

RESOLUTION NO. 2014- 135

A RESOLUTION APPROVING THE USE OF SECOND GENERATION ENTERPRISE ZONE ASSISTANCE FUNDS FOR ECONOMIC DEVELOPMENT LOAN TO PEPE, INC. (trading as TRI-CITY PAPER RESTAURANT SUPPLY).

WHEREAS, the City of Vineland Revolving Loan Fund Second Generation Loan Committee has submitted a proposal dated March 26, 2014, for use of Second Generation Enterprise Zone Assistance Funds for the following project: **Economic Development Loan to PEPE, Inc. (trading as Tri-City Paper Restaurant Supply)**; 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
PEPE, Inc. (trading as Tri-City Paper Restaurant Supply) \$36,000.00**

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



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MEMORANDUM

TO: City Council President and Members

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

SUBJECT: **Applicant:** PEPE, Inc. (trading as Tri-City Paper Restaurant Supply).
Loan Amount: \$36,000.00.

DATE: March 26, 2014

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

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 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,

A handwritten signature in blue ink that reads "Sandra Forosisky".

Sandra Forosisky
Director of Economic Development

SF/fd

cc: Frank DiGiorgio
file



VINELAND UEZ LOAN COMMITTEE LOAN PROPOSAL

Date: 02/24/2014

Borrower Name and Address (s): PEPE, Inc. (trading as Tri-City Paper Restaurant Supply)
2192 S. Delsea Drive
Vineland, New Jersey 08360

Request: Modification of existing Vineland Urban Enterprise Zone Loan back to original loan amount of \$100,000 from current balance representing new money of \$36,000+-.

Interest Rate: 5.00%

Term of Loan: Modify term up to 15 Years.

1. Background: PEPE, Inc. (the “company” or “Tri City Paper Paper Restaurant Supply”) a C-Corp., is located in Vineland, New Jersey. The company is engaged in the business of wholesale and retail sales of paper, janitorial and restaurant supplies, and party supplies. The company is owned by Anthony J. Pepper, Jr. (75%) and the Estate of Lawrence Pepper, Sr. (25%). The company began operations in 1976 and is managed by Robert Pepper and Anthony C. Pepper, the sons of Anthony J. Pepper, Jr. The company carries over 10,000 items which it sells to a variety of users in the restaurant and hospitality industries. In addition, the company operates a retail and party supply store from it’s location on S. Delsea Drive.

1a. Competition/Business Cycle/Industry and Market: The company’s main competitor is South Jersey Paper (South Jersey Paper is strictly a paper offering company), also located in Vineland. The company also competes with companies such as Sysco and US Foodservice in the restaurant supply business. In the party supplies segment, the company competes with a variety of vendors in this spectrum.

The company operates on a year round basis. The company’s main sales generating months are the March through August cycle (Tri City Paper also sells products to the shore areas, boardwalk and shore restaurants as well as campgrounds). Tri City Paper considers the first quarter of the year (January, February, and March) and the months of September through October to be the slower revenue generating months. A pick up in business/sales is experienced in the month of December resulting from the holiday time frame.

The paper products, restaurant supply and janitorial supply business is very competitive with many players occupying the space. The industry participants are somewhat scattered and/or fragmented. Although competition is increasingly coming from companies such as wholesale club box stores. By offering a mix of products including janitorial supplies combined with customers service, companies like Tri City have built niche businesses (one stop shop) have the ability to make and maintain supply deals (recurring sales and relationships). However, these companies and distributors need to be cognizant of increased costs such as transportation which could materially impact profitability as fuel increases.

1b. Project: The project involves modification of existing Vineland UEZ loan to lend approximately an additional \$36,000 for permanent working capital. The economy and increased real estate taxes has negatively impacted Tri City in the short term. The restaurant and hospitality sector in the market area have suffered and some suppliers such as Tri City have been negatively impacted. The fast food restaurant segment has actually performed better than certain other restaurant categories. Access to working capital from traditional sources is more difficult to obtain. In addition, modifying the term will reduce the monthly repayment amount as well.

Page 2
PEPE, Inc.

- 2. **Collateral:**
 - a.) Third position mortgage lien on the real estate located at 2192 S. Delsea Drive, Vineland, Cumberland County, New Jersey a/k/a Block 6101, Lot 16,
 - b.) Assignment of rents and leases,
 - c.) UCC -1 filing and Security Agreement on all machinery, equipment, inventory, accounts receivable and all business assets now owned and hereafter acquired (subordinate to PNC Bank – see #5 below).
 - d.) Subordination of any stockholder and/or affiliated family / trust debt.

- 3. **Guarantors:**
 - a.) Anthony J. Pepper, Jr.,
 - b.) Robert Pepper,
 - c.) Anthony C. Pepper.

- 4. **Lien Position:** Second on real estate and subordinate on UCC.

- 5. **Dollar Amount and Holder of Prior Liens:** PNC Bank has a 1st mortgage - original amount of \$630,202, with a balance \$550,000 +-. Please note that PNC Bank has a note for +-\$190,000 (balance) secured by a 2nd mortgage, all accounts receivable, inventory and business assets as well. UEZ will be subordinate on these assets.

- 6. **Size of Parcel:** +-1.359 acres.

- 7. **Improvements Thereon:** The site is comprised of 3 large warehouse buildings, one with an attached retail store facing Delsea Drive.

- 8. **Location of Property:** 2192 S. Delsea Drive, Vineland, Cumberland County, New Jersey a/k/a Block 6101, Lot 16.

- 9. **Appraisal Information:** An appraisal performed by PNC Bank as of March 2013 demonstrates a value of \$1,600,000.

PNC Bank 1 st mortgage	\$ 550,000 (balance outstanding)
PNC Bank 2 nd mortgage	190,000 (balance outstanding)
Proposed UEZ Loan	<u>100,000 (existing balance + \$36,000)</u>
Total	\$ 840,000
Appraised Value of real estate	\$1,600,000
LTV	53%

- 10. **Legal and Environmental:** No legal or environmental issues demonstrated or documented.

- Go Back to Agenda

Page 3
PEPE, Inc.

11. Financial:

12. Substantiation: LTV = 53%, DSCR = 1.26x (based on proforma).

- Assist local, long-time UEZ certified business with a permanent working capital loan.
- Maintain jobs / employment at 22 full time and increases seasonally to 30 (8 part time) during the summer (mid April to end of September).

13. Recommendation: