

RESOLUTION NO. 2018- 111

A RESOLUTION APPROVING THE USE OF SECOND GENERATION ENTERPRISE ZONE ASSISTANCE FUNDS FOR ECONOMIC DEVELOPMENT LOAN TO NEP REAL ESTATE OF VINELAND NJ URBAN RENEWAL, LLC (OR ASSIGNS).

WHEREAS, the City of Vineland Revolving Loan Fund Second Generation Loan Committee has submitted a proposal dated February 27, 2018, for use of Second Generation Enterprise Zone Assistance Funds for the following project: Economic Development Loan to NEP Real Estate of Vineland NJ Urban Renewal, 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:

NEP Real Estate of Vineland NJ Urban Renewal, LLC (or assigns) \$3,800,000.00

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:** NEP Real Estate of Vineland NJ Urban Renewal, LLC (or assigns)
Loan Amount: \$3,800,000.00

DATE: February 27, 2018

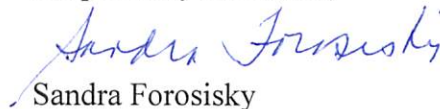
Dear Council President Spinelli, Councilmen Acosta, Franceschini, Vargas, and Councilwomen Calakos:

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: February 2, 2018

Borrower Name and Address (s): NEP Real Estate of Vineland NJ Urban Renewal, LLC (in process to be formed)
92 Reese Road
Millville, NJ 08332

Request: \$3,800,000 (\$1,800,000 will be actually disbursed – see Project section for details) commercial real estate loan for the acquisition of land (Phase 1 of a total proposed \$30,000,000 project which will be built out over several phases).

Interest Rate: 4.50%

Term of Loan: 20 Years

1. BACKGROUND: John Ruga started Northeast Precast, LLC (the “Company”) with two employees under the name of Superior Walls of South Jersey in 2001. The initial focus of the company was sales and installation of precast foundations for residential dwellings (which were purchased from a non-affiliated plant in Pennsylvania). In July 2003, Superior Walls of South Jersey began construction of their own 30,000 sq. ft. manufacturing facility to produce precast walls. In December 2003, production began. In 2004, Superior Walls of South Jersey acquired a license for the state of New Jersey and changed its name to Superior Walls of New Jersey. In 2005, the size of the manufacturing facility doubled in size to 60,000 sq. ft. to accommodate increased sales. By 2006, Superior Walls of New Jersey was producing in excess of 700 foundations and revenues approached \$15 million annually. In 2008, the Superior Walls of New Jersey changed its name to Northeast Precast, LLC. This was done for diversification and marketing purposes. At this point, the Company was positioned to be multi-market dependent and to grow laterally. With the name change, two new business units were added allowing to serve the private commercial and highway construction markets. The Company’s customers include the New Jersey Department of Transportation, New Jersey Turnpike Authority, PSEG Salem Nuclear Plant, and private and public contractors. Mr. Ruga and his wife, Lorie, own the Company, 95% and 5%, respectively. One other family member is minority owner of an operating entity known as R-Way Tooling, a precision machine and fabrication shop. Mr. Ruga and his wife are the owners of several real estate holding companies which own real estate and facilities from which their business entities operate.

John Ruga is desirous of expanding and consolidating his businesses. As a result, he will purchase land from the City of Vineland and Cumberland County Improvement Authority. As designated redeveloper, via phases, he will build a manufacturing facility, warehouse and other buildings at the site.

1a. COMPETITION AND BUSINESS CYCLE:

- Northeast Precast, LLC is in unique position in NJ as it does not have any other pre-casters that build the products it produces. Competition is from other producers mainly in Pennsylvania (OldCastle, High Concrete) and New York, Ohio (Fabcon) and Connecticut (Unistress). Mr. Ruga states that Northeast Precast, LLC has an advantage due to the shipping costs from out of state. In addition, the labor pool in the area is favorable.
- Economic growth has improved business confidence and driven the growth of commercial and industrial construction activity.
- The industry is heavily reliant on domestic construction markets.
- The housing market's continued growth is forecast to spread to other markets, supporting industry demand. However, higher interest rates, could impact demand in future.
- Mr. Ruga states that he has worked very diligently to diversify the business and take out the cyclicity nature of the business. All products are produced indoors and are not heavily affected by weather. He states that an additional benefit for future business is due to the fact that he has acquired additional territory in Delaware and Maryland which should lead to sales increase of \$4,000,000 - \$5,000,000.

1b. INDUSTRY AND MARKET ANALYSIS / INDUSTRY OUTLOOK:

The Precast Concrete Manufacturing industry produces a broad range of products, most of which are precast or prestressed. Precast products are cast in a reusable mold and include concrete slabs and panels, building boards, roofing tiles, railway ties, posts and poles. Prestressed concrete products result from the application of pressure from steel reinforcements and include concrete beams and trusses and ornamental concrete products. Precast and polymer concrete Casting concrete in a reusable mold, which is then cured in a controlled environment, transported to the construction site and lifted into place produces precast concrete products such as slabs and panels.

The most important success factors for the Precast Concrete Manufacturing Industry are:

- Having contacts within key markets.
- Proximity to key markets.
- Upstream vertical integration (the combination in one company of two or more stages of production normally operated by separate companies such as when a manufacturer owns its supplier and/or distributor).

The National Precast Concrete Association reports the following:

As an annual measure of the precast concrete industry in North America, the NPCA Benchmarking Report tracks sales in the five largest product sectors, compares the financial metrics of high-profit companies to the total sample, and includes granular data on salaries and benefits. This year's report, based on 2016 data, drew 63 responses representing 168 plants. The 129-page report results from a survey conducted in spring 2017 by Industry Insights, a management consulting firm in Columbus, Ohio. Here are a few highlights.

Market Size

Market size figures provided by the Benchmarking Report are considered rough estimates because of the size of the sample. While the dollar figures may be rough estimates, the report's methodology has been the same over the years, essentially comparing apples to apples. The estimated sales by product category can be compared year-over-year to shed light on product lines that are growing, remaining stable or shrinking. Using this data, the precast concrete industry grew by about 5% in 2016, with total sales of \$18.2 billion, surpassing the previous year's total of \$17.3 billion. That includes all precast, prestressed and pipe products. Prestressed structural building elements and prestressed bridge components were the highest growth segments last year, with building elements growing at 18% and bridges at 22% over the previous year. Another trend appears to be in the wall sector, where retaining wall systems lagged 7% from 2015, but sound wall/barrier grew by 9%. Utility vaults once again emerged as the largest individual product category, with 13.2% of precast market sales. The estimated market size of the utility vault sector grew 9% from 2015 to 2016 to \$2.7 billion in sales. Utility vault sales could be seen as a bellwether in the precast industry. If vault sales are healthy, the industry is likely healthy.

1b. INDUSTRY AND MARKET ANALYSIS / INDUSTRY OUTLOOK (CONTINUED):

In the sanitary and stormwater area, sales tracked slightly above 2015, with the stormwater management and retention structure product line leading the way with 8% growth as cities modernize their stormwater infrastructure to meet EPA guidelines and move away from combined sewer overflow systems.

High Achievers

The report compares high-profit firms with the total sample to show areas where higher-profit firms achieve their success. It turns out that these firms are a little better at just about everything measured in the survey. For example, they spend a lower percentage on raw materials (26.4% to 28.6%), they spend a lower percentage on labor (13.2% to 14.8%), their plant operating expenses are lower (5% to 6.1%), and the same applies in most other categories. A little bit of efficiency in every category adds up to significantly more profit. The net profit before taxes of all precast companies surveyed was 7% while the net profit of the high achieving group was 14.2%.

Sales and Profits

Overall, 2016 was a strong year in the precast industry. The majority of precast companies experienced growth in 2016, with 69% increasing sales. Some of those companies were very successful, with 46% increasing sales by 15% or more. It was a profitable year as well, with 86% of companies reporting profits and 32% reporting profit margins of more than 10%.

Company Size

According to the survey, the median number of employees per company is 54. Companies are split fairly evenly by size with 28.8% employing fewer than 25; 39% employing 25 to 75 people; and 32.2% employing more than 75. The typical company is roughly 2.5 times the size it was 20 years ago, not adjusting for inflation. When adjusting for inflation, companies have grown by about 50%. A company with \$2 million in sales in 1996 would have grossed about \$5 million in 2016. But that \$5 million would have the purchasing power of about \$3 million because of inflation.

