



Agenda Item:

36

## COUNCIL COMMUNICATION City Manager's Office

### GENERAL INFORMATION

Agenda Date: 5/17/04

Communication

No.: 04-242

Agenda Item Type: Resolution

Roll Call

No.:

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 May 17, 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 Agreement will outline the parameters of the economic development assistance and will be presented to Council at a later date.

On April 16, 2004 Lighthouse Communications was awarded a \$723,000 economic development package from the Iowa Department of Economic Development (IDED). IDED's economic development assistance also consists of a forgivable loan and a 2% interest repayable loan. Local participation is an integral component of this larger IDED financial package. The City's participation is contingent upon participation from the State of Iowa.

Also on the May 17, 2004 City Council agenda is a roll call to approve Lighthouse Communications' application for State of Iowa Enterprise Zone benefits, pending recommendation from the Downtown Neighborhood Association.

Lighthouse Communications has completed 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 an economic development package of \$100,000 to Lighthouse Communications. The City's assistance will be in the form a \$50,000 Forgivable Loan and a \$50,000 Repayable Loan. The Repayable Loan will carry an interest rate of 2% and will be amortized over a 5-year term. The Forgivable Loan will only be advanced and forgiven provided certain job creation goals are reached. The Loan Agreement will contain the exact 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. The City will secure its loan with a blanket UCC-1 Financing Statement.

**RECOMMENDATION—**

Approval

**BACKGROUND—**

A roll call requesting City Council's approval of a preliminary economic development assistance package for Lighthouse Communications was presented to Council on April 5, 2004. Council did not take action on the item at that date and requested further information regarding the Company and the City's overall policy on economic development activities. Since that time, Council has had the opportunity to address specific questions directly to the President of Lighthouse Communications.

Lighthouse Communications, Inc. provides sophisticated data communications and network management services for businesses in five Midwest markets (Des Moines, Omaha, Kansas City, Minneapolis, and Cedar Rapids). 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. Lighthouse recently completed the acquisition of Arizona-based Focal Solutions and is working to integrate Focal's business model and offer a new set of services to Lighthouse's existing customer base. This recently completed acquisition will further expand Lighthouse's geographic reach.

Lighthouse Communications' expansion project will include over \$6,000,000 in private equity investment for computers, building remodeling, furniture and equipment, and working capital. 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 Loan Agreement will require Lighthouse to remain within the Des Moines city limits during the term of the loan.

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 timing will be negotiated in the Loan Agreement. At this time it is estimated that the 2% repayable loan will be advanced upon evidence of an executed lease agreement. The forgivable loan will be disbursed when the company attains a total employment of 60 pledged jobs. This is expected to occur within two years of advancement of the repayable loan. The City's funds will then be available to assist with the often-costly process of readying office space and purchasing computer equipment. Lighthouse Communications is a rapidly growing company and would have difficulty funding these costs without the City's economic development assistance.