



Council Agenda Report

Item 6j

Department: Administration
Cost Center: 1004
For Agenda of: 9/2/2025
Placement: Consent
Estimated Time: N/A

FROM: Greg Hermann, Deputy City Manager
Prepared By: Laura Fiedler, Economic Development and Tourism Manager

SUBJECT: GRANT AGREEMENT FOR THE RENOVATION OF THE CAL POLY CIE

RECOMMENDATION

Authorize the City Manager to execute a one-time Grant agreement with the Cal Poly Corporation for the renovation of the Center for Innovation and Entrepreneurship in a final form satisfactory to the City Attorney and authorize the disbursement of funds in the amount of up to \$116,000.

POLICY CONTEXT

The City's Economic Development Strategic Plan ("EDSP"), adopted by City Council in July 2023, notes that Cal Poly State University "serves a vital role in the regional entrepreneurial and business support ecosystem. The Cal Poly Center for Innovation and Entrepreneurship ("CIE") and the Cal Poly CIE Small Business Development Center ("SBDC") have not only fostered a culture of innovation and championed cleantech advancements, but both have also supported local and regional business creation."

Cal Poly and the CIE are listed as supporting partners in many strategies of the EDSP, including:

- 1.1. *Business Retention and Expansion ("BRE").* Develop a proactive and targeted approach to identify and address the needs of existing businesses, while creating an environment that fosters growth and innovation.
- 1.2. *Entrepreneurial Support.* Continue to bolster the entrepreneurial ecosystem by improving access to resources, education, and networks for entrepreneurs.
- 1.3. *Business Preparedness, Sustainability, and Resiliency.* Implement disaster preparedness measures that enhance the city's ability to respond to economic disruptions and effectively support business recovery.
- 1.4. *Small Business Development.* Continue to support the small business community to sustain growth.
- 1.5. *Business Support Infrastructure.* Maintain efforts to develop and grow business support infrastructure and tools.
- 3.1. *System Development.* Encourage the continued strengthening of the system to create Moderate Income+ jobs.

3.2. *Employer and Employee Integration.* Develop methodologies, tools, and programs to welcome and acclimate new employers and employees to the community.

3.3. *Talent Attraction and Retention.* Position the City as not just a place to visit but also a desirable location to live and work.

For strategy 1.2 *Entrepreneurial Support* listed above, the EDSP contains several action items that specifically call for the City to continue to support infrastructure for coworking and entrepreneurship, including the CIE and SBDC:

1.2.1. Support the creation of coworking, shared resource facilities, maker spaces, and other innovative ways to lower the barriers to entry and provide additional resources.

1.2.2. Maintain and build on the efforts with the Cal Poly CIE, which includes the HotHouse and other activities, to help ensure its continued success and the success of the local entrepreneurs it supports. Where possible, increase the promotion of the outcomes from the contributions of the City.

1.2.4. Maintain support of organizations like the SBDC, the Service Corps of Retired Executives (SCORE), and Softec to address the needs of both startup and existing businesses.

1.2.6. Work with REACH and other partners to promote the region in general and the City specifically as an entrepreneur destination in select markets, such as the Silicon Valley area. Target high-growth entrepreneurs who do not require a significant amount of operating space to grow.

In addition, the 2025-27 Major City Goal of Cultural Vitality, Economic Resilience, and Fiscal Sustainability includes the following workplan item, “3c. Support the creation or expansion of coworking opportunities, such as the HotHouse, or other shared resource facilities to lower the barriers to entry for new businesses and provide opportunities for community members to build skills.”

In 2021, the City engaged Resonance Consulting to examine the future of downtown amid a global pandemic. That report listed a few key opportunity areas, including increasing daytime traffic in our downtown and creating alternative workspaces and coworking spaces for a growing number of remote workers. Another specific recommendation was to expand and diversify the business incubator to attract entrepreneurs and drive innovation downtown for all types of industries.

DISCUSSION

Background

In 2010, Cal Poly opened the Center for Innovation and Entrepreneurship to expand entrepreneurship programming for Cal Poly students, faculty, and community members and to promote regional economic development. In 2011, the SLO HotHouse opened as a community space through partnership between Cal Poly, the City of San Luis Obispo,

the County of San Luis Obispo, and the business community. Also in 2011, the Cal Poly Center for Innovation and Entrepreneurship (“CIE”) became home to the Small Business Development Center (“SBDC”) to provide free business assistance to new and existing businesses and to attract capital investment. Originally located at 955 Morro Street, the HotHouse moved to the upper floor of 872 Higuera Street in 2016. Since its founding, the HotHouse has launched 125 companies, helped raise more than \$250 million in capital, and witnessed acquisitions that totaled \$650 million. In 2023, the HotHouse renovated its office to accommodate more private working spaces, with support provided by the City.

The SLO HotHouse has been home to five thriving programs that drive economic development and bring countless professionals into downtown San Luis Obispo each day. Those programs include:

1. *Coworking*: The SLO HotHouse provides local entrepreneurs, business owners and remote workers with designated desks and private offices. These coworkers eat and shop downtown and host regular meetings at the SLO HotHouse. The SLO HotHouse began offering coworking in May 2013 and is now averaging 70 to 80 members monthly.
2. *SLO HotHouse Event Space*: The SLO HotHouse event space is home to 50+ events, gatherings and workshops each year, drawing well over 1,000 visitors downtown.
3. *Small Business Development Center (SBDC)*: The SBDC provides free consulting services to regional businesses. Through state and federal grants, the SBDC connects 40+ consultants with businesses of all types, to help them grow, thrive and create jobs in our community. The SBDC advises about 500 clients per year, including small downtown businesses. In 2024, they achieved 14 business starts, 127 jobs created, and more than \$18.8M in total capital (loans and equity). In 2025, they achieved 17 business starts, 120 jobs created, and \$57.4 million in total capital (loans and equity).
4. *Incubator Program*: The Incubator program provides high-growth startups with two years of targeted support, space in the SLO HotHouse and introductions to professional investors with the goal of helping these startups scale in our community. As of May 31, 2025, there were 12 companies selected through a competitive application process incubating full time virtually or in-person at the HotHouse. Seven start-ups that have emerged from the HotHouse incubator have kept their headquarters in San Luis Obispo, and four have corporate offices in San Luis Obispo. Of the companies that have remained in SLO, 82 jobs have been created.
5. *Summer Accelerator*: The Summer Accelerator program has 7 startups enrolled for 2025 for an intensive 13-week program designed to turn ideas into scalable businesses.

More than 50% of SBDC clients are based within the City of San Luis Obispo, including the following that may be familiar: Blue Mango (operating Luna Red and Novo), Bread Bike, Junk Girls, the SLO International Film Festival, Whalebird Kombucha, and Whiz Kids Toys. Other businesses the SBDC has supported include Whitefox, Novocuff, Inspired Flight, Pashion Footwear, Mantis Composites, HiView Solutions, and Digital Market Media.

Overview of HotHouse Move to 1144 Chorro Street

In 2024, Cal Poly approached the City to advise on its plans to move the HotHouse to 1144 Chorro Street to expand the reach and effectiveness of its program and to provide additional resources, mentorship opportunities, and particularly, improved infrastructure to the community's aspiring entrepreneurs. The new location will allow for expanded co-working space to serve more local professionals, which is needed as the current location operates at nearly 100% capacity. The purpose-built event space will allow the CIE to introduce expanded programming, including entrepreneurship events, speaker series, and economic development convenings.

The new HotHouse location will be filling a 15-year vacancy at 1144 Chorro Street, activating a 24,500 square foot ground floor location in the heart of downtown. In addition, the Cal Poly Mustang Shop Downtown currently located at 767 Higuera Street will be co-located with the CIE at the new 1144 Chorro Street location. The move from a smaller second-floor office to a larger ground-floor space with a retail shop in a prime location is expected to increase foot traffic and awareness of its offerings. The move also opens up the possibility of a future redevelopment opportunity at its current location. The ground floor of CIE's current location at 872 Higuera Street has been leased to the owner of Thrifty Beaches for an expansion of the vintage clothing store next door.

Cal Poly has secured \$1.86 million to date out of its fundraising goal of \$4.25 million to support the development of the CIE, including a \$350,000 commitment from the County of San Luis Obispo. The total project cost, including tenant improvements for the Cal Poly Mustang Shop, is \$7.9 million. In a letter to the City Council of San Luis Obispo dated August 15, 2025 (included as Exhibit A in the attached draft grant agreement), Cal Poly CIE formally requested a one-time investment of \$250,000 from the City. The new HotHouse is expected to open in the first half of 2026.

