

**PLEASE NOTE - We welcome public comment on the items on the following agenda. To ensure maximum opportunity for participation, speakers representing themselves may speak for up to 2 minutes each, and those representing groups may speak for up to 4 minutes (1 speaker per group). Speakers' comments may address only items considered at today's meeting. Materials relating to matters that are scheduled for discussion in open session will be available at the meeting and will be posted on ESD's website prior to the meeting in accordance with the Public Officers Law**

**STATEWIDE LOCAL DEVELOPMENT CORPORATION**

at the offices of the  
New York State Urban Development Corporation  
d/b/a Empire State Development  
633 Third Avenue  
New York, New York 10017

Meeting of the Directors

Thursday

June 26, 2014 – 11:00 a.m.

**AGENDA**

**I. CORPORATE ACTIONS**

- A. Approval of the Minutes of the December 9, 2013 Director's Meetings

**II. FOR CONSIDERATION**

- A. Amityville (Long Island Region – Suffolk County) – JDA Real Estate Acquisition for the Benefit of Merola Sales Company, Inc. - Authorization to Act and Perform as LDC on JDA Real Estate Loan and Take Related Actions; Determination of No Significant Effect on the Environment

**DRAFT – SUBJECT TO REVIEW AND REVISION**

**STATEWIDE LOCAL DEVELOPMENT CORPORATION**

Meeting of the Directors  
Held at the New York City Regional Office  
633 Third Avenue  
New York, New York 10017

December 9, 2013

**MINUTES**

**In Attendance**  
**Directors:** Mehul Patel (Acting Chair)  
Frances Walton, Chief Financial and Administrative Officer

**Present for Statewide:** Deborah Royce, Acting Corporate Secretary  
Antovk Pidedjian, Assistant Secretary (via telephone)

**Present for ESD:** Ross Freeman,

The meeting of the Statewide Local Development Corporation, a local development corporation created under the New York State law, was called to order at 2:41 p.m. by Acting Chair Patel. It was noted for the record that notices to the public and news media of the time and place of the meeting had been given in compliance with the New York State Open Meetings Law.

**DRAFT – SUBJECT TO REVIEW AND REVISION**

Acting Chair Patel noted that the public is free to comment on any matters on the Agenda.

The Acting Chair then called for a motion to approve the Minutes of the September 12, 2013 Directors' meetings.

APPROVAL OF MINUTES AND RATIFICATION OF ACTIONS TAKEN AT SEPTEMBER 12, 2013 MEETINGS OF THE DIRECTORS OF THE STATEWIDE LOCAL DEVELOPMENT CORPORATION

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RESOLVED, that the Minutes of the meetings of the Corporation held on September 12, 2013, as presented to this meeting, are hereby approved and all actions taken by the Directors presented at such meetings as set forth in such Minutes, are hereby in all respects ratified and approved as actions of the Corporation.

\* \* \*

Acting Chair Patel then asked Mr. Freeman to present an item relating to a JDA real estate loan for the benefit of Fas Linen Service.

Mr. Freeman explained that the proposed \$1,695,000 loan will be used toward the purchase and renovation of a 32,173 square foot building in Yonkers.

Mr. Freeman further noted that the total project cost is \$2,915,950 and that the remaining project costs will be covered with an \$847,500 loan from Hudson Valley Bank and a \$373,450 equity contribution by Fast Linen Service.

**DRAFT – SUBJECT TO REVIEW AND REVISION**

Mr. Freeman then provided background information on Fast Linen which was established in the Bronx in 2002 and services private clubs, hotels, caterers, country clubs, college dorms, day spas and restaurants.

Mr. Freeman then went on to provide the loan terms and noted that the JDA Finance Committee had provided its approval to move the project forward on to the full board for consideration.

Following the full presentation, the Acting Chair called for questions or comments. Hearing none, and upon motion duly made and seconded, the following resolution was unanimously adopted:

Yonkers (Mid-Hudson Region – Westchester County) – Fast Linen Service, Inc. – Authorization to Act and Perform as LDC on JDA Real Estate Loan for the Benefit of Fast Linen Service, Inc. and to Take Related Actions

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RESOLVED, that the Chairman of the Corporation or his designee(s) be, and each of them hereby, authorizes a real estate loan from the New York Job Development Authority for the benefit of Fast Linen Service, Inc., representing 60% of eligible project costs, not to exceed \$1,695,000, to be funded from the proceeds of New York State Guaranteed Special Purpose Fund bonds, or notes, for the purposes and substantially on the terms and conditions set forth in the materials presented at this meeting and subsequently to the JDA Board, with such changes as the Chief Executive Officer of the JDA or his designee(s) may deem appropriate; and be it further

RESOLVED, that the Chairman of the Corporation or his designee(s) be, and each of them hereby is, authorized in the name and on behalf of the Corporation to execute and deliver any and all documents and to take all actions as he or she may in his or her sole discretion consider to be necessary or proper to effectuate the foregoing resolution; and be it further

RESOLVED, that the provision of financial assistance by the Corporation is expressly contingent upon: (1) JDA receipt of the approval of the Public Authorities Control Board, as applicable, and

**DRAFT – SUBJECT TO REVIEW AND REVISION**

(2) receipt of funds from JDA and (3) the receipt of all other necessary approvals.

\* \* \*

There being no further business, the meeting was adjourned at 2:47 p.m.

Respectfully submitted,

Deborah Royce  
Assistant Corporate Secretary

STATEWIDE LOCAL DEVELOPMENT CORPORATION

FOR CONSIDERATION

June 26, 2014

TO: The Members

FROM: Kenneth Adams

Subject: Amityville (Long Island Region – Suffolk County) – JDA Real Estate Acquisition for the benefit of Merola Sales Company, Inc.

RE: Authorization to Act and Perform as LDC on JDA Real Estate Loan and Take Related Actions; Determination of No Significant Effect on the Environment

JDA Loan Terms	
<b>Borrower:</b>	Mero Realty Inc.
<b>Economic Region:</b>	Long Island
<b>Loan Amount Requested:</b>	\$3,000,000
<b>Rate:</b>	1.98% (variable)
<b>Term:</b>	20 years
<b>Classification:</b>	IA+
<b>Distressed Area:</b>	No
<b>Initial Payment:</b>	\$15,148.10

JDA Budget					
<u>Uses</u>			<u>Sources</u>		
Real Estate Acquisition	\$ 6,315,000	93%	JDA <sup>(1)</sup>	\$ 3,000,000	44%
Renovation Costs	485,000	7%	Equity	3,800,000	56%
<b>Total Project Costs</b>	<b>\$ 6,800,000</b>	<b>100%</b>	<b>Total Project Financing</b>	<b>\$ 6,800,000</b>	<b>100%</b>

(1) 20-year term at 1.98% variable with a first lien on real estate.

**Security:** A first lien on the real estate located at 115 Albany Avenue/ 20 Reed Place in Amityville, NY. The value of the collateral is \$6,315,000.

**Guarantors:** Repayment of the Loan shall be guaranteed by NJ Mero Realty Co. LLC, Merola Sales Company, Inc., and a personal guaranty will be provided by Kevin Merola, whose personal net worth exceeds the amount of the loan.

**Job Information (at project site):**

**Existing:** 35 full-time **New Jobs Projected:** 10 full-time by three years after loan disbursement

**JDA Loan Amount per job:** \$66,600

## **Project Summary:**

Borrower: Mero Realty Inc.  
819 Williams Avenue  
Brooklyn, NY 11207

Contact: Kevin Merola, President & CEO  
Phone: 718-272-8600 x104  
Fax: 718-272-8666

This report concerns a proposed New York Job Development Authority (“JDA”) loan for the amount of \$3,000,000 (the “JDA Loan”). The \$3,000,000 loan (the “Real Estate Loan”) is to be used towards the acquisition of a facility located in Amityville, New York (the “Real Estate Project”). The total cost of the Real Estate Project is \$6,800,000 (the “Real Estate Project Cost”).

Project location: 115 Albany Avenue  
Amityville, NY 11701

Project Completion: 2nd Quarter 2014

## **1) PROJECT OVERVIEW AND RECOMMENDATION**

### **Background**

Merola Sales Company, Inc. (“Merola” or the “Company”) was founded 25 years ago by Kevin Merola, who continues as the President and sole shareholder. The Company is a wholesale distributor of ceramic tiles and marble slabs, which it imports from factories worldwide (Spain, Italy, Brazil, Turkey, and China). In addition, the Company sells grouts, adhesives, tools, and other supplies needed by contractors for the installation of tiles. The main warehouse and offices in Brooklyn service tile showrooms throughout the tri-state area, while the Somerset, NJ location (operated by Mr. Merola’s brother, but owned as a subsidiary company by Merola) fulfills orders for Home Depot stores throughout the country. The Company operates a fleet of leased trucks to complete the fulfillments to independently-owned showrooms that sell directly to consumers.

Merola services approximately 750 active customers. The top ten customers account for approximately 48% of sales, as follows: Home Depot, 35%; Overstock.com, 3%; Weisman Enterprises, 3%; Alure Home Improvements, 1%; Eastern Sunrise Tile, 1%; Mosaic Tile Co. of Fredricksburg, 1%; Chung Hua, 1%; Metropolitan Mosaic, 1%; Auction Outlet, 1%; and Wayfair LLC, 1%. The Company’s major competitors in the tri-state area are Maxsam Sales Inc., Powerline Imports Inc., and MS International, Inc.

Merola’s strengths include its customer service department, its professional sales force, and its ability to identify international tile sources and purchase fashionable, attractive and desirable tiles, at competitive prices. The Company participates in national and international tile shows, where the latest designs are displayed. Thus it is able to identify market trends early. During the last few years, Merola has been able to expand in

markets outside the New York Metropolitan area, such as Pennsylvania, Massachusetts, Ohio, Delaware, Maryland, and sixteen other states. It is expected that sales from these areas will continue to grow over the next few years.

In January of 2003, Merola received a \$525,000, 20-year JDA loan, and the Company has a flawless payment history as a JDA borrower. As the Company looks to expand into a larger location with better operating efficiencies, the owner has again reached out to JDA for financing.

### **Project Description**

In order for the Company to continue to grow, it seeks to occupy larger warehouse and distribution space (their current Brooklyn facility occupies 36,000 square feet). The Real Estate Project involves Merola's acquisition of a 112,000 square foot facility (the "Facility") in Amityville, Suffolk County for \$6.315 million, along with an additional \$485,000 in improvement costs. The new Facility consists of two adjoining buildings that will house the Company's 46,000 square foot warehouse, fulfillment, and office facility, along with 66,000 square feet that will continue to be leased to the existing tenant, Lambro Industries ("Lambro"), for \$4.50/sq. ft. (details of the lease agreement have already been settled). This rental income from Lambro will offset the debt service and costs of running the new Facility.

The overall capacity of the business will increase at the new Facility through the use of narrow aisle forklifts (enabling 20% more space for inventory) and better racking systems for ease of loading/unloading. Also, Merola will be going from 2 loading docks at their current location to 7 loading docks at the new Facility (a 250% capacity increase). Currently there are days when inbound trucks have to wait a few hours to be unloaded. It takes about two to three hours every day to load the trucks as they take turns backing up into the loading docks. This will be eased at the new Facility, with the additional loading docks and additional space for trucks to maneuver around (their current location is in a dense urban environment, the new Facility is in a more spread out suburban location). The Company leases and manages a fleet of seven trucks for deliveries in NY, NJ, PA, and CT. For deliveries outside the region, the Company currently contracts with outside companies. At the new Facility, the Company expects to expand its truck fleet and to be able to make all deliveries from Boston to Washington, DC using its own trucks.

The renovations that will be completed at the new Facility include a new 36,000 square foot roof, 5,000 square feet of renovated office space, the aforementioned new racking systems, a renovated HVAC system, and the installation of energy efficient lighting and heating for the warehouse. Merola has contracted the services of an architect who has worked with the Town of Babylon (where Amityville is located), and is familiar with Town building codes and the permitting process.

Merola will be selling its current Brooklyn location, 819 Williams Avenue, for an estimated \$4.7 million (anticipated net proceeds of \$3.8 million after paying off the remaining original JDA loan balance of \$278k, an Everbank mortgage of \$365k, and legal/commission fees of \$255k). The Company already has a buyer in the garment industry. The proceeds will be converted into equity for Merola's new building in Amityville, with the additional financing coming from a potential \$3 million JDA loan. ESD would be the only mortgage holder on the new property in Amityville.

