

## **Staff Report: Recommend Council Support for a \$2.5 Million Line of Credit for iDSS, Guaranteed by the GMCVA**

### **Background:**

The City of Minneapolis partially funds the Greater Minneapolis Convention and Visitors' Association (GMCVA) with Convention Center related sales taxes (approximately \$5.1 Million annually out of a \$9 Million budget). This funding acknowledges the City Council's belief that an effective GMCVA contributes to the City's overall financial health by stimulating tourism and convention related business activity.

Given scarce financial resources, the City is continually looking for ways to encourage the GMCVA to become more financially self-sufficient without compromising its overall mission. One potential avenue for greater GMCVA financial self-sufficiency has emerged through development of a software application for improving delivery of convention center and visitors' bureau services.

International Destination Software Systems (iDSS), currently a wholly owned, for-profit subsidiary of the GMCVA, has developed a proprietary application with potential for future revenue. The Council's 2005 Adopted Budget references a loan of \$2.5 Million to the GMCVA to fund iDSS software development and marketing. This loan to the GMCVA was backed by a pledge against future appropriations.

### **Recommended Council Action:**

Action by the Minneapolis City Council would authorize staff to prepare loan documents extending an additional \$2.5 Million line of credit (LOC) to the GMCVA, for further investment in iDSS. Once again, additional funding would be guaranteed by the GMCVA from future appropriations<sup>1</sup>. Additional funding for iDSS is essential for completing planned development and successful marketing of iDSS product and related services.

In the last 6 months, iDSS has dissolved its partnership with Eutech, developed a strong basic product in-house, met release dates for additional functionality, built a viable service support environment, and signed up additional customers.

The GMCVA would repay additional City funding from iDSS revenues and/or future appropriations, along with interest (at competitive rates) on a schedule to be determined during negotiations. Loan repayment will be the first priority with respect to iDSS net profits.

Additional credit, drawn from the Convention Center Fund, would be used by iDSS to complete development of planned software functionality and fund well-focused, reasonable marketing initiatives for a defined portfolio of services. This sum is an estimate of resources needed to both complete development of planned functionality, and identify and begin executing effective sales and marketing plans.

By accepting additional credit, iDSS would commit to the following:

- Development of a pricing structure that better reflects sales of a hosted service (versus a software product). A more effective pricing models would acknowledge that iDSS is selling transactions or subscriptions, and optimize revenue opportunities with small and mid-sized organizations (typically not-for-profits)
- Development of a usable sales plan that defines better the multiple market segments that Series 200 and 300 will target, and matches sales channels to specific market segments
- Development of an effective marketing plan and related collateral for each market segment are also critical to success
- Updating of iDSS' business plan to reflect the revised pricing model and marketing strategies
- Reconstitution of iDSS' Corporate Board - solidifying roles and expectations for Board Members

---

<sup>1</sup> According to the 2005 City of Minneapolis Approved Budget, the GMCVA must begin paying back its initial loan in 2007. The loan carries a 5% interest rate.

Other terms and conditions to be finalized with GMCVA and iDSS would include the following – to be addressed specifically in loan documentation:

- Additional funds are to be secured by a senior lien on all iDSS assets (part of the LOC will be used to pay off all other creditors, establishing the City as the senior lender)
- All iDSS capitalization changes must be approved by the City of Minneapolis – this includes providing employees with any equity stakes and taking on additional debt from other sources
- The City will approve monthly draws, contingent on attainment of planned performance targets as reported by an independent consultant and iDSS executive management. The City will select the independent consultant, to be financed by the GMCVA and/or iDSS. The value of this contract will not exceed \$40,000. The contractor will ascertain the timeliness and quality of iDSS' updated business plan (reflecting a new pricing model and related revenue estimates and marketing assumptions), viable sales and marketing plans, and attainment of planned milestones.
- iDSS executive management will establish and attend monthly meetings with GMCVA and City staff to review progress and authorize subsequent LOC draws, based on attainment of prior month performance targets
- iDSS agrees to satisfactorily complete risk management plans within 2 months of the date on which additional funding becomes available – to be reviewed by City staff at third monthly meeting following extension of additional credits

Staff recommends that Council should, as a condition for additional credit, require that iDSS hire expertise to aid development of effective sales and marketing plans, and related collateral. Additionally, Staff recommends allowing the GMCVA to defer the start of initial loan repayments to 2008.

**Rationale for Recommendation:**

Further investment in iDSS appears to support an opportunity for greater GMCVA financial independence after 2-4 years. Net revenues, if iDSS meets projections, are approximately \$1.5 million annually after 2007.

Without additional funding, iDSS will run out of money by July 1, 2005. While iDSS does have a product which could be sold or licensed to recover some of the initial investment, longer term financial independence for the GMCVA would be unlikely.

City staff believes that greater financial independence for the GMCVA from the success of iDSS will benefit the City in several ways, including:

- Freeing up Convention Center sales tax revenues that could then be redirected toward other Convention Center related functions (iDSS currently projects positive net revenues by the end of 2006, with \$1.5 million in net revenues by the end of 2007 and for subsequent years)
- Generating additional overall revenue for City convention and visitors' bureau marketing efforts