



INFORMATION PACKET MEMORANDUM

To: Mayor and Members of Council

From: Jane S. Brautigam, City Manager
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Date: June 1, 2017

Subject: Information Item: Report on Business Incentive Programs

EXECUTIVE SUMMARY

This memorandum provides an update on the City of Boulder's two business incentive programs managed by the city's Economic Vitality staff in the Community Vitality Department.

The **Flexible Rebate Program** authorizes the city manager to approve a rebate of eligible fees and taxes for primary employers that meet certain economic, environmental and social sustainability guidelines. The program is an important business retention tool for encouraging primary employers to remain and grow in Boulder rather moving to other communities. In 2016, rebates totaling up to \$395,000 were approved for seven Boulder companies representing a variety of industries and sizes. According to a return on investment analysis completed by the Boulder Economic Council (BEC), the estimated net return is \$9.40 to the city for every \$1.00 approved for rebate for those companies.

Since 2007, 71 rebates totaling \$3.3 million have been approved by the city manager through the flexible rebate program. BEC estimates show the average return on investment over that time was \$9.88 for every \$1.00 approved for rebate.

The **Boulder Microloan Program** is a public-private partnership that provides working capital to small businesses and non-profit organizations in the Boulder area that may not have access to traditional financing. In 2016, 13 small businesses received loans through the program, ranging from \$2,825 to \$73,105 (\$439,428 total). Half the borrowers represented women-owned businesses and more than half were low-income wage earners. Loans ranged from \$2,825 to

\$73,105. Small businesses that received loans through the program in 2016 were able to create or retain a total of 175 jobs.

Since the program was introduced in 2009, 91 loans totaling nearly \$3.5 million have been made through the microloan program to a wide variety of small businesses enabling borrowers to create or retain 836 jobs.

FISCAL IMPACT

The city manager approved a total of \$395,000 in rebates through the **Flexible Rebate Program** in 2016, including the program's annual budget of \$350,000 and \$45,000 in unused rebates from prior years that were reinvested in the program.

Between 2009 and 2016, grants totaling \$400,000 (\$50,000 average/year) have been provided by the City of Boulder to help fund the **Boulder Microloan Program**. City funds have been leveraged with more than \$1.5 million in loans from participating banks, and funding from other CEF sources.

COMMUNITY SUSTAINABILITY ASSESSMENTS AND IMPACTS

- **Economic:** The Flexible Rebate Program is a tool that is used to encourage the retention and, in some cases, relocation of businesses to Boulder. The Boulder Microloan Program helps provide working capital to businesses that may not be able to obtain financing from traditional sources. Businesses served by these programs support the local economy by paying local taxes, providing jobs, purchasing goods and services from other local businesses and investing in facilities and equipment. These businesses contribute to city revenue directly through sales, use, and property taxes, permit fees associated with remodeling and construction projects and indirectly through employee and visitor spending.
- **Environmental:** Businesses approved for incentives through the Flexible Rebate Program are required to meet environmental sustainability guidelines. The program application provides information about commute trip reduction and other sustainability programs and resources. Business that are retained in Boulder rather than relocating to other communities have the opportunity to use the city's alternative transportation, waste reduction, water conservation, and energy efficiency resources.
- **Social:** To be eligible for the city's Flexible Rebate Program, companies are required to meet social sustainability guidelines such as paying above average wages, offering health insurance benefits, and supporting workforce diversity and local non-profits. A significant percentage of small businesses that receive funding through the Boulder Microloan Program represent women- or minority-owned businesses and many are low income wage earners. Businesses served by these programs Boulder's social services are funded through tax revenues and supported by a healthy and diverse economy. Business incentives encourage businesses to invest in Boulder and support a strong local economy.

BACKGROUND

The Flexible Rebate Program and Boulder Microloan Program are managed by the Economic Vitality (EV) Program, part of the Community Vitality department. Both business incentive programs support the city's economic vitality goals of maintaining a healthy and diverse economy through the creation, retention and expansion of businesses in Boulder.

Flexible Rebate Program

The Flexible Rebate Program was introduced in 2007 to help encourage businesses to expand in Boulder rather than move to other communities. The program has been an effective business retention tool. Several businesses have indicated that a rebate has been an important consideration in their decision to remain in Boulder.

The program authorizes the city manager to approve a rebate of certain permit fees and sales and use taxes paid to the city by primary employers* that meet eligibility criteria and demonstrate sustainable business practices. Rebate recipients represent a wide range of business types and sizes, reflecting the diversity of Boulder's economy.