Citibank, the Company's own working capital lender, originally offered to finance the acquisition at interest rates ranging around 4.2-4.6%, in spite of the fact that the Company will bring in a substantial amount of equity. However, Citibank has now balked because the project is considered an investment property (because Merola is occupying less than 50% of space), and is only willing to do the bridge financing for JDA take-out. For this reason, the Company is looking to the JDA to make the project possible.

In order to induce the Company to locate and grow jobs in the Town of Babylon, on the 25<sup>th</sup> day of March 2014, the Town of Babylon's IDA approved the granting of real property tax abatements, sales and use tax abatements, mortgage recording tax abatements, and if necessary, issuance of the Agency's Bonds.

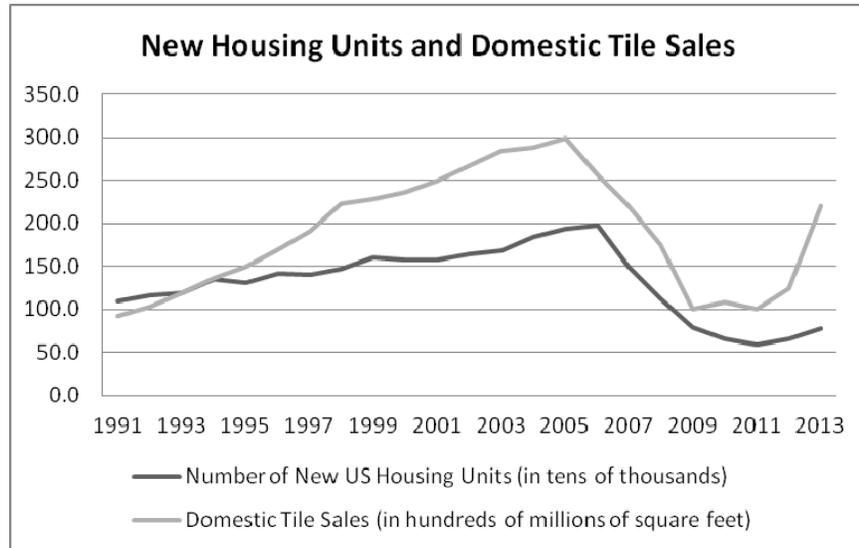
## **Market Analysis**

According to a 2013 market research study conducted by the Ceramic Tile and Stone Consultants, Inc.<sup>1</sup>:

US demand for decorative tile is forecast to rise 6.7 percent per year through 2017, reaching 3.2 billion square feet (in 2013 it stood at 2.3 billion square feet). The U.S. ceramic tile market has been recovering reflecting a rebound in the U.S. housing market, consumer's increasing preference for hard surface flooring, and the industry's ability to offer competitively-priced higher-end stone and wood looks. Ceramic tile's competitive position has improved as high cost European-based manufacturers moved production to their U.S. plants and sourcing increased from low cost suppliers in China and Mexico. Competitively-priced ceramic tile made inroads in the important residential replacement and remodeling market. This increased the importance of retail distribution and home improvement center channels took advantage of this situation by targeting the value-conscious and DIY markets.

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<sup>1</sup> [http://www.ctasc.com/Research\\_Reports/Ceramic\\_Tile\\_Report/](http://www.ctasc.com/Research_Reports/Ceramic_Tile_Report/)



Source: US Census & Ceramic Tile and Stone Consultants Tile Industry Trends Report

### Highlights

- Merola is financially strong with a history of being profitable with sales, EBITDA, and pre-tax profit all increasing over the 3-year historical period.
- Based on 2013 cash flow, Merola has the ability to repay the JDA loan with a projected Debt Service Coverage Ratio (“DSCR”) that meets JDA’s minimum standard of 1.20.
- Merola meets JDA’s loan-to-value requirement of 90%. ESD will be the only lienholder on the new Facility in Amityville, which will also have a tenant paying significant rent.
- With the project, Merola expects capacity to increase significantly from existing levels. Currently, the Company’s Brooklyn facility has two truck loading docks, while the new Amityville facility will have seven.

### Recommendation

The JDA Loan is recommended for approval based on the following:

- Merola’s sales and profitability have been increasing over the 3-year historical period and are expected to trend upward enabling it to pay back the JDA loan.
- If Merola successfully completes the proposed projects, Merola management projects that the Company will experience a substantial increase in total revenue and profitability. The increase in profitability will stem from efficiencies and heightened capacity at Merola’s new location, along with better access for the Company trucks to make deliveries of product.
- At the completion of this project, 35 full-time jobs will be retained and 10 new jobs will be created over three years.
- Based on the 1A+ rating, the Company currently generates sufficient cash flow from operations to service the debt, and staff believes there are adequate collateral and guarantees to mitigate the risks involved with the request. The Company is a current JDA borrower, and has a flawless payment history.

## 2) DESCRIPTION OF MEROLA SALES COMPANY, INC. AND THE PRINCIPAL

Borrower Name: Mero Realty Inc.  
Address: 819 Williams Avenue  
Brooklyn, NY 11207  
Phone Number: 718-272-8600 x104  
Ownership: 100 % Owned by Kevin Merola  
Nature of Business: Wholesale distributor of ceramic tiles, marble slabs, and related supplies needed by contractors for the installation of tiles.

## 3) COVENANTS AND CONDITIONS

This Loan is predicated upon the following financial conditions:

- Merola must obtain firm commitments satisfactory to JDA from responsible financial sources for the total project cost exclusive of any loan requested from JDA.
- Merola must provide an appraisal of the subject property that indicates a loan to value not to exceed 90% at the time of closing.
- Merola must maintain a minimum debt service coverage ratio of 1.20 throughout the term of the loan.
- Merola must meet all other standard JDA requirements as follows:
  - a. Completion of the Real Estate Project to the satisfaction of JDA, as evidenced by a certificate of occupancy and such other certification (including environmental approvals) required for the Facility to be used for the purposes intended.
  - b. Execution and delivery of the Note, the Security Agreement, the Mortgage and Loan and Use Agreement (furnished by JDA), and related documents by Merola, all satisfactory to JDA.
  - c. Procurement by Merola of funds which shall be used at or prior to the closing to pay the Real Estate Project Cost, exclusive of the proceeds of the Loan.
  - d. Receipt by JDA of policies of insurance, including flood insurance if required, in amount, form and substance and issued by companies satisfactory to JDA.
  - e. Receipt by JDA of an itemized statement of Real Estate Project Cost, satisfactory to JDA. (PLEASE BE ADVISED THAT, FOR ACQUISITION OF EXISTING BUILDINGS, THERE MUST BE SUFFICIENT ELIGIBLE BUILDING CONSTRUCTION REHABILITATION COSTS TO SATISFY THE REQUIREMENTS SET FORTH IN THE INTERNAL REVENUE CODE AS DETERMINED BY JDA'S BOND COUNSEL).
  - f. Receipt by JDA of financing documents of other lender(s) satisfactory to JDA.

- g. Satisfaction of such other conditions as JDA, with advice of counsel, deems necessary or advisable to effectuate the Loan, secure the interest of JDA and insure compliance with the JDA Statute and applicable provisions of the Internal Revenue Code.
- h. Execution of documents to permit monthly electronic debit of Merola's checking account to repay the Loan.
- i. Compliance with ADDITIONAL REQUIREMENTS stipulated in all Schedules, Exhibits and Riders, attached hereto and made a part hereof.
- j. Compliance with any other terms and conditions deemed to be necessary and appropriate in the opinion of the General Counsel of JDA.
- k. Merola or Merola's owners will contribute at least 10% in equity to the Real Estate Project. Equity is defined as any non-debt source of capital and should be auditable through Merola's financial statements or Merola's accounts, if so requested by JDA.
- l. Subordination of any loans to Merola from those certain officers and members of Merola stipulated herein in a manner satisfactory to JDA.
- m. Merola shall not enter into any agreement by which the terms of payment of any principal or interest under any other bank loan are waived, modified, deferred, delayed, increased or reduced in rate or amount, without the prior written consent of JDA.
- n. Collateralization of the Loan with insurance of the life of Kevin Merola in an amount sufficient to pay the outstanding principal balance of the Real Estate Loan at any time.
- o. All certifications and permits for the operating purposes of the Facility to be in full force and effect prior to closing the Loan.
- p. Subordination of any leases which may affect the Facility to the Mortgage.

#### **4) ENVIRONMENTAL REVIEW**

ESD staff on behalf of the JDA has determined that the project constitutes a Type II action as defined by the New York State Environmental Quality Review Act ("SEQRA") and the implementing regulations of the New York State Department of Environmental Conservation. No further environmental review is required in connection with the project. Due to the JDA's mortgage position on the loan, a Phase I Environmental Site Assessment must be submitted to the JDA for review and approval prior to closing on the loan.

**5) NON-DISCRIMINATION AND CONTRACTOR & SUPPLIER DIVERSITY**

Pursuant to New York State Executive Law Article 15-A, ESD's Non-Discrimination and Contractor & Supplier Diversity policies will apply to this Project. The Recipient shall be required to include minorities and women in any job opportunities created, to solicit and utilize Minority and Women Business Enterprise ("MWBES") for any contractual opportunities generated in connection with the Project and shall be required to use Good Faith Efforts (pursuant to 5 NYCRR §142.8) to achieve an Minority Business Enterprise goal of 25% and the Women Business Enterprise participation goal of 15%, related to the eligible categories totaling approximately \$500,000. As such, the total overall New York State Certified Minority and Women Business Enterprise participation requirement shall be no less than \$200,000.

**6) ADDITIONAL SUBMISSIONS TO MEMBERS**

New York State Map  
JDA Loan Underwriting Classification System  
Diagrams and Photos

June 26, 2014

Long Island (Long Island Region – Suffolk County) – Merola Sales Company, Inc. –  
Authorization to Act and Perform as LDC on JDA Real Estate Loan for the benefit of  
Merola Sales Company, Inc. and to Take Related Action

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RESOLVED, that the Chief Executive Officer of the Authority or his designee(s) be, and each of them hereby is, authorized to make a Special Purpose Fund Real Estate Loan to Statewide Local Development Corporation for the benefit of Merola Sales Company, Inc. for an amount not to exceed \$3,000,000 or 50% of the total real estate project cost, whichever is less, to be funded from the proceeds of New York State Guaranteed Special Purpose Fund bonds or notes, for the purposes and substantially on the terms and conditions set forth in the materials presented at this meeting, with such changes as the Chief Executive Officer of the Authority or his designee(s) may deem appropriate; and be it further

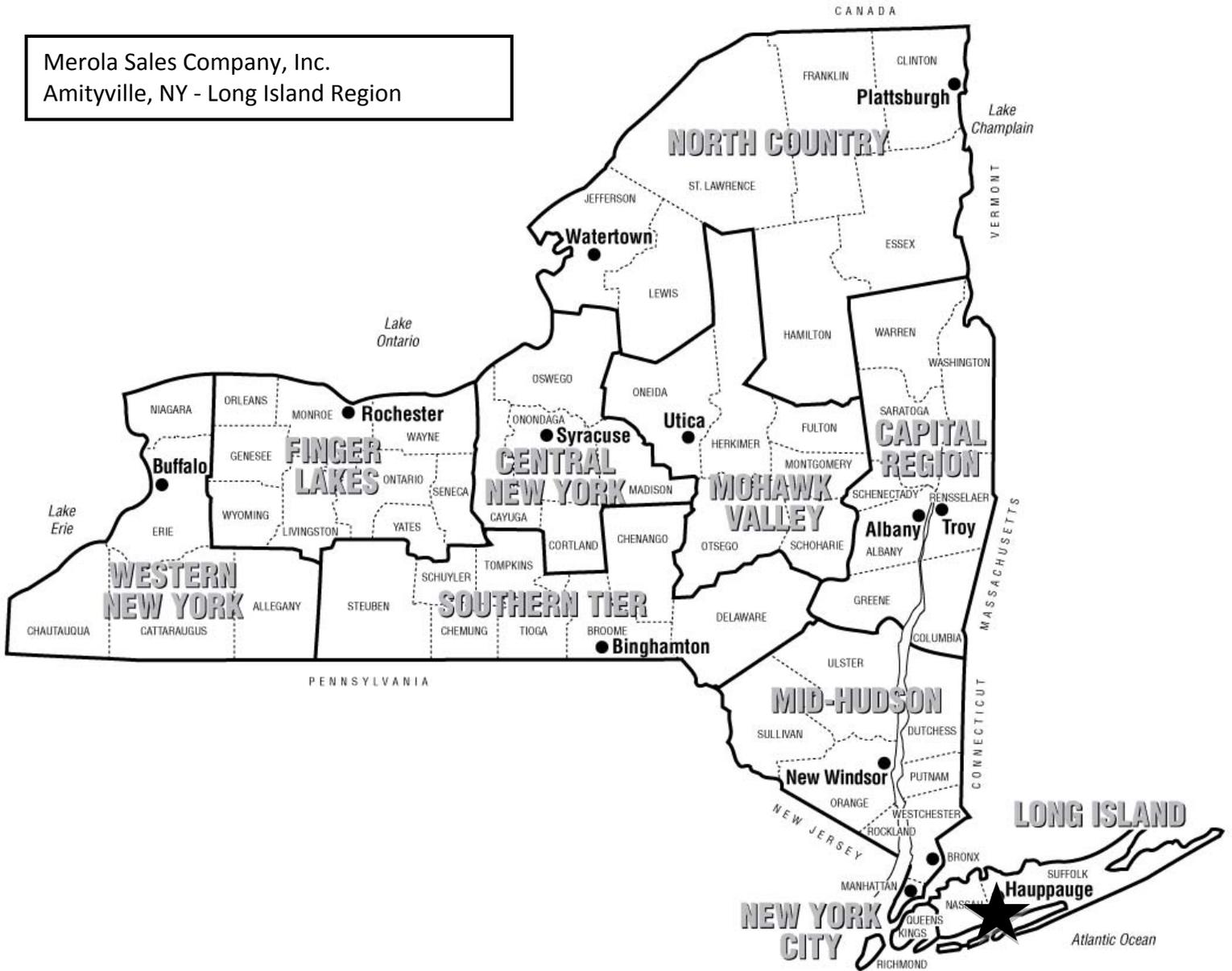
RESOLVED, that the Chief Executive Officer of the Authority or his designee(s) be, subsequent to the making of the Loans, and each of them hereby is, authorized to take such actions and make such modifications to the terms of the Loans as he or she may deem appropriate in the administration of the Loans; and be it further

RESOLVED, that the Chief Executive Officer of the Authority, or his designee(s) be, and each of them hereby is, authorized in the name and on behalf of the Authority to execute and deliver any and all documents and to take all actions as he or she may in his or her sole discretion consider to be necessary or proper to effectuate the foregoing resolutions; and be it further

RESOLVED, that the provision of financial assistance by the Authority is expressly contingent upon: (1) the approval of the Public Authorities Control Board, as applicable, and (2) the receipt of all other necessary approvals.

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Merola Sales Company, Inc.  
Amityville, NY - Long Island Region



**JDA Underwriting Classification Chart**

<b>Level I: Cash Flow</b>	<b>Level II: Default Risk</b>	<b>Level III: Collateral Value</b>
<b>I</b> Actual or Adjusted Debt Service Coverage $\geq$ 1.2:1	<b>A</b> Score of $\geq$ 4 on the Default Risk Model Low Risk	<b>+</b> Liquid value of collateral + adjusted value of personal guarantee $\geq$ total loan value
<b>II</b> Actual or Adjusted Debt Service Coverage $<$ 1.2:1, but with Projected Debt Service Coverage $\geq$ 1.2:1	<b>B</b> Score of 3 on the Default Risk Model Moderate Risk	<b>-</b> Liquid value of collateral+ adjusted value of personal guarantee $<$ total loan value
	<b>C</b> Score of $\leq$ 2 on the Default Risk Model Higher Risk	

**Current Location – 819 Williams Avenue, Brooklyn**

- 36,000 square feet - Difficult truck access
- Two truck loading docks (not for trailers) - No off-street parking



**New Location – 115 Albany Avenue & 20 Reed Place, Amityville, NY**

- 46,000 square feet (112,000 sq ft total, Lambro Industries leases remainder) - Seven truck loading docks and easy access
- Ample employee/ customer parking, overnight truck and trailer parking



Tile Showroom at Current Location



Tile Warehouse Space at Current Location – View #1



**Tile Warehouse Space at Current Location – View #2 (note uneven floor)**

