



Economic Development Dept.
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MEMORANDUM

TO: City Council President and Members

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

SUBJECT: **Applicant:** 1100 S Mill Road Realty, LLC
Loan Amount: \$500,000.00

DATE: September 25, 2018

Dear Council President Spinelli, Councilmen Acosta, Franceschini, Vargas, and Councilwoman 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: August 31, 2018

Borrower Name and Address (s): 1100 S Mill Road Realty, LLC
1100 S. Mill Road
Vineland, NJ 08360

Request: \$500,000 commercial mortgage loan secured by real estate. Proceeds will be used toward the permanent financing of real estate acquisition and improvements thereon. A nine month interest only structure based on draw schedule acceptable to lender and permanent based on 20 year amort.

Interest Rate: 6.00%

Term of Loan: 10/20 Years

1. BACKGROUND: Mohamed Ahmed, Omar H. Thabet, Sadaam A. Hamood, Saned I. Mohamed, Ali Hussein, and Abdulla K. Awadh formed 1100 S Mill Road Realty, LLC on September 19, 2017 to acquire the real estate located at 1108-1100 S. Mill Road, Vineland, New Jersey, the former site of Vineland Kosher Poultry, a poultry processing plant. In addition, the same individuals formed Vineland Poultry, LLC on September 26, 2017 for the purpose of processing poultry at the 1100 S. Mill Road, Vineland, NJ location. Each individual has a virtually equal share ownership in each entity and has worked, currently works in the poultry processing industry (managers) or has an interest in a retail food business with the exception of Saned Mohamed whom is in the computer and technology field. These individuals intend on operating a Halal chicken processing facility in Vineland. Halal food refers to food that is allowed for Muslim consumption. For Muslims, it is important for them to ensure that their diet conforms to the guidelines laid down by Islam. The Halalness of a food is generally determined by two factors – internal and external. Internal factor refers to the ingredients of the food, while external factor, refers to the manner at which the food is being handled and processed (manual slaughter, and halal processing thereafter). A food is deemed Halal if the ingredients used are from Halal sources. The source of the ingredients, as well as the manner at which the ingredients are being processed and handled play an important role in determining the Halalness of the end product. With regards to the external factor, it is extremely crucial that Halal food is completely segregated from any non-Halal food. A food will change its status from being Halal to non-Halal should it come into contact with any known non-Halal substances. Extra effort has to be taken to ensure that Halal food is always labeled as such and kept in a secure place to prevent possible chances of contamination.

Mohamed Ahmed is the owner of Slaughter House Inc. and Two Brothers for Wholesale Chicken Inc., two entities involved in the processing of and sale of Halal meat (Slaughterhouse, Inc. processes lamb, goat and beef) and poultry products (Two Brothers for Wholesale Chicken Inc. processes chicken). Mohamed Ahmed states that there are very few large scale Halal production facilities in the Tri-State area. Mohamed Ahmed believes having access to available labor and efficient logistics in Vineland, Vineland Poultry, LLC can produce their product (whole chickens and chicken parts) at the Vineland facility more efficiently and at less cost than they currently do in New York. Operating costs will be significantly less than in New York, especially transportation of raw product as well as the finished product. He and his partners plan on hiring forty (40) new employees for the Vineland operation. The current capacity of the New York facility is processing of 5,000 chickens per day or approximately 20,000 lbs of chicken per day. Furthermore, the New York facility does not process chicken for parts (e.g. legs, wings, breasts) only whole chickens. Mr. Ahmed states that he sells 10,000 chickens per day and has to purchase 5,000 chickens per day from third party so that he can accommodate his customers for additional processed chickens and parts. The profit margin on these chickens is virtually nil, however, he does this to conduct and maintain business and customers. By adding capacity in Vineland, he will no longer have to purchase the chickens from a third party and can increase profit/bottom line. Also, Vineland will be an owned facility whereas the New York facility (two locations adjacent to each other, one for processing meat and other for processing chicken) are leased.

1a. COMPETITION: A summary provided by the Applicant states that there are not many competitors in the Tri-State area and they do not believe an operator exists in the Southern New Jersey marketplace. The only other producers of Halal poultry can be found in New York.

1b. INDUSTRY AND MARKET ANALYSIS / INDUSTRY OUTLOOK/ BUSINESS CYCLE:

This information herein in this section and below is derived from IBIS World and Focus Management Group – Poultry Processing Economic Review December 2016 Report.

Operators in the meat and poultry processing industry slaughter animals, process the carcasses and package the meat into products and byproducts. The industry also purifies and refines animal fat, bones and meat scraps. Products are sold to other food manufacturers, renderers, grocery and meat wholesalers and retail traders. Establishments that mainly cut and pack meats from purchased carcasses are also included in this industry.

Over the past five years, the industry has contended with volatile meat prices resulting from drought, disease and fluctuating feed prices. Difficult agricultural conditions have resulted in imbalances of livestock supply which have resulted in a boom and bust cycle in which supply has reached levels far above and far below demand within just five years. Such volatility has shaken industry operators because the fluctuating price they receive for their products have made production output difficult to anticipate. Over the five years to 2023, industry revenue is projected to increase as per capita disposable income continues to rise and commodity prices stabilize.

Over the 10 years to 2023, the industry's contribution to the economy, measured by industry value added, is forecast to increase an annualized 1.4%. Meanwhile, domestic GDP is forecast to grow at an annualized rate of 2.2%. The position of meat as a staple in many diets has historically resulted in growth in the industry; however, recent volatility in meat prices has resulted in slowed growth relative to GDP. Acquisitions have defined industry activity over the past 10 years, and the number of enterprises is expected to decline over the 10 years to 2023. Industry ownership is consolidating, with medium and large companies buying up smaller operations in an attempt to improve economies of scale and cost synergies, increase market presence and improve product range.

The U.S. poultry industry is highly concentrated: two poultry processors (Tyson and Pilgrims Pride) represent +-38% of the market, and over 90% of the market is captured by two dozen companies. Exports represent 17% of production with the majority of exports shipped to Russia, China and Mexico. Poultry prices are not determined in publicly traded markets, in contrast to markets which establish prices for commodities such as corn, cattle and hogs. Instead, prices for poultry are negotiated between individual suppliers and purchasers, with average daily prices being reported to the Georgia Department of Agriculture, which then posts these prices, effectively creating the “market price” for poultry. Georgia is the largest broiler-producing state followed by Alabama. Broiler is a term for any chicken that is bred for meat production. Processors operate under the Food Safety Inspection Service (FSIS) of the USDA – United States Department of Agriculture.

1c. PROJECT: The project involves the permanent financing of the acquisition and improvements to real estate – a 55,000 sq. ft. chicken processing facility and adjacent land located at 1100 S. Mill Road, Vineland, NJ.

<u>Uses</u>		<u>Sources</u>	
Acquisition of real estate	\$ 500,000	Borrower	\$1,100,000
Acquisition of equipment	350,000	Leasing Co.	250,000
<u>Renovations and improvements</u>	<u>1,000,000*</u>	<u>UEZ</u>	<u>500,000</u>
	Total \$1,850,000		Total \$1,850,000

*Borrower has supplied some invoices for the improvements. Borrower has already purchased the facility and begun to expend monetary resources to begin the renovation and improvements, and to acquire certain machinery and equipment. Ice and refrigeration equipment will also be leased.

2. COLLATERAL:

- a.) First position mortgage lien on the real estate located at 1100 S. Mill Road, Vineland, Cumberland County, New Jersey a/k/a Block 5401, Lot 3,
- b.) First position mortgage lien on the real estate located at 1018 S. Mill Road, Vineland, Cumberland County, New Jersey a/k/a Block 5401, Lot 2,
- c.) Assignment of rents and leases on properties referenced in a.) and b.),
- d.) UCC-1 Filing and Security Agreement on all business assets now owned and hereafter acquired of Borrower and Guarantor (State and County Filings),
- e.) Evidence that environmental concerns are addressed and that no further environmental conditions exist at the property,

3. GUARANTORS:

- a.) Guaranty of Two Brothers for Wholesale Chicken,
- b.) Guaranty of Slaughterhouse, Inc.,
- c.) Guaranty of Vineland Poultry, LLC,
- d.) Personal Guaranty of Mohamed Ahmed,
- e.) Personal Guaranty of Omar H. Thabet,
- f.) Personal Guaranty of Sadaam A. Hamood,
- g.) Personal Guaranty of Saned I. Mohamed,
- h.) Personal Guaranty of Ali A. Hussein,
- i.) Personal Guaranty of Abdulla K. Awadh.

4. LIEN POSITION: First.

5. DOLLAR AMOUNT AND HOLDER OF PRIOR LIENS: N/A. Vineland UEZ will have a primary lien.

6. SIZE OF PARCEL: Parcel A - 1100 S. Mill Road, Vineland, Cumberland County, New Jersey a/k/a Block 5401, Lot 3, is +- 17.80 acres.
Parcel B - 1018 S. Mill Road, Vineland, Cumberland County, New Jersey a/k/a Block 5401, Lot 2, is +-4.90 acres.

7. IMPROVEMENTS THEREON: Parcel A – is improved with an approximate 32,945 sq. ft. food processing facility formerly utilized to process chickens. In addition, several other structures are situate on the property comprising of a 1,765 sq. ft. residential dwelling previously utilized as a rooming house, a separate warehouse are comprising 1,248 sq. ft. and an additional warehouse are of 4,040 sq. ft.

Parcel B – is comprised of +-4.90 acres of land.

8. LOCATION OF PROPERTY: Parcel A - 1100 S. Mill Road, Vineland, Cumberland County, New Jersey a/k/a Block 5401, Lot 3.

Parcel B - 1018 S. Mill Road, Vineland, Cumberland County, New Jersey a/k/a Block 5401, Lot 2.

Properties are situated adjacent to each other.

9. APPRAISAL INFORMATION: A 90% loan to value is required. The City of Vineland has the current combined assessed value of both properties at \$786,500. Based on the assessed valuation of the real estate, the LTV would be 64%. UEZ will have a primary interest in business assets as well which incudes machinery and equipment located in the facility.

9a. ENVIRONMENTAL INFORMATION: A Phase 1 Environmental Assessment has been performed on the property by CALMAR Associated, LLC and a report dated February 28, 2018 was made available to Lender. The property was listed under the New Jersey Department of Environmental Protection – Known Contaminated Sites List. It indicates that there was an issue at the site indicating a known source or release with groundwater contamination. CALMAR’s report identifies historical Benzene Contamination. Up until 2009, the previous owner, Vineland Kosher Poultry et. al., operated wells on the property for its poultry processing. Operations ceased in 2009 with two wells were rebuilt as an emergency response to the benzene contamination. The previous owner applied for assistance from NJDEPP Spill Fund and recovered +-\$341,000 circa July 2009 for reimbursement of damages for plant shutdown, ongoing water monitoring, temporary treatment etc. In May 2010, NJDEP indicated that the remedy chosen for Vineland Kosher was to connect the facility into the municipal water supply due to increasing benzene levels. The following is a summary from the NJDEP Administrative Order regarding the history of Benzene contamination on the Property. Other areas of concern were considered diminimus.

- On April 1, 2008, April 8, 2008, April 22, 2008, October 16, 2008 and October 28, 2008 Vineland Kosher Poultry production well #1 exceeded the Maximum Contaminant Level (MCL) for Benzene. Accordingly, on April 21, 2008, the Vineland Kosher Poultry production well #1 was shut down and production Well #4 was put on-line on April 22, 2008.
- On September 25, 2008 the Vineland Kosher Poultry production Well #4 recorded a benzene level of 10.73 ppb. This is a MCL violation based on the Running Annual Average (RAA). On September 30, 2008, production Well #4 was shut down. On October 2, 2008, production well #1 was brought back on-line.
- On October 17, 2008, the Bureau of Safe Drinking Water Implementation (BSDWI) confirmed that Vineland Kosher Poultry was ultimately under the regulatory oversight of the USDA.
- On January 23, 2009, BSDWI notified USDA regarding the Vineland Kosher Poultry contamination, BSPWI issued enforcement action PEA080006 signed by Section Chief Eugene Callahan on January 30, 2009 for the September 25, 2008 MCLRAA violation.
- On March 3, 2009 Vineland Kosher Poultry applied for a Spill Fund Claim with the Bureau of Contract & Fund Management.
- On March 25, 2009, the USDA issued a Suspension of Inspection that effectively shut down Vineland Kosher Poultry’s operations. As a result, the same day the Division of Water Supply gave Vineland Kosher Poultry temporary approval to use Wells #2 and 3.
- BSDWI issued enforcement action PEA090001 signed by Section Chief Eugene Callahan on April 8, 2009 for a 1st quarter 2009 MCL RAA violation. Based on the above, the City of Vineland was ordered to: Conduct a RI of the groundwater pursuant to the Site Remedial Technical Regulations (N.J.A.C 7:26E) and to delineate the vertical extent of the Benzene contamination plume. Supply an amendment to the engineering design and Closure & Post Closure Plan by completing a full hydro geologic investigation to develop a corrective action plan to address groundwater contamination at the landfill. Provide Vineland Kosher Poultry with an adequate supply of potable water by connecting the plant to the Vineland City public water supply.
- A Remedial Investigation Report (RIR) was prepared by Pennoni Associates Inc. (Pennoni) on October 7, 2010 for the Vineland City Landfill located at 1271 South Mill Road and situated on Block 5501, Lot 1 in the City of Vineland, Atlantic County, New Jersey. The landfill is located to the southeast of the Property across South Mill Road. Pennoni had conducted a Remedial Investigation (RI) at the landfill between the dates April 12, 2010 and September 25, 2010. The RI consisted of the installation of seven (7) additional monitoring wells, one (1) groundwater sampling event, an aquifer study and a receptor evaluation. No access was available on the Property for Pennoni to perform RI activities on the Property (Vineland Poultry).
- According to Pennoni’s RI report, Benzene concentrations within the wells sampled at the Vineland Landfill were below the highest concentrations of Benzene identified within the production wells at Vineland Poultry. Pennoni concluded that due to the lower concentrations of Benzene, the Vineland Landfill was not the source of Benzene contamination at the Vineland Poultry Property. Pennoni recommended that the Vineland Poultry utilize the public water supply for production activities and cease pumping activities from the on-site wells. The on-site wells were abandoned on August 2, 2012.

10. FINANCIAL

11. SUBSTANTIATION: DSCR = 1.05x, LTV = 64%

- Allows for shuttered food processing facility to reopen.
- Utility revenues for Vineland's utility companies
- Creation of 25 – 40 jobs.

12. RECOMMENDATION: