



Agenda Item:

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COUNCIL COMMUNICATION City Manager's Office

GENERAL INFORMATION

Agenda Date: 4/5/04

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No.:

Communication

Roll Call

Submitted by: Richard A. Clark

SUBJECT—

Approval of preliminary economic development loan terms with Lighthouse Communications, Inc. and authorization to negotiate final loan terms.

SYNOPSIS—

On the April 5, 2004, City Council agenda is a roll call to approve the preliminary terms of an economic development loan with Lighthouse Communications, Inc. (Jim Masterson, CEO, 666 Walnut, Suite 1900, Des Moines, IA 50309) and to authorize the City Manager to negotiate the final terms of the Loan Agreement. The loan terms will outline the parameters of the forgivable economic development loan.

Lighthouse Communications is proceeding with a plan to complete a strategic acquisition of an out of state firm and will be aggressively expanding its Des Moines workforce and office space.

FISCAL IMPACT—

The City will propose a forgivable loan of up to \$200,000 to Lighthouse Communications. The loan will be advanced in two installments and will only be forgiven provided certain job creation goals are reached. The Loan Agreement will contain the parameters of the City's financial participation in Lighthouse Communications' expansion project.

The funding source for the loan will be the Economic Development Enterprise Account. If possible, this account may be repaid this amount through TIF funds.

Lighthouse Communications has also submitted an Application for Financial Assistance to the Iowa Department of Economic Development (IDED) seeking up to \$1,500,000 from the State of Iowa. Local participation is an integral and necessary component of this larger IDED financial package. The City's participation is contingent upon participation from the State of Iowa.

RECOMMENDATION—

Approval

BACKGROUND—

Lighthouse Communications, Inc. provides sophisticated data communications and network management services for business in five Midwest markets (Des Moines, Omaha, Kansas City, Minneapolis, and Cedar Rapids). Their upcoming acquisition will further expand Lighthouse's geographic reach. Additionally, the Company provides network development services to larger businesses requiring private network connectivity to their customers and other constituents. Lighthouse Communications has a strong client base of 950 high-end business customers and boasts an impressive 90% customer retention rate. Major investors in Lighthouse Communications, Inc. include Iowa Farm Bureau Federation, Principal Life Insurance Company, and John Pappajohn.

Lighthouse currently employs approximately 40 people in downtown Des Moines. The proposed expansion will create an additional 85 jobs over the next 5 years. The jobs to be created include information technology, accounting, and sales positions. Both the 40 retained jobs and the 85 new jobs have an average annual wage in excess of \$60,000. This expansion will result in Lighthouse leasing additional space in the Financial Center, 666 Walnut (or elsewhere in Des Moines) and will also include significant investment in building remodeling, computers, and other machinery and equipment.

The City's economic development assistance will not be payable until Lighthouse Communications has executed a lease for its expanded office space. Also, the loan payments will be made in two separate installments. Exact installment amounts and timing will be negotiated in the Loan Agreement. At this time it is estimated that approximately \$100,000 will be advanced upon evidence of an executed lease agreement. The second installment of approximately \$100,000 will be negotiated to occur as certain job growth benchmarks are attained. This is expected to occur three years following the first installment. The City's funds will then be available to assist with the often-costly process of readying office space and paying for tenant improvements. Lighthouse Communications is a rapidly growing company and would have difficulty funding these costs without the City's economic development assistance.