

Staff Report



Development Services Department

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REPORT TO: Finance and Corporate Services Committee

DATE OF MEETING: April 22, 2024

SUBMITTED BY: Cory Bluhm, Executive Director Economic Development
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PREPARED BY: Brian Bennett, Manager Business Development,
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WARD(S) INVOLVED: Ward(s) All

DATE OF REPORT: April 11, 2024

REPORT NO.: DSD-2024-145

SUBJECT: Communitech Partnership

RECOMMENDATION:

That the Mayor and Clerk be authorized to execute a Partnership Agreement with Communitech as outlined in DSD-2024-145, subject to review by the City Solicitor; and,

That \$500,000 from the Economic Development Investment Fund 2.0 be allocated in each of the 2024 and 2025 budget years to Communitech for programming outlined in report DSD-2024-145; and further,

That the General Manager of Development Services be authorized to extend funding to Communitech for each of the 2026 and 2027 budget years, subject to the following:

- i) the availability of funding within the Economic Development Investment Fund 2.0, as outlined in report DSD-2024-145;
- ii) Communitech's adherence to the goals outlined in DSD-2024-145; and,
- iii) Staff's determination that the needs articulated in report DSD-2024-145 remain relevant.

REPORT HIGHLIGHTS:

- The purpose of this report is to renew the City of Kitchener's partnership with Communitech from 2024 up to 2027.
- The key finding of this report is that there is a need to supercharge the local startup ecosystem, with a particular focus on Downtown Kitchener, and Communitech is a key partner to deliver supports to startups and scaling companies.

*** This information is available in accessible formats upon request. ***
Please call 519-741-2345 or TTY 1-866-969-9994 for assistance.

- The financial implications are a \$500,000 investment in each of the 2024 and 2025 budget years. A further \$500,000 investment in each of the 2026 and 2027 budget years at the City of Kitchener's option, with funding coming from the Economic Development Investment Fund 2.0 subject to the stipulations outlined in DSD-2024-145.
- Community engagement included this report being posted to the City's website with the agenda in advance of the committee meeting. Communitech member organizations were interviewed as part of the proposed startup strategic alignment.
- This report supports **Creating an Economically-Thriving City Together: Focuses on growing an agile, diverse local economy powered by talented entrepreneurs, workers & artists; creating opportunities for everyone and a resilient future that propels our city forward.**

BACKGROUND:

The City of Kitchener has had a long-standing partnership with Communitech since its inception in 1997. In 2010, the City invested \$500K in the Communitech Hub to assist with its relocation to the Tannery located at 151 Charles St W, Kitchener. In 2016, the City invested \$1.5M in Communitech to assist with their expansion, leasehold improvements and expanded programming. This investment enabled Communitech to significantly increase their economic impact based on a study completed by Deloitte. In 2021, the City invested \$1.5M over 3 years to support growth in the founder, startup and scaleup sector due to the adverse impact the pandemic had across the business and technology sector.

Communitech has 1000+ members and operates the Communitech Hub where tech startups and scaleups are incubated, corporate innovation labs are located and coworking space is available for lease. The City of Kitchener has an Innovation Lab in the Hub, with a focus on solving municipal problems. Communitech helps anchor the Toronto-Waterloo Region corridor, the 18th largest tech ecosystem in the world in 2023, improving from 24th in 2022 according to CBRE. In addition to the Hub, Communitech supports the following initiatives:

CANHealth Network:

Coordinated Accessible National Health Network provides Canadian Health innovation companies with an integrated marketplace by removing common access barriers that prevent business from growing and scaling to their full potential and procurement.

ElevateIP:

Nationwide project to assist business accelerators and incubators to support startups in strategically managing and leveraging their intellectual property, with \$38M provided through Innovation, Science and Economic Development Canada.

Business and Economic Support Team Waterloo Region:

Communitech is an active participant of this initiative formed during the pandemic to support businesses.

REPORT:

Since 2010, Communitech has been a key partner in the transformation of Downtown Kitchener (and the broader community) into a globally relevant startup and tech ecosystem. However, the COVID-19 pandemic caused significant shifts to this ecosystem:

- Startup services (training, mentorship, etc.) were forced to transition from in-person to virtual platforms;
- A change to in-person office behaviours away from collaborative co-working environments to work-from-home offices; and,
- Major office-based companies opting for completely remote, hybrid or reduced footprint workspaces.

As a result, Downtown Kitchener has experienced significant negative impacts, including the following:

- Fewer startups operating in-person at the Communitech Hub, resulting in fewer collisions, networking and community building;
- The traditional funnel of companies graduating from the Hub and locating in office space in Downtown Kitchener has diminished;
- Major office companies wanting to locate downtown to be close to talent/emerging startups has diminished significantly; and,
- An overall loss of startup “buzz” that was prevalent prior to the pandemic.

This has contributed to a 27% office vacancy in Downtown Kitchener, one of the highest of any urban area in Canada. As such, staff are proposing a partnership with Communitech to “supercharge the startup pipeline” with a focus on local, in-person programming.

Proposed Partnership (Investment funding shown is annual)

To enhance the startup pipeline”, Communitech would deliver the following programming, on-site at the Hub annually, which requires an annual investment from the City of \$500,000:

1) *Supporting Founders exploring entrepreneurship* (\$200,000)

Activities will include:

- Create and execute a combination of community outreach and a series of discovery and validation stage programs for early-stage tech startups; and,
- Incubate 450 new startups annually, with the number of new startup companies to be reported quarterly and annually.

