

RESOLUTION NO. 2019- 165

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

WHEREAS, the City of Vineland Revolving Loan Fund Second Generation Loan Committee has submitted a proposal dated March 26, 2019, for use of Second Generation Enterprise Zone Assistance Funds for the following project: Economic Development Loan to Cronk-Curcio Realty, LLC (or is 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:

Cronk-Curcio Realty, LLC (or its assigns)	\$1,602,000.00
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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



ECONOMIC DEVELOPMENT
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MEMORANDUM

TO: City Council President and Members
FROM: City of Vineland Revolving Loan Fund
Second Generation Loan Committee
SUBJECT: **Applicant:** Cronk-Curcio Realty, LLC
Loan Amount: \$1,602,000.00
DATE: March 26, 2019



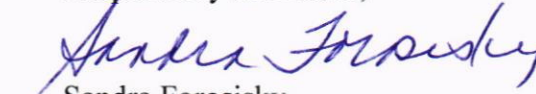
Dear Council President Spinelli, Councilmen Acosta, Franceschini, Vargas, and Councilwoman Arthur:

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: March 5, 2019

Borrower Name and Address (s): Cronk-Curcio Realty, LLC
1875 Chris Ct.
Vineland, NJ 08361

Request: \$1,602,000 commercial mortgage loan – permanent financing for a +38,000 sq. ft. freezer and cold storage facility to be located in the Vineland Industrial Park – North.

Interest Rate: 5.50% **Term of Loan:** 10/25 Years

1. BACKGROUND: On February 2, 2018, Ray Cronk, Kate Cronk and Paul Curcio formed Cronk-Curcio Realty, LLC in New Jersey for the purposes of owning real estate. On May 24th, 2018, Cronk-Curcio Realty, LLC (the “Borrower”) purchased 3490 N. Mill Road, Vineland, New Jersey (former site of GraphiColor in the Vineland Industrial Park – North, and referred here in as the “subject property”).

Homiak Transport, Inc. is a family owned and operated trucking company servicing the food industry for over 40 years. Homiak Transport, Inc. was founded by Mike and Tanya Homiak in Minotola, NJ and incorporated in New Jersey on July 23, 1980. They grew the business to 12 trucks and operated the business until their retirement in 2014. Today, Homiak Transport, Inc. is based in Vineland, NJ, 3546 N. Mill Road, Vineland, NJ, and is currently owned by Ray Cronk (75%) and Brad Homiak (25%). The business has grown to a fleet of 20 trucks. The Vineland terminal houses the dispatch, maintenance, business and fueling facility. Homiak Trucking’s expertise is in temperature-controlled shipping and has emerged as a regional leader in both the refrigerated and frozen LTL (less than truckload). Homiak Transport, Inc. is proud to provide dependable, affordable and state of the art services. They provide twenty-four hour contact to all drivers with cellular phones and GPS tracking. Currently, Homiak Transport, Inc. utilizes First Choice Cold Storage and Freezer for cold/freezer storage.

Ray Cronk is desirous of expanding the logistics business to include freezer and cold storage. He intends to construct a +- 38,000 sq. ft. freezer and cold storage warehouse in the Vineland Industrial Park – North. Initially the freezer and cold storage facility will serve to replace the current third party handling current customers and to bring the freezer and cold storage in-house which will create efficiencies due to his reliance on third party cold storage vendors. In addition, he will be able to provide additional services to existing and new customers which he had not been able to service in the past.

1a. COMPETITION / BUSINESS CYCLE/ INDUSTRY/FUTURE:

What’s Going on in Today’s Cold Storage Warehouse?

Today’s food supply chain is changing. Consumer tastes, needs and expectations are driving change in numerous directions. Cost concerns, food product safety and traceability are major issues. In recent years, more manufacturers than ever have chosen to outsource inventory storage to 3PL (third party logistics) cold storage warehouses. Also known as public cold storage warehouses or public refrigerated warehouses, these facilities handle, manage and store inventory for multiple clients, each with their own individual requirements. The 3PL cold storage industry has experienced significant growth, consolidation and competition for business is fierce. As with other supply chain businesses, efficiency and cost containment are critical concerns. Nearly gone are long term contracts. Recent years has seen the exodus of many loyal long term customers from public refrigerated warehouses to save money or gain improved customer service. Today, customers of public refrigerated warehouses tend to be fickle, willing to switch to another 3PL and unwilling to commit to multi-year agreements rather than to partner long term with solution providers. These tendencies have created some

1a. COMPETITION / BUSINESS CYCLE/ INDUSTRY/FUTURE (Continued):

instability in the industry and made 3PL cold storage warehouses less willing to invest in new technologies. Concern about investment ROI has resulted in a stalemate for some 3PLs, unable to attract and win new clients by providing what they most desire and expect. Years ago, the business of public refrigerated warehousing was relatively simple. Pallet-in, pallet-out was the order of the day. Today, 3PL cold storage warehouses are getting pushed from all sides due to workforce shortages, constant need to reduce costs, compete, win and retain customers and meet regulatory requirements. Now in addition to meeting those challenges, 3PLs need to be able to provide an array of value added services to meet customer needs.

Third Party Logistics Providers and the Refrigerated Warehouse Industry

Outsourcing product handling, management and storage to a third party logistics refrigerated warehouse can simplify matters for manufacturers in addition to reducing cost. Food shippers are highly cost sensitive as the margins in dealing with food products tend to be slim. Rising food costs affect everyone, most notably smaller producers and distributors. Shippers tend to be more transaction-oriented and focused on pricing rather than on solutions-oriented partnerships when selecting 3PLs. More is now expected of 3PLs. Today, the 3PL cold storage warehouse is expected to take the information on the lot that needs to be shipped, consider the specifications of the retailer and allocate the inventory that meets those requirements without input from the shipper. Public refrigerated warehouses are expected to assemble perfect orders based on retailer requirements such as pallet height or pallet type and other issues. 3PLs work in an incredibly fast paced, ever-changing and complex world. Errors in providing these services cost them customers and cause damage to their reputations. The food supply chain is dynamic and complex. Consumers have become spoiled. Growing ethnic diversity, new attitudes towards food and health and the e-commerce phenomenon have driven food supply chain companies to stock more types of products, causing added complexity. Impacted by seasonality, regulations, global conditions and constantly changing consumer tastes, most refrigerated warehouses house a large number of SKUs from a broader range of shippers. This proliferation of SKUs means that picking efficiency is reduced. Reduced picking efficiency leads to added costs. Refrigerated food products by their nature tend to have a shorter shelf life. Partially because of this, there tends to be smaller orders at greater frequency for refrigerated goods. For example manufacturers who use dairy products as ingredients in finished goods tend to receive these products several times a week rather than one load of frozen product during a week's time. More orders, more complexity - it's all in a day's work at a 3PL cold storage warehouse.

3PL Cold Storage Warehouses and Value Added Services

Always eager to reduce costs, manufacturers are outsourcing processes to 3PL refrigerated warehouses that used to go to packagers and other vendors. Having the ability to keep products in bulk as long as possible facilitates reduced inventory levels. Products can then be packaged to a specific brand name in the necessary quantity and to specific SKU requirements. Today's 3PL cold storage warehouse is not the facility of even 10 years ago. Most are experienced in accommodating a wide variety of customer needs and have added an array of value added services to their repertoire including:

Case picking, Custom pallet building, Postponing food processing for just-in-time fulfillment of special orders, High pressure processing (HPP), Preparation of proteins for export, High temperature short time heating (HTST), X-ray of product packages, Blast freezing, Packaging and labeling, Technology, Product preparation of produce (washing, mixing, etc.), Weighing and pricing, Portion packaging.

To improve customer retention, 3PL cold storage warehouse operators have had to provide real time information access to their customers. By tying their customers to technology and using it as a matter of differentiating themselves from other warehouse operators, public refrigerated warehouses have been able to attract and win new business and increase the length of contracts.

If you are a 3PL cold storage warehouse provider, having 3PL billing software that can meet the specific needs of each and every one of your customers is crucial to your success. Your 3PL billing software need to

1a. COMPETITION / BUSINESS CYCLE/ INDUSTRY/FUTURE (Continued):

have the flexibility to bill for every eventuality and contract term. It also must be able to capture and bill for all the value added services your workforce provides-all in real time. Wasting time on spreadsheets and manual calculations leads to mistakes and your "leaving money on the table". Meeting the needs of a diverse range of customers requires extremely flexible 3PL software, ideally workflow driven.

