(2)

Ways and Means Committee Action February 21, 2006, approved at the City Council meeting on February 24, 2006:

Greater Minneapolis Convention & Visitors Association (GMCVA):

Authorize proper City officers to negotiate and enter into a third loan (in the form of a line of credit) in an amount not to exceed $5 million to GMCVA to provide additional start up capital for its wholly-owned subsidiary, iDSS, for marketing and software development.

Action Taken: Approved, with the following directions:
a) That within 30 days of execution of the loan three agreement, staff will report back to the Ways & Means Committee with finalized benchmarks, milestones, and metrics; and
b) Report to Ways & Means Committee within 30 days of any failure of iDSS to satisfy any agreed upon benchmarks, milestones, and metrics.

Staff reports: iDSS Loan CR; iDSS EquityProposal; iDSS 3rd Loan Proposal; iDSS Ortale Memo; and iDSS Pros & Cons Report

Request for City Council Committee Action from the Office of the City Coordinator

Date: February 15, 2006

To: Ways and Means/Budget Committee
Referral to

Subject: **Third Loan (in the form of a line of credit) to GMCVA for iDSS**

Recommendation
Authorize the City Coordinator or his designees to negotiate and enter into a third loan (in the form of a line of credit) in an amount not to exceed $5 million to GMCVA to provide additional start up capital for its wholly-owned subsidiary, iDSS, for marketing and software development. This loan will be on terms described in the attached "Proposed City Loan for iDSS." The Chief Financial Officer is authorized to adjust appropriations to carry out this action.

Previous Directives
The City Council has approved two previous loans to GMCVA totaling $5 million for the same purpose.

Prepared by Patrick Born, CFO (x3375) and William Beck, Deputy CIO (x2572)

Approved by: ________________________ Steven Bosacker, City Coordinator

________________________ Patrick Born, CFO

Permanent Review Committee (PRC) Approval _____ Not Applicable X
Note: To determine if applicable see http://insite/finance/purchasing/permanent-review-committee-overview.asp

Policy Review Group (PRG) Approval ____ Date of Approval ____ Not Applicable X
Note: The Policy Review Group is a committee co-chaired by the City Clerk and the City Coordinator that must review all requests related to establishing or changing enterprise policies.

Presenters in Committee: Patrick Born, CFO; William Beck, Deputy CIO, Greg Ortale, President and CEO, GMCVA

Financial Impact (Check those that apply)

___ No financial impact (If checked, go directly to Background/Supporting Information).

X Action requires an appropriation increase to the ____ Capital Budget or X Operating Budget.

___ Action provides increased revenue for appropriation increase.

X Action requires use of contingency or reserves.

___ Business Plan: _____ Action is within the plan. _____ Action requires a change to plan.

___ Other financial impact (Explain):

___ Request provided to department's finance contact when provided to the Committee Coordinator.

Community Impact (use any categories that apply)

Neighborhood Notification

City Goals

Comprehensive Plan

Zoning Code

Other

Background/Supporting Information Attached

GMCVA has requested a third loan (in the form of line of credit) from the City for an amount not to exceed $5 million to provide additional working capital for its wholly-owned subsidiary, iDSS. iDSS is marketing and developing software for the meeting and convention industry. The proposed terms of the loan are included in a separate document, "Proposed Loan for iDSS." GMCVA's request is also attached.

The City has made two loans to GMCVA relating to iDSS totaling $5 million. The City's loans to GMCVA are payable from payments the City makes to GMCVA under the City's agreement with GMCVA to market and promote the Minneapolis convention center. If successful the GMCVA's investment in iDSS will either reduce GMCVA's reliance on City financial support or provide additional resources to promote Minneapolis as a destination for conventions and visitors.

iDSS is meeting most of its previously established milestones and performance benchmarks in the marketing and development of its software products. iDSS has more than 30 customers, and is generating revenues from customers. Monthly costs exceed revenues currently, but iDSS' business plan calls for iDSS to achieve positive cash flow beginning in mid to late 2007. It is anticipated that the third loan will provide the capital needed to bring iDSS to the point where internally generated funds will support iDSS.

iDSS has solicited proposals for private equity. These proposals, however, call for the City to release its claim on iDSS's net profits and assets (most notably its software and customer relationships). Additionally, GMCVA would be required to convert its iDSS loan to iDSS equity with voting controls subject to further negotiation. These terms are not acceptable to the City because they dilute the City's control and do not appear to fairly position the City in light of the risk taken by the City.

Proposed Private Equity for iDSS

iDSS has solicited proposals to raise equity from private investors, investment banks acting as brokers, and venture capitalists. iDSS has identified several prospective private investors and has received a proposal from an investment bank.

Private Equity Proposal

The private equity proposal would raise up to $3.5 million on a best efforts basis. The investment bank would contact prospective investors, explain the terms of making an equity investment in iDSS, and solicit commitments. Up to 3 months may be needed to raise $3.5 million in equity commitments. The bank makes no guarantee that it will be able to raise any funds. After sales commissions, legal fees, and other costs totaling $650,000 the net capital raised is estimated to be $2.85 million.

The proposal includes the following anticipated terms:

1. The new investors would own 40% of iDSS; GMCVA would own 60%.

2. The new investors have indicated a strong interest in controlling more than 40% of voting shares for all or certain governance decisions.

3. GMCVA must convert its $5 million its iDSS loan to iDSS equity.

4. The City must release its claim on iDSS net profits and assets.

5. Investors would be restricted to accredited investors, which are wealthy individuals or institutional investors with substantial sums to invest.

City Considerations

The following issues should be considered when evaluating the private equity proposal.

1. The City would need to loan GMCVA up to $1.5 million in additional funds to meet iDSS' working capital needs until the private equity is available. GMCVA does not expect this additional loan will be immediately repaid from proceeds of the new equity. This increases the City's financial exposure, but in an amount less than the option where the City lends all of the working capital requirements.

2. The City would be required to release its claims on net profits and assets of iDSS as well as the control it now exercises over meeting performance milestones in iDSS' business plan. This increases the City and GMCVA's risk substantially.

Proposed Third City Loan for iDSS

Lender	City of Minneapolis
Borrower	GMCVA
Amount	Up to $5 million
Loan number	This is the third loan from the City to GMCVA for the same purpose as the prior two loans. The prior two loans total $5 million.
Consolidation of loans	The loan documentation for the 3rd loan will be consolidated or amended to the two previous loans.
Purpose	Marketing and development of software for iDSS
Draws	Conditions to loan draws: 1. Request must be made in writing. Requests must state the amount requested and the purposes for which the funds are expected to be used. 2. iDSS and GMCVA must not be in default in their obligations to the City. 3. iDSS must demonstrate a need for additional working capital (that other funds are not available) 4. iDSS must be making progress in meeting its business plan milestones and other benchmarks as set forth in Schedule B 5. GMCVA shall retain a consultant/advisor on iDSS matters that is acceptable to the City's representative.
Security	Same as current loans, including: 1. The City may withhold payments to GMCVA under the City-GMCVA agreement to make scheduled principal and interest payments on the consolidated loans. 2. Revenue, accounts receivable, fees and other revenues of iDSS 3. Copyrights, patents, trademarks, and other assets of iDSS
Term	The consolidated loans will have a 10 year amortization of principal (2008-2017), however, the initial term and subsequent extensions of the term will be not later than the expiration date of the City-GMCVA agreement then in

	effect. See Schedule A for principal payment terms.
Interest rate and payment dates	5% with interest paid quarterly on March 1, June 1, September 1, and December 1.
Accrued interest	Accrued interest through December 31, 2005 is \$195,511.15 (\$44,397.26 for 2004 plus \$151,113.89 for 2005). Commencing January 1, 2006 the accrued interest will be added to the outstanding loan balance. On each subsequent interest payment date any unpaid interest will be added to the principal balance of the loans.
Covenants	Same as current loan, including: 1. iDSS will not make changes in its capital structure without City approval. 2. iDSS may not assign or pledge any of its assets without City approval. 3. A default of any loan from GMCVA to iDSS will be considered a default of the City-GMCVA loan. 4. iDSS must pay the City any net profits. 5. iDSS must provide a status report to the City on or before the 25th of each month describing progress in meeting performance standards, how funds were spent, and plans for spending the following month's loan draw.
Prepayment	GMCVA may prepay any or all of the outstanding principal at any time.
Acceleration events	Same as current loan
Events of default	Same as current loan
Remedies on default	Same as current loan

Schedule A
Consolidated Loan Amortization

Payment date (December 1)	Payment amount
2008	$500,000
2009	$500,000 plus 5% of Loan 3
2010	$500,000 plus 10% of Loan 3
2011	$500,000 plus 10% of Loan 3
2012	$500,000 plus 12.5% of Loan 3
2013	$500,000 plus 12.5% of Loan 3
2014	$500,000 plus 12.5% of Loan 3
2015	$500,000 plus 12.5% of Loan 3
2016	$500,000 plus 12.5% of Loan 3
2017	$500,000 plus 12.5% of Loan 3

Schedule B
Milestones and Benchmarks

1. Quarterly bookings benchmarks by product line (Deals & Dollars)
2. Product development milestones
    a. Destination Management System
    b. Registration and Housing
    c. Future Hotel Inventory System
3. Product Marketing Plan by product line
    a. Advertising/promotion milestones
    b. Product Pricing
    c. Indirect Sales partners
    d. Channel/ Vertical Tactics
4. Sales plan by product line
    a. Market penetration milestones (Domestic & International)
    b. Organization/staffing milestones
    c. Quarterly sales forecast performance
5. Product support plan
    a. Organization/staffing milestones
    b. Service desk performance
    c. Installation & Training performance
6. Quarterly use of proceeds report.
7. 2006 year end Business Valuation Audit.
8. Mid-year business plan audit/update with measurable business objectives.
9. Restructure the iDSS Corporate Board
10. 2006 customer satisfaction survey. (2005 baseline)

Note: Benchmarks, Milestones and Metrics will be finalized when the Business Plan is completed 30 days (?) after execution of the *Loan 3* agreement.

Greater Minneapolis Convention & Visitors Association
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Phone: 612/767-8000/Fax: 612/335-5839

DRAFT MEMORANDUM

To: **Steven Bosacker, City Coordinator**

Copy: **Paul Ostrow, Chairman Ways & Means Committee**

From: **Greg Ortale**

Subject: **iDSS Funding Request**

Date: **February 15, 2005**

At a special meeting of the GMCVA Executive Committee, a motion was passed to authorize staff to request the City of Minneapolis to extend a line of credit for purposes of continuation of funding of iDSS in the amount not to exceed $5M.

- In approving this motion, the GMCVA Executive Committee recognized the following:
- All monies borrowed on the line of credit would be paid back with interest of 5% to the City;
- The funding of GMCVA would be at risk should any interest or principle payment be in default
- That iDSS through GMCVA would continue to be required to achieve benchmarks in performance before any additional advance against the line of credit.

It is the opinion of the GMCVA leadership and Executive Committee that the iDSS initiative has great potential for success and, therefore, they have the confidence to make the request recognizing the risk to GMCVA. Further, the repayment schedule, including interest, is a schedule that could be accommodated without harming the core mission of the GMCVA.

A background memo on the current status of iDSS is attached.

iDSS Third Round Financing

Option	Pros	Cons
Option 1. City Loan only (up to additional $5 million)	o Provides sufficient working capital to the estimated date of positive cash flow (mid to late 2007) o Preserves all current City's rights: claim on iDSS assets, claim on iDSS net profits, and rights to approve new capital o Preserves City/GMCVA governance controls	o Increases City financial exposure from $5 million to as much as $10 million o Up to $10 million in debt for iDSS, a considerable debt load for a start up company
Option 2. City Loan (up to additional $1.5 million) plus private equity (up to $2.8 million net of costs)	o Provides sufficient working capital to the estimated date of positive cash flow (mid to late 2007) o Reduces additional City financial exposure from $10 million to $6.5 million	o City's share of net profits must be shared with private equity owners (estimated to be 60% City/40% private) o City's claim on iDSS assets and controls over new capital must be waived or shared with private equity owners o Voting controls of private equity owners uncertain, but may be as much as 50%
Option 3. Private equity only (may result in liquidation of iDSS, see "Cons")	o Limits City financial exposure to $5 million o Lower debt load for iDSS if iDSS survives until private capital is raised	o May not provide sufficient capital in time to meet iDSS needs in 2006 or to bring iDSS to a positive cash flow position o City's loan security, share of net profits, governance controls may be diluted to a greater degree than Option 2.

Prepared by Finance and BIS departments
February 20, 2006