Overview of the Grant Agreement

The attached draft grant agreement outlines the conditions for the City's proposed contribution of up to \$116,000 for tenant improvements (such as furnishings or the audiovisual equipment for the community meeting space) for the areas of the CIE intended for use for community-facing events or for business support services:

- *Community event space:* The City will have the ability to use the event and meeting space at no additional cost up to 4 times per year. In addition, the event and meeting space may be made available as an event rental space for businesses and non-profit organizations in the community.
- *Recognition:* The City will be recognized as a sponsor of the CIE and SLO HotHouse with signage at the entrance of the building, logo placement in monthly emails, and on printed displays at public events. To acknowledge the City's critical role in funding the new space, the CIE will have signage affixed in the community and event space with the City's logo and anticipated language of the following, "This space made possible through a grant by the City of San Luis Obispo." The mockup of the design will be shared with the City prior to printing for approval.

History of Prior Funding from the City

The City has been providing financial support for the HotHouse since its establishment in 2011. In the 2019-21 Financial Plan, the City increased the annual funding amount from \$25,000 to \$30,000 and has been funding the CIE at this level since then.

In the adopted 2025-27 Financial Plan, \$30,000/year has been budgeted to continue this partnership from the Economic Development program's budget and the annual grant agreement will be approved separately by the City Manager following the City's procurement policies.

The annual services agreement with the CIE includes additional services and benefits to the community, including:

- A seat for a representative from the City of San Luis Obispo on the CIE Advisory Council;
- SBDC programming which provides no-cost business advising and training to entrepreneurs and local businesses;
- The two-year start-up incubator program to help entrepreneurs launch companies, create and retain jobs, attract capital investments, and grow and scale their businesses; and
- HotHouse coworking and office space.

The Economic Development and Tourism team has been meeting with CIE leadership to improve coordination and collaboration. In 2025, the ED&T team will be working with CIE to share the City's Business Navigator program and services with its HotHouse and SBDC clients in an effort to support more businesses in starting and staying in the community.

In 2023, the City provided an additional \$21,630 to support the expansion of the CIE HotHouse in its current location on Higuera St. to provide more private workspaces for small teams or individuals to better meet entrepreneurs' workspace needs. The City's contribution covered half of the total cost for the office renovation.

The County of San Luis Obispo has provided \$200,000 in funding per year to the CIE. Cal Poly similarly requested \$750,000 additional one-time funding from the County of San Luis Obispo for the HotHouse move and has received \$350,000.

Although Cal Poly requested an investment of \$250,000 from the City for the HotHouse move and renovation, staff arrived at the recommendation for \$116,000 in one-time funding for two reasons. First, Cal Poly requested \$750,000 in funding from the County and received \$350,000; a \$116,000 contribution from the City would be in keeping with a roughly 3:1 funding ratio with the County for the CIE. Second, the available balance in the Economic Development Assigned Fund Balance in the General Fund in the 2025-27 Financial Plan is \$116,000. Please see the Fiscal Impact section below for more details.

Municipal Investment in Business Incubators

The benefits of agglomeration development in a municipality mean that businesses gain competitive advantages by physically locating close to other businesses in related fields.¹ The HotHouse primarily focuses on technology and innovation industries, attracting agglomeration development in the industries of medical, defense, environmental and agricultural technologies. As the San Luis Obispo and Central Coast region becomes poised as a central location for space, aerospace, clean tech, renewable energy, precision manufacturing, and agtech, the HotHouse serves as starting point for new and relocating businesses in these high-paying fields.

Many other cities have sponsored business incubators in their communities, including Cleveland, Austin, Berkeley,² Santa Fe,³ Yucaipa, Merced, Los Angeles, and San Jose. As opposed to traditional economic development practices of attempting to incentivize single corporations, business incubators attract multiple small, home-grown companies. There is evidence of long-term return on investments for public dollars put into business incubators. In New Mexico, the State saw a 57 to 1 cost benefit ratio, or \$57 dollars in tax revenue for every \$1 of State funding.⁴ In Austin, an average of \$67 of local economic activity was generated annually for every \$1 the City invested in the Austin Technology Incubator.⁵ Additionally, the National Business Incubator Association indicates that 84% of incubator graduates stay in their communities.⁶

Previous Council or Advisory Body Action

As noted in greater detail in the Policy Context section above, support for the Cal Poly CIE and an entrepreneurial ecosystem has been part of successive Council-adopted Economic Development Strategic Plans since CIE's founding.

In addition, the 2025-27 Major City Goal of Cultural Vitality, Economic Resilience, and Fiscal Sustainability includes the following workplan item,

“3c. Support the creation or expansion of coworking opportunities, such as the HotHouse, or other shared resource facilities to lower the barriers to entry for new businesses and provide opportunities for community members to build skills.”

Public Engagement

Through the financial planning forums and surveys, community members expressed a continued desire for economic development and business support to remain a focus as part of the 2025-27 Major City Goals, as well as support for downtown vitality. In addition, community members may provide feedback on this item at or before the Council meeting.

¹ [Incubator Cities: Tomorrow's Economy, Yesterday's Start-ups, Michigan Business & Entrepreneurial Law Review.](#)

² [Entrepreneurship Hub | Capital Strategies](#)

³ [City of Santa Fe Ordinance No. 2014-24](#)

⁴ [New Mexico Legislature, Economic and Rural Development Policy Committee Handout: New Mexico Certified Business Incubators](#)

⁵ [Overview of US incubators and the case of the Austin Technology Incubator, International Journal of Entrepreneurship Innovation Management](#)

⁶) [“Innovation Works”, Morgan State University Office of Technology Transfer and Intellectual Property](#)

During the update process for the 2023-28 EDSP, the City engaged the community through a survey which generated 982 responses, 9 virtual roundtables with key stakeholders, and interviews and other outreach. This engagement progress revealed the community held the promotion and support of entrepreneurship as a top need for the new EDSP.

CONCURRENCE

The proposed agreement has the concurrence of the Administration, Finance, and the City Attorney.

ENVIRONMENTAL REVIEW

The California Environmental Quality Act (“CEQA”) does not apply to the recommended action in this report, because the action does not constitute a “Project” under CEQA Guidelines Section 15378.

FISCAL IMPACT

Budgeted: **No**

Budget Year: **2025-26**

Funding Identified: **Yes**

Fiscal Analysis:

Funding Sources	Total Budget Available	Current Funding Request	Remaining Balance	Annual Ongoing Cost
General Fund	\$116,000	\$116,000	\$0	N/A
State				
Federal				
Fees				
Other:				
Total	\$116,000	\$116,000	\$0	\$0

The identified funding source for this grant agreement would be the Economic Development Assigned Fund Balance in the General Fund. The approval of this grant agreement and subsequent disbursement of \$116,000 of funds would fully expend this assigned fund balance by the end of the 2025-27 Financial Plan.

For each year of the approved 2025-27 Financial Plan, the Economic Development & Tourism program had several Significant Operating Budget Changes (SOBCs) approved to receive \$246,000 from the same Economic Development Assigned Fund Balance that this proposed grant to the CIE would be drawn from. The SOBCs support childcare expansion, implementation of the Economic Development Strategic Plan, and “support local” programs such as the Buy Local Bonus program during the holidays and SLO Restaurant Month.

If this grant agreement is approved and funds are disbursed, this funding source would be completely depleted by the end of the 2025-27 Financial Plan. The \$30,000 annual services agreement with CIE is part of the Economic Development program's ongoing base budget.

ALTERNATIVES

- 1. Council may request changes to the draft Grant Agreement or decide not to authorize the City Manager to finalize and execute the draft Grant Agreement.**
The Council should provide direction on which aspects of the grant agreement should be revised.
- 2. Council may increase or decrease the amount of the recommended grant of \$116,000.** If Council elects to increase the recommended grant amount, Council should specify the amount and provide direction that the approved SOBCs in the 2025-27 Financial Plan drawing from the Economic Development Assigned Fund Balance should be re-evaluated for reduction to accommodate an increase in the CIE renovation grant. The approved SOBCs support childcare expansion, implementation of the Economic Development Strategic Plan, and "support local" programs such as the Buy Local Bonus program during the holidays and SLO Restaurant Month in FY2025-26 and FY 2026-27. Council may also elect to provide \$116,000 in funding now to support the CIE and evaluate during the FY 2024-25 Year-End Budget Report scheduled for the November 4, 2025, City Council Meeting whether additional funding should be made available.

ATTACHMENTS

A - Draft Grant Agreement between the City of San Luis Obispo and Cal Poly Hothouse