

RESOLUTION NO. 2023- 599

A RESOLUTION APPROVING VINELAND REVOLVING
LOAN FUNDS FOR REALTYX, LLC (OR ASSIGNS).

WHEREAS, the Vineland Revolving Loan Fund, LLC Committee has submitted a proposal dated November 29, 2023, for use of Vineland Revolving Loan funds for RealtyX, 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 Vineland Revolving Loan 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 Vineland Revolving Loan Funds for the following project, in accordance with the proposal submitted by the Vineland Revolving Loan Fund, LLC Committee:

To: RealtyX, LLC (or assigns) \$500,000.00

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



ECONOMIC DEVELOPMENT
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MEMORANDUM

TO: City Council President and Membe
FROM: Vineland Revolving Loan Fund, LL
SUBJECT: **Applicant:** RealtyX, LLC
Loan Amount: \$500,000.00
DATE November 29, 2023



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

On behalf of the Vineland Revolving Loan Fund Committee, please accept this letter recommending a commitment be given to the above applicant for a Vineland Revolving Loan Fund, LLC 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 Zones. The Committee further finds that the loan will promote economic development, creation/retention of jobs, and/or tax ratable(s) that will benefit the City of Vineland.

Further, please note that 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
Sandra Forosisky
Director of Economic Development

SF/fd

cc: Frank DiGiorgio
file



**VINELAND REVOLVING LOAN FUND, LLC
LOAN PROPOSAL**

Date: October 25, 2023

Borrower Name and Address: RealtyX, LLC and Spectra Polymers & Color Specialties, Inc.
141 Sheridan Avenue
Vineland, NJ 08360

Loan Request for RealtyX, LLC – \$500,000 commercial term loan – permanent real estate loan structured as a 6 month interest only with full amortization upon the expiration of the interest only period.

Loan Request for Spectra Polymers & Color Specialties, Inc. - \$ 75,000 commercial term loan.

Realty X, LLC - Interest Rate: 6.00%, fixed.

Term of Loan: 20 Years.

Spectra Polymers & Color Specialties, Inc. – Interest Rate: 6:00%, fixed

Term of Loan: 10 Years.

1. BACKGROUND: Ewerton Borges is the president and 100% owner of Spectra Polymers & Color Specialties, Inc. (“Spectra”), a manufacturer of plastic products. Mr. Borges is also the sole owner and managing member of RealtyX, LLC, a real estate holding company which owns the real estate and manufacturing facility located at 141 Sheridan Avenue, Vineland, NJ. Spectra operates and warehouses its products from within this facility.

Twenty years ago, Ewerton Borges was hired to sweep the floor at a Farmingdale, NY business. Over the years he worked his way up to the position of plant manager at the business and then also managed plants in several states. Originally founded in 1983 originally, Spectra Polymers and Color Specialties Inc., is a full Express Color House Service with molding capabilities. Products and services include 3D Printer, Filaments, Color Matching, Color Concentrate, Color Compounds, Specialty Colors & Additives, Salt & Pepper Blends, Molding Capabilities.

Mr. Borges bought Spectra in 2017 with \$60,000 of his own money and over \$700,000 in financing from the previous owner. The original purchase included the company’s customer base and assets, and included a library of 35,000 color variations. Mr. Borges stabilized the business and brought back several inactive customers. The company currently has about 85 active customers. Since he purchased Spectra, he has stabilized the client base and brought back inactive customers, including some international customers. He reestablished accounts in Poland and Mexico. He is working with a technology company that provides chips to casino companies with additives that help prevent counterfeit versions. The previous Spectra largely focused on color plastics for cosmetics display. Mr. Borges moved the manufacturing operations to Vineland, NJ in 2022 after purchasing a +-25,000 sq. ft. building from the Vineland Development Corporation. As a result of the move, the facility requires several upgrades to various utility functions including electric, sewer, and natural gas. In addition, Mr. Borges wants to further add additional equipment, as well as updated and automate the production equipment to make it more efficient. Currently, the facility is equipped with a Single and Twin extruders, high intensity mixer(s) as well a fully equipped laboratory featured molding machines, precision scales, light box, spectrophotometric equipment, and properties test equipment. Spectra specializes in transforming raw plastics from white and transparent form, producing colors and additives through extrusion and blending process, supporting most Industries which fulfill plastic parts for various applications such, cosmetics, toys, automotive, technology, house hold, etc.

Many of Spectra’s customers (injection molders) do their work for large cosmetic and toy companies (Revlon, Crayola, shampoo manufacturers, cosmetic companies, POS displays). All of the large entities have social messages in their mission with the mandates and promise to convert a percentage of their packaging to be produced from recycled materials by 2035. Environment, social and governance or “ESG” is a popular message circulating in the mainstream of company cultures and missions. Spectra is preparing for this and expanding so that it could be part of solution. Spectra is at the center of the re-use/re-purpose circular economy in plastics which is the effort to keep plastics out of the landfills.

1. BACKGROUND (CONTINUED):

Spectra is set up to take in repurposed plastic (think cosmetic displays in CVS) and utilize its expertise in adding color and such to restore the plastic to its original state or re-use. They are quickly becoming a leader in this field.

While moving the manufacturing equipment and operations to Vineland, it was discovered that the facility required utility upgrades and utility connections. The Vineland Revolving Loan Fund approved loans to the real estate holding company and the operating company, Spectra. A portion of the loan to RealtyX, LLC was utilized to make upgrades to the facility which assisted in the manufacturing process while reducing manufacturing costs ultimately leading to lower COGS in the future. The improvements also made the building and property more valuable. A separate portion of the RealtyX loan was utilized to restructure a variable rate loan with an SBA Lender with a variable interest rate, which was used to acquire the facility (loan was variable and hovering over 8% at the time and would be higher now). By fixing the interest rate, the company was able to budget cash and maintain short term cash flow while executing its expansion plan. New equipment was also purchased which lead to efficiencies and the handling of increased material. It is important to note that Mr. Borges and Spectra utilized over \$700,000 of cash resources between company and personal resources to effectuate the move to Vineland. This left the operating company with short term working capital needs. Spectra sought out much needed working capital from non-tradition lender / factoring company. This unfortunately drained cash further as its accounts receivables which back or are used get sent/assigned to the factor company, are then repaid to the factor at a discount and for a fee. The end result is that the factoring company sends Spectra less than 100% of its accounts receivable and is charged 3.65% fee as part of transaction. This leads to short term financing at over 20%! Below is a summary of the existing borrowing relationship with RealtyX and Spectra via VRLF.

Existing Loan #1: \$1,040,000 commercial term loan - \$840,000 for loan restructure, and \$200,000 for infrastructure improvements to a property which houses a +-25,000 sq. ft. manufacturing/warehouse building. Structured as a 6 month interest only with infrastructure improvement funds being disbursed as draws. Borrower was RealtyX, LLC. The interest rate for this loan was 5.00%, fixed. The term of this loan was 20 years.

Existing Loan #2: \$ 200,000 commercial term loan for equipment acquisition. Borrower was Spectra Polymers and Color Specialties, Inc. Interest Rate for this loan was 5.00%, fixed. The term of this loan was 10 Years.

1a. PROJECT: The financing for this will be in the form of a \$500,000 second mortgage and a \$75,000 fourth mortgage along with the subordination of an existing VRLF Loan in second position for collateral purposes in the amount of \$200,000 - with this proposed loan being subordinate only to an existing first mortgage of \$1,040,000 made to RealtyX, LLC by VRLF (see existing loans above). The aforementioned existing loan (\$200k) to the operating company for equipment, which also secured by subject real estate, will be subordinated to the proposed financing and will have a third mortgage status on the real estate collateral. The proposed \$75,000 loan will be a fourth mortgage. Note that RealtyX, LLC purchased the facility from Vineland Development Corp. in 2022 without the without the assistance UEZ financing. It financed the acquisition with an SBA Loan / Lender which carried an adjustable interest rate and was priced over 8%, variable by the lender/SBA. Subsequently, the VRLF loan relieved the company of this obligation and provided permanent, fixed financing. The companies utilized all cash available to move to Vineland, leaving shortfalls for building improvements and working capital. Below is the subject or proposed structure of the funding.

<u>Project Cost</u>		<u>Funding Sources</u>	
Second Mortgage	\$500,000	Loan - VRLF	\$500,000
Fourth Mortgage	75,000	Loan – VRLF	75,000
Closing Costs	15,000	Borrower	15,000
Total	\$590,000	Total	\$590,000

2. COLLATERAL:

- a.) Second position mortgage lien in the amount of \$500,000 on the real property located at 141 Sheridan Avenue, Vineland, Cumberland County, NJ a/k/a Block 7110 Lot 1 (subordinate only to an existing 1st position mortgage of \$1,040,000 first position mortgage lien of the VRLF.
- b.) An existing 2nd position mortgage loan of \$200,000 made by Spectra Polymers and Color Specialties Inc. to the VRLF will be subordinated to third position accomplished via a postponement of existing second position mortgage loan of \$200,000 to allow proposed second.
- c.) Fourth mortgage lien in the amount of \$75,000 on the real property located at 141 Sheridan Avenue, Vineland, Cumberland County, NJ a/k/a Block 7110 Lot 1 (subordinate only to an existing 1st position mortgage of \$1,040,000 first position mortgage lien of the VRLF, a second for the proposed \$500,000 from the VRLF, and a third of \$200,000 from the VRLF.
- d.) Assignment of Rents and Leases,
- e.) UCC-1 and Security Agreement State and County filing on the Borrower and Guarantor,
- f.) Cross Collateral / Cross Guaranty,
- g.) Hypothecation Agreement(s) by the Borrower and Guarantor pledging the respective assets as collateral as necessary,
- h.) **Payoff of RA Funding loan, currently in third position for RealtyX, LLC, and payoff of PLUS and US Bank loans on Spectra Polymers are required,**
- i.) Subordination of Stockholder and affiliated debt.

3. GUARANTORS:

- a.) Personal Guaranty of Ewerton Borges,
- b.) Guaranty of Spectra Polymers & Color Specialties, Inc.

4. LIEN POSITION: Second.

5. DOLLAR AMOUNT AND HOLDER OF PRIOR LIENS: VRLF is primary and secondary on existing collateral located at 141 Sheridan Avenue, Vineland, NJ 08360. See above for changes.

6. SIZE OF PARCEL: +-17 acres.

7. IMPROVEMENTS THEREON: +-25,000 sq. ft. masonry and metal building.

8. LOCATION OF PROPERTY: 141 Sheridan Avenue, Vineland, Cumberland County, NJ a/k/a Block 7110, Lot 1.

9. APPRAISAL INFORMATION: 141 Sheridan Avenue in Vineland, NJ – Cumberland County, Block 7110, Lot 1 is a +- 25,000 sq. ft. (+- 100' x 250') industrial property situated on +- 17.35 acres near Routes 55 and 47. The building is being utilized for industrial manufacturing currently. An unaffiliated tenant is in a portion of the warehouse on a two year lease for storage at \$5,500/month. Spectra, affiliated company, pays rent to RealtyX, LLC in the monthly amount of \$6,500/month.

The property, built in 1993, is a masonry block and pre-engineered steel warehouse, sprinklered throughout, with approximately 18' ceilings and two partitions built on concrete slab. Three operating drive-ins provide access from the front and there is a fourth drive-in on one side that is currently blocked off. Internally, a two-story (+-24' x 48') enclosure offers space and storage. The warehouse is only partially insulated, and temperature is ambient. In terms of utilities – electric is 400 Amp 3 phase. There is no sewer connection presently, but the engineering is nearing completion and installation is being scheduled. Municipal water is available. Zoning for the property is I-3. I-3 properties enjoy a wide range of possible industrial uses – including both storage and manufacturing. The owner is in the process of a subdivision and site plan preparation for the further development of the site acreage.

Land Assessment	\$260,300
Building Assessment	<u>639,700</u>
Total Assessment	\$900,000

*A recent Broker Opinion of Value – Evaluation prepared on August 30, 2023 by Vantage Commercial concluded that the property is generally in good condition and shows the natural wear and tear expected of a 28- year old improvement.

9. APPRAISAL INFORMATION (CONTINUED):

Positives for the property are: sits on a significant parcel of land and had previous, expired plan with demonstrating that up to a +-80,000 sq. ft. warehouse space could be improved on the property. The property benefits from an established drainage easement and right of way. Owner states that additional drainage improvements are being considered and to be covered by the municipality. From a macroeconomic perspective, the industrial market remains tight, and this has driven rents and sales prices higher. Owner states he has completed electrical service upgrades, is in the process of sewerage connection, additional HVAC improvements are underway and completed, and that a site plan / subdivision plan is underway which will demonstrate and add value to this property. Improvements to the property such as sewer connection, natural gas connection, new HVAC, drainage improvements, subdivision and site plan stand to enhance value of property.

As negatives, the property is only partially insulated and warehouse is not heated. Warehouse has multiple drive-ins but it lacks a standard loading dock.

Based on the information and research conducted by Vantage Commercial as of August 30, 2023, the value of 141 Sheridan Avenue in Vineland, in its current condition, is \$2,616,000 - \$2,862,500. Includes improvements made. Based on the value of \$2,616,000 (+-\$105 per sq. ft. – bldg.), a loan to value calculation demonstrates a **69% LTV**.

10. FINANCIAL:

11. SUBSTANTIATION: DSCR = 1.67x (projected), LTV = 69%

- Company anticipates hiring up additional employees as it grows.
- Currently employs 5 in Vineland.
- New industry for Vineland.
- Property has the potential to attract ancillary manufacturing. Mr. Borges currently working to start or bring in company which could assist in processes.
- Mr. Borges is in process of subdividing excess land to create additional opportunities to sell land which will enhance cash flow and also provide for future developable land for other users.
- Improvements to facility will allow for efficient manufacturing and increased capacity.
- Improvements to facility will enhance property value and provide for future development.

12. RECOMMENDATION: