



Council Communication

Office of the City Manager

Date

January 8, 2007

Agenda Item No. 34

Roll Call No. 07-

Communication No. 07-006

Submitted by: Richard A. Clark, City Manager

AGENDA HEADING:

Resolution authorizing submittal of an Application for Financial Assistance to the State of Iowa Department of Economic Development (IDED) for a Community Economic Betterment Account (CEBA) loan on behalf of Kailea Networks, Inc. and giving preliminary approval for a City economic development loan of \$70,000 to the company as required match.

SYNOPSIS:

Recommend approval for submission of an Application for Financial Assistance for a CEBA loan in the amount of \$300,000 and preliminary approval of a City economic development loan of \$70,000 to Kailea Networks, Inc. (Marlin Scott, CTO, 400 Oyster Point Blvd. Suite 525, South San Francisco, CA 94080). The State requires local financial participation in economic development projects seeking financial assistance, and both the City and County have been asked to support the \$1.63 million business expansion project that will create 35 new high-paying, high-tech jobs in downtown Des Moines.

FISCAL IMPACT:

Amount: \$70,000 (\$2,000 per job created). The City's financial participation is proposed to be a \$70,000 0% 7-year loan, with the County providing the same form and amount of assistance. This will match the company's request of the State for a \$300,000 half forgivable/half 0% interest 7-year CEBA loan.

Funding Source: Fiscal Year 2006-07 Operating Budget, Economic Development Enterprise Fund, CMO980717 SP743, page 310. Carryover from Fiscal Year 2005-06 funds.

ADDITIONAL INFORMATION:

City and Greater Des Moines Partnership staff have been working with Kailea for several months to expand their west coast operations with a second business and technical support center in downtown Des Moines. The company is looking for redundancy and expansion in a more secure and more cost-effective location. The company is a computer software firm founded in 1997 by people leaving the communications industry. Its current customers are in telecom and banking.

Kailea produces web-based incident management software for businesses dependent upon reliable and secure computer network operational performance. The software runs a problem-solving calculus that proactively monitors IT network systems in real-time for trouble alarms, providing critical lead-time-to-act before business services are disrupted.

The company would rent space downtown, with project costs including lease, office improvements, furniture and fixtures, computer hardware and software, job training and working capital. The company

has projected 35 new jobs over a three-year period, with five jobs in Year 1, ten jobs in Year 2 and 20 jobs in Year 3. The average wage is \$27.75/hour or \$57,714/year. The jobs are primarily systems administrators, developers and network operations center staff. New hires could be recent college computer science or engineering graduates who would be trained.

Without public financial participation, the company's decision to establish a new operations center in Des Moines would not be pursued. The company requires financial assistance in the form of forgivable and zero interest loans, matched by the company's private equity drive, to fund this expansion project. The company is in a rapid growth mode and needs cash to cover start-up expenses for a Des Moines operation. The City's loan will be disbursed in pro rata fashion as jobs are created and project equity is secured.

The Iowa Economic Development Board will take action on the Application for Financial Assistance for the CEBA loan at its January 11, 2007, meeting.

PREVIOUS COUNCIL ACTION(S): NONE

BOARD/COMMISSION ACTION(S): NONE

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

The City Council will be asked to approve at an upcoming meeting CEBA contract documents and final loan documents associated with this action.