City Council Communication 97-575

December 8, 1997 Agenda

Subject:

Resolution to Approve Submission

of CEBA Application and Give

Preliminary City Funding Approval

for Trans-Lux Midwest Corporation

Submitted by:

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Community DevelopmenT Director

Synopsis —

City of Des Moines Economic Development staff has been working with Trans-Lux Midwest Corporation which purchased the assets of the former Fairtron Corporation. Trans-Lux has prepared an investment project totaling $3,650,000, which includes building remodeling, equipment, computer and software acquisitions, training and re-training, as well as increasing research and development and working capital expenditures.

The Des Moines plant operation is not as efficient as other Trans-Lux plants or competitor plants, and the Company is requesting community assistance with the project to assure retention of employment, and to provide the basis for future job growth. The Company proposes retaining 60 jobs (based on the state wage guidelines) and creation of 65 jobs within three years. The existing jobs average $14.65, and the jobs to be created will average $11 in hourly wages. The Company also provides or contributes to employee health and other insurances, retirement plan, and paid leave time.

City participation would be for $200,000; $100,000 in the form of a forgivable loan, and a $100,000 loan, at zero interest, repaid over a seven-year term. The state Community Economic Betterment Account (CEBA) request is for $350,000; $200,000 in the form of a forgivable loan, and $150,000 in zero interest repayment loan. Polk County is requested to provide $200,000; $100,000 in the form of a forgivable loan, and a $100,000 loan, at zero interest, repaid over a seven-year term. DMACC (Des Moines Area Community College) will provide training funds of $50,000, and the Company or its lenders will fund the remaining $2,850,000.

Trans-Lux Midwest Corporation owns the plant facility at 1700 Delaware Avenue and leases plant facility at 2245 Dean Avenue. Trans-Lux Midwest Corporation is wholly owned by Trans-Lux Corporation, a publicly held company based in Norwalk, Connecticut.

Fiscal Impact —

City participation would be for $200,000; $100,000 in the form of a forgivable loan, and a $100,000 loan, at zero interest, repaid over a seven-year term. The City funds would be used for equipment purchases. The City’s $200,000 participation will be funded from Community Development Block Grant (CDBG) funds, and will not be a General Fund obligation.

Recommendation —

Approve the roll call authorizing a CEBA Application in the amount of $350,000, as well as giving preliminary approval to a $100,000 forgivable loan and a $100,000 zero interest loan, repaid over a seven-year term.

Background —

Trans-Lux Midwest Corporation ("TLX"), a wholly owned subsidiary of Trans-Lux Corporation ("the Company") of Norwalk, Connecticut, was formed in 1997 to acquire certain assets related to the scoreboard operations of Fairtron Corporation ("Fairtron"). Fairtron was a closely held Iowa-based business, founded in 1934, which manufactured scoreboards under the Fair-Play and Fairtron names. Fairtron Corporation had significant losses in both of its fiscal years ended March 31, 1996 and 1997. Significant contributors to these losses were the high overhead and labor cost in relation to its competitors.

The Company is a leading manufacturer, distributor, and servicer of large-scale, real-time electronic information displays for use in both indoor and outdoor markets. The display products manufactured by the Company include data, graphics, and picture displays for stock and commodity exchanges, financial institutions, airports, casinos, sports venues, convention centers, corporate, theaters, retail, and numerous other applications. The Company also operates a chain of motion picture theaters. The Company is committed to increasing its presence and market share in the sports area. In 1995, the Company acquired Integrated Systems Engineering, Inc. ("ISE") located in Logan, Utah, to increase its capacity in the outdoor sign and scoreboard markets. Prior to the acquisition of Fairtron, the Company was a competitor with Fairtron in the large custom scoreboard market.

In addition to the newly acquired Des Moines location, the Company has production facilities located in Norwalk, Connecticut; Logan, Utah; Ontario, Canada; and New South Wales, Australia.

Approximately 96 percent of the scoreboard equipment manufactured and sold from the Des Moines operations during the 12 months ended March 31, 1997, were sold outside of the State of Iowa. Of approximately $7,400,000 in purchases during the same period, 60 percent were from vendors located within Iowa.

TLX is operating in a facility with approximately 53,000 sq. ft. at 1700 Delaware Avenue, and leases approximately 29,000 sq. ft. in a facility at 2245 Dean Ave. This is not an efficient arrangement when compared with Fairtron's major competitors.

Historically, Fairtron sold scoreboards into two distinct markets. The first being the "catalog" market representing scoreboards sold predominantly through dealers to high schools, municipalities, etc. The second market was the "custom" market, which included large universities, major and minor league sports teams, large convention centers, and arenas. TLX plans initially to continue to manufacture the catalog scoreboards in Des Moines and to move most of the custom scoreboards and message centers to either Logan, Utah, or Norwalk, Connecticut. It is possible that some of the custom business could be retained in Des Moines if the Des Moines location can achieve needed cost reduction and efficiency improvements.

Trans-Lux Corporation, a publicly held company and prudent investor, requires certain minimum return on investments from operations such as the Des Moines operation. Although for the short-term, the losses have been eliminated by reduction in overhead costs in Des Moines, the projected returns for the Des Moines facility are not sufficient to allow it to compare favorably with the other production facilities owned by the Company.

The break-even level of sales required at the Des Moines location is more than double that of ISE, the Logan, Utah, facility. The most logical place for the Company to expand its capacity would be at one of these two locations. The Company plans to significantly increase both the catalog and custom scoreboard business in the near future with a goal of more than doubling it within five years. This is a realistic goal given that the Company operates in high growth markets having doubled ISE sales in the 32 months since acquiring that company. Some of the growth will come through additional marketing efforts and possibly some through acquisitions. There is no question, however, to achieve this type of growth the Company must be one of the most efficient and cost-competitive producers in the industry. If acquisitions are made it may be logical to move the production of the acquired entities to either the Des Moines or Utah operations depending on where the most synergies can be obtained.

If the plant is retained in Des Moines, new products would be produced at the plant. Some of the products would be products currently produced by the Company at other locations, some would be new products that the Company is developing, and some would be products from other acquisitions.