

RESOLUTION NO. 2014- 292

A RESOLUTION APPROVING THE USE OF SECOND GENERATION ENTERPRISE ZONE ASSISTANCE FUNDS FOR ECONOMIC DEVELOPMENT LOAN TO INSHALL ENTERPRISES, LLC.

WHEREAS, the City of Vineland Revolving Loan Fund Second Generation Loan Committee has submitted a proposal dated June 24, 2014, for use of Second Generation Enterprise Zone Assistance Funds for the following project: **Economic Development Loan to Inshall Enterprises, LLC**; and

WHEREAS, it is considered to be in the best interest of the City of Vineland and the community in particular that Second Generation Enterprise Zone Assistance Funds be utilized for the above-mentioned project; now, therefore,

BE IT RESOLVED by the City Council of the City of Vineland that said Council does hereby approve the use of Second Generation Enterprise Zone Assistance Funds for the following project, in accordance with the proposal submitted by the City of Vineland Revolving Loan Fund Second Generation Loan Committee:

**Economic Development Loan to
Inshall Enterprises, LLC \$405,000.00**

BE IT FURTHER RESOLVED that the Mayor is hereby authorized to execute all documents associated with this loan.

Adopted:

President of Council

ATTEST:

City Clerk



Sandra Forosisky, Director
Economic Development Dept.
www.vinelandcity.org
email: sforosisky@vineland.org

640 E. Wood Street
PO Box 1508
Vineland, NJ 08362-1508
Phone: (856) 794-4000 ext. 462
Fax: (856) 405-4607

MEMORANDUM

TO: City Council President and Members

FROM: City of Vineland Revolving Loan Fund
Second Generation Loan Committee

SUBJECT: **Applicant:** Inshall Enterprises, LLC
Loan Amount: \$405,000.00

DATE: July 2, 2014



Dear Council President Fanucci, Councilmen Procopio, Spinelli, and Councilwomen Calakos and Gonzales:

On behalf of the City of Vineland Revolving Loan Fund Second Generation Loan Committee, please accept this letter recommending a commitment be given to the above applicant for a second generation loan in the amount as stated herein above.

Please note that the committee finds that the purpose of the loan meets the criteria set forth in the Statute made and provided governing Urban Enterprise Zone Loans. The committee further finds that the loan will promote economic development, creation of jobs, and/or tax ratables that will benefit the City of Vineland.

Further, please note that based on the information provided, the applicant has the present ability to repay said loan and the loan would be properly protected in that the pledged collateral has a net value which equals or exceeds the amount of the requested funding.

Respectfully submitted,

Sandra Forosisky
Director of Economic Development

SF/fd

cc: Frank DiGiorgio
file



VINELAND UEZ LOAN COMMITTEE LOAN PROPOSAL

Date: April 17, 2014

Borrower Name and Address (s): Inshall Enterprises, LLC
c/o Hamid Kazmi
605 Balis Drive
Mullica, New Jersey 08062

Request: \$405,000 commercial term loan for the acquisition of a fuel distribution station site.

Interest Rate: 6.00% (Ten Year US Treasury Note + 350 bps.) **Term of Loan:** 10/20 Years

1. BACKGROUND: Hamid Kazmi is the owner and operator of several fuel distribution stations (gas stations). He is forming a limited liability company to be known as Inshall Enterprises, LLC for the purposes of acquiring, owning and operating a gas station business and property located at 469 S. Delsea Drive, Vineland, New Jersey 08360. Mr. Kazmi, through various companies, is the owner of four (4) gas station businesses/properties. Several of these locations also have convenience-type businesses and structures on the same property. He has been in this type of business since 1996. He currently owns and operates a location in Vineland, the Exxon gas station, located at Park Avenue and Delsea Drive. In addition, Mr. Kazmi is an existing customer/borrower to the Vineland UEZ Loan Program (Meesum Enterprises, LLC).

1a. COMPETITION and RISKS: The largest competition on a local level would be from companies such as WaWa, Major Petroleum, and other independent operators.

Any gas station prospective purchaser needs to know that this type of business presents specific risks not as closely associated with other businesses. The following could be considered risks and mitigants for this specific project.

A. Ground contamination is common among petroleum retailers who haven't upgraded to newer, leak-proof storage tanks. Most communities enforce environmental regulations for gas stations. Any business with petroleum leakage will be forced to close down so contaminated soil can be removed and storage facilities improved. Anyone seeking to buy gas station business is advised to insist that any purchase agreement require testing of soil samples, and that results show no contamination. A related issue is condition of the storage tanks. Older steel tanks invariably begin leaking after years of use. Newly installed gas stations and those refurbished are outfitted with double-wall fiberglass tanks (referred to as DWFG in the industry). And the tanks are equipped with leak detection sensors. The presence of these tanks also should be a condition of any offers made to buy gas station businesses.

In this particular case, a Response Action Outcome (similar to a Phase 1) has been completed on January 2, 2014 indicating the property is clean of contamination. In addition, the previous owner, Ross Enterprises of Carneys Point, NJ, installed DWFG tanks in 1996. A Veeder Root tank monitoring system with alarm (which is leased from Veeder Root and not included in sales price) has been installed. This system is capable of notifying the owner/operator when a leak occurs underground. In addition, this Veeder Root tank monitoring system also provides the owner/operator with inventory monitoring as well. It notifies how much fuel is available and will place orders for the gasoline automatically with distribution points.

1a. COMPETITION and RISKS (CONTINUED):

- B.** There could be a nasty surprise in store for gas station prospects who don't conduct due diligence about ownership of the property where the business is located. In many cases, even major oil company franchisors have posted their large, familiar signs on property they don't own. Imagine the distress for owners of name-brand oil company franchises who discover, the hard way, that the franchisor's rights to the property were "on a short fuse." A ten year sublease is meaningless if the sublessor—the oil company with the master lease—loses its right to conduct business at the location.

In this particular case, Ross Enterprises, the current owner and operator, has not sublet or leased to any third party at this location.

- C.** It's reasonable to expect when making an offer to purchase a gas station property/business, that access to the property will continue to be as easy in the future as it was in the past. But what if the local government plans to bulldoze streets adjacent to the station for underground utilities repair or road improvement? Most business offers don't include a contingency about getting satisfactory information from the city's planning and development department. But a condition with that requirement ought to be included in any offer to buy gas stations.

Regarding this transaction, the Chestnut and Delsea intersection is zoned B-3 and is unlikely to ever be re-zoned for anything but business and commercial.

- D.** The possibility of paying too much for an enterprise in this category is a major risk for someone ready to buy gas station business opportunities. It's a mistake to believe seller or broker claims that the appropriate price is determined by gross sales, or number of gallons pumped every month. Like any small business, a gas station could be valued on the basis of the seller's earnings before deductions for interest, taxes, depreciation and amortization. Pump volume or gross revenues may have no relation to earnings, and should not be the only consideration when determining a gas station's potential value. The buyer could utilize the earnings multiples which is applicable to most small businesses as a guide. A gas station offering with appealing features, such as a long-term, market-competitive pricing, a seller's willingness to help finance or brand company providing incentives, and/or condition of capital equipment is likely to be worth about three times average annual earnings (over the past three to five years look back).

Based on discussions with Tom Tees, CEO of Ross Enterprise, average annual earnings were approximately \$50,000.00 - \$75,000.00 under Ross Enterprises. However, under his corporate structure, versus a private operator, Mr. Tees had much higher expenses (has a manager cost etc.). He believes that Mr. Kazmi could generate an additional \$25,000.00 annually under his ownership, operation and supervision (as he could schedule differently and would not need a manager). Furthermore, from a valuation standpoint, other considerations such as location could make this property more valuable (this location would be more valuable if it was not a gas station). Mr. Tees also stated that a valuation of the tanks and work to get them into the ground could be easily valued at \$250,000.

- 1b. BUSINESS CYCLE:** Like a grocery store or energy provider, gas stations supply something that almost everyone need. The connection with a companion business, such as a car wash or convenience store, can return substantial profits to the entrepreneur or owner of a gas station business strategy. No special knowledge beyond basic business competency is needed to run a gas station efficiently.

1c. INDUSTRY INFORMATION: Industry operators sell automotive fuels such as gasoline and diesel from stations that are located with convenience stores or food marts. As the economy improves, more consumers are expected to hit the road and demand for gasoline increases. Demand depends on the volume of consumer and commercial driving. The profitability of individual companies depends on the ability to secure high-traffic locations, generate high-volume sales, and buy gas at the lowest possible cost. Large companies have advantages in purchasing and finance. Small companies can compete effectively by having superior locations. The US industry is fragmented: the top 50 companies generate less than 50 percent of revenue. Store owners are increasing their exposure to convenience item sales as these have higher profit margin or are more profitable when compared to gasoline. According to the U.S. Census Bureau, as of 1/1/2014, the total number of gasoline stations in the United States numbered 121,446. Of this number, 82% also had convenience stores.

1d. PROJECT: Project involves the acquisition of real estate and business operation (gas station).

<u>Uses</u>		<u>Sources</u>	
Acquisition	\$495,000.00	Vineland UEZ	\$405,000.00
Closing costs	<u>12,000.00 (est.)</u>	Borrower	<u>102,000.00</u>
Total	\$507,000.00	Total	\$507,000.00

2. COLLATERAL:

- a.) First position mortgage lien on the real estate located at 469 S. Delsea Drive, Vineland, Cumberland County, New Jersey a/k/a Block 3701, Lot 2,
- b.) Assignment of Rents and Leases,
- c.) UCC-1 Filing and Security Agreement – general filing on all business assets now owned and hereafter acquired of Inshall Enterprises, LLC (State and County filings),
- d.) Receipt and satisfactory review of Response Action Outcome (environmental reports), indicating that no environmental actions are necessary and that the property is clean of contamination,
- e.) Require that existing loan relationship be brought current,
- f.) Assnment of Life Insurance in the amount of \$200,000 on Hamid Kazmi,
- g.) Any additional documentation necessary to settle this loan.

3. GUARANTORS:

- a.) Hamid Kazmi.
- b.) Qaisera Kazmi.

4. LIEN POSITION: First.

5. DOLLAR AMOUNT AND HOLDER OF PRIOR LIENS: N/A.

6. SIZE OF PARCEL: +- 0.74 acre(s).

7. IMPROVEMENTS THEREON: Gas station inclusive of convenience / office building, canopy, 4 pump islands, lighting and 4 underground gasoline/fuel tanks (2 – 12,000 gallon tanks and 2 – 8,000 gallon tanks).

8. LOCATION OF PROPERTY: 469 S. Delsea Drive, Vineland, Cumberland County, New Jersey a/k/a Block 3701, Lot 2

9. APPRAISAL INFORMATION: The City of Vineland has the property assessed at \$317,800 (land at \$275,600 and improvements at \$42,200). Loan to purchase – 82%. An appraisal may be required demonstrating the necessary value to achieve the required minimum LTV.

9a. ENVIRONMENTAL INFORMATION: We have on file a Response Action Outcome Letter from LSRP (Licensed Site Remediation Professional) Brinkerhoff Environmental Services, Inc. dated January 2, 2014 (similar to a no further action letter previously utilized in the past). The letter demonstrates that remediation to the site has been completed in compliance with the Administrative Requirements for the Remediation of Contaminated Sites (N.J.A.C. 7:26C), that is protective of public health, safety and the environment, and that no remedial or additional remedial work is required. The remediation includes the completion of a Remediation Action allowing for unrestricted use of the property.

History: When the site was owned/operated as a Mobil Oil prior to the ownership of Ross Enterprises (over 7 years ago), remediation commenced and was continued under Ross Enterprises to dig and remove soil, piping and tanks. New soil and tanks were installed and clean-up was undertaken. Test wells were installed for monitoring purposes. Test wells have since been decommissioned (evidenced in the RAO by LSRP – Brinkerhoff) and the site is clean.

10. FINANCIAL:

11. SUBSTANTIATION: Loan-to-purchase = 82%, DSCR = 1.72x

- Assist existing local business person with purchase of a second business location.
- Generate additional income for the UEZ program.

12. RECOMMENDATION: