

RESOLUTION NO. 2015-_____

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

WHEREAS, the City of Vineland Revolving Loan Fund Second Generation Loan Committee has submitted a proposal dated August 25, 2015, for use of Second Generation Enterprise Zone Assistance Funds for the following project: **Economic Development Loan to Davy Realty, 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:

Economic Development Loan to Davy Realty, LLC or assigns	\$800,000.00
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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

MEMORANDUM



TO: City Council President and Members

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

SUBJECT: **Applicant:** Davy Realty, LLC
Loan Amount: \$800,000.00

DATE: August 25, 2015

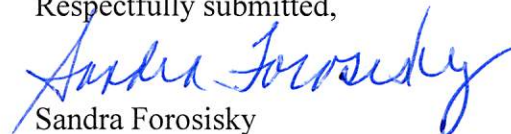
Dear Council President Fanucci, Councilmen Procopio, Spinelli, and Councilwomen Calakos and Gonzales:

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,



Sandra Forosisky
Director of Economic Development

SF/fd

cc: Frank DiGiorgio
file



**VINELAND UEZ LOAN COMMITTEE
LOAN PROPOSAL**

Date: August 11, 2015

Borrower Name and Address (s): Davy Realty, LLC
2055 DeMarco Drive
Vineland, New Jersey 08360

Request: \$800,000 commercial term loan for the expansion of cold storage warehouse facility.

Interest Rate: 5.00% **Term of Loan:** 20 Years.

1. BACKGROUND: MJD Trucking, Inc., located in Vineland, NJ, is an east coast hauling company incorporated in 1981 and owned by members of the Davy Family. The Davy Family is comprised of John “Jack”, Dolores, and their two children, Michael and Diane Davy. Diane Davy is not involved in the business or ownership of any entity at this time. Over the years, the Davy Family has developed a specialty in providing hauling and storage services for customers who require refrigerated/frozen food storage and “LTL” or less than truckload quantities. The Davy’s moved their trucking operations to Vineland in 1999. Davy Cold Storage, LLC was formed in 2003 as a separate entity to receive direct revenues from food storage in its refrigerated/cold storage building located in Vineland, New Jersey. The real estate located at 2055 DeMarco Drive in Vineland, New Jersey is owned by Davy Realty, LLC, a real estate holding company, which leases to affiliates and receives rent from Davy Cold Storage, LLC, MJD Trucking, Inc., Davy Leasing, LLC (formed in 2005 – buys and owns the majority of trucks utilized by MJD Trucking) and MJD Brokerage, Inc. (overflow loads which get brokered out).

Below is a breakdown of the ownership interest in each entity. Please note that the stock and/or membership interests previously owned by Diane Davy was retired in those certain entities:

	<u>MJD Trucking*</u>	<u>Davy Cold Storage</u>	<u>Davy Realty</u>	<u>Davy Leasing</u>	<u>MJD Brokerage</u>
John Davy	55%	56.67%	56.67%	56.67%	44.44%
Dolores Davy	15%	32.22%	32.22%	32.22%	11.12%
Michael Davy	20%	11.11%	11.11%	11.11%	44.44%

*10% of stock retired. Previously owned by Diane Davy.

Davy Realty, LLC originally purchased land in the Vineland Industrial Park from the City of Vineland and constructed an 11,100 sq. ft. facility. This facility was further expanded in 2002 and is now approximately 21,000 sq. ft. (truck terminal, cold storage and office). Thereafter and experiencing increased business, Davy Cold Storage had more cold storage business than its facility could handle. The Davy’s expanded once again, purchasing additional land from the City of Vineland (combined via all-inclusive deed) and adding a second building of approximately 50,000 sq. ft. of cold storage and office space (+6,240 sq. ft.).

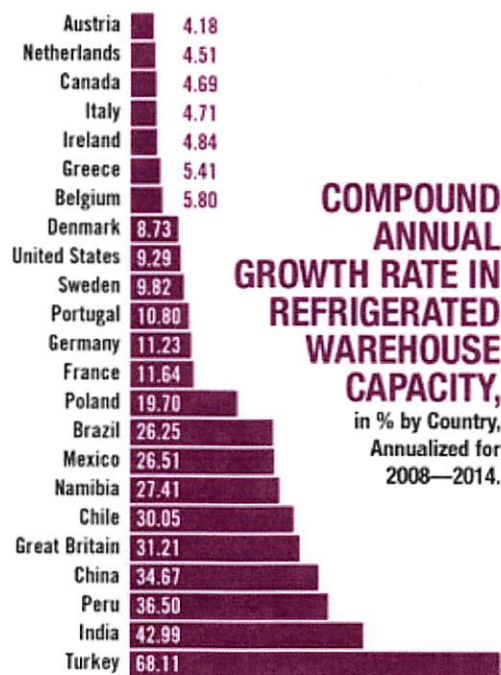
Davy Cold Storage, LLC is currently leasing space from a third parties as a result of continued growth. The Davy Family is desirous of expanding its space once again in Vineland. The have received a proposal from DRK Associates, Inc. which specifies total estimated cost of construction for a +-20,000 sq. ft. cold storage warehouse expansion (to be added to the 50,000 sq. ft. building) at a cost of +- \$2,200,000.00, and the installation of an internal racking system is estimated to be \$400,000.00 for a total project cost of \$2,600,000. They have approached the UEZ for consideration for a portion of the project financing. This is further addressed in section 1b. on Page 2 of this proposal.

1a. COMPETITION / INDUSTRY AND MARKET ANALYSIS / INDUSTRY OUTLOOK/ BUSINESS CYCLE:

The challenges of refrigerated spaces are amplified versions of those faced by dry goods facilities. Employees/associates are exposed to the harshest conditions in the materials handling industry. The cost of operating a refrigerated warehouse makes the hunt for efficiencies even more critical. And, the concept of product traceability is subject to the legal repercussions of an ever-stricter regulatory landscape.

In recent years, more and more manufacturers have looked to outsource their cold storage to third-party logistics (“3PL”) providers in an effort to separate themselves from these concerns. Similarly, refrigerated 3PLs have seen significant consolidation as those with successful strategies swallow up those without. This has been good for 3PLs, but the increased level of competition means customers will gladly take their business elsewhere at the promise of a dollar’s savings. While many customers will leave a 3PL on a dime in pursuit of a nickel, price only ranked fifth most important to customers in a survey by Gartner Research. Most important was customer service, while innovation ranked third.

Rising demand from the food industry is making cold storage a hot growth area, with the global volume of temperature-controlled warehousing space spiking nearly 8 percent over the past year according to International Association of Refrigerated Warehouses (“IARW”), a trade group and a study from same.



Source: International Association of Refrigerated Warehouses.

A recently released report by the IARW provided data which suggested that the growth curve in the cold storage was not adversely impacted by the “Great Recession” and is expected to continue globally despite economic stagnation in some parts of the globe. The total capacity of refrigerated warehouses globally was estimated at 552 million cubic meters worldwide in 2014, an increase of 92 million cubic meters (20 percent) over 2012.

The modern cold storage challenge centers on the transition from simple pallet-in, pallet-out operations to increased case handling, value-added services and meeting the various demands of customers and their clients. There has been an increase in outsourcing, but not just in storage and distribution as companies in the industry may be asked to provide value-added services, such as repack operations, actual manufacturing or consolidation of product.

Also, the combined pressures of labor needs, efficient operations, and maintaining their customer base have put cold 3PLs in a tough spot. If they innovate, automate and update, there’s no guarantee the customer will stay with them long enough for those investments to prove worthwhile. If they don’t, there’s an even better chance they will lose business. Refrigerated warehouses, much like dry goods facilities, are working to turn a their customer base into long-term partners.

1b. PROJECT: The project involves the expansion, by 20,000 sq. ft., to an existing 50,000 sq. ft. cold storage building/facility. The sources and uses of funds for the project are broken out below:

<u>Sources</u>		<u>Uses</u>	
Fulton Bank	\$1,800,000	Construction of addition	\$2,200,000
UEZ (new money)	<u>800,000</u>	Racking System	<u>400,000</u>
	\$2,600,000	Total	\$2,600,000

2. COLLATERAL:

- a.) An existing second position mortgage loan on the real estate located at 2055 DeMarco Drive, Vineland, Cumberland County, New Jersey a/k/a Block 1005, Lot 13, will be subordinated to Fulton Bank and be in Third Position for the existing UEZ loan.
- b.) Assignment of Rents and Leases on item (a.) to remain in place.
- c.) Fourth mortgage (new project) on the real estate located at 2055 DeMarco Drive, Vineland, Cumberland County, New Jersey a/k/a Block 1005, Lot 13, will be subordinated to Fulton Bank’s first and second mortgage.
- d.) An existing Fourth mortgage on the real estate located at 712 Clayton Road, Williamstown, Gloucester County, New Jersey a/k/a Block, Lot, (personal residence of John and Dolores Davy) will be released – was for the UEZ’s existing financing.
- e.) An existing Third mortgage on 29 acres of land located in Monroe Township, Gloucester County, New Jersey will be released – was for the UEZ’s existing financing.
- f.) UCC-1 Filing and Security Agreement (general filing on the Borrower – County and State),
- g.) UCC-1 Filing and Security Agreement (general filing on MJD Trucking, Inc., guarantor),
- h.) UCC-1 Filing and Security Agreement (general filing on Davy Cold Storage, LLC, guarantor),
- i.) UCC-1 Filing and Security Agreement (general filing on Davy Leasing, LLC, guarantor),
- j.) UCC-1 Filing and Security Agreement (general filing on MJD Brokerage, Inc., guarantor),
- k.) Subordination of all affiliated, inter-company and stockholder/member debt for the Borrower and Guarantors.
- l.) Key Man Life Insurance – Michael Davy, amount \$250,000.00.

3. GUARANTORS:

- a.) Personal Guaranty of John J. Davy,
- b.) Personal Guaranty of Dolores J. Davy,
- c.) Personal Guaranty of Michael S. Davy,
- d.) Corporate Guaranty of MJD Trucking, Inc.,
- e.) LLC Guaranty of Davy Cold Storage, LLC,
- f.) LLC Guaranty of Davy Leasing, LLC.,
- e.) Corporate Guaranty of MJD Brokerage, Inc.

4. LIEN POSITION: Subordinate to Fulton Bank, see #5 below.

5. DOLLAR AMOUNT AND HOLDER OF PRIOR LIENS: Fulton Bank will have an existing first mortgage in the original amount of \$5,215,000 (balance of +-\$3,970,000), a second mortgage (permanent loan) for this project in the permanent amount of \$1,800,000 (construction amount will include the amount of the UEZ loan for this project until project obtains certificate of occupancy), and the Vineland UEZ will have an existing third mortgage in the original amount of \$1,848,500 (with an outstanding balance +-\$1,350,000). The proposed \$800,000 will be behind all of the aforementioned mortgage filings in fourth position.

6. SIZE OF PARCEL: +/- 8.50 acres.

7. IMPROVEMENTS THEREON: Building #1 consists of a commercial trucking terminal and cold storage facility +/-21,000 sq. ft. including office space. Building #2 consists of a separate +/-50,000 sq. ft. building comprising of cold storage and freezer space and 6,200 sq. ft. of office space. Both buildings are masonry and metal construction.

8. LOCATION OF PROPERTY: 2055 DeMarco Drive, Vineland, NJ 08360, a/k/a Block 1005, Lot 13.

9. APPRAISAL INFORMATION: Property was appraised in June 2012. At that time, the appraisal indicated a value of \$10,300,000. Fulton Bank is ordering a new appraisal and the Vineland UEZ will receive a copy. Based on the 2012 value and cost of new improvements (mortgages to be filed) we calculated an loan-to-value below.

Appraised Value June 2012 \$10,300,000

Loans

Fulton Bank existing 1 st mortgage balance	\$ 3,970,000
Proposed Fulton Bank 2 nd mortgage balance	1,800,000
UEZ existing mortgage (to be subordinated)	1,350,000
Proposed UEZ mortgage	<u>800,000</u>
Total Loans	\$ 7,920,000

LTV Based on above = 77%

Addition will add significant value reducing the LTV further.

The City of Vineland has the property assessed at the following:

Land	\$ 501,500
Improvements	<u>2,327,700</u>
Total Assesment	\$2,829,200

\$70,192 in revenue will be generated in 2015 from this property.

10. FINANCIAL:

11. SUBSTANTIATION: DSCR = 1.24x, LTV = 77%

- Increased revenue for City of Vineland via increased ratable.
- Assist with expansion of existing business operation in Vineland – Vineland Industrial Park South.
- Increased employment – anticipates adding 2 jobs.
- Total interest to be earned over the life of loan assuming full amortization \$467,000.+-

12. RECOMMENDATION: