

City of San Luis

Business Incubator Assessment

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Executive Summary

The San Luis Business Incubator (SLBI) is a municipally owned and operated facility providing affordable industrial space and business support services in one of Arizona's fastest-growing border communities. With 20,000 square feet across seven suites, the incubator is fully occupied and supports light manufacturing, warehousing, and distribution businesses. Its unique position at the U.S.–Mexico border allows it to serve entrepreneurs on both sides, leveraging cross-border commerce to create jobs and generate revenue.

This evaluation finds that the incubator is a valuable tool for local economic development but operates at a financial deficit. Annual expenses have exceeded revenues by approximately $40,000–$50,000 in recent years, requiring ongoing City subsidy. The evaluation also finds that the incubator currently relies almost exclusively on rental income, with limited use of cost-recovery program fees or service-based revenues commonly employed by peer municipal incubators. Current tenant lease rates ($0.44–$0.65 per square foot) fall below both San Luis ($0.66/SF) and regional Yuma ($0.76/SF) market averages, and the program currently lacks a formal graduation policy, structured programming, and consistent performance tracking —key elements of national best practices.

The report recommends a phased rent adjustment strategy, the adoption of a graduation rubric (24–36 months), the development of structured bilingual programming, and the implementation of a Key Performance Indicator (KPI) dashboard to measure outcomes such as jobs created, businesses graduated, and tenant survival rates. In addition, the report recommends introducing modest, market-standard program fees and optional cost-recovery services to supplement rental income and support the City's goal of achieving break-even operations. Medium-term actions include strengthening partnerships with regional workforce and educational institutions and diversifying funding sources through grants and sponsorships. Longer-term goals include achieving market parity in rents, exploring facility expansion, and publishing annual impact reports.



With these adjustments, the SLBI can continue to serve as a vital launchpad for entrepreneurs while improving financial sustainability, increasing tenant throughput, and reducing long-term reliance on municipal subsidy, all while strengthening its role as a driver of binational economic growth.

I. Introduction

This evaluation examines the San Luis Business Incubator (SLBI), a municipally owned and operated facility designed to support industrial-based entrepreneurship in the unique context of a U.S.–Mexico border community. As one of the few industrial-focused incubators in Arizona, the SLBI plays a critical role in advancing business development and job creation for both U.S. and Mexico-based firms. Its location in San Luis positions it to leverage binational trade flows, provide affordable industrial space, and nurture

early-stage companies that might otherwise struggle to find suitable facilities in a limited and volatile local market.

The assessment has been prepared in alignment with the agreed Scope of Services and evaluates the incubator's current operations, tenant composition, and lease structure, while benchmarking performance against regional market conditions and national best practices for municipally run incubators. The report also considers the incubator's financial sustainability, with an emphasis on balancing accessibility for startups with the long-term goal of achieving parity with market rents. Finally, recommendations are presented to enhance program efficiency, strengthen partnerships, and ensure the incubator continues to serve as a catalyst for economic growth.

As a border town, San Luis is uniquely positioned to capture the benefits of serving businesses on both sides of the border. The incubator provides an important platform for companies to grow and expand, creating jobs, generating revenue, and strengthening the local economy. In this way, the SLBI is not only a city asset but also a regional development tool, advancing economic opportunity for the binational community it serves.

II. Community Demographics, Economy, and Education

The City of San Luis is one of the fastest-growing communities in Arizona, having expanded from fewer than 2,000 residents in 1980 to more than 35,000 today. Current estimates place the population between 38,000 and 40,000, reflecting steady growth driven by its role as a border community and gateway for international trade. Directly across the border lies San Luis Río Colorado, Sonora, with a population of approximately 200,000. Together, the two cities form a dynamic binational community where commerce, labor, and culture flow seamlessly across the international line. More than 44,000 people cross through the San Luis Port of Entry each day, underscoring the area's importance as one of the busiest land crossings in Arizona.

San Luis has a unique demographic profile shaped by its border location. Nearly 95 percent of residents identify as Hispanic or Latino, and the city is among the youngest in the state, with a median age of just under 28 years and roughly 40 percent of its population under 19. Families tend to be larger, with average household sizes exceeding four people. While this provides a growing and energetic labor force, it also presents challenges in terms of workforce readiness, educational attainment, and income. Median household income in San Luis lags behind both county and state averages, and poverty levels remain above 20 percent, reflecting the concentration of employment in agriculture, low-wage service industries, and seasonal work. Educational attainment is also lower than the Arizona average, with fewer high school graduates and college-degree holders, though nearby Arizona Western College, and Northern Arizona University–Yuma provide important opportunities for higher education and workforce training.

The economic base of San Luis is tied closely to agriculture, manufacturing, and logistics. Yuma County as a whole produce more than 90 percent of the nation's winter leafy vegetables, and much of this product flows through the San Luis border crossing. At the same time, maquiladora operations in San Luis Río Colorado support cross-border supply chains in textiles, electronics, and food processing, creating

opportunities for local warehousing, distribution, and support services. Local employers include the Arizona State Prison Complex, Gadsden Elementary School District, Walmart, and a number of agricultural processors and distributors.

Education and workforce development are central to the city's long-term economic health. San Luis faces challenges with educational attainment: only about 44 percent of adults have completed high school compared to more than 80 percent statewide, and fewer than 10 percent hold a bachelor's degree. These gaps contribute to higher unemployment and underemployment, particularly among young adults. However, the presence of Arizona Western College, Northern Arizona University–Yuma, and local workforce training programs helps offset some of these barriers. Programs focused on bilingual skills, vocational trades, and cross-border commerce are particularly valuable in preparing the next generation of workers. Source: San Luis Development Strategic Plan

Together, these demographic, economic, and educational characteristics underscore both the opportunities and the challenges facing San Luis. The young and growing labor pool, strategic border location, and cross-border trade networks create strong potential for entrepreneurship. At the same time, income disparities, lower educational attainment, and the need for job diversification highlight why structured support systems—such as the San Luis Business Incubator—are critical. By providing affordable space, technical support, and a pathway to market-readiness, the incubator is positioned to directly address these community needs while advancing the city's broader economic development goals.

III. Current Program Review

Facility Overview

The San Luis Business Incubator (SLBI) is a municipally owned and operated facility located at 415 N. Henry Chavez Court within the San Luis Industrial Park. Completed in 2015 with support from U.S. Economic Development Administration (EDA) grants, Community Development Block Grant (CDBG) funds, and local city investment, the incubator represents a $2.1 million capital project designed specifically as a public-sector economic development tool. The 20,000-square-foot facility is subdivided into seven light-industrial suites ranging in size from 1,400 to 4,200 square feet. Suites are designed to accommodate early-stage businesses in manufacturing, assembly, warehousing, and distribution. As of this evaluation, the incubator is fully occupied, underscoring continued demand for affordable industrial space in San Luis.

The facility includes a set of shared amenities that enhance tenant operations, including 24/7 secure access, high-speed internet, a reception area, conference and training rooms, energy-efficient lighting, paved parking, and utilities such as water and sewer service.



These features reduce the overhead costs of startups while providing them with access to professional-grade space and support.

Tenant Demographics & Uses

The SLBI currently houses seven tenants across its seven suites. Existing tenants represent a mix of industries such as cabinetry, distribution, light manufacturing, and administrative support. Each occupies space ranging from 1,400 to more than 4,200 square feet. The incubator was designed to prioritize light-industrial and business-to-business tenants, excluding retail storefronts, to align with zoning and the city's industrial development strategy.

A detailed tenant table has been prepared showing the suite, square footage, tenant name, and type of business use. While this provides a clear overview of occupancy, additional data such as the number of employees, business origin (San Luis-based, cross-border, or regional), and industry classification (NAICS codes) would provide a more complete picture of tenant demographics. This level of detail is important for evaluating the incubator's impact on job creation and the local economy and can be collected as part of the tenant application process.

Table 1. Current Tenants August 2025

Suite	Square Footage	Tenant	Use of Suite
A	1,430 SF	JVR TRADE LLC	Storage and distribution
B	1,446 SF	HONEST TO DATE LLC	Administration office and storage
C	1,472 SF	CL TECHNOLOGIES LLC	Storage and distribution
D	1,472 SF	AZMED-USA LLC	Administration office, storage, and distribution
E	2,717 SF	BETO'S CABINETS LLC	Administration office, storage, final assembly, and distribution
F	4,237 SF	HAK CONSTRUCTION LLC	Administration office, storage, and distribution
G	4,237 SF	PACIFIC STYLE LLC	Administration office, storage, manufacturing, and distribution

Lease Terms & Occupancy

Tenant lease rates at the incubator currently range from $0.44 to $0.65 per square foot, depending on suite size and use. These rates are below both San Luis citywide industrial market averages (approximately $0.66 per square foot) and regional Yuma market averages (approximately $0.76 per square foot). With full occupancy and demand from prospective tenants, the current structure suggests there is room to implement a gradual rent increase strategy to move closer to market parity without undermining affordability.

Leases typically run three to six years, providing tenants stability as they grow their operations. However, the absence of a formal graduation or exit policy has created situations where businesses may remain in

the facility beyond what is typical in incubator models. Most incubators nationally anticipate a 24–36 month stay, with graduated rents or step-up models encouraging turnover and preparing firms for transition into the private market. The following table lists the current Incubator tenants.

Table 2. Lease Terms for Current Tenants - August 2025

Tenant	Lease Term	Lease Start Date	Lease End Date	Current Rate per SF
JVR Trade LLC	Three Years	6/30/2025	6/30/2028	$0.44 per SF
Honest To Date LLC	Six Years	3/1/2024	2/28/2030	$0.44 per SF
CL Technologies LLC	Six Years	12/14/2020	12/13/2026	$0.65 per SF
AZMED-USA LLC	Six Years	4/1/2021	3/31/2027	$0.65 per SF
Beto's Cabinets, LLC	Six Years	7/1/2022	6/30/2028	$0.575 per SF
HAK Construction LLC	Six Years	9/1/2021	8/31/2027	$0.575 per SF
Pacific Style LLC	Three Years	8/1/2025	7/31/2028	$0.44 per SF

Graduation Policy & Tenant Throughput

At present, the incubator lacks a clearly defined graduation policy. This is a critical gap because without structured throughput, space remains limited for new startups. Best practices recommend setting clear benchmarks—such as revenue growth, job creation, capacity utilization, or ability to secure private financing—to determine when tenants are ready to exit. A phased rent structure also supports this process by gradually reducing subsidies and aligning tenants with real-world cost conditions.

Services & Partnerships

Beyond providing space, the incubator offers value through its partnerships. The Arizona Small Business Development Center (SBDC), PPEP Microbusiness & Housing Development Corporation, Greater Yuma Economic Development Corporation (GYEDC), and Yuma Private Industry Council (YPIC) provide counseling, training, and business support. Workshops are sometimes hosted at the incubator or the nearby San Luis Library. These partnerships extend the city's capacity to provide technical assistance, though current programming remains relatively unstructured and participation rates are not systematically tracked.

To maximize its impact, the SLBI could benefit from developing a formal training calendar, bilingual resources, and a dedicated program coordinator. Doing so would align with best practices that emphasize incubators should offer mentorship, access to capital, legal guidance, and marketing support in addition to space.

Budget & Financials

The San Luis Business Incubator operates as a city-owned facility within Fund 330, Department 331 of the municipal budget. A review of the past three fiscal years shows that annual operating costs have consistently exceeded adopted budgets, reflecting both fixed costs and citywide cost allocations.

- **FY 2023:** Adopted budget of ~$128,580; actual expenditures totaled ~$168,652, resulting in an overage of nearly $40,000 (131% of budget).
- **FY 2024:** Adopted budget of ~$135,405; actual expenditures reached ~$183,460, again exceeding the budget by almost $48,500 (136% of budget).
- **FY 2025 (YTD as of June 2025):** Adopted budget of ~$149,380; year-to-date expenditures total ~$63,558, or 44% of budgeted amounts, reflecting partial-year performance.

The primary cost drivers include personnel expenses, utilities (electricity and water), building maintenance, software support, and significant chargebacks for citywide IT, facilities, and central services. Annual depreciation and amortization, which exceed $59,000 combined, are also reflected in the accounts, highlighting the long-term capital costs associated with the facility.

Revenues for the incubator are derived largely from tenant leases, currently set at $0.44 to $0.65 per square foot—well below local and regional industrial market averages. With seven suites fully occupied, lease income helps offset a portion of operating expenses but does not cover the full cost of the program. As a result, the City continues to subsidize the incubator at an estimated range of $40,000 to $50,000 annually.

This budgetary context underscores the need for a phased rent adjustment strategy. Even modest annual increases—bringing average lease rates closer to $0.65–$0.75 per square foot over the next several years—would significantly reduce the operating gap while maintaining affordability for startups. Coupled with improved tracking of tenant outcomes and potential pursuit of grants (EDA, USDA, philanthropic partnerships), the incubator could move toward greater financial sustainability without compromising its mission of fostering binational entrepreneurship.

IV. Comparative Best Practices

Municipally operated incubators are increasingly recognized as tools for fostering entrepreneurship, diversifying local economies, and supporting small business creation. However, their long-term effectiveness depends on how well they combine affordable space with structured programming, clear graduation policies, and financial sustainability. A review of national best practices and peer examples highlights several principles directly applicable to the San Luis Business Incubator (SLBI).

Mission Alignment and Economic Goals

Successful incubators clearly align their mission with broader community economic development strategies. In San Luis, the incubator's focus on light industrial uses, warehousing, and cross-border businesses reflects the city's priorities of job creation, binational commerce, and industrial diversification. This mission is consistent with the city's 2015 Strategic Plan, which identified small business and entrepreneurial development as a cornerstone for growth.

Graduated Rent Models and Throughput

Incubators across the country frequently employ step-up rent structures to balance accessibility with financial sustainability. Rent may begin at a discounted level but increases annually, preparing tenants for private-market conditions and encouraging graduation within three to five years. Research shows that the

average stay in a business incubator is approximately 33 months, with most programs expecting tenants to graduate within three years. By contrast, San Luis currently allows tenants to remain under three- to six-year leases without a formal graduation policy, limiting turnover and reducing opportunities for new startups.

Value-Added Services Beyond Space

High-performing incubators offer more than just affordable facilities. They provide mentorship, access to capital, legal and accounting guidance, workforce training, and marketing support. In San Luis, current partnerships with the Small Business Development Center (SBDC), PPEP, and the Greater Yuma Economic Development Corporation represent a solid foundation. However, programming remains ad hoc and would benefit from a structured training calendar, bilingual services, and targeted workshops on export/import regulations, OSHA compliance, and cross-border finance. Given San Luis's unique location, integrating binational business education into the service mix is a particularly important best practice.

Equity, Accessibility, and Community Engagement

Best practice incubators reduce barriers for underserved entrepreneurs by offering flexible hours, childcare support, and mobile-friendly training tools. With San Luis's demographic profile—95 percent Hispanic/Latino, largely Spanish-speaking—a bilingual and culturally responsive approach is essential. Expanding community outreach and aligning with workforce training institutions such as Arizona Western College would strengthen accessibility and ensure the incubator reaches the widest pool of potential entrepreneurs.

Performance Metrics and Continuous Improvement

Across the industry, incubator success is measured by tenant survival rates, jobs created, capital raised, and the number of businesses graduating. Studies frequently cite that businesses emerging from incubators exhibit higher survival rates—often approaching 80 percent after five years—compared to roughly 44 percent for non-incubated firms. San Luis currently does not publish formal metrics, though internal grant reporting likely requires tracking. Adopting a clear KPI dashboard—such as the one included in this report—will enable annual benchmarking and continuous improvement.

Source: Lewis, D.A. (2001). Does Business Incubation Work? *University of Michigan; National Business Incubation Association (NBIA),* Business Incubation Works*; U.S. Small Business Administration, Office of Advocacy.*

Financial Sustainability Through Diverse Revenue Streams

Municipal incubators often rely on a mix of lease revenues, city subsidies, grants, and partnerships. Best practice models have successfully leveraged U.S. Economic Development Administration (EDA) funding, USDA rural business programs, and private sponsorships. Some incubators also collect modest service or membership fees for training programs. For San Luis, combining a phased rent adjustment strategy with pursuit of external funding sources will strengthen long-term sustainability while maintaining affordability for startups.

In sum, the San Luis Business Incubator aligns with national models in its mission and partnerships but lags behind in structured programming, graduation policies, and performance tracking. By adopting these best practices, the SLBI can enhance its effectiveness, increase throughput, and reduce reliance on city subsidies while maintaining its critical role as a binational business development platform. Sources: Best Practices Business Incubators, IJSRA

V. Market Analysis

San Luis Industrial Market

The industrial market within the City of San Luis is limited in scale and experiences noticeable shifts due to its small size. According to CoStar data, the city contains approximately 796,000 square feet of industrial space across seven buildings. Because the market is so small, a single large move-out in the past year drove vacancy to more than 60 percent and resulted in net absorption of roughly –480,000 square feet. This highlights the sensitivity of the San Luis industrial market to individual tenant changes and underscores the importance of retaining and attracting stable, long-term users.

Even with these shifts, asking rents in San Luis average approximately $0.66 per square foot, with available space marketed at similar levels. This is significant because it establishes a benchmark above the current rent structure at the San Luis Business Incubator, where rates range from $0.44 to $0.65 per square foot. In other words, incubator tenants are paying below-market rents compared to other available industrial space in the city, while also benefitting from shared amenities and business support services.

Broader Yuma Market

The regional industrial market, which includes Yuma and San Luis combined, provides additional context for evaluating incubator lease rates. The Yuma submarket is substantially larger, with 6.8 million square feet of industrial space across more than 250 buildings. Vacancy in this regional market is significantly lower than San Luis alone, at approximately 16.2 percent. Over the past 12 months, the region recorded –1.04 million square feet of net absorption, reflecting a temporary adjustment period rather than structural weakness. Compared to San Luis, the Yuma market demonstrates greater depth and resilience, offering a broader base of industrial activity.

Asking rents in the Yuma market average $0.76 per square foot, while the average available asking rent is closer to $0.56 per square foot, reflecting landlord flexibility to secure tenants. Market sale pricing in Yuma averages $116 per square foot, compared to $149 in San Luis, though transaction activity is considerably higher in the larger regional market.

Implications for the San Luis Business Incubator

The incubator's current rent structure, ranging from $0.44 to $0.65 per square foot, is below both San Luis and Yuma market averages. This gap provides room for the City to implement phased rent increases without reducing affordability for tenants. A gradual move toward $0.65 to $0.75 per square foot would remain competitive with both San Luis and Yuma rents while also improving cost recovery for the City.

The broader Yuma market also demonstrates that appropriately priced industrial space leases relatively quickly, with an average time on market of just over two months. This indicates that incubator tenants, once ready to graduate, would likely be able to transition successfully into private space in the regional market. By aligning incubator rents with market conditions and preparing tenants through step-up rates, the SLBI can better balance affordability, sustainability, and throughput.

This table provides a comparative snapshot of industrial market conditions in San Luis, the broader San Luis–Yuma region, and the Business Incubator, illustrating that while the local and regional markets exhibit elevated vacancy and soft absorption, the incubator remains fully occupied and priced well below prevailing market rents.

Table 3. Industrial Market Comparison: San Luis, Regional Yuma Market and Incubator Context

Metric	San Luis (City)	Regional Market (San Luis + Yuma)	Incubator (Current)
Total Inventory (SF)	796,000	6.8M	20,000 (7 suites)
Vacancy Rate	60.30%	16.20%	100% occupied
12-Month Net Absorption (SF)	-480,000	-1.04M	N/A
Market Asking Rent ($/SF)	$0.66	$0.76	$0.44 - $0.65
Available Asking Rent ($/SF)	$0.67	$0.56	N/A
Market Sale Price ($/SF)	$149	$116	N/A
Market Cap Rate	7.20%	7.90%	N/A

VI. Opportunities & Gaps Analysis

The evaluation of the San Luis Business Incubator (SLBI) highlights a number of strengths, but also points to areas where improvements are needed to maximize impact and sustainability.

Strengths and Current Opportunities

The SLBI is a fully occupied, modern industrial facility that provides affordable space for small and emerging firms. It is uniquely positioned in a binational market where businesses can serve customers and supply chains on both sides of the U.S.–Mexico border. Tenant demand has remained strong since the incubator's inception, and lease rates—though below market—are sufficient to provide a base level of income. Partnerships with organizations such as the Small Business Development Center, PPEP, Greater Yuma EDC, and Yuma Private Industry Council extend the incubator's service offerings beyond physical space. These strengths provide a solid foundation for future growth and demonstrate the incubator's continued relevance to the City's economic development goals.

Identified Gaps

Despite these advantages, the incubator faces several challenges. The absence of a formal graduation policy means that tenants often remain in place for longer than typical in incubator models, limiting

turnover and the opportunity to serve a larger pool of entrepreneurs. Programming and training are offered on an occasional basis but are not yet organized into a consistent calendar or curriculum. Performance tracking is another gap: while tenants clearly benefit from the facility, the City does not currently measure or publish outcomes such as jobs created, revenues generated, businesses graduated, or capital raised. Finally, the incubator operates at a financial deficit. Budget reports from the past three years show that annual expenses have exceeded revenues by $40,000 to $50,000, requiring ongoing City subsidy.

Opportunities for Improvement

Addressing these gaps presents an opportunity for the incubator to evolve from a space-based program into a more comprehensive business development platform. Implementing a phased rent adjustment strategy would improve cost recovery while still maintaining affordability compared to market rates. Establishing a clear graduation policy would increase throughput, creating space for new startups and reinforcing the incubator's role as a launchpad. Expanding programming through structured, bilingual training sessions and mentorship would add value to tenants and help address the community's lower levels of educational attainment. Finally, introducing a performance measurement framework would enable the City to demonstrate the incubator's impact in terms of jobs, business growth, and contributions to the local economy, strengthening the case for ongoing public and private investment.

Taken together, these opportunities represent a path for the SLBI to build on its existing strengths, address structural gaps, and position itself as a financially sustainable, high-impact incubator serving both San Luis and the broader binational region.

VII. Recommendations & Action Plan

The evaluation of the San Luis Business Incubator demonstrates both the value of the program and the need for targeted adjustments to strengthen its role as a binational economic development tool. The following recommendations are organized into near-term, medium-term, and long-term actions to provide the City with a practical roadmap.

Near-Term (0–12 months)

Adopt a Phased Rent Adjustment Strategy

As a recommendation, begin adjusting rents within the current tenant lease cycle through a deliberate, phased rent adjustment strategy that balances affordability with long-term financial sustainability. Best practices among municipally operated industrial incubators support modest, predictable annual increases —generally in the range of 3 to 5 percent—rather than abrupt resets to market rates. This approach allows tenants to plan for higher occupancy costs while reinforcing the incubator's role as a transitional, rather than permanent, lease option.

For existing tenants, annual step-ups should be applied at lease anniversaries or through lease amendments, with clear advance notice and caps on year-over-year increases to avoid operational disruption. For new tenants, entry rents should be set closer to current market conditions and structured

with built-in annual escalations that phase tenants toward parity with the San Luis and Yuma industrial markets over a three- to four-year period. Based on current data, this approach would gradually move incubator rents toward a target range of approximately $0.65 to $0.75 per square foot, which remains competitive with local and regional industrial rates while improving cost recovery for the City.

Importantly, this market-informed, step-up model preserves the incubator's affordability advantage—particularly in the early years of tenancy—while steadily reducing the City's annual operating subsidy, currently estimated at $40,000 to $50,000. By tying rent adjustments to objective market benchmarks and implementing them incrementally, the City can strengthen the financial sustainability of the San Luis Business Incubator without undermining its core economic development mission or discouraging early-stage and binational entrepreneurs.

This table outlines a phased rent adjustment framework that aligns incubator lease rates with San Luis and regional Yuma industrial market conditions over time, balancing affordability for early-stage tenants with improved cost recovery and support for graduation into the private market.

Table 4. Phased Rent Adjustment Framework Aligned with Market Conditions

Tenant Category / Program Stage	Recommended Rent Level	Annual Adjustment Approach	Policy Rationale
Existing Tenants (In-Place Leases)	Current rate + 3–5% annually	Apply modest step-ups at lease anniversary or via amendment; cap increases annually	Avoids rent shock, preserves affordability, and provides predictability while gradually improving cost recovery
New Tenants – Year 1	75–80% of market	Entry rent set below market; escalation disclosed at onboarding	Maintains incubator affordability advantage for early-stage firms
New Tenants – Year 2	85–90% of market	Automatic annual escalation	Prepares tenants for private-market lease conditions
New Tenants – Year 3	95% of market	Continued step-up	Signals approaching graduation and market readiness
Extended Tenure (Year 4–5, if approved)	100% of market (or market + CPI)	Adjusted based on San Luis/Yuma industrial market review	Encourages graduation and aligns longer-term tenants with true market costs
Target Market Reference	$0.65–$0.75 per SF	Biennial market review using San Luis and Yuma industrial data	Ensures rents remain data-driven, competitive, and defensible

This table illustrates a five-year, incremental rent transition for existing tenants, demonstrating how modest annual increases can move legacy below-market leases toward alignment with San Luis and regional Yuma industrial rents while minimizing disruption and supporting graduation readiness.

Table 5. Illustrative Five-Year Rent Transition for Existing Tenants*			
Year	Illustrative Rent Range ($/SF/month)	Adjustment Approach	Policy Intent
Current (Baseline)	$0.44 – $0.65	Existing lease rates	Reflects legacy subsidized rates
Year 1	$0.50 – $0.67	3–5% increase at lease anniversary	Begins transition; avoids rent shock
Year 2	$0.55 – $0.70	Continued 3–5% step-up	Moves tenants closer to market
Year 3	$0.60 – $0.73	Step-up continues; some tenants reach target range	Signals market readiness
Year 4	$0.65 – $0.75	Alignment with recommended market range	Achieves parity with San Luis/Yuma market
Year 5 (if approved)	$0.65 – $0.75 (+ CPI, if applicable)	Market-based adjustment	Encourages graduation or market exit

**Assumes gradual increases capped at 3–5% annually until market-aligned range is achieved*

For transparency and implementation planning, a tenant-level table illustrating baseline lease rates and projected Year 5 rents under the recommended phased rent strategy is included in the Appendices.

Introduce Cost-Recovery Services and Program Fees

To support the City's objective of achieving at least break-even operations at the San Luis Business Incubator, the City should consider introducing modest, market-standard fees for optional services commonly offered by municipal and industrial incubators. These services are designed to complement tenancy, reinforce the incubator's role as a transitional business development program, and recover a portion of operating costs without undermining affordability for early-stage businesses.

Industry best practices demonstrate that incubators rarely rely on rent alone to cover operating expenses. Instead, they combine below-market rents with limited program fees and fee-for-service offerings, particularly for administrative support, facility use, and specialized training. When structured appropriately, these fees are widely accepted by tenants, as they remain modest relative to private-market alternatives and are often discounted for incubator participants.

Given limited on-site staffing, the City should prioritize services that are scalable, easy to administer, and largely partner-delivered, such as workshops, one-on-one advising, and shared facility use. A small monthly program fee can help offset administrative costs associated with tenant coordination, performance tracking, reporting, and partnership management, while optional service fees allow tenants to pay only for higher-touch support when needed.

Importantly, these fees should be implemented incrementally, beginning with a limited set of services and adjusted over time based on tenant utilization and program performance. When combined with the recommended phased rent adjustments, a cost-recovery service model can materially reduce the City's annual subsidy while preserving the incubator's core mission of supporting entrepreneurship, job creation, and binational economic activity.

The table below summarizes common cost-recovery services offered by peer municipal incubators and illustrative fee ranges that can supplement rental income while preserving affordability for early-stage tenants.

Table 6. Typical Cost-Recovery Services and Fee Ranges for Municipal Incubators

Service Category	Example Services	Typical Fee Range	Purpose
Program & Administration	Monthly incubator program fee	$75–$150 per month	Offsets administrative coordination, reporting, and performance tracking
Facility Use	Conference or training room (after hours)	$25–$50 per hour	Cost recovery for shared facility use
Storage	Secured on-site storage units	$40–$75 per month	Monetizes underutilized space
Utilities (High-Load Users)	Partial electricity cost recovery	Usage-based or flat surcharge	Aligns costs with actual consumption
Training & Workshops	Advanced or specialty workshops	$25–$75 per session	Cost recovery for partner-led programming
Business Support	One-on-one advising or consulting	$50–$100 per session	Market-standard advisory pricing, discounted for tenants

Conservative Revenue Estimates from Cost-Recovery Fees

To assess the potential contribution of cost-recovery services toward the City's break-even objective, a conservative revenue scenario was prepared based on current incubator size (approximately seven tenants) and modest utilization assumptions. These estimates are illustrative and intentionally conservative.

Under a conservative utilization scenario, modest program and service fees could generate approximately $15,000–$20,000 annually, providing a meaningful contribution toward the City's goal of reducing or eliminating the incubator's operating subsidy (See Table H-4).

Establish a Graduation Policy

To strengthen tenant throughput and align the San Luis Business Incubator with national best practices, the City should adopt a formal, written graduation policy that clearly defines expectations for tenant progression and exit. The policy should establish a target graduation window of 24–36 months, with flexibility for industrial, manufacturing, and binational businesses that may require longer ramp-up periods, and a clearly defined maximum length of stay.

Graduation criteria should be both performance-based and outcome-oriented, reflecting the incubator's dual goals of business development and financial sustainability. Recommended benchmarks may include demonstrated revenue growth or financial stability, job creation or workforce expansion, the ability to secure private industrial space in the San Luis or Yuma market, and readiness to operate independently of subsidized space. Establishing clear milestones and conducting regular performance reviews will allow the City to identify graduation readiness early and support an orderly transition process.

Clearly articulating and consistently applying a graduation policy will increase tenant turnover, ensure limited incubator space is made available to new entrepreneurs, and reinforce the incubator's role as a launchpad rather than a long-term lease solution. To support implementation and transparency, a draft Graduation Policy, along with a corresponding KPI framework tied to tenant performance, graduation, and rent recovery, is included in Appendix G for reference and potential adoption.

Introduce Performance Tracking

To strengthen accountability, demonstrate impact, and support long-term sustainability, the City should implement a formal performance tracking system for the San Luis Business Incubator through a Key Performance Indicator (KPI) dashboard. Establishing consistent metrics will allow the City to better evaluate program effectiveness, track progress toward graduation and rent recovery goals, and clearly communicate outcomes to City Council, funding agencies, and other stakeholders.

A KPI dashboard should focus on a balanced set of financial, operational, and economic development outcomes, reflecting both the incubator's business support mission and its role as a municipal asset. Metrics should be tracked annually, with select indicators monitored quarterly where feasible, and summarized in a concise dashboard format that can be incorporated into annual reports, budget discussions, and grant applications.

Performance tracking will also support implementation of the graduation policy by identifying when tenants are approaching readiness for transition, enabling proactive planning and improved throughput. Over time, these metrics will provide valuable trend data to inform policy adjustments, rental rate alignment, and program design.

To support implementation of the integrated performance framework, a detailed KPI table identifying specific metrics, target benchmarks, and data sources is provided in the Appendices. This table is intended to guide ongoing data collection, reporting, and evaluation of incubator outcomes.

Table 7. Integrated KPI, Rent, and Graduation Framework

Program Stage	Target Rent Level	Key Performance Indicators (KPIs)	Graduation Expectations / Actions
Entry / Year 1	75–80% of market	• Tenant onboarding completed • Business plan or operating model established	Orientation and stabilization phase; no graduation review

		• Initial job creation baseline	
Growth / Year 2	85–90% of market	• Revenue growth or financial stability demonstrated • Jobs created or retained • Participation in training or technical assistance	Annual performance review begins; early graduation readiness discussion
Market Readiness / Year 3	95% of market	• Sustained revenue or positive cash flow • Workforce growth or productivity gains • Ability to identify off-site industrial space	Graduation readiness assessment: transition planning initiated
Extended Tenure / Year 4	100% of market	• Continued business growth • Minimal reliance on subsidized services • Private-market lease feasibility	Graduation encouraged; limited extensions granted only if justified
Maximum Term / Year 5	Market + CPI (if applicable)	• Financial independence demonstrated • Off-site lease or relocation plan in place	Mandatory graduation review and transition

Medium-Term (1–3 years)

Over the medium term (1–3 years), the City should focus on strengthening the incubator's programmatic structure, partnerships, and funding model to support tenant growth, graduation readiness, and long-term financial sustainability.

Expand and Formalize Programming

Create a structured, annual training calendar offering bilingual workshops on business planning, OSHA compliance, export/import regulations, cross-border finance, and marketing. Programming should be aligned with tenant stage and graduation readiness, with participation tracked as part of the incubator's performance metrics. Mentorship opportunities should be strengthened through partnerships with established business leaders in Yuma County and San Luis Río Colorado, with a focus on peer learning, industry-specific guidance, and transition planning.

Strengthen Partnerships

Expand collaboration with Arizona Western College, Northern Arizona University–Yuma, and workforce partners such as YPIC to integrate entrepreneurial education, technical training, and internship pipelines for incubator tenants. Additional partnerships with maquiladora suppliers, binational chambers, and

regional economic development organizations should be explored to strengthen cross-border supply chains, workforce access, and market opportunities for graduating firms.

Diversify Funding Sources

Reduce reliance on City subsidy by pursuing U.S. Economic Development Administration Build to Scale grants, USDA Rural Business Development funds, and potential private sponsorships. Modest service fees for workshops or membership programs could also supplement revenue without burdening tenants.

Long-Term (3–5 years)

Over the long term (3–5 years), the City should focus on positioning the San Luis Business Incubator for sustained impact, financial stability, and continued relevance within the regional and binational economy. These actions are intended to build on earlier rent alignment, graduation, and performance-tracking efforts by reinforcing market readiness, expanding program capacity where demand supports it, and institutionalizing impact reporting to guide long-term decision-making.

Achieve Market Parity in Rents

Gradually align incubator lease rates with San Luis and regional Yuma industrial market averages (approximately $0.65–$0.75 per square foot) while maintaining an initial discount for first-year tenants as part of the phased rent strategy. Achieving market parity over time will place the program on stronger financial footing, reinforce the incubator's transitional role, and reduce reliance on ongoing municipal subsidy.

Expand Facility Capabilities

Explore the feasibility of adding modular space or specialized facilities—such as a shared industrial kitchen or light-manufacturing support space—to respond to evolving tenant needs and market demand. Potential expansions should prioritize uses that support local entrepreneurship and binational business activity and be evaluated for financial feasibility and alignment with the City's broader economic development and land-use objectives.

Institutionalize Impact Reporting

Publish an annual incubator impact report summarizing tenant outcomes, graduation activity, job creation, community benefits, and financial performance. Over time, the City should benchmark results against regional and national peer incubators, using performance data to inform policy refinements, budget decisions, and continuous program improvement.

Together, these recommendations provide a clear roadmap for evolving the San Luis Business Incubator into a financially sustainable, high-impact economic development program. By combining incremental rent adjustments, structured programming, clearly defined graduation policies, and rigorous performance tracking, the City can ensure the incubator continues to fulfill its mission of supporting entrepreneurship, creating jobs, and strengthening the binational economy.

Conclusion

The San Luis Business Incubator has proven to be a valuable community asset, supporting local and cross-border businesses in a market where affordable industrial space is scarce. By offering below-market rents, shared amenities, and connections to local partners, the incubator has created opportunities for firms that might not otherwise have found a foothold in San Luis. Yet, the evaluation also reveals gaps in graduation policies, program services, financial sustainability, and performance tracking.

Moving forward, the City of San Luis has the opportunity to strengthen the incubator by implementing a phased rent strategy, formalizing graduation expectations, expanding bilingual programming, and adopting performance metrics aligned with national best practices. Doing so will not only reduce the incubator's reliance on municipal subsidies but also expand its reach and effectiveness as a binational business development tool.

In conclusion, the SLBI is well positioned to evolve into a model incubator for border communities—one that balances affordability with sustainability, fosters entrepreneurship, and contributes meaningfully to job creation and economic growth on both sides of the U.S.–Mexico border.

With clear policies, measurable outcomes, and a phased approach to financial alignment, the City of San Luis is well positioned to implement these recommendations incrementally and sustainably.

VIII. Appendices



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Appendix D	Sample KPI Framework
Appendix E	KPI Metrics, Benchmarks, and Data Sources
Appendix F	Rent Increase Summary Impact by Tenant
Appendix G	Recommended Graduation Policy
Appendix H	Cost-Recovery Services and Fee Examples (Detailed)

Appendix A: Evaluation of Current Tenant Application

The City of San Luis Business Incubator Tenant Application requests standard applicant and business information, including contact details, business structure, product/service description, market and experience details, facility needs, equipment and safety considerations, workforce projections, current financing, and existing facility usage. It also includes a submission checklist for resumes, references, a business plan (if available), and financial documents, and requires completion of a 3-year cash-flow projection if advanced to lease consideration. (San Luis, AZ)

Strengths of the Current Application

- Comprehensive collection of business profile and contact details.
- Includes questions about market, experience, and space requirements — useful for evaluating fit.
- Requests projections for employment over five years, providing early insight into job creation potential.

Areas for Improvement

- Lack structured questions on graduation readiness (e.g., revenue targets, path to private-market leasing).
- Does not explicitly collect baseline performance data that aligns with the recommended KPI framework.
- Does not require attachments or commitments tied to participation in structured programming (e.g., mentorship, workshops).
- Does not require acknowledgment of the incubator's graduation policy, rent escalation, or performance tracking expectations.

Recommended Enhancements

The updated application should include sections that will help staff assess:

- Fit with the incubator's graduation criteria (e.g., projected milestones toward independent operation),
- Commitment to performance reporting aligned with the KPI dashboard,
- Understanding of rent adjustment expectations,
- Participation interests in structured programming and training.

Appendix B: Sample Tenant Application Form (Draft)

City of San Luis – Business Incubator Tenant Application (DRAFT)

Purpose: To assess applicant suitability for space and services in the San Luis Business Incubator and to collect baseline data used for performance tracking and graduation planning.

Section 1: Applicant Information

- Applicant Name: _____
- Business Name: _____
- Contact Address, Email, Phone: _____
- Business Structure (Sole Prop., LLC, Corp.): _____
- Business Start Date or Projected Start Date: _____

Section 2: Business Profile and Plan

- Brief description of product/service: _____
- Target market and geographic reach: _____
- Business goals over the next 12, 24, and 36 months: _____
- Attach: Business Plan or Executive Summary

Section 3: Experience and Qualifications

- Relevant industry experience: _____
- Key team members and roles: _____

Section 4: Facility Needs

- Type of space requested (office, manufacturing, warehouse): _____ sq. ft.
- Current facility location/lease status: _____
- Current monthly occupancy and utility costs (if any): _____

Section 5: Program Participation and KPIs

The incubator tracks certain performance outcomes. Applicants should provide baseline values and projections where applicable:

- Current annual revenue (if any): _____
- Projected annual revenue (Year 1 / Year 2 / Year 3): _____
- Planned job creation (full-time / part-time) by year: _____
- Capital raised or planned (sources and amounts): _____
- Participation interests (check all that apply):

Workshops □
Mentorship □
Networking □
Workforce training □

Section 6: Financial Information

- Existing financing and source: _____
- Equity or cash available: _____
- Need for additional financing and plan: _____

Section 7: Acknowledgments and Consent

I understand that submission of this application does not guarantee a lease. I agree to participate in performance tracking and graduation reviews as defined in the program guidelines. _____
(Signature)

Date: _____

Checklist

☐ Resume
☐ Three professional references
☐ Business Plan or Executive Summary
☐ Financial projections (Cash flow, revenue forecast)
☐ Copy of City of San Luis business license (or proof of application)

This draft aligns applicant expectations with the City's program policies, performance tracking goals, and graduation criteria.

Appendix C: Sample Program Guidelines

San Luis Business Incubator – Program Guidelines (Draft)

1. Purpose

The San Luis Business Incubator supports early-stage and expanding industrial businesses with subsidized space, programming, and services to accelerate growth and prepare firms for private-market operations.

2. Eligibility

Applicants must demonstrate viability, growth potential, and alignment with industrial space needs. Minimum requirements include a business license, a business plan or executive summary, and baseline projections for employment and revenue.

3. Lease Terms and Rent

Tenants enter at an initial discounted rate. Rents are structured with annual step-ups as part of a phased adjustment toward market benchmarks ($0.65–$0.75/SF). Tenants must acknowledge the rent adjustment schedule and associated performance expectations in their lease.

4. Programming

The incubator offers structured bilingual workshops, mentorship opportunities, and partner-led training on business fundamentals, compliance, cross-border operations, and marketing. Participation is tracked and included as a performance indicator.

5. Performance Tracking and KPIs

Tenants must provide annual updates on revenue, job creation, capital raised, and other performance metrics. Performance data informs graduation readiness reviews and supports ongoing program evaluation.

6. Graduation Policy

Tenants are expected to graduate within 24–36 months, with a maximum term of five years. Graduation reviews consider revenue growth, job creation, KPI attainment, and readiness for private-market leasing.

7. Reporting and Review

The City publishes an annual impact report and conducts annual KPI reviews. Tenant data supports Council reporting, budget planning, and grant applications.

Appendix D: Sample KPI Framework

To strengthen program evaluation and align with best practices, the following Key Performance Indicators (KPIs) are recommended for the San Luis Business Incubator. These should be tracked annually and reported in a simple dashboard.

Sample KPI Framework – San Luis Business Incubator			
KPI Category	**Metric**	**Purpose / What It Measures**	**Tracking Frequency**
Financial Sustainability	Average rent per square foot	Progress toward market-aligned lease rates	Annual
	Total lease revenue	Rent recovery and contribution to operating costs	Annual
	City subsidy per year	Reduction in municipal support over time	Annual
Graduation & Throughput	Average tenant length of stay	Effectiveness of graduation policy	Annual
	Number of businesses graduated	Program throughput and capacity turnover	Annual
	Graduation rate within 3–5 years	Alignment with incubator best practices	Annual
Business Outcomes	Jobs created or retained	Economic impact and workforce contribution	Annual
	Tenant revenue growth (self-reported)	Business stability and growth	Annual
	Post-graduation survival rate	Long-term effectiveness of incubation	Biennial
Program Utilization	Participation in training or technical assistance	Engagement with support services	Annual
	Use of partner services (SBDC, workforce partners, etc.)	Effectiveness of partnerships	Annual
Community & Regional Impact	Graduated firms remaining in San Luis or region	Local and regional economic retention	Biennial

Appendix E: KPI Metrics, Benchmarks, Data Sources

Detailed Key Performance Indicators, Benchmarks, and Data Sources			
KPI Category	**Specific Metric**	**Target/ Benchmark**	**Data Source**
Business Performance	Tenant Revenue Growth	10% annual increase	Annual tenant financial reports
Business Performance	Capital Raised by Tenants	$500,000 cumulative annually	Tenant self-report; grant/loan records
Jobs & Workforce	Jobs Created/Retained	2–5 jobs per tenant annually	Tenant surveys; City workforce data
Graduation & Throughput	Tenant Graduation Rate	70% graduate within 3–5 years	Incubator program records
Graduation & Throughput	Post-Graduation Survival	80% survive after 3 years	Follow-up surveys; state business registry
Program Engagement	Participation in Training/Workshops	75% tenant participation annually	Program attendance sheets
Community Impact	Local Procurement/Spending	Track % of local suppliers used	Tenant procurement surveys

Appendix F: Rent Increase Summary Impact by Tenant

Summary Impacts by Tenant (Baseline vs. Year 5)							
Suite	**Tenant**	**SF**	**Current $/SF**	**Current Monthly**	**Year 5 $/SF**	**Year 5 Monthly**	**Annual Increase (Year 5 vs. Current)**
A	JVR Trade LLC	1,430	0.44	$629.20	0.65	$929.50	$3,603.60
B	Honest To Date LLC	1,446	0.44	$636.24	0.65	$939.90	$3,643.92
C	CL Technologies LLC	1,472	0.65	$956.80	0.75	$1,104.00	$1,766.40
D	AZMED-USA LLC	1,472	0.65	$956.80	0.75	$1,104.00	$1,766.40
E	Beto's Cabinets LLC	2,717	0.575	$1,562.28	0.734	$1,993.60	$5,175.84
F	HAK Construction LLC	4,237	0.575	$2,436.28	0.734	$3,107.27	$8,051.88
G	Pacific Style LLC	4,237	0.44	$1,864.28	0.65	$2,754.05	$10,677.24

Appendix G: Recommended Graduation Policy

San Luis Incubator Formal Graduation Policy

Policy Purpose

The San Luis Business Incubator (SLBI) is intended to function as a transitional economic development tool, not a long-term lease alternative. This Graduation Policy establishes clear expectations for tenant progression, supports program throughput, and ensures the incubator continues to serve emerging and early-stage businesses—while recognizing the unique binational, industrial, and manufacturing context of San Luis.

Target Length of Stay

- Preferred Graduation Window**:** 24–36 months
- Maximum Program Duration**:** 5 years (mandatory graduation review)

This structure aligns with national incubator standards while allowing flexibility for capital-intensive, regulatory, and cross-border businesses.

Mandatory Graduation Triggers

A tenant must graduate from the incubator when any one of the following conditions is met:

1. The tenant has reached five (5) years in the program.
2. The tenant's space needs exceed incubator capacity, or the incubator cannot accommodate expansion.
3. The tenant occupies 20 percent or more of the total rentable incubator space.
4. The tenant demonstrates financial capacity to lease private industrial space in the San Luis or Yuma market.

Performance-Based Graduation Criteria

Tenants may graduate earlier upon meeting a combination of the following benchmarks:

- Demonstrated revenue growth or sustained positive cash flow.
- Job creation or workforce expansion appropriate to industry type.
- Ability to secure off-site industrial space at market rates.
- Completion of required training, compliance, or business planning milestones.
- Operational readiness to function independently of subsidized space.

This hybrid output + outcome model reflects industry best practices while remaining flexible for binational supply chains and manufacturing timelines.

Annual Review & Graduation Process

- Annual Performance Review begins in Year 2.
- Graduation Readiness Review occurs no later than Year 3.
- A 12-month transition period may be granted when needed to support orderly relocation.
- Graduated businesses may remain connected as Incubator Alumni, with limited access to services and mentorship.

Post-Graduation Tracking

Graduated firms will be tracked for:

- Business survival,
- Job retention and growth,
- Continued presence in the local or regional economy.

This data supports long-term impact reporting and funding justification.

Appendix H: Cost-Recovery Services and Fee Examples (Detailed)

This appendix provides illustrative examples of cost-recovery services and associated fee ranges commonly used by municipal and industrial business incubators. These examples are intended to inform City decision-making and demonstrate feasible approaches to reducing operating subsidies without requiring additional staffing.

Table H-1. Illustrative Fee Schedule for the San Luis Business Incubator

Service	Tenant Fee	Non-Tenant Fee	Implementation Notes
Incubator Program Fee	$95 per month	N/A	Supports administration, KPI tracking, and reporting
Application Fee	$50 (one-time)	$75	Covers staff review; discourages speculative applications
Conference Room (After Hours)	$25 per hour	$40 per hour	Encourages tenant priority use
Storage Unit (Approx. 4'x10')	$50 per month	$75 per month	Market-aligned; scalable
Advanced Workshops	$35 per session	$60 per session	Partner-led; tenant discount
One-on-One Business Advising	$75 per hour	$125 per hour	Delivered via SBDC or consultants
Heavy Utility Surcharge	Case-by-case	N/A	Applies only to high-load users

Appendix H-2. Recommended Fee Rollout Approach

Phase	Services Introduced	Rationale
Phase 1	Program fee, application fee	Immediate revenue with minimal operational burden
Phase 2	Conference room use, storage	Cost recovery for existing assets
Phase 3	Workshops and advising	Scalable, partner-delivered services
Phase 4 (Optional)	Utility surcharges	Ensures equitable cost allocation

Appendix H-3. Alignment with Financial Sustainability Goals

Revenue Tool	Contribution to Break-Even Goal	Staffing Impact
Program fees	Predictable recurring revenue	Minimal
Facility fees	Variable supplemental revenue	Minimal
Training & advising	Cost recovery and value creation	Low (partner-based)
Utility recovery	Expense offset	Minimal

Table H-4. Illustrative Annual Revenue from Cost-Recovery Services (Conservative Scenario)		
Revenue Source	**Assumptions**	**Estimated Annual Revenue**
Monthly Program Fee	7 tenants × $95/month	$7,980
Application Fees	5 applications/year × $50	$250
Conference Room Use	10 hours/month × $25	$3,000
Storage Units	5 units × $50/month	$3,000
Workshops / Training	6 sessions/year × 10 attendees × $35	$2,100
One-on-One Advising	2 sessions/month × $75	$1,800
	Total Estimated Annual Revenue	**$18,000**