

OFFICE OF THE CITY MANAGER
DES MOINES, IOWA

ITEM 103

CITY COUNCIL COMMUNICATION 97-477
SEPTEMBER 22, 1997 AGENDA

SUBJECT:	TYPE:	SUBMITTED BY:
ECONOMIC DEVELOPMENT ASSISTANCE TO NATIONJOB, INC.	◆ RESOLUTION ORDINANCE RECEIVE/FILE	JAMES GRANT COMMUNITY DEVELOPMENT DIRECTOR

SYNOPSIS —

On the August 18, 1997, Council agenda is a resolution approving the documents for a Des Moines Action Loan Fund (DMALF) Loan in the amount of \$45,000 to NationJob, Inc. On August 18, 1997, by Roll Call No. 97-2895, the Council gave approval for the submission of a Community Economic Betterment Account (CEBA) application in the amount of \$35,000, and preliminary approval of a \$45,000 DMALF loan to NationJob, Inc.

The company requested that the CEBA application be withdrawn after State staff indicated the project met the basic criteria for program eligibility; however, it did not score high enough on their rating scale for approval. The CEBA program requires a minimum starting wage of \$9.66 per hour excluding commissions, bonuses or benefits. The majority of jobs to be created are sales positions that include both a base salary and commissions in an employee's total compensation. The company's average starting wage level for the proposed 27 new jobs, inclusive of sales commission, is \$10.65 per hour, and \$8.33 per hour without sales commissions. The 15 existing jobs to be relocated to Des Moines with an average wage of \$11.36 per hour are not eligible for consideration under the CEBA program. In addition, the company provides all full-time employees with either single or family health and life insurance coverage, of which the company pays 70 percent of the premium costs.

The company still wishes to move forward with the proposed expansion project and occupy 5,832 square feet of space located at 601 SW Ninth Street. The total costs of the proposed project are estimated at \$239,000. To accomplish the project, the company is in the process of raising additional funds from investors in the amount of \$35,000. The remaining financial participation remains the same as originally proposed, as follows: \$50,000 for tenant improvements to be financed by the landlord over the term of the lease; \$139,000 in new equipment, furniture and fixtures to be financed with a combination of commercial leases; the proposed \$45,000 City DMALF loan; and the \$35,000 cash injection to be raised from investors. The company will also contribute \$50,000 in working capital to cover expenses such as training of new employees, new printed materials and moving expenses. The proposed City DMALF loan is structured to be repaid at zero percent interest over a five-year term. The proposed City financing is necessary for this proposed project to move forward in the City of Des Moines to offset higher operating costs in the City. Company management has indicated that without the City's assistance the project will be unable to proceed in the City of Des Moines and will choose a less expensive suburban option.

FISCAL IMPACT —

The proposed loan is to be funded out of the Des Moines Action Loan Fund. The loan in the amount of \$45,000 is to be repaid over a term of five years at zero percent interest. No City funds will be advanced until all other public and private funds are committed to the project.

RECOMMENDATION —

Approval of a Des Moines Action Loan Fund loan to NationJob, Inc., in the amount of \$45,000 at zero percent interest to be repaid over a term of five years.

BACKGROUND —

NationJob, Inc., provides products and services related to the advertisement of job openings for businesses. Its product consists of a new medium, on-line access services through the Internet. The company markets this product directly to businesses in need of filling job openings. In 1996, NationJob introduced its Personal Job Scout (P.J. Scout) service, that currently delivers job openings directly to over 160,000 subscribing job seekers.

NationJob is operated by majority owners, Ralph Hejlik, President, 4012 Maple Street, West Des Moines; and Robert Levinstein, Vice President, 673 - 61st Street, Des Moines. The company is presently located in the Golden Circle Business Center incubator located on the DMACC main campus, which is scheduled to close this fall. The company has been notified that they will need to vacate their present space by the end of October 1997.

Chris Greenfield with the Downtown Partnership became aware of NationJob and began working with the company to relocate to the City of Des Moines. The company had been looking at potential sites in Ankeny and had not considered a Des Moines location due to higher operating costs associated with a Des Moines location. Mr. Greenfield, working with City Economic Development staff, showed the company that a Des Moines location would be beneficial to the company and that the higher costs could be equalized with financial assistance from the City.

The project will relocate 15 existing jobs with an annual payroll of about \$340,000 (average wage of \$11.36 per hour), and will create 27 new jobs with an annual payroll of \$598,000 (average wage of \$10.65 per hour) over the next two years. Under the City's DMALF program the company will be required to make at least 51 percent of the new jobs available to low- and moderate-income residents.

The company is profitable and has produced positive cash flows sufficient to build reserves and service its existing bank debt and the proposed City debt. Their bank of record has extended the company credit with an outstanding balance of approximately \$153,000, which matures on December 31, 1999. The bank is reluctant to participate in the expansion financing, however, due to: (a) the company's small net worth relative to the level of the bank's existing credit to the company, which is secured by the company's existing assets and personal assets of the company's officers; (b) the company operates in a new industry (Internet On-Line Services); and (c) the company's primary assets are considered intangible and difficult to assign a market or collateral value too, which is why the bank required personal collateral from the officers (intangible or soft assets are generally regarded as having value within a business because the item is used to produce income, but has little utility or value if used by a different business and cannot be easily sold by private sale or public auction—e.g., goodwill, trademarks, patents, catalogs, brands, copyrights, formulas, franchises and mailing lists. Conversely, fixed or hard assets are generally assets, which a market value is easily determinable and can be easily liquidated by private sale or public auction.)