Boulder Microloan Program

The Boulder Microloan Program is a public-private partnership of the City of Boulder, local banks and the Colorado Enterprise Fund (CEF), a non-profit lender that provides working capital to small businesses that may not be able to obtain financing through traditional sources.

Under an agreement with the city, CEF manages the program and provides technical assistance to borrowers. Potential clients are referred by the Boulder Small Business Center (SBDC), local banks, the city's economic vitality staff and others. An advisory board, which includes representatives from CEF, City of Boulder, local banks and the SBDC, meets periodically to review the program and identify areas for improvement and opportunities to expand the program's reach

Businesses in a range of industries have received loans through the program, enabling them to support the local economy and community by providing important services and generating sales taxes. As loans are repaid, money is returned to the fund for future borrowers. In addition, CEF leverages the microloan fund with grants and other funding sources to increase the funds available to borrowers.

ANALYSIS

Flexible Rebate Program

In 2016, rebates for seven primary employers were approved by the city manager through the Flexible Rebate Program. Approved rebate amounts ranged from \$5,000 to \$90,000 for a total of \$395,000. The diversity of companies approved for rebates reflect city goals and community values by supporting a diverse economy and encouraging both small and large companies to remain and expand in Boulder. Companies receiving rebate approvals range in size from 27 to

* Primary employers are defined by ordinance as a business with any number of employees that generates more than 50% of its revenues from outside Boulder County, excluding hotels, motels, restaurants and retailers.

276 employees and represent a variety of industries including IT, beverage manufacturing, publishing and professional services. Two of the seven companies, Sphero and Egg Strategy, were considering locations in other communities and have indicated the rebate program was a factor in their decision to remain and expand in Boulder. Businesses approved for a flexible rebate incentive in 2016 are highlighted below.

Agilent Technologies opened a Boulder location in 2006 where it develops and manufactures pharmaceutical ingredients that have a wide range of valuable medical and scientific applications. The company was approved for a \$90,000 rebate to help offset the cost of a \$23.7 million expansion to increase its lab capacity, provide space for its growing workforce and purchase new equipment to improve operational efficiency.



Avery Brewing was founded in Boulder in 1993 and after outgrowing its space, the company opened a new brewery in Gunbarrel in 2015. The company's taproom and restaurant serve as a popular visitor destination and important amenity for the area. In 2016, the company was approved for a rebate of \$80,000 to help offset the cost of a new \$12 million expansion to its manufacturing facility. The new project includes a concrete structure and ten additional fermentation tanks to keep up with growing demand.

Egg Strategy was started in Boulder by in 2006 and has grown to over 60 employees. The company is part of the city's creative services industry and provides consumer insight and brand strategy services for many of the world's best known consumer brands. After considering a move to another community, the company decided to expand to a larger space in Boulder.



NetApp (formerly Solidfire) is a fast-growing company that develops and sells high-performance data storage devices. The company has been in Boulder since 2011 and was acquired by California-based NetApp in February 2016. NetApp was approved for a rebate of \$80,000 and the company used the funds to help offset the cost of its expansion in downtown Boulder in the Pearl West building.



New Hope Natural Media provides information and resources to manufacturers, distributors, retailer and others in the natural and organic products industry. The company has been in Boulder since the early 1980s, and has played a key role in establishing the city's prominent

position in the industry. After outgrowing its office on Pearl Street in downtown Boulder, the company decided to move to Flatiron Park. The \$50,000 rebate helped offset the company's relocation costs.



Sphero was founded in 2010 in Boulder by graduates of the TechStars program. The company created a new product category, interactive play, that combines

robotic and digital technology. One of the company’s best known products is BB8, a robotic toy based on a Star Wars character that can be operated using a smartphone. To accommodate its growth, the company considered locations in other communities. The company was approved for a rebate of \$75,000 to help offset the cost of expanding in Boulder.

Vertiba is a cloud-based software company headquartered in Boulder that moved to a larger space. A \$5,000 rebate was approved to help offset the cost of energy efficiency upgrades for the company.

Financial Return – To provide an independent evaluation of the Flexible Rebate Program, the City of Boulder hired the Boulder Economic Council (BEC) to review the program and perform a return on investment (ROI) analysis. The BEC’s analysis is a conservative estimate based on the following information provided by rebate recipients: number of employees (total and number living in Boulder), capital expenditures and facility improvements, indirect employment based on industry-specific job multipliers, employee (direct and indirect) spending in Boulder, number of overnight visits to Boulder by company clients and prospects, and taxable local sales.

The BEC’s analysis estimated an overall net return of \$3,336,512 (net present value) to the city with a **return on investment of \$9.40 for every \$1.00 approved for rebates** in 2016. The ROI on rebates for individual companies ranged from \$4.81 to \$17.83.

