

 <p style="text-align: center;">Council Communication Office of the City Manager</p>	Date: June 27, 2011
	<p>Agenda Item No. 56</p> <p>Roll Call No. <u>11-1161</u></p> <p>Communication No. <u>11-433</u></p> <p>Submitted by: Terrance N. Vorbrich, Acting Economic Development Administrator</p>

AGENDA HEADING:

Communication from the Office of Economic Development regarding the preliminary terms of an agreement with StartupCity Des Moines, LLC, for City assistance in the creation of a business incubator in downtown Des Moines.

SYNOPSIS:

StartupCity Des Moines is a technology startup incubator to be located in downtown Des Moines. It is being formed by Christian Renaud, 9168 NW 73rd Street, Johnston, and Tej Dhawan, 11650 NW Oaktree Drive, Grimes, to address the business development needs of early-stage firms that need mentoring, education, and space to grow into viable companies. StartupCity Des Moines primary functions will include: Provision of space where technology startups can build their businesses in a peer-supported setting and collegial environment; mentorship of each startup individually through the early stages of company formation, product and business strategy, product development and go-to-market execution; an on-going learning environment of timely, targeted, practical education by utilizing local formal education resources as well as local service provider expertise.

A technology incubator located in the downtown area supports the City’s economic development efforts to foster entrepreneurship and small business development. There is a need to support entrepreneurs, innovators and fledgling small business people in all facets of their development process. Every new small business, start-up enterprise or entrepreneurial endeavor can one day grow to become a large employer.

StartupCity Des Moines is seeking up to \$800,000 in capital to cover its first three years of operations. The Board of the Greater Des Moines Partnership has preliminarily approved a three-year, \$50,000 per year funding commitment totaling \$150,000. The City of Des Moines is being asked to match the Greater Des Moines Partnership funding pledge. City Economic Development staff are recommending the City participate at a level of \$25,000 per year for three-years for a total participation of \$75,000. Staff is also working with The Corporation for Economic Development in Des Moines (CEDDM) to participate in funding StartupCity Des Moines. A CEDDM task force has been reviewing a request and will make a positive recommendation to participate in the funding with a three-year commitment at \$25,000 per year totaling \$75,000 to the CEDDM Board at its June 28, 2010 meeting. The combined City and CEDDM funding participation totals \$150,000 over three-years. Both the City and CEDDM approvals will be preliminary and subject to StartupCity Des Moines being successful in raising the balance of its needed capital. If successful in its funding efforts, a final funding agreement will return for City Council review and approval.

FISCAL IMPACT:

Amount: \$75,000; (\$25,000 per year for a three year commitment)

Funding Source: FY2010-2011 Recommended Operating Budget, Economic Development Enterprise Fund, SP746, CMO0980716, Page 56.

ADDITIONAL INFORMATION:

StartupCity Des Moines is a technology startup incubator to be located in downtown Des Moines. It is being formed by Christian Renaud and Tej Dhawan to address the business development needs of early-stage firms that need mentoring, education, and space to grow into viable companies.

Christian Renaud is the CEO of The Athena Project, an educational massively multiplayer online game. Mr. Renaud was previously CEO of Palisade Systems, CEO of the Technology Intelligence Group, Vice President of Business Development for Windmill Networks and Chief Architect of Networked Virtual Environments for Cisco Systems. In addition to 20+ years of experience in emerging technology, he holds advisory and board positions with venture funds, European Commission projects, technology startups, the Technology Association of Iowa, the executive committee of the Des Moines Metropolitan Opera, and is the President of the Board of the Des Moines Social Club. Tej Dhawan is a co-founder and past-President of Advanced Technologies Group, Inc, that develops and deploys nationally, technology applications dealing with secured electronic communication of various formats. Mr., Dhawan serves as Vice-Chair, Board of Trustees, Central College, Pella, IA.

StartupCity Des Moines is intended to fill a gap between the excellent educational programs that are offered in the state to encourage organic company creation. The incubator compliments adjacent efforts in entrepreneurship such as the John Pappajohn Entrepreneurial Centers, state and city economic development efforts targeted at businesses, venture capital activity and co-working/executive suite spaces. There currently exists no single place, however, where early-stage ideas and startups can congregate to create the next generation of successful companies and employers.

StartupCity Des Moines will become affiliated with the national TechStars Program that was recently inducted into President Obama's Startup America initiative to foster entrepreneurship as a driver for national economic recovery. TechStars, a paid membership program will bring national event and resources to the StartupCity Des Moines startup companies and mentors. Its membership in this national program, endorsed by the White House, is congruent with the program's model to be mentor driven entrepreneurship and not simply a co-working space.

StartupCity Des Moines is seeking to raise up to \$800,000 in capital to cover anticipated operating costs for the first three years of operations. The revenue model for StartupCity Des Moines is a hybrid model between a traditional incubator and a co-working space. The incubator will provide mentoring, education and space in exchange for a percentage of equity in the startup. Additionally, the startups are responsible for its share of actual use of devices such as copiers, and its pro-rata share of the common utility bills such as electricity and Internet access. These two items are the only fees expected to be charged to the startup companies located in the incubator. The goal is to preserve the startups capital to drive back into growing its business and becoming self-sufficient. The pro-rata share of common bills provides an offset for the incubator's monthly operating expenses, while the percentage of ownership provides a long-term potential for a liquidity event from the startup being successful, which would then serve to underwrite subsequent years of the incubators fixed operations, i.e., space rental and staff. It is

anticipated that none of the initial startups incubated will reach maturity or liquidity for at least three years, so no income from startup equity has been included to cover operating costs in setting the level of initial capital being raised. A third source of revenue to the incubator is desk rental paid by local service providers that wish to rent space in order to be proximate to the startup companies they service.

PREVIOUS COUNCIL ACTION(S): NONE

BOARD/COMMISSION ACTION(S): NONE

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

Approval by City Council of final terms of funding agreement with StartupCity Des Moines, LLC

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