



Agenda Item:

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COUNCIL COMMUNICATION City Manager's Office

GENERAL INFORMATION

Agenda Date: 12/20/04
04-629

Communication No.:

Agenda Item Type: Resolution
No.:

Roll Call

Submitted by: Richard A. Clark, Deputy City Manager

SUBJECT—

Resolution authorizing submission of a CEBA loan application to the State of Iowa and approving preliminary terms of an economic development loan to BayTSP, Inc.

SYNOPSIS—

Approve the preliminary terms of an economic development loan with BayTSP, Inc. (Mark Ishikawa, CEO, P.O. Box 1314, Los Gatos, CA 95031) and authorize the City Manager to negotiate the final terms of the Loan Agreement. This action also authorizes submittal of a CEBA Loan application to the State of Iowa on behalf of BayTSP. BayTSP is proceeding with a strategy to open a Des Moines office. Des Moines would then become the center for the majority of BayTSP's aggressive employment growth.

The City Manager is also authorized to begin negotiating preliminary terms of a comprehensive agreement with BayTSP's venture capital investor, Acuity Ventures, LLC (Eric Hardgrave, Partner, 1960 The Alameda, Suite 200, San Jose, CA 95126) for the possible location of five additional companies to Des Moines. As part of this comprehensive agreement, there is an opportunity to consider the development of a technology center or a technology "incubator" that could provide space for these businesses. Such a development would create additional tax base and would help with the recruitment of "IT" related business and the associated jobs.

FISCAL IMPACT—

A \$150,000 economic development loan is proposed to facilitate BayTSP's pledge to add 75 high-tech jobs in Des Moines. The proposed loan will be half forgivable and half to be repaid after approximately 7 years at 0% interest. Precise terms of the loan will be negotiated and presented to the City Council at a later date. 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 State of Iowa is proposing an \$800,000 incentive package for BayTSP. The City's economic development loan is contingent upon the State's approval of a final incentive package.

RECOMMENDATION—

Approval

BACKGROUND—

BayTSP is the market leader in detecting the illegal use and distribution of Intellectual Property on the Internet. BayTSP's web-based software applications search the Internet for three large, diversified markets: Entertainment (Music and Movies), Software, and Financial Services. The Company currently does business with all of the major Entertainment companies. The "software piracy" marketplace is growing as major software companies look to BayTSP to protect them against the escalating problem of software theft and piracy. Software piracy in 2004 is estimated at \$30 billion. The Company will release an "identity theft" application in the first quarter of 2005 targeting the Financial Services market.

BayTSP has become the standard in tracking Interdiction and other anti-piracy technologies. Interdiction is a process of flooding networks with fake files to obscure the customers' real content. Customers report up to 85% reductions in reported piracy after starting with BayTSP. The Company currently documents over four million infringements per day (and growing) for their customers. The company was founded in 1999 to help stop the problem of digital theft and assist law enforcement agencies in their fight against crime on the Internet.

BayTSP, headquartered in Los Gatos, California, is currently considering Des Moines as a location to open an additional data/operations center and new office to accommodate future growth. The Company is experiencing tremendous sales growth and needs to invest heavily in infrastructure and human resources to accommodate that growth.

Founded in 1999, BayTSP has 46 full-time employees providing 24-hour coverage for their clients. BayTSP currently has operations in Los Gatos, California; Austin, Texas; and Salt Lake City, Utah. If Des Moines is chosen, the majority of BayTSP's employment growth would occur in Iowa.

BayTSP has pledged 75 new jobs in Des Moines with an average wage greater than \$50,000. These jobs will be created over a 5-year period. Company officials were in Des Moines earlier this month to search for office space and would anticipate establishing their Des Moines office in the first half of 2005.

BayTSP is also being heavily recruited by the State of Nevada. Because the company's venture capital investor, Acuity Ventures, is the same group that brought GCommerce and PDHI to Des Moines, BayTSP wishes to duplicate the beneficial move to Des Moines made by those two firms.

Due to Acuity Ventures' growing relationship with the State of Iowa and the City of Des Moines, Acuity Ventures wishes to pursue an arrangement that would bring five additional companies to Des Moines in the next 5 years. This proposal may involve locating a high-tech incubator facility in a new or existing building in Des Moines. Acuity Ventures is currently forming its next investment fund and would like to negotiate a long-term arrangement with the State of Iowa and City of Des Moines early next year. This action authorizes the City Manager to engage in preliminary negotiations regarding this long-term relationship.