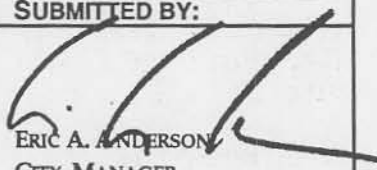


OFFICE OF THE CITY MANAGER
DES MOINES, IOWA

CITY COUNCIL COMMUNICATION 96-034
JANUARY 22, 1996 AGENDA

SUBJECT:	TYPE:	PREPARED BY:	SUBMITTED BY:
CEBA APPLICATION AND CITY LOAN TO DISTRIBUTED RESOURCE MANAGEMENT, INC.	◆ RESOLUTION ORDINANCE RECEIVE/FILE	SCOTT STRICKER ECONOMIC DEVELOPMENT ADMINISTRATOR	 ERIC A. ANDERSON CITY MANAGER

SYNOPSIS —

On the January 22, 1996, agenda is a roll call to approve the submission of a Community Economic Betterment Account (CEBA) application to the State of Iowa and to give preliminary approval for a \$100,000 City loan to Distributed Resource Management, Inc. (DRM). DRM is an innovative software company that designs, develops and supports software for client/server architecture with multiple locations in a wide-area network.

DRM is looking to lease approximately 3,000 sq. ft. of office space in the Merle Hay Tower. It will employ 45 employees within the next two years with an annual payroll of \$1.6 million. The company will pay an average hourly wage of \$17.20 per hour (\$35,775 annually) plus medical and pension benefits.

The project costs over the next two years are estimated at about \$1.9 million. The company has raised approximately \$1.350 million in equity venture capital and proposes to finance its additional needs as follows: \$122,500 CEBA loan (one-half forgivable and one-half repayment), \$100,000 City of Des Moines Loan, \$50,000 New Job Training Grant from DMACC, and \$228,000 generated internally from the company's cash flow and profits.

FISCAL IMPACT —

A local contribution in the form of a \$100,000 loan at a three percent interest rate, payable over five years, is to be funded from UDAG repayments. No City funds will be disbursed until all financing sources have committed to the project.

RECOMMENDATION —

Approve submission of a CEBA application to the State of Iowa and provide preliminary approval of a local contribution from the City of Des Moines.

BACKGROUND —

DRM is a *spin-off* company of Unix Integration Services (UIS). UIS, which is owned by Tim Ranney, was founded six years ago and develops customized software for Fortune 500 companies. DRM will be owned by Tim Ranney (90 percent ownership) and Donald Schoen (10 percent ownership). Schoen has been an entrepreneur most of his life. He developed Retail Management Systems (RMS), a software company focused in the supermarket area, to

become one of INC. 500's fastest growing companies in 1991. He was named Entrepreneur of the Year 1992 for the State of Iowa. Schoen sold RMS in 1992 to Telxon, which is listed on the NASDAQ.

DRM's primary product is called *HeartBeat*. HeartBeat was developed in 1992 by UIS for GTE under a custom software contract to develop a product to monitor specific resources (i.e., disk drive, CPU) on a remote server. HeartBeat enabled a problem to be detected, and an alert went to a central administration area.

HeartBeat has evolved from a simple monitoring tool to a product incorporating automated scheduling, monitoring, diagnostic and remedial software. HeartBeat allows for a system administrator to define a resource (i.e., a hardware or software area) that needs to be monitored. Tasks are then defined and developed to monitor and possibly correct the resource's performance. HeartBeat allows for dynamic or static scheduling for the monitoring process. Due to the system's flexibility, the scheduler can be defined to be dynamic or static monitoring. Needs can be developed from past results (i.e., the more critical a situation becomes, the more frequent a check on the resource can be established). System administrators can establish corrective procedures after HeartBeat's installation, allowing the system to act upon problems based on criteria predetermined by the central administrator. This allows for corrective actions to occur without any central administrative intervention.

DRM will market HeartBeat within the client/server arena to four key vertical niches: financial, telephony, manufacturing, and retail. HeartBeat has been installed in approximately 1600 server or client sites around the world, including two large reference accounts, JP Morgan and GTE. DRM expects to grow revenues to \$2.4 million in 1996, \$8.4 million in 1997, and \$12.8 million by 1998. DRM expects a net income loss of (\$585,227) in 1996, and to achieve net income profits of \$1.8 million in 1997 and \$2.4 million in 1998.

DRM employs three associates and is currently located in the UIS office at 11033 Aurora Avenue in Urbandale. DRM is proposing to relocate to independent office space located in the Merle Hay Executive Office Tower when adequate funding is attained. This relocation is necessary because the space DRM currently occupies with UIS can only accommodate four additional employees. DRM will need approximately 3,000 square feet in its first year of operation to properly provide for the people budgeted to work for DRM in Des Moines. The office space at Merle Hay Executive Office Tower will meet the company's first-year needs and yet be able to expand without penalty as the company grows. The proposed office space provides private offices for DRM's programmers and technical support writers, and enables them to be near other professional and retail services. The proposed work environment differs from what is currently found at UIS's offices and will provide for a higher level of employee productivity. DRM will employ 45 programmers, technical support writers, and marketing/sales personnel within the next two years with an annual payroll of \$1.6 million. The company will pay an average hourly wage of \$17.20 per hour (\$35,775 annually) plus medical and pension benefits.

The project costs over the next two years are estimated at about \$1.9 million. The company has raised approximately \$1.350 million in equity venture capital and proposes to finance the additional needs as follows: \$122,500 CEBA loan (one-half forgivable and one-half repayment), \$100,000 City of Des Moines Loan, \$50,000 New Job Training Grant from DMACC, and \$228,000 generated internally from the company's cash flow and profits.