



Agenda Item:

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COUNCIL COMMUNICATION City Manager's Office

GENERAL INFORMATION

Agenda Date: 09/27/04
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Communication No.:

Agenda Item Type: Resolution
No.:

Roll Call

Submitted by: Richard A. Clark, Deputy City Manager

SUBJECT—

Resolution approving a City economic development loan in the amount of \$100,000 to LightEdge Solutions, Inc. (formerly known as Lighthouse Communications, Inc.).

SYNOPSIS—

This action approves the final terms of an economic development loan with LightEdge Solutions, Inc. (Jim Masterson, CEO, 666 Walnut, Suite 1900, Des Moines, IA 50309) and authorizes the execution of all related documents.

On May 17, 2004, by Roll Call No. 04-1027, City Council approved preliminary economic development loan terms with LightEdge and directed the City Manager to negotiate final loan terms.

On April 16, 2004, LightEdge was awarded a \$723,000 economic development package from the Iowa Department of Economic Development (IDED). IDED's economic development assistance consists of a forgivable loan and a 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.

LightEdge Solutions, Inc. 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 two-piece economic development loan package totals \$100,000. The City's assistance will be in the form a \$50,000 Repayable Loan and a \$50,000 Forgivable Loan. The Repayable Loan will be advanced immediately, will carry an interest rate of 0%, and will be amortized over a 5-year term. A 2% interest rate was originally contemplated, but was reduced in exchange for a longer job maintenance period, which extends to 2014. The Forgivable Loan will only be advanced when LightEdge's total employment reaches 60 employees. The loan will be forgiven provided that LightEdge reaches total employment of 119 full-time employees by October 2009 and maintains this level through September 2014. If LightEdge is found to be in default of the loan provisions, the principal balance shall be repaid in full, along with interest computed at Prime Rate. 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 LightEdge Solutions, Inc. was presented to Council on April 5, 2004. Council did not take action on the item at that time 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 LightEdge Solutions.

On May 17, 2004, by Roll Call No. 04-1027, City Council approved preliminary economic development loan terms with LightEdge and directed the City Manager to negotiate final loan terms. Also on May 17, 2004, by Roll Call No. 04-1028, City Council approved LightEdge Solutions' application for State of Iowa Enterprise Zone benefits.

LightEdge Solutions, Inc. provides sophisticated data communications and network management services for businesses in five Midwest markets (Des Moines, Omaha, Kansas City, Minneapolis, Phoenix, and Cedar Rapids). Additionally, the company provides network development services to larger businesses requiring private network connectivity to their customers and other constituents. LightEdge Solutions has a strong client base of 950 high-end business customers and boasts an impressive 90% customer retention rate. LightEdge 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 LightEdge's existing customer base. This acquisition will further expand LightEdge's geographic reach.

LightEdge Solutions' 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 LightEdge Solutions, Inc. include Iowa Farm Bureau Federation, Principal Life Insurance Company, and John Pappajohn.

LightEdge currently employs approximately 40 people in downtown Des Moines. The proposed expansion will create an additional 79 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 79 new jobs have an average annual wage in excess of \$60,000. This expansion will result in LightEdge 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 requires LightEdge to remain within Des Moines' metro Center Urban Renewal Area during the term of the loan.