2) *Discovery Stage Bootcamp and Community events* (\$40,000)

Activities will include:

- Support 30-50 companies per year, with the bootcamp 8 weeks in length to refine ideas and identify potential markets;
- Dedicated cohort space; and,

- Four quarterly community events targeted at groups/individuals that are exploring entrepreneurship.

3) *Validation Stage Bootcamp* (\$20,000)

Activities will include:

- Support 20 companies to move from discovery to early validation.

4) *Startup Intensive Track* (\$20,000)

Activities will include:

- Support 5 late-stage startups/scaleups that are in early revenue generation and validation stages.

5) *Communitech Founder Showcase Event* (\$20,000)

Activities will include:

- Compliment the Communitech Annual Meeting, enabling bootcamp participants to showcase their companies through demonstrations and displays.

6) *Fierce Founders* (\$200,000)

Activities will include:

- Support underrepresented groups to establish and grow their ventures;
- Support 30 Fierce Founders annually through the Fierce Founders Bootcamp, Uplift and Intensive Track Programs;
- Support 10-15 companies per year focused on pre-validation, idea refinement and identifying potential markets;
- Deliver 'Uplift', a 7-month program to support 10 companies with each receiving \$10,000 in non repayable funding focussed on market sizing and go to market strategies;
- Expand leadership and business skills through one-on-one coaching; and,
- Deliver 'Intensive Track' a 9-12 month program for 10 companies focused on finding product market fit, growing revenue and investment attraction.

7) *MedTech Innovation* (no additional investment required by the City)

Activities will include:

- Develop the MedTech ecosystem programming, validation, IP protection, financial literacy, commercialization support and investment attraction; and,
- Host an Annual CEO dinner.

8) *Communitech Peer2Peer* (no additional investment required by the City)

Communitech will create connections between member companies by expanding their Peer2Peer networks through sessions and events.

9) Make It Kitchener Coworking Area & Recognition (no additional investment required by the City)

Communitech will establish a coworking area within the Hub, branded Make It Kitchener, providing free workspace for Founders of many of the above noted programs. For each of the programs listed above, Communitech will ensure Founders and participants are aware of the City's support for these programs.

Reporting

Communitech will provide the City of Kitchener with quarterly reporting on the objectives of each program and provide the City with a summary annual report.

Funding:

Not unlike the Waterloo Region Small Business Centre, Communitech is a program delivery organization. It can only deliver programs based on the funding it receives and generates. In order to deliver the scale of programming proposed above, the City would need to contribute \$500,000 annually. Communitech receives funding from both Fedev Ontario (Federal) and the Provincial Government, which is leveraged off the City of Kitchener's initial investment.

Communitech receives membership fees from its 1,000+ members. Pre-pandemic, Communitech's objective was to be funded more than 50% through the private sector with government funding providing the balance. The current ratio is 43% private sector and 57% government. Communitech plans to restore private sector funding in excess of 50%. Deloitte is currently preparing a new economic impact for fiscal 2024 which concludes with Communitech's year end of March 31, 2024.

Business Case:

The business case in Attachment A outlines the rationale for the City's continued support of Communitech.

Term:

To maximize impact, Communitech has identified the need to deliver the above listed programming over a 4-year period. Staff recommend committing to a 2-year initial term with conditions for extension by up to two years, based on two primary considerations – 1) the availability of funding, and 2) the uncertainty of the changing office market. As such, staff propose that funding be committed for 2024 and 2025. Funding for 2026 and 2027 would be subject to the following conditions:

- Land sale revenues having been added to the City's Economic Development Investment Fund 2.0 (EDIF 2.0);

- Communitech achieving the objectives and milestones contained in the partnership agreement; and,
- City staff determining that the needs and justification articulated in the attached business case remain relevant.

Should this approach be acceptable to Council, the decision to extend the term of the agreement would be delegated to staff based on the above conditions.

STRATEGIC PLAN ALIGNMENT:

This report supports “Creating an Economically-Thriving City Together: Focuses on growing an agile, diverse local economy powered by talented entrepreneurs, workers & artists; creating opportunities for everyone and a resilient future that propels our city forward”.

FINANCIAL IMPLICATIONS:

Through Make It Kitchener 2.0, Council identified the intent to invest up to \$7.5 million (through EDIF 2.0) to support a ‘City-Wide Startup Network’. The proposed partnership would see the annual contribution of \$500,000 allocated from this Area of Focus (up to \$2 million in total).

EDIF 2.0 contains 3 revenue sources – reserves, debt and land sales. As the City would not retain any capital asset through this partnership, debt funding is not eligible. As such, staff propose funding the initial 2 years through the reserve revenue. As there is limited reserve funding remaining, staff recommend years 3 and 4 be funded from future land sale revenues, provided said revenues have been achieved.

COMMUNITY ENGAGEMENT:

INFORM – This report has been posted to the City’s website with the agenda in advance of the council / committee meeting.

CONSULT – Communitech member organizations were interviewed as part of the proposed startup strategic alignment.

PREVIOUS REPORTS/AUTHORITIES:

- [DSD-2021-43 Kitchener’s Economic Recovery Framework](#)
- [CAO-16-008 Communitech Expansion](#)

APPROVED BY: Dan Chapman, CAO

ATTACHMENTS:

Attachment A – Communitech Business Case