

**CITY COUNCIL
COMMUNICATION:**

99-326

AGENDA:

JULY 12, 1999

SUBJECT:

APPROVAL OF CITY
LOAN AND
COLLATERAL
DOCUMENTS FOR
MODULAR
PRODUCTS,
INCORPORATED

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

SUBMITTED BY:

RICHARD CLARK
DEPUTY CITY
MANAGER

ITEM _____

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

SYNOPSIS -

On April 19, 1999, the City Council gave preliminary approval for a \$135,000 loan to assist Modular Products, Inc. with 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. Loan and collateral documents have been prepared and are being presented to City Council for approval. Michael Ryan is the Office of Economic Development contact for the company.

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 subcontractors, 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 City loan will 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. The County will provide a loan with 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 executed between the State and the company.

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; an equipment leasing company will provide \$60,000 for equipment; and the building owner 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.

Since the project is located in the Riverpointe West Development study area, the following terms will be incorporated into the City loan agreement:

1. In the event Modular Products, Inc. receives a bona fide offer to purchase and intends to accept such offer to buy the property within the period of the City loan term, it would disclose the amount of offer to the City and grant the City or the City's Agent/Developer, for a period of 60 days, the right of first refusal to meet the offer tendered. The right of first refusal will include provisions for repayment of the City loan.
2. In the event no such offer is received and if the City or the City's Agent/Developer elects to purchase the property, the parties agree:
 - a. The purchase price will be the fair market value at that time as determined by an independent appraisal;
 - b. The company will repay the outstanding City loan balance at that time;
 - c. The company waives any and all claims to relocation benefits.
 - d. The City and company agree that Modular Products, Inc. will not need to involuntarily relocate from 315 SW 14th Street before February 1, 2001.

FISCAL IMPACT -

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

RECOMMENDATION -

Approval of loan and collateral documents.

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. Lilenthal 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.

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