

RESOLUTION NO. 2015-231

**A RESOLUTION APPROVING THE USE OF SECOND GENERATION ENTERPRISE ZONE ASSISTANCE FUNDS FOR ECONOMIC DEVELOPMENT LOAN TO DAKOTA PRIME, LLC OR ASSIGNS.**

WHEREAS, the City of Vineland Revolving Loan Fund Second Generation Loan Committee has submitted a proposal dated May 27, 2015, for use of Second Generation Enterprise Zone Assistance Funds for the following project: **Economic Development Loan to Dakota Prime, LLC or assigns;** 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:

<b>Economic Development Loan to Dakota Prime, LLC or assigns</b>	<b>\$400,000.00</b>
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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.  
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MEMORANDUM

TO: City Council President and Members

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

SUBJECT: **Applicant:** Dakota Prime, LLC or assigns  
**Loan Amount:** \$400,000.00

DATE: May 27, 2015



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/retention 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,

A handwritten signature in black ink that reads "Sandra Forosisky".

Sandra Forosisky  
Director of Economic Development

SF/fd

cc: Frank DiGiorgio  
file



Special arrangements for persons with disabilities may be made if requested in advance by contacting the Business Administrator's office at 856-794-4144.

Handwritten initials in blue ink, possibly "FD", located in the bottom right corner of the page.

## VINELAND UEZ LOAN COMMITTEE LOAN PROPOSAL

**Date:** May 13, 2015

**Borrower Name and Address (s):** Dakota Prime, LLC  
2216 W. Landis Avenue  
Vineland, NJ 08360

**Request:** \$400,000 commercial term loan for the acquisition of equipment, franchise, and leasehold improvements associated with a proposed nationally recognized quick service restaurant.

**Interest Rate:** 5.00%

**Term of Loan:** 10 Years

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**1.BACKGROUND:** Dakota Prime, LLC (“Dakota”) is a limited liability company that is owned equally by Giovanni (“John”) Scipione and his wife Annette (“Annette”) Scipione. Dakota is the operator of the restaurants and catering associated within the hotel property known as the Ramada Inn. John and his wife are also the owners of Angel Hotel Management LLC, the hotel operator of the Ramada Inn, and NGL Property Management, LLC, the real estate owner of the Ramada Inn property. These entities own and operate the Ramada Inn hotel and operations. All companies are owned equally by John and his wife, with Annette as the managing member of all of the companies.

The Ramada Inn is a landmark hotel in Vineland, NJ that was built over 32 years ago. It is located at the entrance of Route 55 and is considered by many as the gateway into Vineland from Route 55. The hotel has 102 rooms and is uniquely situated in the marketplace. The hotel has a coffee shop, a lounge, a high end restaurant, a 400 person banquet hall, a swimming pool and 3 meeting rooms. The Ramada Inn is part of the Wyndham brands family of hotels which has had good name recognition/reputation.

John has been in the food service business since he graduated from Hammonton High School in 1978. His first job was with Menz Food Service in Wildwood, New Jersey, a company involved in food service / distribution. He worked in the back office for two (2) years when he was promoted to the sales department in 1980. He increased sales from \$500M to \$1.5MM in 3 years. He continued in this profession from 1983-1987 working for 2 other food service providers. In 1987, he became the district sales manager for Sysco Foods. His territory included the Cherry Hill, Nj area and from Cape May to Point Pleasant, NJ. During his time at Sysco he received training in several hospitality areas including Hotel and Restaurant Management from the University of Houston’s Conrad Hilton College. In 1992 he was hired away from Sysco by US Food Service. His role at US Food Service was territory manager and covered from Cape May, NJ to Point Pleasant, NJ. At US Food Service, John had several large Casino accounts including Harrah’s, Showboat, Caesar’s, Bally’s and the Borgata. At this time, he is no longer actively employed in the food service industry. Additionally, John has restaurant experience having owned a 125 seat Italian Restaurant in Buena Vista Township from 1989 to 1997 when it was sold to the Library V, and he also operated Mori’s on Landis in Vineland for approximately 1 year prior to transferring ownership. Finally, John had developed, built, and was part owner of a Holiday Inn in Manahawkin, NJ. The hotel was 5 stories high, had 116 rooms with a 500 seat banquet hall, 186 seat restaurant, and a 40 seat lounge. John was in charge of the food service, and was an equal partner in all decisions for the hotel, however, the day-to-day operations were handled by another partner. In 2007 John sold his interest to the other 2 partners for approximately \$2.25MM.

Recently, John and Annette have decided to try a different approach to the café restaurant located at the Ramada Inn. They have researched several options and decided on franchising an International House of Pancakes (IHOP) QSR – Quick Service Restaurant – from DineEquity, the company which owns and sells franchises of and operates two restaurant concepts: Applebee's Neighborhood Grill & Bar, (Applebee's), in the bar and grill segment and International House of Pancakes (IHOP), in the family dining category. IHOP is a registered trademark of dineEquity. Applebees and IHOP lead their respective categories for

**1.BACKGROUND (Contiued):** systemwide sales. IHOP competes in the family dining segment of the restaurant industry, and 99% of all IHOP restaurants are owned by independent franchise operators. For 50 years, the IHOP family restaurant chain has served its world famous pancakes and a wide variety of breakfast, lunch and dinner items that are loved by people of all ages. IHOP offers its guests an affordable, everyday dining experience with warm and friendly service. At the end of calendar year 2014, IHOP restaurants totaled 1,650 worldwide locations, with 1,579 location in the United States. The Scipione’s will enter into a 20 year agreement with DineEquity for this IHOP location. Below is a chart obtained from DineEquity regarding the number of stores in the system.

IHOP System	
December 2014	
Domestic Franchise	1,414
Domestic Area License	154
Company-Owned	11
<b>Total U.S. Locations</b>	<b>1,579</b>
International Franchise	58
International Area License	13
<b>Total Locations</b>	<b>1,650</b>

Dakota Prime, LLC will be the owner of the franchise and equipment to be purchased. The Scipiones will create a new LLC (Limited Liability Company) to operate the restaurant – restaurant operating company.

**1a. COMPETITION & BUSINESS CYCLE:** Competition between restaurants is intense, since dining options abound. Today people have so many options for quick meals and snacks. With the economy on the mend, new quick serve restaurants (“qsrs” or “QSRs”) are opening at a healthy clip. Between more locations of existing brands and new concepts from veteran quick-serve companies looking to diversify, new competition within the category is on the rise. But there are drugstores and convenience stores making headlines, too, by adding fresh food offerings and more grab-and-go meal options. They’re being praised for offering affordable healthy alternatives in “food deserts” where fast feeders have historically been the only options. And as grocery stores face increasing pressure from superstores like Walmart and Target, they’re turning to foodservice as traffic and profit generators for their operations as well. Whole Foods for example, has been taking its popular service counters to the next level by opening Osteria fast-casual restaurants inside select retail locations. Mainstream grocers are following suit, expanding their no-cook meal offerings e.g. Shop Rite locally. These represent potential threats to the traditional QSRs. Virtually every restaurant location must compete not only against other private and publicly traded chains, but also a wide array of small, local establishments. Competitors include everything from delis and pizzerias to fine-dining restaurants. And, of course, it is relatively easy to forgo prepared foods, altogether, in favor of home cooking, which is usually a less expensive option. Thus, restaurant meals are discretionary purchases, and the industry tends to be highly cyclical.

**1b. INDUSTRY AND MARKET ANALYSIS / INDUSTRY OUTLOOK:** Many QSRs have weathered the econmic downturn fairly well. Over time, consumers’ tastes evolve in response to changing fashions and greater awareness of alternative lifestyles. Businesses need to monitor these changes and, whenever possible, anticipate them. In terms of the product life cycle, quick service restaurants have reached maturity in certain areas of the country and world, and the need for an injection of fresh life through innovative ideas if their lifespan is to be prolonged. Consumers are seeking more food variety and healthier eating and price is becoming more critical to decision-making even though rising incomes allow more people the opportunity to turn eating out into a more individualized experience – moving away from certain categories and looking at healthier / fresh options such as organic for example.



**1c. PROJECT:** The scope of the project involves the acquisition of restaurant equipment and improvements to an existing, end-cap restaurant facility located at 2216-2220 W. Landis Avenue, (Landis Ave. & Rt. 55), Vineland, New Jersey, currently known as Dakota Burger Bare & Grill. This will be converted to a franchised QSR known as IHOP Restaurant.



The scope and cost of the project is as follows: Improvements to an existing café/restaurant operation to convert to an IHOP restaurant.

<u>Project Cost</u>		<u>Sources</u>	
FF&E	\$198,000	Vineland UEZ	\$400,000
Improvements	154,000	Owner's Contribution	<u>150,000</u>
Soft Costs	106,000		
Working Capital	42,000		
Franchise Fee	<u>50,000</u>		
Total	\$550,000	Total	<u>\$550,000</u>

**2. COLLATERAL:**

- a.) UCC-1 filing and Security Agreement on the specific equipment being purchased for the IHOP Restaurant by Dakota Prime, LLC,
- b.) 2<sup>nd</sup> position mortgage lien on the real estate located at 2216 W. Landis Avenue, Vineland, Cumberland County, New Jersey a/k/a Block 2605, Lot 3 (property owned by NGL Property Management, LLC),
- c.) 2<sup>nd</sup> position mortgage lien on the real estate located at 2300 W. Landis Avenue, Vineland, Cumberland County, New Jersey a/k/a Block 2605, Lot 2 (property owned by NGL Property Management, LLC),
- d.) Assignment of Rents and Leases on b.) and c.) above,
- e.) Assignment of SREC's (subordinated, possibly to 1<sup>st</sup> position mortgage lender),
- f.) Hypothecation Agreement on the real estate being pledged and owned by NGL Property Management, LLC.
- g.) Evidence of approval by DineEquity and copy of Franchise Agreement.

**3. GUARANTORS:**

- a.) Personal Guaranty of Giovanni (John) C. Scipione.
- b.) Personal Guaranty of Annette J. Scipione.
- c.) Limited Liability Company Guaranty of operating company to be formed which will operate the IHOP Restaurant.
- d.) Limited Liability Company Guaranty of NGL Property Management, LLC (real estate holding company).

**4. LIEN POSITION:** 2<sup>nd</sup> on real estate; 1<sup>st</sup> on FF&E associated with restaurant project.

**5. DOLLAR AMOUNT AND HOLDER OF PRIOR LIENS:** Vineland UEZ will have a perfected, purchase money interest / UCC-1 filing on the specific ff&e being acquired for the IHOP project. The proposed second position mortgage security interest will be subordinated to a \$4,900,000 original balance (current balance of \$4,800,000) held by Cerdis.

**6. SIZE OF PARCEL:** Lot 2 (2300 W. Landis Avenue ) is +-3.85 acres. Lot 3 (2216 W. Landis Avenue) is +-12.50 acres.

**7. IMPROVEMENTS THEREON:** Built in 1972 and refurbished in 1988 (further remodeled 5 years ago by the current owner), a +-70,000 sq. ft. total of building improvements, presently consisting of masonry block building comprised of a 46,000 +- sq. ft. Ramada Inn Hotel (102 rooms) with adjoining one-story food service and meeting complex (+-24,000 sq. ft.) broken down as follows: restaurants, Dakota Prime Restaurant, Harry’s Pub, Dakota Burger Bar & Grill (to be converted into +-5,000 sq. ft. IHOP), and banquet/ballroom/meeting space, central kitchen, and office space. A solar field (dimensions of 373’ x 290’, +- 2.48 acres) contains 11 rows of solar panels with small building containing transformers at the rear of the site is enclosed by a 6’ high chain link fence. An outdoor pool and recreation area is also located at the rear of the property.

**8. LOCATION OF PROPERTY:** The equipment, machinery and all business assets are located at 2216 W. Landis Avenue, Vineland, Cumberland County, New Jersey a/k/a Block 2605, Lot 3.

**9. APPRAISAL INFORMATION:** An appraisal performed by Appraisal-One, Inc. (David Frett, appraiser) values the property on June 11, 2014 as follows:

Market Value “as is”	\$5,400,000 (the most probable price in a competitive and open market).
Going Concern Value	\$6,000,000 (market value of all the intangible and tangible assets as sold in aggregate as a going concern).
Forced Liquidation Value	\$3,240,000 (price paid in a forced sale or in distressed environment).

In addition, and seperately, the solar field appraised at \$520,000. This solar field is approximately 5 years old and has a 20 year warranty. The project cost over \$2,500,000 to construct. Further note that the \$520,000 value was generated and included as “estimated contributory value of selling Solar Renewable Energy Credits (SREC’s)”. Furthermore the condition included and stressed that the appraiser is not an expert in solar energy projects. In speaking with Mr. Scipione, he revealed that SREC’s generated \$140,000 in revenue for 2014. It would appear that the \$520,000 value may be conservative in the short term.

The appraisal was performed for a financial institution which refinanced the first mortgage for NGL Property Management, LLC, the owner of the real estate, at \$4,900,000 in 2014.

The City of Vineland has the property assessed as follows:

Block 2605, Lot 2 (3.85 acres of land) at \$27,900,  
 Block 2605, Lot 3 (12.05 acres and hotel facility) \$2,856,000 (land \$315,000 and improvements \$2,541,000). Total assessed value of both parcels and facility is \$2,883,000.

For purposes of valuation of collateral, this writer calculated value and Loan-to-Value utilizing the real estate (not utilizing ff&e) as follows:

<u>Collateral Value</u>		<u>Loans</u>	
Market Value “as is”	\$5,400,000	First Mortgage Lien (balance)	\$4,800,000
Solar Field	<u>520,000</u>	Proposed Vineland UEZ Loan	<u>400,000</u>
Total Value	\$5,920,000	Total Loans	\$5,200,000

LTV 88%

The UEZ will have a primary collateral position via a UCC-1 and Security Agreement on the specific equipment to be purchased and utilized for the IHOP restaurant. This will enhance the collateral position. However, the final documentation will be received prior to funding. Therefore, only real estate value was utilized in the calculation above.

**10. FINANCIAL:**

**11. SUBSTANTIATION:** DSCR = 1.67x, LTV = 88%

- Creation of new full time and part time jobs. Currently the specific restaurant operation is staffed by 8 employees. It is anticipated and estimated that staffing at the open will be 100 or an increase of 92 jobs. Early on, the need for extra jobs due to volume. Jobs should stabilize in the 50 employees after 18 months of opening.
- Previous borrower to the Vineland UEZ Loan Program with excellent repayment history.
- Nationally recognized chain added to the list of restaurants in Vineland.

**12. RECOMMENDATION:**