**CITY COUNCIL COMMUNICATION:**

**99-144**

**AGENDA:**

APRIL 5, 1999

**SUBJECT:**

RESOLUTION TO APPROVE CEBA AND CITY LOAN DOCUMENTS FOR TRANS-LUX MIDWEST CORPORATION

**TYPE:**

**RESOLUTION**
ORDINANCE
RECEIVE/FILE

**SUBMITTED BY:**

RICHARD CLARK
DEPUTY CITY MANAGER

**ITEM ____**

**OFFICE OF THE CITY MANAGER**
**CITY OF DES MOINES, IOWA**

**SYNOPSIS -**

The City Council has given preliminary approval for City loan funding and Community Economic Betterment Account (CEBA) Application for Trans-Lux Midwest Corporation. Trans-Lux is carrying out 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. Loan and collateral documents have been prepared for City Council approval.

The company proposes retaining 67 jobs 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 insurance, 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) award is for $350,000; $200,000 in the form of a forgivable loan, and $150,000 in zero interest repayment loan. Polk County will also 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.

Michael Ryan is the Office of Economic Development staff contact with the company.

**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, technology upgrade, and furniture and fixtures. The City's $200,000 participation will be funded from Community Development Block Grant (CDBG) funds, and will not be a General Fund obligation. The loan will be secured by a lien on machinery and equipment and by a corporate guarantee by the parent company Trans-Lux Corporation.

**RECOMMENDATION -**

**Approve the roll call authorizing signing the CEBA and City loan documents.**

**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.

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 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.

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. The public participation in this project is important in achieving increased efficiency at the Des Moines plant.

As the Des Moines plant increases its efficiency, new products may 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.