



# City of San Antonio

## Agenda Memorandum

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**Agenda Item Number:** 5

**Agenda Date:** February 28, 2023

**In Control:** Economic and Workforce Development Committee Meeting

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**DEPARTMENT:** Economic Development Department

**DEPARTMENT HEAD:** Brenda Hicks-Sorensen

**COUNCIL DISTRICTS IMPACTED:** Citywide

**SUBJECT:**

A briefing on a Second-Stage Company grant program and a Small Business Innovation Research and Small Business Technology Transfer matching grant program.

**SUMMARY:**

This is a briefing on a Second-Stage Company grant program and a Small Business Innovation Research and Small Business Technology Transfer (SBIR / STTR) matching grant program. The Second-Stage Company grant program will support established, export-oriented, small businesses with a detailed growth plan and the SBIR/STTR matching grant program will support research-focused, small businesses that have received a federal SBIR/STTR grant. Funding allocated within the FY 2023 EDIF will support these two programs.

**BACKGROUND INFORMATION:**

The City of San Antonio's Economic Development Strategic Framework, facilitated by TIP Strategies and adopted by City Council on October 20, 2022, emphasizes providing effective small

business support and facilitating innovation-centric entrepreneurship. The Second-Stage Company grant program is intended to support export-oriented, small businesses that have moved beyond the start-up phase, have a concrete plan for growth, but have not yet reached maturity.

Second-stage companies have surpassed the “survival” start-up phase, have identified customers and product market fit, and are focused on growth instead of survival. The Edward Lowe Foundation defines second-stage companies as those with about 10 to 99 employees and \$1 million to \$50 million in annual revenue. These companies have often grown to the point where they are beyond the control of one executive but may not have a full executive team yet. Second-stage companies are often overlooked as an integral segment of the local economy. YourEconomy.org reported that from 2005-2015, second-stage companies represented about 17 percent of U.S. establishments, yet they generated 37 percent of all jobs and nearly 36 percent of sales.

The SBIR/STTR programs are the largest federal competitive grant program for small businesses which have a research and development (R&D) focus and a high potential for growth. Several state and local governments employ matching SBIR/STTR grant programs since awardees have been screened by Federal agencies’ rigorous review process. STTR requires the small business to work with a nonprofit research institution with a minimum work requirement of 40% for the small business and 30% for the research institution partner. The federal grantor agencies utilize a competitive scoring process to award SBIR/STTR grants. Program goals include meeting federal R&D needs, increasing private-sector commercialization of innovation derived from federal R&D funding, stimulating technological innovation, encouraging participation in innovation and entrepreneurship by women and socially/economically disadvantaged individuals, and, for the STTR program, technology transfer through cooperative R&D between small businesses and research institutions.

In 2021 the overall minimum spend for SBIR/STTR grants was \$3.88 billion with 3,954 grants disbursed. The SBIR/STTR programs are both multiphase. Phase I is to establish the technical merit, feasibility, commercial potential of the proposed R&D efforts, and to determine the quality of the performance of the small business awardee organization. Awards generally range from \$50,000 - \$150,000, with support for 6 months (SBIR) or 1 year (STTR). Both the SBIR and STTR programs are highly competitive. In 2019 the SBIR Phase 1 grant applicants success rates range from 16% to 26% for major sponsoring agencies. Phase II federal funding is based on the results achieved in Phase I and the scientific and technical merit and commercial potential of the project proposed in Phase II.

The SBIR/STTR matching grant program would support San Antonio small businesses that have a high potential for growth. Due to their R&D nature, these companies could potentially create new markets and be export oriented. They have had their technology and commercialization potential vetted by federal agencies in a competitive manner but are usually in the “valley of the death” between bootstrap/seed capital and profitability. SBIR/STTR grants also serve as a signaling mechanism for early-stage companies seeking capital since they demonstrate to investors that subject matter experts at federal agencies value the company’s intellectual property and commercial potential.

**ISSUE:**

EDD would administer the Second-Stage Company grant program. Eligible companies would be San Antonio headquartered, for-profit, privately owned, have \$1-\$50 million in annual revenue, between 10-99 employees, export-oriented, and provide documentation that the company has grown in revenue and/or jobs in at least two of the last five years. Recipients would need to pay their full-time employees at least \$17.50 per hour, provide workers compensation and healthcare packages, and provide compliance reporting for three years post award. Grants would be up to \$50,000 per successful applicant.

Applicant second-stage companies would need to submit a growth plan containing at least one of three of the following strategies: market development, product development, and/or diversification. Companies will also need to submit a three-year growth plan consisting of a description of expansion opportunities, financials goals broken down by quarter and year, a marketing plan, a financial plan, and a breakdown of staffing needs and responsibilities. Grant levels will be based on applicant's stated growth needs and accompanying leverage resources. Grants would be dispersed on a first come, first-need basis. The program would be capped at \$500,000 in EDIF funding for FY 2023.

The SBIR/STTR program would be a matching grant to the federal awards to support San Antonio headquartered SBIR/STTR recipients. The Phase I matching grant would be up to \$50,000 and the Phase II matching grant would be up to \$75,000. The total program would be capped at \$500,000 in EDIF funding for FY 2023. If there are more SBIR/STTR recipients than EDIF funds available, the City would prioritize awarding matching grants to recipients that have the best overall score assigned by the federal agency reviewers.

In order to apply, recipients must have 40 or fewer employees, agree to maintain their headquarters in San Antonio for the duration of the SBIR/STTR grant, and if a Phase I recipient, agree to apply for a SBIR/STTR Phase II grant. Once matching grant companies agree to the terms stipulated in the award letter, the company will receive 75% of the Phase I award matching grant and may apply for the remaining 25% of the grant upon submitting an accepted final Phase I report and a Phase II proposal to the federal agency.

Use of matching funds is restricted to costs that are directly related to the project funded by the Phase I or II SBIR/STTR award. These costs include, but are not limited to, direct costs for additional technical work, product testing and validation, intellectual property protection, market research, patent search, business development plan, hiring of new high paying technical and business employees and small equipment. A business may receive only one grant per calendar year and may receive only one grant with respect to each federal proposal submission. Over its lifetime, a business may receive a maximum of two matching grant awards. One for a Phase I grant and one for a Phase II grant.

In addition to the SBIR/STTR Phase I and Phase II matching grant, EDD would also award up to five, \$2,000 SBIR/STTR Phase 0 grants per year, which funds companies to prepare their Phase I federal grant submittal. This early support is designed to increase the competitiveness and success rate of San Antonio applicants. A Phase 0 matching grant review committee, composed of commercialization personnel from universities and accelerators, would score Phase 0 grant

applications. Acceptable uses for Phase 0 grants include: consulting services for application, travel to meet with agencies and commercialization partners, project data development, and activities directly related to SBIR/STTR proposal.

Both programs are allowable under the approved City of San Antonio Economic Development Chapter 380 Policy, adopted by City Council on December 1, 2022, and effective January 1, 2023.

**FISCAL IMPACT:**

Funding for the Second Stage Company program (\$500,000) and SBIR/STTR matching grant program (\$500,000) is available in the FY 2023 Economic Development Incentive Fund.

**ALTERNATIVES:**

Should EWDC choose not to approve this item, the Economic Development Department will collect feedback from the Committee on ways to support San Antonio small businesses with high growth potential.

**RECOMMENDATION:**

Upon favorable feedback from the Economic and Workforce Development Committee, staff will proceed with implementation of the Second-Stage Company grant program and SBIR/STTR matching grant program. Grant awards under these two programs will be presented for City Council consideration once application and review process are completed.