

Meeting Agendas/Info

CITY COUNCIL COMMUNICATION:	ITEM
01-092	OFFICE OF THE CITY MANAGER CITY OF DES MOINES, IOWA
AGENDA:	SYNOPSIS -
FEBRUARY 26, 2001	Paper Systems presently leases space at 321 S.W. 4th Street. The company has been in business since 1986, and the majority owners, Larry and Rosemary Chase, reside at 3716 S.W. 28th Place in Des Moines. The company is an assembler and wholesale distributor of a variety of bulk container products. It is seeking funding to bring a new tote system to market. This new container uses a patented design combining wood or plastic panels with a woven polypropylene outer body. This product has several favorable shipping and storage features for the marketplace since it is reusable, collapsible, waterproof, and stackable.
SUBJECT:	The research and development expense and effort to market this product has had a recent impact on cash flow and earnings; and this, coupled with a 1999 lawsuit settlement, has created a financial situation where the company is not able to secure additional bank financing at this time. The majority shareholders will provide \$186,000 of new subordinated debt to finance this project, and the company is seeking a \$45,000 loan from the City and a \$45,000 loan from the State to supplement this new shareholder investment. The \$276,000 will fund new equipment and working capital.
TYPE:	The company pledges to add 16 new jobs averaging \$11.62 within three years. Three jobs averaging \$10.25 will be retained if the project is funded. The company also provides benefits. Michael Ryan is the Office of Economic Development contact for this project.
RESOLUTION ORDINANCE RECEIVE/FILE	Economic Development staff has consulted with Community Development staff regarding long-term planning for the South of Court area, including the company's present location. The company has been informed that a Housing Master Plan has been approved for that area, and that the Master Plan necessitates future rezoning. This rezoning from C-3A to C-3R would make this type of business a legal non-conforming use at that time.
SUBMITTED BY:	Since this project does not include any building expansion,
RICHARD CLARK DEPUTY CITY MANAGER	

improvement, or fixturing, and since housing development impacting this particular location may be several years away, staff is recommending assistance to Paper Systems at this time and location. City funds will be used for equipment purchase. The company has been informed that the City loan agreement will have language to the effect that if the City decides to purchase this property, the City will have no relocation obligation for the equipment purchased as part of this project.

FISCAL IMPACT -

The requested City loan can be funded from Community Development Block Grant (CDBG) funds and would be repaid in seven years and carry an interest rate of 4 percent. The terms of the requested State loan will be similar. During this seven-year period, the shareholders will receive interest only on their loan to the company.

The City loan will be secured by a subordinate lien on business assets and by the personal guaranties of Larry and Rosemary Chase.

RECOMMENDATION -

Approval.

BACKGROUND -

The company was founded in 1986 by Larry Chase. Its primary business has been the assembly of proprietary corrugated bulk containers used by commercial customers for shipping both bulk liquid and dry commodities. It has achieved a stable but static market share where it competes with much larger out-of-state companies. Revenues have been static in recent years. The proposed new product is viewed by the company as a viable alternative to woodbin box containers and bulk bags which are commonly used in packaging of food grade products. The company believes it will have pricing advantages while offering customers a more durable and sanitary container, as well as a container product that is more flexible for shipping and storage.

The lawsuit referenced earlier was for an alleged patent infringement. Paper Systems strongly believes that it was not in

violation of patent law. However, as it examined its legal remedies, it concluded that a negotiated settlement would be less costly, and, of course, less time consuming than litigation. This settlement was reached in 1999 and has an effect on the company's balance sheet and leverage for the near term; coupled with little revenue and cash flow growth, the company is not presently able to secure bank financing to bring the new product to market. This new product is key to company revenue growth and its potential employment growth.

[[Council Members](#) | [Leave a Message](#) | [Meeting Agendas/Info](#) | [Recent Ordinances](#)]
[[Board/Commission List](#) | [Meeting Schedule](#) | [Request to Speak](#) | [Election/Voter Reg](#)]