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9.2

Business Incubation Supports

Presented by: Mike Erickson, Acting Director, Economic Development

RECOMMENDED MOTION(S)

1. That the City pause financial support for the Northern Alberta Business Incubator.
2. That Administration prepare options for the divestment and redevelopment of 13 Mission Avenue for Council's consideration.

PURPOSE OF REPORT

The purpose of this report is to seek direction from Council regarding the City's financial support of business incubation in St. Albert through NABI and the future of the City-owned property at 13 Mission Avenue.

ALIGNMENT TO PRIORITIES IN COUNCIL'S STRATEGIC PLAN

Strategic Priority #2: Economic Development: Enhance business/commercial growth.

Activity #3: Implement a broader economic sustainability platform to develop commerce retention and resiliency strategies.

Activity #4: Develop strategies to enable entrepreneurial ventures and groups.

Strategic Priority #4: Identify, build and/or enhance needed critical or strategies infrastructure and identify and implement associated optimal business and operating models and lifecycle strategies.

Activity #4: Adopt a total cost of ownership approach in assessing lifecycle of existing and new assets

ALIGNMENT TO LEVELS OF SERVICE DELIVERY

Business Attraction, Retention and Expansion

- Entrepreneurship Development
- One-on-One Support for Local Businesses
- Granting for local businesses and community groups

ALIGNMENT TO COUNCIL DIRECTION OR MANDATORY STATUTORY PROVISION

N/A.

BACKGROUND AND DISCUSSION

This report will examine the key issues related to the business incubation supports in St. Albert:

1. The City's Financial Support of Business Incubation through NABI
2. NABI's Delivery of Business Incubation & Financial Sustainability
3. Strategic Asset Management of 13 Mission Avenue

NABI Overview

NABI is a not-for-profit business incubator, based in St. Albert. They have been dedicated to helping start-ups and entrepreneurs grow and scale their businesses in St. Albert and the greater Edmonton area for over 30 years. NABI helps entrepreneurs and early-stage companies through the various services, including:

- private offices
- professional workspaces, coworking, and meeting spaces
- event and classroom space
- operational support services
- networking events and support
- acceleration programs
- mentorship programs
- marketing and sales services from partner provider.

NABI currently operates out of two buildings. Their 13 Mission Avenue building is leased from the City and provides rental office space to 27 businesses. Their 200 Carnegie Drive building is owned by NABI and provides office rental space to 30 businesses.

1. The City's Financial Support of NABI

Operating Grant Support:

Since 2011, the City has provided NABI with several financial grants totaling \$86,801. An annual breakdown of the City's operating grant support can be found attached in Appendix A.

Presently, NABI has requested a one-time grant of \$120,000 from the City to serve as matching funds to support a Community and Regional Economic Support (CARES) grant that they have received from the Government of Alberta. CARES grant programs are intended for economic development related projects and organizations receiving funding must be able to match 50% of the total project cost.

Capital Grant Support:

In 2008, the City approved \$1,200,000 in funding to NABI for the purchase of their 200 Carnegie Drive building and \$100,000 to be used toward the repair and refurbishment of the 13 Mission Avenue building.

NABI purchased 200 Carnegie Drive in 2008 for a total of \$3,000,000. Funding was as follows:

Funding Organization	Funding Amount
City of St. Albert	\$1,200,000
Government of Alberta & Western Economic Diversification	\$1,050,000
NABI Financing	\$750,000

In July of 2019, NABI refinanced their 200 Carnegie Drive building.

As per a 2008 Funding Agreement with NABI, the City has a right of first refusal to purchase the 200 Carnegie Drive building at market value less 40%, should NABI elect to sell. Should NABI default on their mortgage, the City would be at risk of losing its initial \$1.2 million investment.

Miscellaneous Expenditures

Over the last 10 years the City has also had \$35,374 in miscellaneous expenditures associated with NABI. An annual breakdown of these expenditures can be found in Appendix A.

Rent Subsidy:

The City has also provided financial support to NABI through the subsidy of their lease of 13 Mission Avenue. The building is approximately 16,000 sq. ft. in total, with 7,344 sq. ft. of lease-able area. This lease has undergone a series of renewals, extensions, and amendments since 2013.

13 Mission Avenue Lease Timeline

April 8, 2013 NABI exercised an "Option to Renew" their lease for a 5-year term, expiring on November 21, 2018.

December 23, 2016 Lease renegotiated early at NABI's request. Agreement extended 2 years from December 1, 2018 to November 1, 2023.

December 7, 2018 NABI sent the City a letter initiating 180 days notice to vacate. Negotiations continue through 2019 and NABI does not vacate property.

December 5, 2019 NABI and the City agree to a new lease expiring on August 31, 2021.

From 2011 to 2019, NABI paid a nominal annual fee of \$1.00. In 2020, the City received \$20,000 in rent. In 2021, NABI will pay \$16,000 before their lease expires on August 31.

Since 2011, NABI has paid approximately \$200,000 in property tax on the 13 Mission Avenue building.

Lost Revenue:

In providing subsidized rent to NABI, the City has foregone the opportunity to earn a fair market rent for building. In 2018, Administration identified that NABI charged an average rent of approximately \$26.50/sq. ft. to its subtenants in the 13 Mission Avenue building, generating approximately \$195,000 in rental revenue. Gross rent for office space is currently averaging around \$30.00/sq. ft. in St. Albert. Had the City rented the 7,344 sq. ft. of lease-able space at 13 Mission Avenue at a fair market value, the City could have conservatively generated between \$150,000 (at a rate of \$20/sq. ft) to \$220,000 (at a rate of \$30/sq. ft) annually in gross rent.

Operating Expenses Subsidy:

While NABI is responsible for operating expenses at the 13 Mission Avenue building, such as the cost of utilities and regular maintenance, the City is required to keep the foundation, roof, exterior walls, structure sub-floors, bearing wall, columns, beams and other structural element of the building in good condition.

Since 2011, the City has spent \$85,676 to maintain, insure, and repair 13 Mission Avenue. The most recent expense was \$66,060 spent in 2020 to make repairs to the roof. Annual building repairs and maintenance expenses to the City from 2011 to 2020 can be found in Appendix A.

Summary of City's Financial Support from 2008 to 2020:

As outlined, the City has provided several different forms of financial support to NABI totaling close to \$3 million.

Form of Support	Total (2008-2020)
Operating Grant Support	\$86,801
Capital Grant Support	\$1,300,000
Miscellaneous	\$35,374
Rent Subsidy / Lost Revenue*	\$1,480,000
Operating Expense Subsidy	\$85,676
Total	\$2,987,851

**Estimated based on fair market value (\$20/sq. ft.)*

2. 2. NABI's Delivery of Business Incubation & Financial Sustainability

A business incubator is a place for businesses to start comfortably and quickly develop the skills, tools and knowledge to operate independently. This is done through a variety business supports and services, including space, capital, coaching, common services, and networking connections.

Industry Focus Consideration

Business incubators operate under many different models. Some are oriented toward specific sectors, some focus on technology driven industries, and other are broader in the focus.

NABI has indicated that much of their efforts are concentrated on incubating technology companies, however the number NABI serves is relatively low; Approximately 15% of their tenants are technology companies. Conversely, NABI provides support to a high percentage of personal and professional service tenants, such as mental and physical health services, as well as financial and legal services. These account for over 75% of the businesses in the 13 Mission Avenue building.

While all types of businesses can benefit from incubation and entrepreneurial support services, the business sectors that NABI concentrates their support efforts on may be worth considering, when evaluating future financial support.

Business Graduation

While each business will develop at its own pace, business typically spend 12 to 24 months in an incubator before graduating and moving out on their own. Incubators are not intended for business to operate from indefinitely.

NABI's model for entrepreneurial incubation lacked a formalized graduation program up until 2019, when it was first proposed. At that time NABI indicated they would introduce this program slowly, transitioning 10 to 20% of their lease-able space to a graduation model.

Without a steady cycle of graduating businesses moving out and new businesses moving in, NABI is essential providing long-term rental space to established businesses. Lack of graduation presents several significant concerns:

- It limits the space available to new entrepreneurial businesses looking for incubation supports.
- Business that do not graduate are limited in their ability to increase their number of employees or expand physically and occupy larger office and commercial spaces with St. Albert.
- It puts the City in a position where it is indirectly providing subsidized rent, through NABI, to long-standing, well established business who are no longer in need of incubation services.
- The City could be perceived as providing exclusive long-term financial support to a select group of businesses.
- The City could be perceived as funding and supporting direct competition to private sector office and commercial property owners within St. Albert.

Financial Sustainability

Administration has serious concerns regarding NABI's financial sustainability. Some of these concerns pertain to the number of annual losses NABI has realized over the last several years, their

debt, the size of their financial reserves, and some of their some operating expenses.

Administration believes that these items should be taken into consideration should Council wish to provide further financial support to NABI. Administration has not had an opportunity to discuss these concerns in detail with NABI, but believes it would be prudent to seek an independent audit of their financials, should the City wish to provide further financial support.

3. Strategic Asset Management of 13 Mission Avenue

The building located at 13 Mission Avenue is approaching 80 years and reaching end of life. City records indicate that the condition of this aging building has been a concern for close to a decade. In 2015, Administration conducted an assessment of the building's condition. It was determined that over the next ten years, substantial improvements would be needed to address concerns with the roof, building envelope, windows, heating and ventilation, plumbing, hot water system and electrical.

This City asset has reached a point where it is necessary to either make a substantial investment to bring the building up to current standards or dispose of the property.

Investment to Bring to Current Standards:

The cost to update the building to current standards was estimated in 2015 to be between \$750,000.00 and \$810,000.00 inclusive of windows, stucco, roofing, electrical, mechanical, water, and sewer. This cost has likely increased since then. Some repairs to the roof membrane were performed in 2020.

Disposal of Property:

This property is also considered very marketable and is in an excellent location. The Direct Control zoning would provide Council with ultimate authority on districting and use of the site, subject to servicing capacity, traffic impacts, and an amendment to the Land Use Bylaw. This flexibility would allow for a variety of development types and used. Some examples include:

- **Commercial office** - Similar to its current use, the site could be redeveloped with a new office building. A new office development could allow for improved site coverage and increase building heights. This would create additional office space for local businesses and would generate additional assessment.
- **Multi-family residential** - The site could be redeveloped for multi-family residential use. A variety of different multi-family product types, sizes, and densities could be considered. Continued population growth in downtowns is paramount to their long-term economic viability.
- **Mixed-use** - A mixed-use development on this site could provide the benefits of both commercial and residential uses, potentially allowing for some ground floor neighbourhood-level retail offerings to more conveniently serve residents in the nearby Mission neighbourhood.

A new development of similar size and use on this land would conservatively generate an additional \$50,000 in property tax. Further height allowance and mixed or commercial uses would also provide additional assessment value and density.

Should the City proceed with demolition and sale of the land, a competitive procurement process would be necessary for required services.

STAKEHOLDER COMMUNICATIONS OR ENGAGEMENT

Administration has had frequent dialogue and meetings with NABI, through their Executive Director, regarding their operations, requests for financial support, and their lease with the City. On April 19, NABI informed their subtenants of the August 31 expiration date of their lease with the City. Administration is working with NABI to help subtenants, who are unable or adverse to relocating to NABI's 200 Carnegie Dr. building, to find alternative space within St. Albert.

On April 28, 2020, the City provided NABI with a letter in support of their application to receive an Alberta Innovates Alberta Scale-Up and Growth Accelerator Program.

IMPLICATIONS OF RECOMMENDATION(S)

Financial:

1. **NABI's Operating grant request** - NABI's current request for financial support of their operations would result in a one-time increase of \$120,000.00 to the City's 2021 operating budget.
2. **Demolition and Sale of 13 Mission Ave** - The sale of 13 Mission Avenue could net the City \$750,000 to \$1,000,000 after demolition, legal and real estate fees. A new development would also provide additional property tax assessment.
3. **200 Carnegie Drive Building** - There is some uncertainty and financial risk with respect to the City's \$1.2 million investment in NABI's 200 Carnegie Drive building, should NABI's financial challenges continue.

Legal / Risk:

The City may be subject to reputational risk in pausing support of NABI and demolishing the 13 Mission Avenue building. NABI is a long-standing St. Albert based organization that has traditionally received financial support from the City. Some of NABI's tenants are well rooted at the 13 Mission Avenue building, having occupied space there for upwards of 10 years.

If NABI defaults on the mortgage on the 200 Carnegie Drive building, there is a risk that the City could lose its investment in that property.

Program or Service:

1. **Incubation and Entrepreneurship Services** - With NABI's reduced resources and capacity, City Administration will need to provide additional short-term support services to NABI subtenants and may need to identify additional long-term resources, internal or external, to support start-ups and early-stage entrepreneurs.

Organizational:

1. **Organizational Capacity** - Changes in the incubation and local entrepreneurship support ecosystem will likely impact the Economic Development department's workload. The department has a

large mandate relative to its size.

Other

1. NABI's Financial Sustainability - With NABI already facing significant financial challenges, due to several years of operating deficits, increasing debt, and lack of reserves, any reduction in financial support would compound their challenges.
2. Impact on Subtenants - The expiration of NABI's lease of 13 Mission Avenue on August 31, 2021 will impact their 27 subtenants, requiring them to relocate on or before that date.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

If Council does not wish to support the recommendation, the following alternatives could be considered:

Alternative 1

1. That NABI's request for a one-time operating grant of \$120,000 City to serve as matching funds to support a Community and Regional Economic Support (CARES) grant that they have received from the Government of Alberta be approved.
2. That Administration obtain an updated estimate for the improvement required to make 13 Mission Avenue a safe and viable long-term space for NABI.

Alternative 2

Do nothing.

Report Date: May 17, 2021
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