2016 Approvals	Industry	Net return each \$1 approved**	Approved Rebate
Agilent Technologies	Manufacturing - Pharmaceuticals	\$8.73	\$90,000
Avery Brewing	Manufacturing – Beverage	\$17.83	\$80,000
Egg Strategy*	Marketing Research	\$6.68	\$15,000
NetApp	IT – Computer Storage Devices	\$9.66	\$80,000
New Hope Media	Publishing – Natural & Organic	\$4.97	\$50,000
Sphero*	IT – Interactive Toys and Apps	\$4.81	\$75,000
Vertiba	IT – Software	\$10.33	\$5,000
Total		\$9.40	\$395,000

*Considered locations outside Boulder; **Net return per \$1 approved for rebate as calculated by BEC

Between 2007 and 2016, 71 rebates totaling \$3,348,480 were approved through the program, ranging from \$3,814 to \$100,000 with an average of \$47,655.

Program Year*	# of Rebates Approved	Approved Rebate Total	Net return for each \$1 approved**
2007	7	\$500,000	\$14.41
2008	8	\$322,135	\$8.78
2009	7	\$209,979	\$28.89
2010	7	\$320,366	\$11.81
2011	6	\$281,000	\$2.96
2012	9	\$395,000	\$3.61
2013	10	\$455,000	\$7.86
2014	10	\$470,000	\$8.72
2015	7	\$395,000	\$9.40
Total	71	\$3,348,480	\$9.88

*2015 Flexible Rebate Program rebates were approved in 2016; **Net return per \$1 approved for rebate as calculated by BEC

Sustainability Impact – Businesses approved for a rebate last year actively participate in programs that support the city’s sustainability goals including increased energy efficiency, use of alternative transportation and support for local businesses and non-profits organizations. Rebate recipients are required to comply with a minimum number of social sustainability and community and environmental sustainability guidelines such as:

- Requesting energy assessments and participating in energy efficiency programs
- Participating in the EcoPass Program and Commute Trip Reduction programs
- Providing significant support for Boulder County non-profit organizations
- Adopting business practices that support sustainability
- Providing health insurance benefits for employees and paying above average wages

Boulder Microloan Program

In 2016, the Boulder Microloan Program provided loans totaling \$439,428 to 13 small businesses. Loans ranged from \$2,825 to \$73,105 (loans larger than \$50,000 were made using microloan program funds combined with other CEF funding sources per program requirements). Loan repayment terms ranged from 38 to 99 months and interest rates ranged from 8.99% to 11.99%. Borrowers were able to create or retain a total of 175 jobs. Eight of the borrowers are women-owned businesses, five self-identify as ethnic or racial minority and nine are low income wage earners. Six borrowers had previously received loans through the program.

In addition to funding, borrowers were provided with access to CEF’s Business Acceleration Services (BAS) which offers individual consulting and education customized to meet business owners’ needs.



From 2009 through 2016, 91 loans totaling \$3,492,800 were made through the Boulder Microloan Program. Borrowers include restaurants, childcare providers, microbrewers, landscapers, manufacturers, software designers and businesses in many other industries.

Boulder Microloan Program	2009-2016	2016	2015	2014	2013
Number of loans made	91	13	15	17	8
Total capital financed	\$3,492,800	\$439,428	\$675,318	\$774,561	\$320,000
Total jobs created or retained	836	175	142	152	149
Women-owned businesses	46%	62%	56%	47%	50%
Ethnic or racial minority	17%	38%	-0-	30%	13%
Low income wage earners	52%	69%	44%	42%	25%

NEXT STEPS

Boulder Economic Council analysis findings and feedback from businesses indicate the Flexible Rebate Program continues to be a useful, cost effective business retention tool. The city’s economic vitality staff will continue to manage the program and identify potential applicants through meetings with businesses and ongoing collaboration with economic vitality partners and commercial property owners and brokers.

The Boulder Microloan Program has helped increase the amount of working capital available to small businesses in the Boulder area. Last year, the city's economic vitality staff worked with CEF to explore options for increasing program funding through greater participation from banks and opportunities to leverage funds through grants and other programs. As a result, \$925,000 was added to the fund, increasing the program's capacity to serve more borrowers. EV staff will continue to serve on the advisory board and manage the city's participation in the program. CEF will continue working with the Small Business Development Center and local banks to identify small businesses that may find the program to be a good fit.

Please contact Jennifer Pinsonneault (PinsonneaultJ@bouldercolorado.gov) with any questions or for more information.