Mobile Computers in the Cold Storage Warehouse

Using mobile technology in freezers, cold storage and refrigerated warehouse environments can be challenging. Dealing with harsh environments is problematic for both people and equipment. Handheld mobile computers used in cold storage warehouses need to be designed with buttons that are large enough to be felt through work gloves. Designed to enable the exchange of information in the harshest of environments, mobile computing device touchscreens must be sensitive enough to respond to a gloved touch rather than from that of an uncovered finger. Mobile computing devices built for cold storage warehouse environments are manufactured with seals that are designed to withstand the temperature change from freezer to ambient conditions, causing condensation to accumulate. Today, mobile computers that are built for cold, harsh environments include a heat source inside the device to keep the internal temperature from becoming too cold. Cold temperatures also affect the batteries of barcode scanners and mobile computing devices in handheld and forklift computing devices, electric lift trucks and other equipment. A 40-50% degradation in the life of a battery can occur from cold temperatures. How does this impact daily operations? A battery rated for an 8 hour work cycle in an ambient warehouse environment may only last 4 to 6 hours in cold temperatures.

Refrigerated Warehouses and Automation

Automation in warehouse environments tends to work well when there is a high volume of the same type of product and one manufacturer. Refrigerated warehouses can be more problematic as changing SKUs and packaging dynamics add complexity to automation.

Automation in cold storage warehouses is more frequently seen in Europe and less often in the U.S. largely due to cost. European companies adopted automation early because of labor costs and constraints.

Automation is often constrained in 3PL cold storage warehouse environments partially because they service multiple clients within a facility. Work such as automating pallet movements is sometimes done but picking less than pallet quantities, physically loading outbound trucks and selecting orders is typically not. One way that automation is being used in cold storage warehouses now is to decouple labor from the necessity of working in a sub-zero environment. An example of this is the delivery of product from a freezer to warmer environment in preparation for picking. Some vendors have noticed a trend in the types of doors that are being installed between ambient and cold areas of the warehouse, such as smaller conveyor doors rather than large doors to freezers. This potentially can result in significant savings. Additional changes include the use of "pick tunnels", warmer spaces used as ancillary areas in which picking is done manually and ergonomically in a more comfortable environment.

Over the past few years, there has been more emphasis on changing the model, an increased focus on specialization in order to justify automation and create more efficient operations. 3PLs are working hand-in-hand to create operations that provide better rates for specific services. In turn, customers are often more inclined to sign longer term agreements. To do this, often 3PLs determine the commonality and consistency in handling and storage specifications for products then utilize a material handling system around this premise. This can be useful in attracting clients with the same or similar products to a facility with specialized expertise in handling them.

1a. COMPETITION / BUSINESS CYCLE/ INDUSTRY/FUTURE (Continued):

Summary

The refrigerated warehouse industry has undergone considerable change over the past decade. More manufacturers are choosing to outsource the handling, storage, order fulfillment and shipment of their perishable goods to 3PL cold storage warehouses. Industry consolidation has reduced the number of operators and several large enterprises tend to dominate the market. Today, there is a greater burden than ever before on 3PL cold storage warehouse operators. The increased level of operational complexity, SKU proliferation, retailer requirements and customer demands and expectations present challenges to 3PL cold storage operators. With customers who are less likely to sign long term agreements and the high level of competition, 3PLs are squeezed from both ends. 3PL cold storage operators present new value to shippers by providing them with a wider range of value added services than ever before as well as the real time intelligence. Services including packaging, preparation of proteins and produce are now often outsourced to 3PL cold storage warehouses. This shift helps shippers reduce cost and time by eliminating another vendor and generates additional revenue for 3PL cold storage warehouse providers.

Mobile technology and automation are important facets of every day operations in refrigerated warehousing. Mobile computing devices enable the flow of real time intelligence to other systems. Industrial grade mobile computing devices are used in refrigerated warehouses and include larger buttons that can be felt through cumbersome work gloves, seals to protect devices from temperature shifts and internal heaters. Automation is most frequently implemented in refrigerated warehouse facilities that process a high volume of the same type of product for a single manufacturer. 3PLs are more willing to focus on and provide automation and specialization for specific customers if they sign long-term agreements.

1b. PROJECT: The project involves the development/construction of a +-38,000 sq. ft. refrigerated and freezer facility to be located at 3490 N. Mill Road, Vineland, Cumberland County, New Jersey.

<u>Project Cost(s) (Uses)</u>		<u>Project Funding (Sources)</u>	
Land/Building Acq. Cost	\$ 625,000	Borrower Equity	\$ 878,000
Soft Costs	100,000	Capital Bank of NJ	3,738,000 (Permanent)
Construction of Facility	5,343,000	Capital Bank of NJ	550,000 (Racking/Equipment)
Racking	550,000	Vineland UEZ	<u>1,602,000</u> (Permanent)
Contingency	<u>150,000</u>	Total	\$6,768,000
Total	\$ 6,768,000		

12.97% Borrower equity.

87.03% Combined Bank (63.36%) and UEZ project (23.67%) funding percentages.

2. COLLATERAL:

- a.) Second position mortgage lien on the real estate located at 3490 N. Mill Road, Vineland, Cumberland County, New Jersey a/k/a Block 302, Lot 7,
- b.) Assignment of rents and leases on property referenced in a.) and b.),
- c.) UCC-1 filing and Security Agreement (State of NJ and Cumberland County) filing on Borrower and Guarantor(s): Cronk-Curcio Realty, LLC, KRES Cold Storage, LLC, Homiak Transport, Inc.
- d.) Assignment of life insurance on Ray Cronk in the amount of \$1,000,000.00.
- e.) Legal opinion as to requirement of additional due diligence regarding the Phase I Environmental report conclusion and recommendation.

3. GUARANTORS:

- a.) Guaranty of KRES Cold Storage, LLC, operating company formed, to operate cold storage & freezer.
- b.) Corporate Guaranty of Homiak Transport, Inc. (limited guaranty of 75% due to ownership of Ray Cronk). We will need Brad Homiak, 25% owner of Homiak Transport, Inc. to sign appropriate document acknowledging guaranty.
- c.) Personal Guaranty of Ray W. Cronk, II,
- d.) Personal Guaranty of Kate S. Cronk,
- e.) Personal Guaranty of Paul S. Curcio,
- f.) Guaranty of Paul S. Curcio Trust, Revocable Trust (subject to legal counsel review).

4. LIEN POSITION: Second. Capital Bank of NJ / OceanFirst Bank will provide a construction loan of \$+-\$5,340,000 and equipment acquisition loan \$550,000.00.

5. DOLLAR AMOUNT AND HOLDER OF PRIOR LIENS: Capital Bank of NJ (OceanFirst Bank) will provide a construction loan of +-\$5,340,000 (perm. \$3,738,000) and equipment acquisition loan \$550,000 for racking.

6. SIZE OF PARCEL: Property A.) +-5.05 acres.

7. IMPROVEMENTS THEREON: Property A.) Currently existing a 10,000 sq. ft. building comprised of 2,500 sq. ft. of office space and 7,500 sq. ft. of light industrial/warehouse use.

8. LOCATION OF PROPERTY: Property A.) 3490 N. Mill Road, Vineland, Cumberland County, New Jersey a/k/a Block 302, Lot 7.

9. APPRAISAL INFORMATION: Subject to receipt and satisfactory review of a new appraisal indicating a minimum value of \$6,140,000. 87% LTV on real estate for the UEZ loan. Based on this figure. Currently, the City of Vineland has the property located at 3490 S. Mill Road, Vineland, NJ at the following:

3490 N. Mill Road, Vineland, NJ 08360 – Current Assessment:

Land	\$ 86,200
Improvements	<u>363,800</u>
Total	\$ 475,000

Assuming an assessed / taxable value of \$3,800,000 (land at \$350,000 and improvements at \$3,450,000) upon completion of the construction and C.O., at a tax rate of \$2.90, upon completion of P.I.L.O.T. (five year phase in, 20% per year) where City of Vineland will be receiving tax revenue), \$110,200 in annual taxes can collectively be achieved in Year 6. The \$3,800,000 combined figure is based on \$100 per sq. ft. assumption and is very close to an existing assessment of a similar property nearby (First Choice Freezer and Cold Storage +-55,000 sq. ft. assessed at \$5,598,000).

10. FINANCIAL:

11. SUBSTANTIATION: LTV = 87%, DSCR = 1.11x

- New real estate tax ratable.
- Creation of 10 jobs (full time), 2 jobs (part time).
- Continued development in the Vineland Industrial Park – North and South area.

12. RECOMMENDATION: