RESOLUTION NO. 2015-______

A RESOLUTION APPROVING THE USE OF **SECOND GENERATION** ENTERPRISE ZONE ASSISTANCE FUNDS FOR **ECONOMIC DEVELOPMENT LOAN TO ALLIED SPECIALTY FOODS, INC. OR ASSIGNEE.**

WHEREAS, the City of Vineland Revolving Loan Fund Second Generation Loan Committee has submitted a proposal dated October 27, 2015, for use of Second Generation Enterprise Zone Assistance Funds for the following project: **Economic Development Loan to Allied Specialty Foods, Inc. or assignee;** 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:
Allied Specialty Foods, Inc. or assignee **$3,500,000.00**

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

VINELAND
New Jersey
Discover The Difference

Economic Development Dept.
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<u>**MEMORANDUM**</u>

RECEIVED
OCT 28 2015
CITY OF VINELAND
BUSINESS ADMIN.

TO: City Council President and Members

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

SUBJECT: **Applicant:** Allied Specialty Foods, Inc. or assignee
Loan Amount: $3,500,000.00.

DATE: October 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,

Sandra Forosisky

Sandra Forosisky
Director of Economic Development

SF/fd

cc: Frank DiGiorgio
file

VINELAND UEZ LOAN COMMITTEE
LOAN PROPOSAL

Date: 09/10/2015

Borrower Name and Address (s): Allied Specialty Foods, Inc. or real estate holding company to be formed
313 Hickory Place
Vineland, New Jersey 08360

Request: $3,500,000.00 commercial term loan – permanent financing - for the acquisition of real estate and equipment (permanent financing of improvements to food processing facility and equipment purchase to accommodate growth).

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

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1. Background:

Allied Specialty Foods, Inc. ("Allied", the "Company", the "Operating Company") is located in Vineland, New Jersey, is a processor of high quality specialty meat products. It sells primarily to foodservice customers and had annual sales in 2014 of approximately $38 million. Upon moving to Vineland, Allied was owned and operated by Susan Spencer. Thereafter, Allied was purchased by Arbor Private Investment Company ("Arbor"), an investment company in Chicago, Illinois, for $4.25 million in July 2005. Allied was sold again, and several transactions later, is now owned by Allied Specialty Foods, LLC, which in turn is owned by Steven Zoll et. al. (95%), and Paul Litten (5%). Allied is one of the nation's leading producers of thinly-sliced beef and chicken commonly used in "Philly Steak" style sandwiches and fajitas. Allied's major customers include Chili's, Sodexo, Firehouse Subs, Dairy Queen, Jack in the Box, Sbarro and US Food Service.

Allied Steaks, Inc. ("Allied Steaks") was founded in 1956 as a meat production and distribution company. In 1987, Susan Spencer, with the assistance of Vineland Urban Enterprise Zone ("UEZ") loan, acquired Allied from Al Rosenberg. Ms. Spencer focused the Company's efforts on production and product development and elevated Allied's product line to a higher level of quality and consistency. With this renewed emphasis on production, the steak sandwich meat produced by Allied Steaks, both in raw and cooked forms, quickly became the Company's flagship product. In 1999, Spencer changed the Company's name to Allied Specialty Foods, Inc, and grew it into one of the nation's leading suppliers of thinly-sliced beef and chicken for sandwiches and fajitas prior to its sale to Arbor in 2005. In 2010, Steven Zoll and Marc Broccoli (former president and operating partner) purchased the remaining shares of Allied owned by Arbor. In 2011, Marc Broccoli sold some shares to Steven Zoll whom now has a 95% ownership interest (personally 47.50% and the Zoll Legacy Trust UAD 1/29/07 of 47.50%). Marc Broccoli sold his remaining stake to Paul Litten, the current President of Allied Specialty Foods.

Allied has a dedicated workforce of union and non-union employees, and maintains excellent employee relations and low turnover. The company currently employs 110 people full time and another 70 via temporary arrangement. It is Allied's intentions to make these 70 temporary employees into full-time equivalents and to increase full-time employment by up to an additional 30 full-time employees (200 total) as it grows its sales. Mr. Litten stated he envisions sales growing over $50 million in 2015.

Mr. Zoll, a food industry executive with over 22 years of experience in the meat industry, had co-invested in Allied and become a member of its Board of Directors.

1. Background (continued):

Mr. Zoll was President of ConAgra Foods' $1.4 billion Refrigerated Foodservice Company at one point in his career. Previously, he served as President of Zoll Foods, a center of the plate meat company focused on the foodservice trade that was purchased by ConAgra in 1998. He has spent the majority of his career working in the business as it grew sales fivefold from $35 million to $170 million and profits increased by 14 times. Mr. Zoll is an Operating Partner of Arbor Private Investment Company and currently serves on the Board of Directors of Center Meat Co. (an Arbor Portfolio Company). Mr. Zoll is a CPA and has a law degree from Boston University.

In 2014, Allied entered into an agreement to purchase the customer base/list of Ben Franklin Foods, Inc. ("BFF") located in Philadelphia, Pa. BFF was a similar type of manufacturing company to Allied and was involved in the manufacturing of similar products with sales of +- $5,000,000. Due to some financial constraints, BFF violated bank loan covenants, impacting its business operation negatively, and resulting in an opportunity for Allied to expand. The owner of BFF was hired temporarily by Allied and Allied leased the manufacturing and warehouse facility in Philadelphia. This move allowed Allied to manufacture in Vineland and distribute from Philadelphia to the customers acquired from BFF in a seamless manner. Allied no longer has this facility leased and has incorporated all aspects of BFF into the Vineland location. Allied is currently leasing space at Davy Cold Storage and First Choice Freezer, both in Vineland.

<u>Allied has continued executing it's operating strategies which includes the following initiatives:</u>

- Aggressively pursue new customers that are heavy users of thinly-cut beef and chicken through long-term relationships of Steven Zoll and Paul Litten.
- Focus on new customer acquisition, operational improvements, product development.
- Invest in plant, property and equipment to improve efficiency and productivity.
- Install test kitchen for R&D and customer specific product formulation.
- Pursue incremental revenue opportunities in current foodservice markets.
- Develop and introduce new products based on customer requests and internal R&D efforts.
- Seek strategic acquisitions to expand the Company's product line and/or customer base.

<u>Allied's product line include the following items:</u>

<u>Raw Products</u>

Meat is processed, frozen and packaged into individual-sized servings. The product arrives raw and is cooked by the foodservice customer.

<u>Cooked Products</u>

Meat is processed, cooked, frozen and packaged into individual-sized servings. The customer reheats the product and serves it, i.e, fully cooked steak for calzones and Philly cheese steak pizza for companies like Sbarro and Hungry Howies.

<u>Co-Packed Products</u>

Allied helps formulate and produce specific products for its foodservice customers. Past co-packing relationships include McDonald's and Jack in The Box.

Allied has captured a leading market position and developed a premium and diverse customer base by leveraging its reputation for high-quality products, extensive selection and outstanding customer service. Many of Allied's customers have been buying from Allied for decades and illustrate the strength of Allied's customer relationships.

1. **<u>Background (continued):</u>**

The logos below represent some of Allied's customers, directly or indirectly.

New major customers will include Subway, Yum Brands, PFG, and Sysco Foods in 2015.

1a. Competition:

The primary competitors of Allied Specialty Foods are national companies that specialize in supplying portion-controlled meat products to foodservice customers. The companies below are some of Allied's competitors as well as it's customers.

Advance Pierre Food Company is headquartered in Cincinnati, Ohio. Advance Pierre manufactures and distributes a variety of portion-controlled meat products. A center-of-plate protein and sandwich expert, AdvancePierre Foods is an industry leader in supplying quality beef, chicken and pork products, and is America's #1 provider of sandwiches, fully cooked burgers, Philly steak, stuffed chicken breasts and country fried steaks.

Devault Foods, is headquartered in Malverne, Pennsylvania, and was founded in 1949. They produce and distribute Philadelphia-style sandwich steaks, meatballs hamburgers and ground beef.

The Original Philly Cheesesteak Co. is headquartered in Philadelphia, Pa. is the country's oldest and largest niche manufacturer of Philadelphia-style steak and chicken products.

Silver Spring Farm Inc., is headquartered in Harleysville, Pa. and produces fully cooked seasoned beef products.

1b. Business Cycle:

Directionally there is no seasonality to Allied's business. A slight seasonality can be linked or due to the school year as a large customer, Sodexo, involved in the cafeteria/ food service industry - purchases product from Allied. Allied's products have held up well during recent downturn as its products are considered more of a comfort food and customers are eating more of these types of food during the economic downturns. Eating out is down in general, and people are more apt to eat the sandwich and pizza segment products at the Subway or Firehouse Subs, Hungry Howies (a chain of 550 quick serve restaurants) vs. the more expensive restaurant store.

1c. Industry and Market Analysis / Industry Outlook:

Value added meat products segment.

Volatility in the industry was significant in the last several years especially due to the high cost of commodities in 2007-2008 period and again in 2010-2011 period. Executives at Allied Specialty Foods, Inc, believe that the middle of 2008 was the worst time for the cost of raw materials i.e, meat, corn, fuel, packaging costs (corrugated etc). Although things appeared to be trending in the right direction for Allied in late 2008 and 2009, concerns over fuel prices and commodities once again went in the wrong direction. The company was successful in passing along increases to major customers due to the then increased costs of fuel and commodities. This was happening industry wide as well as to all businesses. Since then, certain commodities have declined and have resulted in improving fundamentals for companies like Allied.

1d. Project:

Funding of $3,500,000.00 ($3,500,000 new money (+-$2,000,000 existing UEZ loan will be paid off upon sale of existing facility) – total outstanding for this borrower until that takes place will be +-$5,500,000) for the acquisition of a +-76,000 sq. ft. facility, improvements and equipment (and related installation labor, soft costs etc.) financing of manufacturing space improvements associated with the move into a new food processing facility. Total project cost is $13,470,000. Breakdown of project costs is below. UEZ will fund a new permanent loan in the amount of $3,500,000 total with the Borrower and the remaining funding via primary lender and internal sources & line of credit.

Project Cost:		
Acquisition of facility (+-76,000 sq. ft.)		$ 2,950,000
Building Improvements/Fitout/Equipment		9,720,000
Soft/Settlement/Other Costs		800,000
	Total	$13,470,000
Funding Sources:		
Borrower Contribution		$ 1,900,000
Primary Lender		8,070,000
Vineland UEZ Loan		3,500,000
	Total	$13,470,000

2. Collateral:

a.) 2nd position mortgage lien on the real estate located at 1585 W. Forest Grove Road, Vineland, Cumberland County, New Jersey a/k/a Block 604, Lot 3.
b.) Assignment of Rents and Leases for property mentioned in (a.).
c.) No change for existing UEZ Loan: 1st position mortgage lien on the real estate located at 1725 Pine Avenue, Vineland, Cumberland County, New Jersey a/k/a Block 2703, Lot 18.
d.) No Change for Existing UEZ Loan: 1st position mortgage lien on the real estate located at 313 Hickory Place, Vineland, Cumberland County, New Jersey a/k/a Block 2703, Lot 17.
e.) Assignment of rents and leases for properties mentioned in a.).
f.) UCC-1 filing and Security Agreement (specific filing) on the equipment, machinery, furniture and fixtures being purchased by Allied Specialty Foods, Inc. (new items. filing will not include accounts receivable and inventory, as a separate lender has a lien these assets for a line of credit).
g.) UCC-1 filing and Security Agreement (specific filing – State of NJ level) subordinate to WinTrust Bank on accounts receivable and inventory.
h.) Cross Collateralization / Cross Default.
i.) Subordination of any stockholder, officer, member, principal and/or affiliated debt.
j.) Evidence of contribution of $1,900,000 into the project.
k.) Subject to satisfactory receipt and review of primary lender commitment and / or loan agreement.
l.) Subject to satisfactory review and mutual agreement regarding the subordination of management fees in the event of a default.
m.) Assignment of NJ Grow Incentive Award (effective only in a default situation).
n.) Any additional items to necessary to settle and collateralize the loan.

3. Guarantors:

- Allied Specialty Foods, LLC (sole shareholder of Allied Specialty Foods, Inc.),
- Allied Specilaty Foods, Inc. (if it is not the borrower),
- The guaranty of real estate holding company, if it is formed and it is not the borrower.
- There will be no personal guaranty for this loan. Please note that a personal guaranty has not been part of the previous financing for Allied's projects in the past.

4. Lien Position:

1st mortgage position lien on real estate on real estate located at Pine and Hickory remains for existing loan. 2nd mortgage position lien on the W. Forest Grove Road property. A 2nd position UCC lien - existing equipment, machinery and 2nd on equipment/machinery being purchased. UEZ will not have a lien on accounts receivable and inventory as noted in the Collateral section as line of credit lender – WinTrust - has priority filing and will not allow secondary lien.

5. Dollar Amount and Holder of Prior Liens:

UEZ has an existing 1st mortgage on real estate and a general UCC-1 filing on equipment and machinery at Pine and Hickory location. A first mortgage with an original amount of $2,246,082.06 exists with a current loan balance of $1,963,027.44. The mortgage and UCC will be discharged upon sale/payoff of facility. The UEZ will be in second position with regard to mortgage and UCC's upon funding of new permanent loan on the Forest Grove Road location. The UEZ will file a new mortgage on the Pine and Hickory location. The UEZ will be subordinate to WinTrust in the amount of $8,070,000 for mortgage and UCC purposes on Forest Grove Road Location.

6. Size of Parcel:

Location #1:
Hickory and Pine location: Parcel #1 = +-1.8366 acres (1725 Pine Avenue) & Parcel #2 = +-.9011 acres (313 Hickory Place).

Location #2:
Subject property being acquired and fit out: 1585 W. Forest Grove Road = +-8.80 acres.

7. Improvements Thereon:

Location #1, Parcel #1, is improved with an 11,760 sq. ft. of warehouse space and 240 sq. ft. of multipurpose area plus 5,360 sq. ft. of processing space (light industrial), and a 792 sq. ft. mechanical room.

Location #1, Parcel #2, is improved with 3,195 sq. ft. of multi-use office and sales space. The property is zoned for industrial use.

Location #2 is improved with a 76,000 sq. ft. shell. Currently a precast concrete building with metal roof and dirt floor. Improvements will consist of 55,000 sq. ft. of refrigerated space, 18,000 sq. ft. of dry space, and +-3,000 sq. ft. of office space.

8. Location of Property:

Location #1, Parcel # 1 and #2
a.) 1725 Pine Avenue, Vineland, Cumberland County, New Jersey a/k/a Block 2703, Lot 18.
b.) 313 Hickory Place, Vineland, Cumberland County, New Jersey a/k/a Block 2703, Lot 17.

Location #2
a.) 1585 W. Forest Grove Road, Vineland, Cumberland County, New Jersey a/k/a Block 604, Lot 3.

9. <u>Appraisal Information:</u>

<u>Location #1, Parcel # 1 and #2</u>

An appraisal was completed in June 2005 by LeGore & Jones which demonstrated a market value of $1,039,000.00, excluding equipment, machinery etc. The Marshall & Swift Cost Estimator valued the facility at $1,611,000.00 (taking into account all improvements) at that point in time. Allied plans on selling this location once the proposed subject new location is completed. The list price will be +-$2,000,000 according to Paul Litten. However, the likelihood of achieving this sales price is not probable. It is more likely that the facilty and office building will sell for closer to $1,600,000. The City of Vineland has the assessment at $1,184,800.00 combined (1725 Pine is $845,500 and 313 Hickory Ave. is $339,300) for this location, parcel and improvements.

Existing machinery, equipment, & furniture / fixtures net of depreciation at 12/31/2014 was approximately valued at $700,000.00 (original value of $2,857,000).

<u>Location #2</u>

The City of Vineland currently has this property assessed at $2,171,300 (land at $593,000 and improvements $1,578,000). The purchase price "as is" is $2,950,000. Improvements are budgeted to cost $8,500,000. An appraisal will be required.

Proposed Primary Loan		$ 8,070,000.00
Proposed UEZ Loan		3,500,000.00
	Total Loans	$11,570,000.00

Collateral Value (Location 2) – real estate		$12,000,000.00
Collateral Value of new equipment being purchased (50% of cost)		1,000,000.00
	Estimated Value	$13,000,000.00
	LTV based on above	89%

An existing line of credit with a bank in Chicago, WinTrust, has the capacity to be drawn on for up to $2,000,000 and is secured by accounts receivable and inventory of the company. At January 2, 2015, $250,000 was outstanding on this line of credit. The accounts receivable and inventory are not available as collateral for the proposed UEZ loan.

Upon sale of Location #1, Parcel 1 and Parcel 2, the UEZ loan will be paid down by the proceeds of the sale on existing loan.

10. <u>Legal and Environmental:</u>

No legal issues outstanding. Environmental report was completed in 1996 on existing location when the company and property was purchased and revealed no issues. An investigation of the property and discussions with management demonstrate that no environmental issues are evident or have occurred since the purchase by current management at the Pine and Hickory location. We believe the new location has no environmental concerns, however, a Phase 1 will be ordered.

11. **Financial:**

12. **Substantiation:** DSCR = 1.29x, LTV = 89%.

- Assist an existing food processing company/manufacturer with growth and expansion in Vineland.
- Company currently employs 110 full-time plus 70 contract/temp. employees (hopes to make permanent).
- Job creation – management plans to increase production at the new Vineland plant which will result in the addition of 30 new employees over the next year or once plant is complete/operational. Company is planning to transition temporary workers to full time which land the full time equivalent employee figure at 200.
- Expanded real estate tax ratable – more tax revenue for City of Vineland.
- Further manufacturing expansion in the City of Vineland.

13. **Recommendation:**