There are other tidbits in the report that could serve as discussion starters for industry watchers. For example, nearly 70% of all precast plants in the survey use self-consolidating concrete. Among the high-profit firms, however, the figure sinks to 60%. One in four precast companies uses ready-mixed concrete. However, 50% of the high-profit firms use ready-mix. Does ready-mix concrete in the plant mean higher profits?

The following information was derived from Precast Concrete Products completed by The Freedonia Group, Inc. The Freedonia Group is an industry market research firm:

US demand for precast concrete products is forecast to rise in 2018 stimulated by a rebound in construction expenditures. During the 2008-2013 period, demand for precast concrete products declined as construction of buildings and nonbuilding structures languished. Precast concrete products demand will also be boosted by their ability to reduce the time and expense of construction projects. Precast concrete products are made and tested in factory-like conditions to meet specific performance properties, such as enhanced resistance to moisture or freeze/thaw cycles. In contrast, site-poured or cast-in-place concrete may cure improperly and need replacement, causing delays and cost overruns. While more costly than site-poured concrete, steel, or wood building products, precast concrete components often have longer lifespans and offer superior structural strength.

Architectural components to be fastest growing types

Among the different product types, structural and architectural building components are forecast to exhibit the strongest demand advances going forward, fueled by the sharp increases in building construction spending through 2018. Rising construction of office and commercial structures, manufacturing plants, and multifamily housing units will boost demand for precast concrete slabs, structural supports, and stairs, steps, and ramps. Demand for architectural building components will also rise at a good rate as a more favorable lending environment will make it easier for home and business owners to refurbish properties.

1b. INDUSTRY AND MARKET ANALYSIS / INDUSTRY OUTLOOK (CONTINUED):

Nonresidential market to see fastest gains in demand

Nonresidential building construction applications accounted for the largest share of precast concrete product demand in 2013 and are expected to see the most rapid gains in demand going forward. Advances will be fueled by rebounding nonresidential building construction expenditures and rising interest in precast concrete products because of their performance properties. Demand will also benefit from precast concrete products' ability to mimic building materials that are more expensive and difficult to install, such as brick or natural stone. This characteristic will support the use of precast concrete decorative facades, siding, and door and window components. The residential market is forecast to see above average growth in precast concrete products demand through 2018. Strong gains in housing completions spurs demand for structural building components, while more favorable lending environment could provide homeowners to access home equity to fund improvement projects. Demand for precast concrete products in the nonbuilding market is expected to rise modestly through 2018. Advances will be supported by a need to repair the nation's aging network of bridges, highways, roads, water and sewer systems, and power distribution grids. Precast concrete products will often be specified due to their desirable performance properties. However, more rapid gains will be restrained by tepid growth in government spending, which could limit the funds available for infrastructure construction. Concrete is a crucial material for the construction industry given its use in foundations, walls and floors. As a result, the industry's performance is closely tied to the broader construction sector. Favorable lending rates, improved per capita disposable income and record corporate profit levels have helped bolster construction activity over the past five years across several sectors, increasing demand. Over the five years to 2022, the industry is projected to continue expanding, albeit at a slower pace.

1c. PROJECT: Phase 1 of the project consists of the acquisition of +-271 acres of Industrial Zoned land to be purchased from the City of Vineland and Cumberland County Improvement Authority. Upon redivision, +-42 acres will be allocated for use as a residence and the remaining +-229 acres will be redeveloped for industrial use (the +-42 acres for the residence will not be part of the collateral package). Industrial use will be in the form of the construction of a manufacturing facility and separate batch/mixing plant, site improvements to the site, and the acquisition of manufacturing equipment will encompass Phase 2 of the project. The manufacturing facility will consist of a 150,000 sq. ft. steel fabrication shop (relocate and consolidate R-Way Tooling an existing business operation in Vineland). The total project will ultimately cost \$30,000,000 and consist of the aforementioned Phase 1, Phase 2, and will include future additional phases for a master production building of 400,000 to 600,000 sq. ft., a corporate office bldg., a spec bldg. and prospective additional industrial buildings. Below is a breakdown of the costs and funding of Phase 1:

<u>Uses</u>		<u>Sources</u>	
Acquisition of land	\$ 4,000,000	UEZ – Land	\$ 3,800,000 (a.)
		<u>Borrower</u>	<u>200,000 (b.)</u>
		Total Sources	\$ 4,000,000

- a.) UEZ's note will be \$3,800,000 of which \$1,800,000 will be physical cash disbursed to CCIA. Remainder is part of note or takeback as the initial UEZ funds were utilized by City of Vineland to purchase the property (reimburses the UEZ pool).
- b.) Borrower to provide these funds at settlement. Funds will be disbursed to CCIA for a total of \$2,000,000 to CCIA.

2. COLLATERAL:

- a.) First position mortgage lien on the real estate located at S. Lincoln Avenue and Rt. 55, New Block 7503, New Lot 33.01, New Block 7503, New Lot 35.01,
- b.) Assignment of Rents and Leases,
- c.) UCC-1 filing and Security Agreements on all business assets of real estate holding company to be formed (State of NJ and Cumberland County) and on business operating entity, if applicable, to be formed (State of NJ and Cumberland County),
- d.) UCC-1 filing and Security Agreements on all business assets of guarantor companies named in Section 3 (in State of NJ and Cumberland County),

2. COLLATERAL(CONTINUED):

- e.) Subordination Agreement for member/stockholder debt.
- f.) Any additional items deemed necessary to address the collateral or documentation for this loan.

3. GUARANTORS:

- a.) Personal Guaranty of John Ruga (wife will not be a guarantor),
- b.) Guaranty of NorthEast Precast Limited Liability Company (operating/manufacturing company),
- c.) Guaranty of Superior Ventures, LLC (real estate holding company owns 92 Reese Road, Millville, NJ, facility from which NorthEast Precast operates from),
- d.) Guaranty of R Way Tooling and Metal Works, LLC (operating company/metal fabrication and machine shop),
- e.) Guaranty of LJR Real Estate, LLC (real estate holding company for 224 S. Lincoln Avenue, Vineland, NJ, facility from which R-Way operates – also owns real estate in New York),
- f.) Guaranty of Maurice River Group, LLC (real estate holding company for former Silverton Marine property in Millville, NJ, facility leased to NorthEast Precast),
- j.) Guaranty of operating company to be formed.

The Guarantor entities listed above are further discussed in the Financial Section of this Loan Proposal.

4. LIEN POSITION: First.

5. DOLLAR AMOUNT AND HOLDER OF PRIOR LIENS: N/A.

6. SIZE OF PARCEL: New Block 7503, New Lot 33.01, +-143.355 acres.
New Block 7503, New Lot 35.01, +- 85.21 acres.

7. IMPROVEMENTS THEREON: N/A. Future improvements will comprise of precast manufacturing plant, machine shop.

8. LOCATION OF PROPERTY: Real estate located at S. Lincoln Avenue and Rt. 55, New Block 7503, New Lot 33.01, New Block 7503, New Lot 35.01.

9. APPRAISAL INFORMATION: Proposed subdivision demonstrates that the land to be purchased will comprise a New Block 7503, New Lot 33.01 will be +-143.355 acres and New Block 7503, New Lot 35.01 will be +-85.21 acres and New Block 7503, Lot 35.02 will be +-42.790 acres. These parcels total +-271.355 acres. New Block 7503, Lot 35.02 will be utilized for Mr. Ruga's residence which he will purchase for \$200,000 and will not be part of the UEZ collateral.

Loan-to-value calculation will be based on purchase price. Based on a \$3,800,000 cost, LTC or loan-to-cost = 100%. Currently Mr. Ruga has leased the property for \$1 in order to start site work (due to topography) as his equity contribution.

10. FINANCIAL:

- 11. SUBSTANTIATION:** DSCR = 1.18x, LTV 100% (loan-to-cost). See Appraisal Section for additional details.
- Creation of real estate ratable(s) for City of Vineland.
 - Creation of jobs (cannot be quantified).
 - Industrial development could be a catalyst for additional future industrial development.

12. RECOMMENDATION: