

RESOLUTION NO. 2017- 390

A RESOLUTION APPROVING THE USE OF SECOND GENERATION ENTERPRISE ZONE ASSISTANCE FUNDS FOR ECONOMIC DEVELOPMENT LOAN TO OSAMNJ, LLC (OR ITS ASSIGNS).

WHEREAS, the City of Vineland Revolving Loan Fund Second Generation Loan Committee has submitted a proposal dated August 22, 2017, for use of Second Generation Enterprise Zone Assistance Funds for the following project: **Economic Development Loan to OSAMNJ, LLC (or its 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:

OSAMNJ, LLC (or its assigns) \$100,000.00

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:** OSAMNJ, LLC (or its assigns)
Loan Amount: \$100,000.00

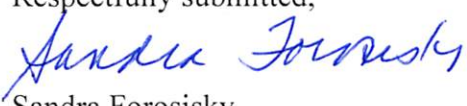
DATE: August 22, 2017

Dear Council President Spinelli, Councilmen Acosta, Franceschini, Vargas, and Councilwomen Calakos:

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: June 13, 2017

Borrower Name and Address (s): OSAMNJ, LLC
206 S. Briarwood Lane
Galloway, NJ 08205

Request: \$100,000 commercial term loan for the acquisition of equipment for the start-up of a restaurant business operation. Restaurant will be located in at the former location of Café Centro.

Interest Rate: 5.00% **Term of Loan:** 10 Years

1. BACKGROUND: Michele Balma and Abraham Kaupsuz have formed OSAMNJ, LLC in New Jersey for the purpose of owning and operating a restaurant. The name of the restaurant will be Basil Bistro, and will offer customers a family food establishment that serves lunch, dinner and drinks. The theme would be Italian/Mediterranean, offering quality food and affordable prices. Signature dishes as well as specials and healthy options will be available with farm-to-table sourced options and ingredients being a focus. Restaurant systems and modern technology, including loyalty programs, will be utilized. In addition, South Jersey Wineries will be showcased via wine of the month on the menu etc.

Abraham Kapusuz has a background in restaurant management and the food industry with previous experience as a co-owner of The Green Olive Restaurant in Hopewell Township, NJ. Michele Balma's experience is in business management. She is employed with Action Supply in Seaville, NJ. as a System Administrator (13 years). Action Supply is a company supplying building materials including aggregates, concrete, block, pavers and other related products. Other locations are in Vineland, Egg Harbor Twp. and a new site in Galloway to open later this year (Kennedy Concrete, Atlantic Masonry).

The applicants believe that the former Café Centro site (Maintree Shopping Center, Main Rd. and Chestnut Ave., Vineland) is a prime location for both working professionals looking for a place to relax, eat dinner and have a drink as well as a family dining destination. They plan on utilizing promotions, internet and traditional marketing as well as social media to promote the new restaurant and its offerings.

The former owner/operator of Café Centro, Inc. ("Café Centro") restaurant is currently the tenant of the space and also owns the plenary retail liquor license. Café Centro will enter into a sublease of the premises as well as enter into an operating agreement with Café Centro under which it will convey an undivided one percent (1%) interest in Café Centro to OSAMNJ, LLC, allowing OSAMNJ, LLC to utilize the Café Centro liquor license in connection with the proposed restaurant operation at the premises located at Maintree Shopping Center.

1a. COMPETITION: Competitors include Michaels (LaSalle St.), Larry's II (Main and Oak Roads), Martino's (E. Chestnut), Black Olive (Madison and Brewster Rds.). None of these competitors have or have access to a liquor licence as does the applicant.

1b. PROJECT: The scope involves the acquisition of restaurant equipment for a restaurant operation / startup located at 301 S. Main Road, (Main Rd. and Chestnut Ave. at Maintree Shopping Center, former location of Café Centro), Vineland, New Jersey. The scope and cost of the project is below:

<u>Project Cost*</u>		<u>Sources</u>	
FF&E, Computers, Pizza Oven Conv.	\$100,000	UEZ	\$100,000
Inventory	\$ 75,000	<u>Equity - Borrowers</u>	<u>\$200,000</u>
<u>Working Capital</u>	<u>\$125,000</u>		
Total	<u>\$300,000</u>	Total	<u>\$300,000</u>

1b. PROJECT (CONTINUED):

*Note that the existing owner has maintained the existing restaurant-grade appliances, modern lighting, fires suppression system, furniture, pizza oven etc in very good operating order. These will be included in the lease and allow for a very low entry investment for OSAMNJ, LLC. UEZ loan funds will be utilized to supplement the already-in-place equipment, furniture, fixtures, etc.

1c. INDUSTRY INFORMATION / TRENDS:

The Future Is Now. Innovation is a word that is often bandied about when discussing how to appeal to consumers and encourage them to visit a restaurant. The restaurant industry faces a variety of challenges related to the fast pace of change, driven by consumer trends and changing demographics. Growing demand for healthier food and beverages, increased competition from grocery stores, heightened consumer expectations, and technology are reinventing the way restaurant operators must conduct business. Innovation not only means re-engineering the menu, but also staying relevant in a changing marketplace. The importance of Millennials and Gen Z will accelerate the industry's need to be more innovative, as these cohorts are always looking for that "experience," something new and different. Without innovation, operators will fall out of the consideration.

Personal Choice Reigns. To stay current and relevant in this overcrowded restaurant marketplace, operators need to serve the foods people crave and be willing to customize according to consumers' personal choices. Fast casual and full service restaurants have been the most accommodating in addressing the need for special menu preferences. Now we are beginning to see customization as a choice at more traditional QSRs. Restaurant operators cannot show a conventional menu with all possible options, but with touchscreens they can. Ordering food digitally makes it easier for consumers to customize what they eat. In 2017, expect digital menu options.

Home Sweet Home. Consumers will continue to prepare and eat more of their meals in home. Commodity costs are expected to continue their decline. The lower costs may help restaurant operators in terms of offsetting higher prices for labor and medical insurance costs. However, as the gap widens between away-from-home and at-home food costs, it will make for a more challenging environment for operators to get a greater share.

Technology. Mobile ordering will grow exponentially. Domino's is a prime example of the opportunity that exists with this technology. The chain has been on the leading edge of creating ways for customers to place their orders using numerous platforms. This is convenience at its best. Look for many restaurant operators to follow.

Delivery. Third-party providers will continue on a growth path. These third-party delivery services, like Grubhub, Amazon, and DoorDash, are becoming competitors to traditional delivery options. While these delivery services don't prepare the food, they provide a very convenient service – they get the food to the customer quickly and efficiently. Taking advantage of the increasing popularity of delivery will provide restaurant operators with another avenue to drive traffic. The individual restaurant operators will have to determine how best to take advantage of this growth trend.

Restaurant Loyalty Programs. We are likely to see more operators developing loyalty programs to entice customers to visit their restaurants. This is definitely a means to engage with customers and entice them to make additional visits. Historically, these types of programs have been targeted to existing customers, avoiding what is known to be a very costly effort to attract new and/or lighter buyers. In 2017, we are likely to see more emphasis placed on attracting visits from lighter buyers.

Restaurant Industry 2017 Outlook

- The traffic forecast for 2017 parallels that of 2016. Little to no traffic growth is expected. QSRs will increase traffic by an estimated 1 percent, faring better than they did in 2016. The modest gain for QSR will offset the anticipated 2 percent decline for full service restaurants, resulting in a no-growth traffic outlook overall. With continued focus on consumers' ever-changing wants and needs, operators and their partners are in a position to alter the current forecast. For all of the industry's challenges, it is still in better shape than many brick-and-mortar retailers.

1c. INDUSTRY INFORMATION / TRENDS (CONTINUED):

- “Menu trends today are beginning to shift from ingredient-based items to concept-based ideas, mirroring how consumers tend to adapt their activities to their overall lifestyle philosophies, such as environmental sustainability and nutrition. Also among the top trends for 2017 we’re seeing several examples of house-made food items and various global flavors, indicating that chefs and restaurateurs are further experimenting with from-scratch preparation and a broad base of flavors.” - *Hudson Riehle, senior vice president of the National Restaurant Association’s research and knowledge group.* Menu trends could impact the profit margin of a business due to costs of food etc. either positively or negatively.

2. COLLATERAL:

- a.) First position mortgage lien on 14 Stratton Ct., Galloway, Atlantic County, NJ a/k/a Block 939.02, Lot 9, (a condominium),
- b.) Assignment of Rents and Leases for property referenced in a.),
- c.) Receipt and satisfactory review of condominium association documents for property referenced in a.), if applicable,
- d.) Second position mortgage lien on 406 W. Cedar Avenue, Wildwood, Cape May County, NJ a/k/a Block 168, Lot 3,
- e.) Assignment of Rents and Leases for property referenced in d.),
- f.) Receipt and satisfactory review of condominium association documents for property referenced in d.), if applicable.
- g.) Hypothecation Agreements from Michele Balma for the properties referenced in a.) and d.).
- h.) Pledge of additional security and collateral as required.
- i.) Subject to submission of additional financial information as requested.

3. GUARANTORS:

- a.) Personal Guaranty of Michele L. Balma,
- b.) Personal Guaranty of Ibrahim S. Kapusuz,

4. LIEN POSITION: First position UCC – 1 filing on OSAMNJ, LLC.

First position mortgage lien on real property located in Galloway Twp., NJ.
Second position mortgage lien on real property located in Wildwood, NJ.

5. DOLLAR AMOUNT AND HOLDER OF PRIOR LIENS:

- First position mortgage lien on 14 Stratton Ct., Galloway, Atlantic County, NJ a/k/a Block 939.02, Lot 9, (a condominium), no lienholder.
- Second position mortgage lien on 406 W. Cedar Avenue, Wildwood, Cape May County, NJ a/k/a Block 168, Lot 3, TD Bank \$100,000.00 first mortgage.

6. SIZE OF PARCEL: The physical location of the restaurant operation will be 301 S. Main Road, Vineland, Cumberland County, New Jersey – Mautree Shopping Center – former site of Café Centro, end cap unit. The unit is comprised of +-4,750 sq. ft.

7. IMPROVEMENTS THEREON: The unit is a fully equipped restaurant facility, inclusive of all necessary and functioning restaurant equipment, furniture and fixtures.

8. LOCATION OF PROPERTY: The restaurant will be located in the Mautree Shopping Center in Vineland, NJ with an address of 301 S. Main Road, Vineland, NJ 08360.

9. APPRAISAL INFORMATION: The owners of the restaurant operation, will individually guaranty this credit. However, the UEZ's main collateral will be a lien on two residential properties owned by Michele Balma. Below is an assessment / loan to value calculation based on information provided and obtained. Hypothecation Agreement will be required from Michele Balma.

UEZ will have a first position mortgage lien on 14 Stratton Ct., Galloway, Atlantic County, NJ a/k/a Block 939.02, Lot 9, (a condominium), no lienholder.

Assessed Value \$ 59,100 (land \$27,500, improvements \$31,600)
 Mortgages/Lien \$ -0-
 Net Value \$ 59,100
 Equity at 80% \$ 47,280

UEZ will have a second position mortgage lien on 406 W. Cedar Avenue, Wildwood, Cape May County, NJ a/k/a Block 168, Lot 3, TD Bank \$100,000.00 first mortgage.

Assessed Value \$177,700 (land \$105,600, improvements \$72,100)
First Mtg. Loan \$100,000 (credit line with \$81,230 outstanding)
 Net Value \$ 77,700
 Equity at 80% \$ 62,160

Combined available equity in real estate	\$109,440	(at 80% or \$47,280 + \$62,160)
Proposed UEZ Loan	\$100,000	
	LTV = 91.37%	(at 80%)
	LTV = 82.46%	(at Net Value or \$59,100 + \$62,160)

Additional collateral is required to improve the LTV to 90% or below and to enhance the collateral package. Collateral to be determined.

10. FINANCIAL:

11. SUBSTANTIATION: LTV = 91%, DSCR = 1.26x

- Allows for a business to start-up in a vacant restaurant facility.
- Creation of full and part-time jobs.
- Additional dining facility made available in Vineland.
- Enhancement to neighborhood strip shopping center.

12. RECOMMENDATION: