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SANTA ROSA, CALIFORNIA

While RP business incubator boasts some success stories, recession stalls goal of creating thriving startups, 2,000 jobs

SLOW TO HATCH



Photos by KENT PORTER / The Press Democrat

VICTIM OF TIMING: Looking north, the Sonoma Mountain Business Cluster is housed in the northernmost building at Sonoma Mountain Village in Rohnert Park. The business incubator, launched in 2007 to create jobs through development of high-tech and green companies, has been hindered by the economic downturn.

By JEREMY HAY

THE PRESS DEMOCRAT

The business incubator had an ambitious goal: to nurture and hatch new companies that would create 2,000 high-tech and environment-friendly North Bay jobs in 10 years.

Four years later, the promise of a thriving job generator created in the shell of a shuttered high-tech manufacturing plant in Rohnert Park is far from being realized.

The Sonoma Mountain Business Cluster, launched in 2007 by Coddling Enterprises, was designed to help recover ground lost after about 3,000 jobs at Agilent Technologies and other North Bay high-tech companies disappeared, many overseas to Malaysia, China and India.

"It's a little economic engine," a consultant to the project said before the business cluster opened.

But those high aspirations collided with a long economic slump that has stifled public and private job creation.

The North Bay's particular business limitations also have slowed the incubator's progress. And some say management missteps have hindered it as well.

Coddling Enterprises CEO Brad Baker, who is a director of the incubator but is not involved in its management, said the venture is already proving its worth. Its 2010 state designation as an Innovation Hub, to foster regional job creation, was a crucial milestone, he said.

But Baker concedes the incubator has fallen

TURN TO **INCUBATOR**, PAGE A11



Brad Baker
CEO of Coddling Enterprises, which opened the Sonoma Mountain Business Cluster in 2007.



GROWING STARTUP: Lynton Auld, chief technology officer of the startup Pix2o, on Thursday perches in front of the company's flexible LED screen. The company is one of the success stories of the Sonoma Mountain Business Cluster in Rohnert Park.

Successes show promise of incubator

By JEREMY HAY

THE PRESS DEMOCRAT

The LED screen, 10 feet high and 6½ feet wide, rolls up into a scroll, a brilliant image of red roses playing across it. Then the screen unfurls, dropping down to its full length, the movement silent in the former high-tech assembly plant.

As the Sonoma Mountain Business Cluster enters its fifth year, its hopes rest on companies like the creator of the flexible LED screen, Pix2o.

It is the type of startup that the cluster's executive director, Michael Newell, is thinking of when he says: "One or two good success stories can be very transformational."

Pix2o says it just inked a deal to send its screens on a world tour with a pop production whose name the company cannot yet disclose.

That signals the type of promise that the incubator holds out of becoming a force in the North Bay economy, Newell said.

"Companies that come out and turn into \$50 million com-

TURN TO **SUCCESSES**, PAGE A11

Solar projects to drive up rates

State PUC analysts say 59% of contracts exceed market value

By GARANCE BURKE and JASON DEAREN

ASSOCIATED PRESS

SAN FRANCISCO — Dozens of renewable energy plants being built to meet California's tough global warming laws, including a major Spanish-owned solar plant in the Mojave Desert, are so overpriced they will increase consumers' energy bills for decades, according to the independent watchdog arm of the state's utility regulator.

California's 2006 landmark climate law has driven demand for solar and wind power and spurred renewable energy development both in the state and in neighboring states. The law seeks to reduce California's release of greenhouse gases to 1990 levels by 2020, and the state has set goals to have one-third of its electricity derived from renewable sources by then.

The push for renewable energy has created huge financial incentives for utilities — including both federal loan guarantees and state subsidies — and power companies have rushed to sew up power generation contracts needed to meet California's new, tough standards.

The California Public Utilities Commission on Thursday approved a request to build the

TURN TO **SOLAR**, PAGE A11

Merced housing slump a boon for UC students

By PATRICIA LEIGH BROWN

NEW YORK TIMES

MERCED — Heather Alarab, a junior at UC Merced, and Jill Foster, a freshman, know that their sudden popularity has little to do with their sparkling personalities, intelligence or athletic prowess.

"Hey, what are you doing?" throngs of friends perpetually text. "Hot tub today?"

While students at other colleges cram into shoebox-size dorm rooms, Alarab, a management major, and Foster, who is studying applied math, come home from midterms to chill out under the stars in a curvaceous swimming pool and an adjoining Jacuzzi behind the rapidly depreciating McMansion that they have rented for a song.

Here in Merced, a city in the heart of the San Joaquin Valley

TURN TO **HOUSING**, PAGE A4

ALSO INSIDE: Sonoma Mountain Business Cluster building on promise of public-private cooperation **E1**



SANTA ROSA
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THE WEATHER, **B12**



NATIONALS' CATCHER TELLS OF KIDNAPPING
Wilson Ramos, snatched from Venezuelan home, rescued by armed commandos / **A3**

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INCUBATOR: Official estimates 200 direct, indirect jobs created so far

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well short of its goals so far. "I consider it a success," he said. "Is it the success we envisioned in 2007? Absolutely not." The nonprofit incubator aims to give small and startup businesses a running start by providing low-rent office space and Internet, phone, legal, marketing and mentoring services. Codding spent \$200,000 to start the Sonoma Mountain Business Cluster, or SMBC, at the former Agilent complex on the eastern edge of Rohnert Park. And Sonoma Mountain Village, the \$1 billion mixed-use development Codding is developing on the site, lent it \$1.3 million at zero interest for building improvements. "My ultimate goal was to create this self-perpetuating place to help entrepreneurs realize their dreams," Baker said. Rohnert Park, hoping to revive its economy, also invested \$500,000 in redevelopment funds.

Fewer jobs than hoped

But while the incubator has fostered some significant successes that have taken root in the area, it remains nearly half empty and has produced fewer jobs than projected. "For a long time I've sort of seen the incubator . . . as a starting place for companies, and they would feed into Santa Rosa as they grow and come into larger space," said Nancy Manchester, economic development program specialist for the city of Santa Rosa, one of the collaborating partners in the cluster. "It has not yet" happened, she said. She blames that on the economy, which nose-dived soon after the incubator opened, drying up much of the venture capital that startups rely on. "It's a victim of timing in some ways," she said.

The business cluster's executive director, Michael Newell, estimated it has so far created about 200 direct and indirect jobs. Interviews with 17 companies that have moved on or are still tenants, found that 105 jobs had been directly created. Even as it broadens its ambitions into being a creator of jobs in Marin, Sonoma and Napa counties, the incubator is still trying to find its own feet. Its website is out-of-date and, more notably, management only now has begun to track the number of jobs it has produced. "We're a startup company and we have focused on putting the chassis in and getting the engine in," said Newell, a former JDS Uniphase business development executive.

Baker, too, said it has taken longer than he'd hoped to get the business cluster off the ground. "I hate to call this a startup after four years, but it is still a startup trying to find its way," he said. He noted that the incubator has met goals set by Rohnert Park in the agreement governing its initial \$500,000 investment: to produce 32 jobs in four years.

Successful firms move on

Two former tenants, Westcoast Solar Energy, a maker of solar energy systems, and Escape, an indoor recreation center, moved from the incubator into other Rohnert Park locations and together they employ 48 people. But in a tough economy, the incubator, which supports itself through rental income, grants and donations from businesses including local banks, has itself struggled financially. Codding Enterprises in 2010 had to forgive \$1 million in rent to help it remain afloat. And that year the incubator turned again to Rohnert Park, which agreed to give it \$888,000. The money went to partially pay off Sonoma Mountain Village's initial loan, restoring the incubator to the black. "No question about it," the cluster would have gone under without that help, Baker said.



KENT PORTER / The Press Democrat

Codding Enterprises CEO Brad Baker, founder of the Sonoma Mountain Business Cluster, says his goal was to create a "self-perpetuating place to help entrepreneurs realize their dreams."

"It was bleeding red ink."

Now, he said, "We've weathered the storm." With the debt erased, "they're healthier financially than they have ever been."

Also, the business cluster last year won a \$200,000 grant from the state's Small Business Development Corporation. It has already spent some of that money to hold a business plan contest and investor events such as one held Wednesday, where officials from 10 companies — two of them tenants — made pitches to 200 investors.

Goal of self-sufficiency

At the same time, though, it may not be able to lean on Codding Enterprises again, ratcheting up the pressure to become self-supporting.

Codding didn't reinvest the money from the incubator back into the venture. Instead, it plowed it into the incubator's landlord, the Sonoma Mountain Village development.

"I think our support is pretty much done," Baker said. And Rohnert Park officials, while vocal fans, suggest their wallet too is now closed.

"It's not like we're going to be replenishing those funds. We're not going to be giving them more money," Councilwoman Pam Stafford said.

Mayor Gina Belforte said the city has not "all the way" recouped the \$1.4 million it gave the incubator, but "to think that anybody is going to get that money back within two years, that would be crazy. It's not going to happen."

Still, she has high expectations. "I know I'm looking for a return on investment in the millions of dollars. I'm probably expecting a \$10 million to \$15 million return," she said.

The North Bay's limitations as a source of investment dollars have been a challenge, despite efforts by management to pair tenants with investors.

"It's obvious that they can't match the quality of investors that you get in touch with in Silicon Valley," said Andreas Peneder, founder of FortKnock, a company that incubator officials tout as a promising tenant.

Peneder has pitched his company at the incubator's investor events but said he has yet to secure any financing for FortKnock, which created an online authentication system to replace passwords.

The incubator's first tenant was PNN.com, a social networking site for women that moved out in 2009 after doubling in size, to from two to four full-time employees.

Founder Lauren Elliott has since sold a controlling share in the company to a Berkeley businessman. He said he is starting a new company in Silicon Valley because that's where the money is.

"It's just a fact that Silicon Valley has all the funding," he said. "All the venture capital, everything that's fast and Inter-

net-oriented, is down there."

That has frustrated efforts to attract new tenant companies, said Brenda Gilchrist, a human resources consultant in Santa Rosa who helped design the incubator's mentoring program.

"That's been the challenge, that we don't have an environment that's rich for providing startups the resources they need," she said. "We can attract them to the community, but if they're not provided the funding to get started, it's going to be hard."

The business cluster has given birth to some real successes, and companies based there or that have moved on say it played a key role in their development.

"The ability for us to focus on our business was huge," said Nate Gulbransen, Westcoast Solar's founder and president. "Hitting the ground running and focusing on making money as opposed to spending money."

But Michael Adler, an investor who is one of nearly 20 mentors for incubator tenants, characterized it as being in "its nascent stage."

"It will ultimately be a very significant contributor to our area," he said. "I just think the gestation period for a concept like this is very long."

A key issue, Adler said, is that most of the tenant companies are not yet at a stage to garner the meaningful venture capital they need to boost them to the next level. Instead, they must rely on funding from friends and family until they become mature enough to pitch VC firms for money.

"You have on hand these entrepreneurs who need money and they're really not right for investment," said Adler, a board member of North Bay Angels, a Sonoma County investment group that backs early-stage companies.

"The cluster has to get to a position where it can be more selective in who it accepts as tenants," Adler said, "and it's ultimately a case of maturation to make that possible."

40 percent vacant

Today, the incubator is about 40 percent empty and the 18 organizations listed as current tenants include Rohnert Park's historical society, the Harmony Festival and SSU.

The cluster's current tenants represent 45 to 50 employees and staff people, Newell said.

"We don't see a lot of activity. There's not a lot of new blood," said Denise Beeson, a commercial loan broker in Santa Rosa who is a member of the incubator's board of mentors.

"In the really successful incubators, you see a lot of excitement, a lot of people moving in and out, a lot of activity," she said. "You just feel in this case that we're constantly struggling to find tenants."

But Beeson, who in the 1990s was a director of a large high-

tech business incubator associated with Arizona State University, also attributes the slow start to an unwillingness or an inability to market what the incubator offers.

"I have sent a lot of clients over there, and a lot of the feedback that I'm getting is, 'What am I really getting beyond just office space?'" she said. "I think the incubator staff tries to provide a lot of value added, but it's not sold."

A former board of mentors member said the cluster was handicapped by its management structure and slow to adopt new strategies.

"I think it's a great concept; I think it could be much more effective than it is," said Shawn Jackson, a Rohnert Park business lawyer who for two years provided legal, business plan and marketing consulting services to startup companies in the cluster.

He left the incubator in March because he disagreed with its management and direction, he said.

He said there were differences of opinion about additional ways to support tenant companies, including different office leasing and support programs. For example, he said, management has yet to bring in outside experts such as the Santa Rosa Junior College's Small Business Development Center, which provides free instruction.

Managers 'spread thin'

Baker dismissed the criticism, saying, "It's always easy to be a Monday morning quarterback."

But he acknowledged that Newell and his management team are stretched to get done everything that needs doing.

"When you get spread thin like that it's hard to be real good at any one thing, when you're trying to do too many different things at once, so I think that's been an issue," he said. "But I think Michael's done a terrific job. He's just needed more resources at his disposal."

It's too early to really gauge the incubator's contribution to the local economy, said Ben Stone, director of the Sonoma County Economic Development Board, which SMBC promotes as one of its collaborating agencies.

"It's hard to make a judgment about how important it is," Stone said. "I think its relative importance will emerge with its results."

It has taken longer than expected but, providing investors come off the sidelines, those results will come, Gilchrist said.

"We're ramping up and over the next year and following we're going to see some of those projections start to come to fruition," she said. "We need to give it some time and not give up on it."

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SOLAR: PUC commissioner balks at price of Mojave project

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Abengoa solar thermal project in the expanses of the Mojave, despite one commissioner's objections that the project was at least \$1.25 billion over market price. When completed, the plant would generate enough power for about 54,000 homes.

Yet the commission's internal consumer advocacy unit, the Division of Ratepayer Advocates, said the deal is one of dozens of overpriced contract rubber-stamped by the commission in recent years, giving away too much to utilities and hurting consumers.

"We're in good shape for supporting renewables. It's not like we have to take every high-priced contract that comes in the door," said Joe Como, the division's acting director. "In the long run, this harms the state's efforts to achieve greenhouse gas reductions because it will result in unnecessarily higher rates and people are going to get rate shock."

Earlier this year, the watchdog unit estimated that 59 percent of the renewable energy contracts that the commission approved in recent years were above market value, according to the commission's own pricing benchmark for when the contracts were signed.

Commission President Michael Peevey, who pushed to approve the Abengoa contract with no modifications, said the Mojave solar plant's benefits could not be measured by cost alone. Peevey said the project would help the state meet its 33 percent mandate by 2020.

The project's decades-old technology — use of mirrors to capture the sun's heat and power steam turbines to generate electricity — is still efficient, Peevey said.

DOE completed Abengoa's loan guarantee in a rush of approvals before the Sept. 30 deadline for the controversial loan program that has come under scrutiny after the bankruptcy of solar-panel manufacturer Solyndra, which received a half-billion dollars in federal loans.

Under a power purchase agreement with Abengoa, Pacific Gas & Electric Co., will buy 250 megawatts' worth of solar thermal power generated by the Spanish-owned plant over 25 years. The exact amount PG&E will pay and the costs passed on to customers remain confidential.

Commission energy staff estimated in 2009 that by 2020 consumers' rates would go up by 28 percent overall. They attributed about one-third of that price hike as being due to renewables being phased in to meet the state's requirements.

Mike Florio, the lone CPUC commissioner who voted against the contract, said the new plant was not needed to meet the state's renewable energy goals, and would squander ratepayers' money on an outdated project that would not generate enough solar energy for the price. He also said it will saddle ratepayers with \$1.25 billion in above-market costs, which will be passed on to PG&E customers.

"I cannot in good conscience vote for such an expensive — really expensive — renewable project," Florio said. "Frankly, I think we would be better off if we simply paid the developer the \$70 million that they've invested and put an end to this project."

PG&E spokeswoman Lynsey Paulo said Friday the company considered the project highly viable, given the federal loan guarantee. "We're really committed to trying to achieve the state's goals in a cost-effective way," she said.

SUCCESSSES: Companies in incubator laud networking, mentoring, 'ecosystem' it provides

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panies — that's going to create a lot of jobs," he said. "They are a company that has the real potential to be a really exciting company for the region."

Pix2o, with 10 employees, started at the incubator three years ago with its two founders. It's expanded to two offices and some manufacturing space and its officials say the incubator helped them concentrate on developing their business rather than, say, finding copy machines. "Having an ecosystem helps," said Lynton Auld, the compa-

ny's chief technical officer. "You walk in and you start working immediately."

The incubator's turnkey nature is one of its chief attractions. But the entrepreneurs who operate there say the people are key too.

"You get networking, you get mentoring, you get the ability to work with a community of like-minded people who are focused on the growth of their business," said Mike Gunion, CEO of AspenAir Inside. The company, which is based in Martinez and makes air filter systems, staffs its incubator of-

fice with a single part-time salesperson, but Gunion says being associated with the project has paid off.

He has met with North Bay politicians, gained an investor in Codding Enterprises and recruited a prominent local tech entrepreneur to serve as chairman of his board: John Webley, who co-founded Advanced Fibre Communications and Turin Networks.

And AspenAir's products were certified by the county for use in its program to make low-interest loans for energy-efficient improvements.

Westcoast Solar Energy is another incubator success. The maker of solar energy systems graduated in July 2010 after 13 months in the project. Its growth over that time was startling.

Founder and president Nate Gulbransen was the sole employee when the company moved in. When it left there were 20 and Gulbransen said the mentoring support was essential.

"It saved our butts numerous times being able to go to these guys," he said. "It kept us on track."

For Escape, an indoor recreation center that moved from

the business cluster in 2009 into a 45,000-square-foot building on Redwood Drive in Rohnert Park, the incubator literally shaped it.

The company's current business development officer and accountant were assigned as his mentors at the incubator.

"The business relationships we made through that cluster kind of made us who we are today," said Anthony Bergland, Escape's founder and CEO.

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