize the facility. It would be incumbent upon Pima County staff to provide information and facts to inform the Board of Supervisor’s policy decisions.

I feel obligated to strike a note of caution. This is a very critical point in time for Accelerate Diagnostic’s business expansion. The incentive extended by Pima County has been very effective in propelling the company’s success and in creating
high-paying jobs and associated capital in our community. I would expect that as the company continues to expand beyond its current Pima County’s facility, other cities, counties and states outside our region will attempt to court the company’s relocation with competing incentives. For the benefit of its citizens, Pima County must be diligent in retaining this important company in unincorporated Pima County or within a Pima County municipality.

**Question 2**

“...I have also researched and found significant variations in reporting regarding the current number of employees at Accelerate Diagnostics. I have found numerous reports regarding the start up data from Accelerate’s early days in the in the early ‘80’s in Denver but would like to ensure we have accurate data. Do we have a report from the company stating the number of employees? If not, can we request one?”

Pima County receives regular updates on Accelerate Diagnostics performance measures. It is also a public company listed on the NASDAQ subject to significant statutory audit requirements and public disclosures, all of which are available to the general public.

Currently Accelerate Diagnostics has 111 employees based in its Pima County headquarters, 23 employees in other US locations and 10 international employees. The current average wage is in excess of $90,000 per year and exceeds Pima County’s staffing and wage requirements contained in the lease and agreement. In 2015 alone, Accelerate Diagnostics as in vested $1.7 million in to facility improvements. The company recently reported that it has established the majority of its supply chain with Arizona-based suppliers with whom they spent $5.2 million in 2015. Accelerate Diagnostic’s local supply chain expenditures and hiring is forecasted to grow dramatically in the coming years. As you noted in your Jan. 21,
2016 memo to the Board of Supervisors that I’ve included as Attachment 3 ("Fiscal Analysis of County Economic Development Incentives Provided to Accelerate Diagnostics") the company has continually exceeded performance objectives and provides important economic development for Pima County.

Please let me know if you require additional information.
Attachment 1
Good morning Chuck,
After the recent renewal of the lease agreement for Accelerate Diagnostics, I have some questions regarding how the incubation process works for start up companies in Pima County.
I would like to know what benchmarks or procedures are in place to measure the entrepreneurial life cycle and incubation process for start up companies incentivized by the taxpayers of Pima County. Specifically, what is considered a success and what measures are in place to determine when the next company would move to the incubation facility?
I have also researched and found significant variations in reporting regarding the current number of employees at Accelerate Diagnostics. I have found numerous reports regarding the startup data from Accelerate's early days in the early '80's in Denver but would like to ensure we have accurate data. Do we have a report from the company stating the number of employees? If not, can we request one?

Regards,

Ally

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On February 16, 2016, the Pima County Board of Supervisors unanimously approved an additional 3-year lease extension for Accelerate Diagnostics, a "start-up" for-profit corporation and tenant in the county-owned Abrams Public Health Building. Accelerate Diagnostics (NASDAQ-AXDX) is a research and development corporation that develops and manufactures specialized medical equipment. The Abrams Building was converted in 2012 to accommodate an "incubator facility" for new business startups in the bio-medical industry. Pima County taxpayers invested $1.8 million in capital...
improvements for this business incubator.

Accelerate entered into its first lease agreement with Pima County on August 20, 2012. Since that time, Accelerate has requested six lease amendments and expanded its operating space from the original 15,096 sq. ft. to over 45,000 sq. ft., while paying the county $1.26 million in rent, utilities, and taxes through January 2016.

We've been informed by the County Administrator that as of October 2016, Accelerate will have fully repaid the nearly $2 million front-end capital cost through their lease payments to Pima County. They continue to pay operating and maintenance costs for use of the building, and claim to have grown from 20 employees to somewhere between 73-150 employees. All indicators suggest this 34-year old Denver, Colorado bio-science start-up has now progressed to a full-fledged Tucson based corporation.

Given this impressive record, I wish to explain the cautionary concern I expressed at the recent Board of Supervisors meeting when the Accelerate lease was approved. We need to ensure we are compliant with the Arizona Constitution, specifically the gift clause. At what point should a "start up" company be required to move from a taxpayer funded incubator?

On October 17, 2013, Joe Ferguson, reporter for the Arizona Daily Star, penned an article. "Tucson firm gets county incentives to hire well-paid workers." This
article caught my attention as it discussed Accelerate Diagnostics' success in recruiting local talent and reported the company now had 50 Tucson employees with an average salary of more than $100,000. Pretty impressive, I thought. In the same article, Accelerate Diagnostics Chief Financial Officer, Steve Reichling, mentioned the company had "raised $20 million earlier this year by offering existing shareholders rights to buy new shares of its publicly traded stock." That was great news. So, when Accelerate's building lease extension showed up on the Board of Supervisor agenda for our February 16, 2016 meeting, my interest was piqued even further.

What has Accelerate been up to since Ferguson's 2013 article? They did, in fact, increase the number of employees hired. Pima County Administrator Huckleberry stated Accelerate Diagnostics' employee profile increased from 20 to 150 full-time employees with an average salary at $79,000 annually. Biospace.com reported on July 10, 2015 that as of December 2014, Accelerate had 66 Tucson-based employees with an average salary in excess of $90,000. Recent online job postings from glassdoor.com report advertisements for five microbiologists ranging from $56,168-$59,800. Any reason for concern with the varying information reported? Perhaps... perhaps not.

But, what I do find interesting is that Accelerate just completed a very successful public stock offering in November 2015, which raised $109 million for
commercialization of their medical devices. Three top executives reportedly earned annual salaries for the period ending December 31, 2014 (compensation values) in excess of $723,000. Clearly, Accelerate Diagnostics has transitioned from a start-up business to a more mature post-incubation entrepreneurial firm.

Reflecting on the success of Accelerate Diagnostics, I have requested County Administrator Huckelberry clarify what benchmarks are in place at the county to measure entrepreneurial life cycle and incubation processes. We must have a process in place that clearly defines the point at which we halt offering start-up incentives to existing companies that have matured beyond startup status. This allows the county to focus on migrating the previously committed resources such as below market value building space and taxpayer funded capital improvements to new start-ups in the spirit of the incubation process. A constructive approach is needed so that we can successfully market ourselves as a region committed to attracting new business startups in a manner that is beneficial, transparent, and accountable to Pima County taxpayers.
Attachment 2
What do accelerators do? Broadly speaking, they help ventures define and build their initial products, identify promising customer segments, and secure resources, including capital and employees. More specifically, accelerator programs are programs of limited-duration—lasting about three months—that help cohorts of startups with the new venture process. They usually provide a small amount of seed capital, plus working space. They also offer a plethora of networking opportunities, with both peer ventures and mentors, who might be successful entrepreneurs, program graduates, venture capitalists, angel investors, or even corporate executives. Finally, most programs end with a grand event, a “demo day” where ventures pitch to a large audience of qualified investors.

You may think this all sounds familiar. After all, don’t incubators and angel investors help nascent ventures? Accelerators certainly are similar to incubators and angel investors. Like them, accelerators aim to help nascent ventures during the formation stage. Thus we might expect that many of the activities provided by accelerators would also be provided by angels and incubators. But accelerators differ in several ways. Perhaps the most fundamental difference is the limited duration of accelerator programs as compared to the continuous nature of incubators and angel investments. This one small difference leads to many other differences, as I discuss in more detail below. (See table 1 for a summary of the differences between incubators, angel investors, and accelerators.)

INCUBATORS AND ANGEL INVESTORS

According to the National Business Incubation Association, incubators shelter vulnerable nascent businesses, allowing them to become stronger before becoming independent. According to the association’s website, 93 percent of all incubators...
are nonprofit organizations focused on economic development, and roughly a third are affiliated with a university. While no two incubators are exactly the same, in general, incubators receive rent and fees from tenant firms in exchange for office space and administrative support services. Several incubators also provide introductions to financiers, and connections to legal, technology transfer, and accounting consultants. When they are affiliated with a university, they may also provide services related to intellectual property; the university may also use them to transfer knowledge from faculty members to firms that are commercializing the university’s intellectual property.

Some of what incubators provide to entrepreneurs, however, might not be consistent with what the nascent firms actually need. For example, ventures might develop in a way that allows them to survive inside of an incubator, but not outside of it, and thus in a manner that is not optimal for the market. Some firms may survive longer in an incubator than they would otherwise. Survival may seem attractive, but if the firm will inevitably fail, then the resources it is consuming might be better used by other, more fruitful endeavors. Moreover, if ventures are being shielded from market forces, they might be missing out on important feedback that could enable them to adapt. Early adaptation is critical for early-stage firms before they become more rigid with age, which occurs naturally.

Angel investors also aim to help fledging ventures. Angels are individual investors, or groups of individual investors, who provide seed capital and varying...
What Do Accelerators Do? Insights from Incubators and Angels

amounts of advice to young firms. According to the Center for Venture Research, 28,590 entrepreneurial ventures received $9.7 billion in investment during the first quarter of 2013. Clearly, angel investors are an important part of the entrepreneurial ecosystem. Often, but not always, they are entrepreneurs who want to help the next generation of entrepreneurs. They also may be friends or family members who provide financial investment. Angel investors help their portfolio firms in a unstructured manner, often providing advice and introductions as needed. The lack of structure often translates into limited involvement and mentorship.

COMPARING ACCELERATORS AND INCUBATORS

Accelerators also help fledging nascent ventures. Philosophically, incubators tend to nurture nascent ventures by buffering them from the environment to give them room to grow. In contrast, whereas accelerators speed up market interactions in order to help nascent ventures adapt quickly and learn. Practically, accelerators and incubators differ in four key ways.

Duration

The limited duration of accelerators, usually three months, is the characteristic that most clearly defines accelerator programs. Research on incubators suggests that firms graduate from incubators anywhere from one to five years after they begin. Established timelines and strict graduation dates reduce the amount of codependence between ventures and accelerators and force ventures to face the selection mechanisms that operate in the market. A pioneer in the industry, one of 70 people I interviewed for my dissertation, explained it like this:

The fundamental difference between an incubator and an accelerator is [that] . . . having a finite duration . . . really forces these companies to get a lot done in a very short period of time . . . If you have something that has a 6-12 month duration you end up in a codependent relationship that is not particularly healthy. We are trying to help very aggressively at the front and then help continually through the life of the companies in the next one to ten years. But if you stretch out that intense period you start to build more dependencies between each other, and that's not good.

Since accelerators graduate firms in a short, pre-set time period, they reduce the amount of codependency; firms have to address market selection mechanisms quickly. Participating in an accelerator program may not necessarily keep the venture (or the venture idea) alive; instead, it may speed up the cycle of the venture—leading to quicker growth or quicker failure. Quicker failure does have a benefit if those entrepreneurs move on to higher-value opportunities: they can help grow different ventures and the overall economy.

The limited duration also focuses founders’ attention. Founders work at an unsustainable pace during the three-month programs, often working seven days a week, doing little else but work and sleep. Of course, they could not sustain this pace if the programs were longer or ongoing.
Cohorts

Another byproduct of structured, limited-duration programs is that ventures enter and exit the programs in groups, known as cohorts or batches. Accelerator participants liken members of their cohort to their peers in summer camp or high school. Venture founders become very close to the others in their cohort, helping and motivating each other during the program. While venture founders in an incubator may also develop relationships, the experience of starting in the program at the same time fosters uncommonly strong bonds and communal identity between the founders. I asked venture founders about their relationships with the other members of their cohort. One said that they would do “anything for those guys.” Peer bonds form quickly, but deeply.

Business Model

Most of the original accelerators are privately owned and take an equity stake in the ventures participating in the programs. Moreover, some accelerator managers are also active angel investors who provide additional financing to some of the ventures, either directly or via a fund. Incubators, on the other hand, are mostly publicly owned, managed by managers, and generally do not have their own investment funds. This difference is theoretically interesting because the incentives of accelerator directors who are investors in the firms they are helping are more closely aligned with the ventures than are professional incubator managers. Furthermore, some accelerator owners have extensive prior experience as entrepreneurs or angel investors, giving them the firsthand experience they need to assist ventures with a myriad of tasks, from customer development to fundraising and hiring. It is telling that ventures in incubators are called tenants, while those affiliated with accelerators are called portfolio companies. Consistent with the terminology, for-profit accelerators usually make equity investments in participating firms. Less frequently, accelerators are nonprofit organizations. Accelerators want growth that leads to a positive exit, while the best outcome for an incubator might be slower growth, which delays graduation and prolongs the venture’s tenant status.

Selection

Another byproduct of accelerators’ limited duration is that they accept ventures in batches, usually once or twice a year, while incubators accept and graduate new ventures on an ongoing basis. The batching selection process focuses the accelerator’s marketing and outreach around key dates. Moreover, the open application process attracts ventures from a wide, even global, pool. Ventures frequently relocate so they can participate in top programs. Top accelerator programs accept as few as one percent of applicants.

Education, Mentorship and Network Development

Research on incubators suggests that incubator tenants rarely take full advantage of available advice. Mentorship is typically offered for a fee by professional serv-
service providers, such as accountants and lawyers. On the other hand, intense mentorship and education are cornerstones of accelerator programs and often a primary reason that ventures participate.

Education often includes educational seminars on a wide range of entrepreneurship topics, including unit economics, search engine optimization, and term sheets. Such seminars are usually given by either the directors of the program or by guest speakers, who often provide one-on-one guidance after their talks. Seminars teach entrepreneurs about a plethora of entrepreneurial topics, which rounds out their limited experience, and connect them to speakers who are experts in their fields.

Mentorship is also frequently cited as a valuable aspect of accelerator programs, but it varies quite substantially among programs. Some programs schedule meetings with up to 75 different mentors during their first month. Others may either make introductions on an as-needed basis, or simply hand entrepreneurs a list of preselected mentors. Meeting with four or five mentors a day for nearly a month can delay other aspects of new venture development, including coding, but it provides a unique opportunity for ventures to build their social network and learn about alternate strategies. Generally, network development is cited as an important aspect of accelerator participation.

Finally, managing directors provide guidance throughout the program, helping entrepreneurs absorb and apply the knowledge they are garnering through mentor meetings, seminars, and other means.

**COMPARING ACCELERATORS AND ANGEL INVESTORS**

While accelerators are often compared to incubators, they may be more like angel investors. Importantly, both invest in nascent ventures, which they call portfolio firms. Because both are investors, their incentives are aligned with those of the founders, who want to grow their businesses and eventually go out on their own. The entrepreneurs who participated in my research concur. While none of them considered applying to incubators, nearly all either tried, or planned, to raise seed capital from angel investors. Moreover, while none of the accelerator founders who participated in my study had prior experience running incubators, nearly all were active angel investors. The accelerator format helps resolve two problems for angel investors: picking winners and modifying ventures' courses. Angel investors differ from accelerators in three key ways.

**Duration**

Paradoxically, the limited duration of accelerator programs increases the influence the programs have on portfolio ventures. An accelerator director who had been making angel investments before he started his accelerator explained that, as an angel, he was frustrated by the limited contact and influence he had with ventures, often seeing founders only at quarterly board meetings. He started the accelerator “to put structure around” the way he helps companies. Because they make invest-
ments in batches, accelerator directors spend more time with ventures. That is, they work nearly full time helping a batch of young firms for three months, and then move on to the next batch. This focused and highly structured time with nascent ventures influences the direction of the portfolio companies.

The limited duration of programs also helps assemble mentors, guest speakers, and other resources for the ventures. External supporters, like mentors, can more easily commit to the ventures since the program is short. One mentor explained that she participated in the accelerator because the required time was defined, limited, and cyclical, giving her the option to terminate the relationship periodically, though she has not done so. The limited duration also forces ventures to graduate at a prespecified time. Graduations are marked by “demo days,” where venture founders pitch their businesses to large audiences of potential investors. Again, the structured duration of the program enables the accelerators to periodically assemble impressive groups of local, regional, and national investors. It is unlikely that individual angel investors could assemble such impressive groups or attract the same level of media attention. Overall, accelerators’ time-compressed programs and social norms encourage frequent dialog between accelerator directors and participating ventures, and encourage ventures to learn and adapt quickly.

Selection

One of the most difficult aspects of angel investing is selecting the most promising ventures from groups of early-stage companies. The accelerator format helps investors select firms by combining the funds of many investors, enabling accelerators funds to spread risk across more portfolio firms. Thus accelerators hedge their bets and increase their odds of picking a home run. Moreover, accelerator fund investors can, and often do, increase their investments in some companies accelerator program. Thus, the accelerator serves as a real option for investors, enabling them to learn about a batch of ventures before taking a larger financial stake in them.

Education, Mentorship, and Colocation

Another challenge for angel investors is being able to influence the strategic direction of portfolio companies, as one managing director explained:

At the time when a venture raises money it should be hard to change their direction. You become an investor and you have some impact on them. As an angel investor everyone has the best intentions to help companies, but the reality is as an angel investor you do this as an amateur. You either have another job or you just do this as a hobby—almost as crazy as it sounds. Everyone is busy, the founders are busy, you are busy."

Angel investors might have a seat on the board and meet with their portfolio firms periodically to mentor them. They typically do not colocate with portfolio companies. In contrast, accelerator directors work alongside their participating ventures and connect them with mentors, including investors and active or former
What Do Accelerators Do? Insights from Incubators and Angels

entrepreneurs. An angel investor who was also a mentor explained that accelerators are “all about the mentoring process versus the investment business.” She elaborated: “There are similarities in that we’re evaluating opportunities, and looking at the same types of features.” However, as mentioned earlier, the accelerator provides significant amounts of education, mentoring, and advice throughout the program.

SUMMARY

In sum, accelerators have much in common with incubators and angel investors. In particular, they all want to help fledging ventures. However, accelerators are a new type of organization and differ, sometimes substantially, from incubators and angel investors. Essentially, accelerators disaggregate the financial resources and knowledge resources previously offered by incubators and angel investors, and provide more advice and less money than either one. The limited duration of accelerator programs is the feature that most clearly defines them. A consequence of this limited duration is that cohorts or batches of firms start and graduate together; this intensely focuses the attention of the founder, mentors, and accelerator directors on the nascent ventures for the duration of the programs. Periodic graduations, marked by demo days where ventures pitch groups of investors, further distinguish accelerator programs from incubators and angel investors. While accelerators are often compared to incubators, they may actually have more in common with angel investors.

1. See http://www.nbia.org/resource_library/faq/#4
8. More and more publicly backed accelerators are being formed.
12. Ibid.
Attachment 3
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.
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 $108 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.

<table>
<thead>
<tr>
<th>Location</th>
<th>Square Feet</th>
<th>Rent Per Square Foot</th>
<th>Monthly Rent</th>
<th>Annual Rent</th>
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<tbody>
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<td>15,096</td>
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<tr>
<td>Engineering Portion of Phase 3</td>
<td>3,594</td>
<td>19.80</td>
<td>5,930.10</td>
<td>71,161.20</td>
</tr>
<tr>
<td>Shipping and Receiving Portion of Phase 3</td>
<td>4,163</td>
<td>17.63</td>
<td>6,116.14</td>
<td>73,393.69</td>
</tr>
<tr>
<td>Northeast and Remaining Areas of Floor Phase 4</td>
<td>18,481</td>
<td>19.80</td>
<td>30,493.66</td>
<td>365,923.80</td>
</tr>
<tr>
<td>Rent Without Tax: 01/13/16 – 01/12/17</td>
<td>45,885</td>
<td>19.80</td>
<td>74,957.44</td>
<td>899,489.29</td>
</tr>
<tr>
<td>Rent Without Tax: 01/13/17 – 01/12/18</td>
<td></td>
<td></td>
<td>74,957.44</td>
<td>899,489.29</td>
</tr>
<tr>
<td>Rent Without Tax: 01/13/18 – 01/12/19</td>
<td></td>
<td></td>
<td>74,957.44</td>
<td>899,489.29</td>
</tr>
<tr>
<td>Total Rent Without Tax for Extension Term</td>
<td></td>
<td></td>
<td>224,872.32</td>
<td>2,698,467.87</td>
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<tr>
<td>Electricity Based on Three Sub-meters</td>
<td>11,767.00</td>
<td></td>
<td>141,204.00</td>
<td>423,612.00</td>
</tr>
<tr>
<td>Total Utilities for Three-year Extension Term</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Estimated Revenue for Extension Term</td>
<td></td>
<td></td>
<td>3,122,079.87</td>
<td></td>
</tr>
</tbody>
</table>

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