

**CITY COUNCIL
COMMUNICATION:**

ITEM _____

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

99-168

SYNOPSIS -

AGENDA:

APRIL 19, 1999

SUBJECT:

APPROVAL OF
CEBA APPLICATION
AND PRELIMINARY
CITY LOAN
APPROVAL FOR
MODULAR
PRODUCTS,
INCORPORATED

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

SUBMITTED BY:

RICHARD CLARK
DEPUTY CITY
MANAGER

Michael Ryan, Office of Economic Development, has been working with Modular Products, Incorporated which is proposing a \$1,115,000 economic development project. At least 45 new jobs will be created in Des Moines, averaging \$12 per hour in wages. The company also provides other benefits including health insurance.

Modular Products is an Iowa manufacturing company which manufactures and markets "Insulcrete". "Insulcrete" is a lightweight concrete skirting system for modular and manufactured homes. The company also, through sub-contractors, produces and markets a foundation and frame system for modular and manufactured homes which is known as "E-Z Set Foundation System". The owners of the company are Rikel Hoffman (majority shareholder) and Stephen Miller. Mr. Hoffman lives in Ames and Mr. Miller lives in Clive. The patents for "Insulcrete" and "E-Z Set Foundation System" have been licensed to the Corporation.

The requested City loan would be \$135,000, at 5 percent interest with the first 12 months of interest only payments and a subsequent five-year term to pay off the principal. The City loan will be used for building and equipment costs. The City loan will be secured by a first lien on existing company assets. Rikel Hoffman will also guarantee the loan. A proposed County loan would be the same amount and terms. The County loan will be used for working capital. The Community Economic Betterment Account (CEBA) portion would be \$100,000 and be provided as equity for the company's working capital needs. A royalty arrangement will be negotiated between the State and the company.

This level of public investment is necessary because private debt funding and equity is limited. To date, the company has primarily emphasized research and development and marketing its product and it has suffered losses. This makes it a riskier

venture from the private lending standpoint; however, the company has been featured in a recent United States Housing and Urban Development (HUD) publication which showcased innovative and creative products in the manufacturing housing industry and has been included in the Environmental Protection Agency's (EPA's) Energy Star Homes Program; and it has sold products in 13 states to date, has pending orders for products, and is confident that present demand necessitates expanding its manufacturing capacity.

Given the development stage of the company, the State's venture component of the CEBA program seems most appropriate at this time. However, awards under the venture program are limited to \$100,000. The City and County are requested to fill the rest of the financing gap. The requested \$135,000 would be \$3,000 per created job for each party.

The company will provide \$45,000. The company was initially capitalized with \$500,000 in cash. This initial capital was provided by the owners and they are not in a position to provide more than \$45,000 in additional equity at this time. The Des Moines Area Community College (DMACC) will fund \$40,000 for training; On-Site Credit Services will provide \$60,000 for equipment; and the building owner, Ray Hamill, will carry a real estate contract for \$600,000 of the \$700,000 purchase price. With this project, the company will move its operations from 4485 Delaware to 315 SW 14th Street in Des Moines. The Delaware facility is not adequate to meet existing market demand.

FISCAL IMPACT -

The proposed City loan would be funded from Community Development Block Grant (CDBG) funds.

RECOMMENDATION -

Approval of the roll call authorizing submission of the CEBA application and giving preliminary City loan approval.

BACKGROUND -

The manufactured home industry (approximately \$18 billion annually) is the fastest growing sector of the United States housing industry and currently represents over 7 percent of total United States housing. The number of manufactured homes sold annually has more than doubled since 1991. Approximately 33 percent of all single-family homes built in 1996 were manufactured homes. Industry fundamentals appear to be very strong, as demand for manufactured homes remains at high levels (as indicated by Home Shipments) which reflects both the quality and the affordability of the homes.

Modular Products, Inc. was incorporated in Iowa in October of 1997. Up to the date of the application, Modular Products has only manufactured and sold "Insulcrete", though it has negotiated the production of "E-Z Set" with a sub-contractor.

"Insulcrete" has been marketed to key leased land community developments in Iowa as well as nationally. Currently, the company is negotiating with several national manufacturers of modular and manufactured homes, as well as national developers of leased land communities for the sale of "Insulcrete".

"Insulcrete" is a Patent Pending lightweight concrete skirting system which, when installed to a modular or manufactured home, gives it the appearance of a site-built home. Each home uses approximately 177 lineal feet of "Insulcrete". Each home, when skirted, has in the panels an access door as well as auto-vents for air circulation. The lightweight capabilities of the individual panels allow "Insulcrete" to be installed in less than a day with two installers.

"E-Z Set Foundation System" is a Patent Pending system which allows a modular or manufactured home to be permanently installed on the real estate so that the present "block set foundation" will no longer be necessary. The System allows for the permanent placement of a home regardless of the soil condition of the lot.

The company has actively attacked the marketplace for less than one year after three and one half years of direct research and development of the manufactured home industry marketing arena and six years of product research and development. The company currently markets nationally through retail manufactured home sales centers and community owner/builder/developers. The company will actively pursue

regional wholesale distributors as well as the home improvement centers (i.e., Lowe's, The Home Depot, Builder's Square, Home Quarters, and possibly Menard's).

The key management team consists of five people: Rikel M. Hoffman, Louis J. Scorpiniti, James E. White, Janice L. Wheeler, and Mr. Victor D. Lilienthal. Mr. Hoffman is CEO and President and directs all aspects of administration and oversees manufacturing protocols. Mr. Hoffman has 22 years of successful professional experience in these fields. Mr. Scorpiniti is Director of Marketing and directs all aspects of the marketing and sales of the company's products. Mr. Scorpiniti has 25 years of successful professional experience in these fields. Mr. Jim White is Director of Corporate Planning. Ms. Wheeler is Administrative Office Manager. Mr. Lilienthal is Director of Field Operations and Quality Control.

New products, including EZ Set™ Foundation Systems and Safety Storm Shelter™, will be introduced nationally to the manufactured home industry marketplace. Manufacturing and/or marketing licensing opportunities, in the North American and International arenas, will be identified and developed in the first quarter of 1999. Acquisition of available marketplace pathways, such as wholesale distributors and home improvement centers, will be finalized in a timely manner.

There appears to be significant growth opportunity for the company. It already foresees the need for a plant facility in addition to the proposed SW 14th location. In the interests of planned and managed growth, the company realizes that location and financing of additional plant facility will need to be deferred at this time.