

RESOLUTION NO. 2016-396

A RESOLUTION APPROVING THE USE OF SECOND GENERATION ENTERPRISE ZONE ASSISTANCE FUNDS FOR ECONOMIC DEVELOPMENT LOAN TO MARK BABENKO AND NADEZHDA N. POPIK.

WHEREAS, the City of Vineland Revolving Loan Fund Second Generation Loan Committee has submitted a proposal dated November 28, 2016, for use of Second Generation Enterprise Zone Assistance Funds for the following project: **Economic Development Loan to Mark Babenko and Nadezhda N. Popik**; 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:
Mark Babenko and Nadezhda N. Popik \$315,000.00

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

MEMORANDUM



TO: City Council President and Members

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

SUBJECT: **Applicant:** Mark Babenko and Nadezhda N. Popik
Loan Amount: \$315,000.00

DATE: November 28, 2016

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

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: November 2, 2016

Borrower Name and Address (s): Mark Babenko and Nadezhda Popik
2738 N. Delsea Drive
Vineland, NJ 08360

Request: \$315,000 commercial real estate mortgage loan.

Interest Rate: 5.50% **Term of Loan:** 20 Years

1. BACKGROUND: Mark Babenko and Nadezhda Popik (husband and wife) are the owners of real estate located at 2738 N. Delsea Drive, Vineland, NJ. They have owned the subject property since September 2010. Mark Babenko is an entrepreneur. Upon graduating from college, he took an interest in the automobile towing and repair business. Wanting to own and operate his own business, he persuaded his father not only to finance him but go into business with him as the purchased an existing towing company. He formed M.I. Towing, LLC d/b/a J.C. Flatbed Towing, (the "Company") on August 3, 2006 with his father, Ilya Babenko. The Company initially began as an exclusive tow company and expanded further into auto repair services. On December 3, 2007, Ilya Babenko transferred his 50% interest to his son, Mark Babenko, making Mark Babenko 100% owner of the Company and the Company became a single member Limited Liability Company. Within one year of operation, the Company contracted with AAA and other motor clubs which led to higher towing and auto services volumes. Approximately three years later, Mark Babenko expanded the operations further to provide auto repair services. This resulted in higher profit margins than towing exclusively, and each side complimenting the other.

In 2013, Mark Babenko was offered an opportunity to go into business with a friend who was selling cars wholesale. They combined to begin a new business selling used cars retail which is known as U.A. Auto Sales, Inc., an S-Corp. and located on S. Delsea Drive, Vineland. Oleg Broshchan and Mark Babenko each own 50% of this entity. Mark Babenko's research demonstrated that used auto sales, when providing good customer service, has repeat customers and high profit margins. U.A. Auto Sales, Inc. is not part of the proposed project request.

1a. COMPETITION/BUSINESS/INDUSTRY: In the Vineland vicinity, competition exists from A-1 Towing, Ayala Towing and several smaller operators. The Company is the largest AAA tower in South Jersey (Marlton, NJ south to Delaware Memorial Bridge). The Company's territory is Cumberland and Gloucester County primarily (operates a second location in Gloucester County – Turnersville). Auto repair is also competitive as many service / mechanics options also exist. However what differentiates this Company is the combination of towing with auto repair. Many competitors do not have an affiliated tow company under their umbrella. The repair, towing and referrals pairs well to generate complimentary revenue. The Company generates on average 1,800 tow calls per month. There are seasonal impacts to the business (extreme heat or cold lead to additional calls vs. Spring or Fall which produces less calls).

The majority of towing revenue calls can be broken out into the following categories:

Municipal/Police Calls – These calls will come directly from the police dispatch officers at the request of officers on scene. Towers establish formal & informal relationships with local police departments to provide towing services. Fees per call are the highest of all sources but require higher insurance coverage and quicker response.

Cash Calls – This is also a profitable source of calls. These calls are performed for customers who contact your business directly and pay you directly for services performed. These calls are generated through advertising and marketing efforts organized by the tow business itself.

1a. COMPETITION/BUSINESS/INDUSTRY:

Motor Club Calls – Little expense and little profit (high volume low pay but hope to get repairs from the tow). These calls are a great way to get your feet under you while starting a new business. It's a steady stream of work so you can learn how to run your company. You have no advertising expense and the phone just rings and rings. However, profit could be as low or less than \$5 profit per call.

Account Calls – Every auto repair and body shop needs a tow partner. And though a discount is typically provided to the shops for their calls the profit can be 10-times that of a motor club call. Relationships are important here. Talking up your brand and your expertise and your commitment to making their customers happy, otherwise every other tow company is similar.

Auction Calls – Providing services to an auction house like Copart can be another great way to provide some stability to a new or growing towing business. These calls offer similarly slim profit margin as motor club calls but they have the added benefit of a flexible response time. You don't have to be there in 20 minutes so long as you complete the call that day. So you can have the flexibility to respond to other, more lucrative calls and get to the auction call later in the day.

Private Property ("PP") Calls – Calls are to remove vehicle from private property without the vehicle owners' consent. This type of towing requires additional licensing and reporting and due to the fact that you are moving vehicle without keys can require additional operating training to minimize damage claims. PP towing can be a high-risk, high-reward business. A light-duty self-loading wrecker for PP towing makes loading easier and safer.

1b. PROJECT: Mark Babenko and Nadezhda Popik purchased the subject property on N. Delsea Drive with non-traditional mortgage loans/financing. As a result, the high interest rate loans created cash flow payments/requirements which at times, hamper the cash flow of the operating business, especially during seasonally slow periods. Mr. Babenko has approached the Vineland UEZ Loan Program for consideration for financing to assist his business with alleviating the burden which will help grow his business further.

2. COLLATERAL:

- a.) First position mortgage lien on the real estate located at 2738 N. Delsea Drive, Vineland, Cumberland County, New Jersey a/k/a Block 604, Lot 9,
- b.) Assignment of Rents and Leases,
- c.) UCC-1 Filing and Security Agreement on all business assets (other than motor vehicles) now owned and hereafter acquired of M.I. Towing, LLC (d/b/a J.C. Flatbed Towing),
- d.) Subordinations as necessary to allow for first position and any additional necessary to secure loan,
- e.) Assignment of Life Insurance on Mark Babenko in the amount of \$300,000.00.

3. GUARANTORS:

- a.) M.I. Towing, LLC (d/b/a J.C. Flatbed Towing).

4. LIEN POSITION: First.

5. DOLLAR AMOUNT AND HOLDER OF PRIOR LIENS: UEZ will have a priority lien.

6. SIZE OF PARCEL: +- 5.07 acres.

7. IMPROVEMENTS THEREON: Light industrial, masonry type building, average quality construction and average condition with floor area of 3,285 feet. It is also improved with a residential dwelling unit (eat-in kitchen, living room, two bedrooms and one bath), in average condition. The building is occupied by Mark Babenko's towing and auto repair business and the residential dwelling is leased to a tenant.

8. LOCATION OF PROPERTY: The property is located at 2738 N. Delsea Drive, Vineland, Cumberland County, New Jersey a/k/a Block 604, Lot 9.

9. APPRAISAL INFORMATION: An appraisal performed by Kay & Associates, Inc. on October 19, 2016 demonstrates a value of \$350,000. The City of Vineland has the property assessed as follows: Land at \$210,300, improvements at \$94,700 for a total of \$305,000 (property purchased for \$308,000 in 2010). LTV based on appraised value is calculated at \$315,000 / \$350,000 or 90%.

10. FINANCIAL:

11. SUBSTANTIATION: DSCR = 1.17x, LTV = 90%

- Company employs 8 full time and 4 part time.
- Company plans on increasing employment by 2 to 4 jobs over the next two years.
- Assist a Vineland based business.

12. RECOMMENDATION: