

 <p style="text-align: center;">Council Communication Office of the City Manager</p>	Date:	November 7, 2011
	Agenda Item No.	27
	Roll Call No.	<u>11-1874</u>
	Communication No.	<u>11-692</u>
	Submitted by:	Terrance N. Vorbrich, Acting Economic Development Administrator

AGENDA HEADING:

Approval of Economic Development Financial Assistance Contract with StartupCity Des Moines, LLC for the creation of a technology business incubator at 317 6th Avenue, Suite 500, Des Moines.

SYNOPSIS:

By Roll Call 11-1161, dated June 27, 2011, City Council approved preliminary terms of agreement for City economic development assistance to StartupCity Des Moines, LLC for the creation of a technology business incubator in downtown Des Moines. StartupCity Des Moines has received \$700,000 in funding commitments that will allow it to open and operate the business incubator for at least three years. Staff is presenting for final approval an economic development financial assistance contract based on the preliminary terms of agreement that includes defined success metrics to evaluate the progress and success of the incubator program. The City commitment of \$75,000 is payable in three annual installments of \$25,000. Prior to advancement of the second and third annual installments, StartupCity Des Moines is required to submit a report to the City and other Investors as to its progress in achieving the success metrics contained in the economic development assistance contract.

FISCAL IMPACT: [SELECT ONE]

Amount: \$75,000, payable in three annual installments of \$25,000

Funding Source: FY2011-2012 Recommended Operating Budget, Economic Development Enterprise Fund, SP743, CMO0980717, 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. 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 founders and principals are: Christian Renaud, 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 has received the following funding commitments from investors: \$250,000 from the Iowa Economic Development Authority, \$150,000 from Polk County, \$150,000 from the Greater Des Moines Partnership, and \$75,000 from The Corporation for Economic Development in Des Moines. With the City of Des Moines funding commitment, total funding is at \$700,000 in capital to cover anticipated operating costs for the first three years of operations. The Investor notes and contracts are on the same basic terms of participation, future repayment from liquidity events and reporting requirements by StartupCity Des Moines. StartupCity Des Moines has executed financial assistance contracts with the Iowa Economic Development Authority and the Greater Des Moines Partnership and has entered into a lease for approximately 10,000 square feet of space at 317 6th Avenue, Suite 500, Des Moines.

StartupCity Des Moines will provide mentoring, education and space in exchange for a percentage of equity in the startup. If a startup company that has contributed equity in exchange for services from StartupCity experiences a "liquidity" event defined as an acquisition, merger, consolidation, reorganization, recapitalization or other business combination pursuant to which the business of the startup is combined with that of another, resulting in a disbursement of proceeds to the startup company and StartupCity Des Moines for its equity position in the startup company, then 75% of such proceeds to StartupCity Des Moines will be reserved by StartupCity Des Moines for ongoing operational costs of the incubator and 25% disbursed to repay investors on a pro-rata basis. Once StartupCity Des Moines receives liquidity events totaling \$750,000, then 75% of future liquidity events are to be disbursed to repay investors on a pro-rata basis with 25% to be retained by StartupCity Des Moines. Each Investor has the potential to be repaid from startup company liquidity events up to a maximum of 150% of its original investment in StartupCity Des Moines.

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):

Date: June 27, 2011

Roll Call Number: 11-1161

Action: [Preliminary](#) terms of agreement with StartupCity Des Moines, LLC, for City assistance in the creation of a business incubator in downtown Des Moines. ([Council Communication No. 11-433](#))
Moved by Hensley to receive and file, and to authorize and direct the City Manager to negotiate with StartupCity on a final agreement upon terms consistent with Council Communication No. 11-433 and include defined benchmarks as a way to evaluate the success of the program. Motion Carried 7-0.

BOARD/COMMISSION ACTION(S): NONE

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE

For more information on this and other agenda items, please call the City Clerk's Office at 515-283-4209 or visit the Clerk's Office on the second floor of City Hall, 400 Robert D. Ray Drive. Council agendas are available to the public at the City Clerk's Office on Thursday afternoon preceding Monday's Council meeting. Citizens can also request to receive meeting notices and agendas by email by calling the Clerk's Office or sending their request via email to cityclerk@dmgov.org.