

FINAL AGRIFIRST GRANT REPORT

Goodness Greeness

**Feasibility Phase:
Organic Food Distribution Center**

*Supported by a grant from the AgriFIRST Program of the
Illinois Department of Agriculture*



JULY 2007

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Executive Summary

In June 2006 Goodness Greeness and the Illinois Department of Agriculture entered into the grant agreement that is the subject of this report.

Goodness Greeness was awarded an AgriFIRST grant in the amount of \$45,000 to help underwrite the feasibility phase of a project to develop an organic-food distribution center. These funds were awarded to cover part of the cost of consulting and productivity services related to

- Final design and cost estimates.
- Site selection, contractor selection, and contract development.
- Finalizing the business plan.

The feasibility work described in this report was undertaken from July 2006 through June 2007. A narrative is provided, which describes, month by month, key activities and accomplishments. Among those accomplishments were

- Early-stage final design work by a Chicago architect, in the form of updating the conceptual design and preliminary technical specifications and adapting them to high-potential properties.
- Engagement of a major industrial real-estate advisor to act as Buyer's Broker, following a formal Request for Proposal process.
- Screening, visiting, and rating of some 50 properties, leading to formal Requests for Proposal for the three most desirable sites and subsequent negotiations.
- A formal solicitation of Expressions of Interest from construction contractors.
- Research into forms of construction contracting.
- Meetings with potential lenders and arrangers, leading to completion of a project financing plan.
- Finalization of a Feasibility Phase Business Plan.

Notwithstanding much positive progress in developing the project during the feasibility phase, the owners of Goodness Greeness concluded that the project, as conceptualized, was not feasible. Specifically, changes in market conditions strongly suggested that it would not be prudent for Goodness Greeness to move to a larger facility at this time.

Goodness Greeness intends to remain at its current location for the foreseeable future.

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1.0 Project Narrative

The AgriFIRST grant awarded to Goodness Greeness was used to cover part of the cost of three feasibility-phase task groups:

- Final design and cost estimates.
- Site selection, contractor selection, and contract development.
- Finalizing the business plan.

Goodness Greeness self-funded the pre-feasibility phase of the project (e.g., pre-project report; conceptual design and preliminary cost estimate) as well as additional feasibility-phase work, for example:

- Arrangement of financing.
- Procurement of equipment and systems.

The following narrative includes references to all project-related work undertaken by Goodness Greeness since July 2006, whether supported by the grant or not.

July 2006

Overall project accomplishments in the first month included (1) the hiring of Amstadter Architects to execute a conceptual design and preliminary cost estimate, supporting both site selection and the Business Plan; (2) confirmation of the Business Plan outline; (3) initiation of the process of selecting a Buyer's Broker (i.e., an industrial real-estate advisor) to join the project team; and (4) initiation of correspondence and meetings with municipalities in possession of real estate.

A preliminary site profile was developed for use in early-stage discussions with real estate brokers and municipalities. The first interviews with potential Buyer's Brokers took place with Petelle Realty of Huntley, Illinois, and Colliers B&K of Rosemont, Illinois.

Correspondence was initiated with the Director of Economic Development of the Village of Hillside, and a meeting was held with the Greater Northwest Chicago Development Corporation.

In a meeting with LaSalle Bank, financing for the project was discussed.

August 2006

Project activity in August included (1) the completion by Amstadter Architects of a conceptual design and preliminary cost estimate; (2) several key meetings; (3) selection of a Buyer's Broker to support site selection; (4) initiation of visits to potential sites; and (5) solicitation of Expressions of Interest from potential construction contractors.

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Following completion of the conceptual design, the site profile for use in site selection was modified accordingly. Numerous potential sites were identified. Three sites from the City of Chicago's inventory were inspected, in the presence of city staff.

Paine/Wetzel was selected as Buyer's Broker following the evaluation of competitive proposals from the following companies:

- Colliers B&K.
- Petelle Realty, Ltd.
- Cawley Chicago Commercial Real Estate.
- Paine/Wetzel.

In August, we decided provisionally that we would use a design/build construction contract for the new distribution center. Under this approach the architect is employed by the construction contractor (although Goodness Greeness would select the architect). Selection of an architect/engineer (A/E), therefore, was postponed until a later stage in the project.

Key meetings in August related to project structuring, construction, financing, grants, and other incentives:

- City of Chicago, Department of Planning.
- Delta Institute.
- Fifth Third Bank.
- Illinois Department of Commerce and Community Affairs.
- The Alter Group.

September 2006

Project accomplishments during the month of September included (1) the formal presentation by Amstadter Architects to the owners of Goodness Greeness of the conceptual design and preliminary cost estimate; (2) several key meetings and teleconferences; (3) execution of the agreement with Paine/Wetzel, under which they would support the project as Buyer's Broker; (4) receipt of formal Expressions of Interest from six potential design/build contractors; and (5) a key strategy meeting between project manager WellSpring Management and the owners to Goodness Greeness on the subject of project financial structure and potential sources of financing.

The site-selection screening criteria were reviewed and modified at a meeting attended by Goodness Greeness, WellSpring Management, Amstadter Architects, and Paine/Wetzel.

A second meeting was held with the Department of Planning of the City of Chicago. Potential sites on the South Side of the city were discussed. Other key meetings (or

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teleconferences) related to project structuring, construction, financing, grants, and other incentives were held with

- LaSalle Bank.
- Fifth Third Bank.
- Illinois Department of Commerce and Community Affairs.
- Cohen Financial.
- Opus Corporation.

Expressions of Interest in the design/build construction contract were received from the following Illinois firms:

- Milord Company.
- Graycor.
- Alter Construction.
- FCL Builders.
- Opus Corporation.
- McShane Corporation.

October 2006

The main focus during the month of October was site selection. Paine/Wetzel provided information on around 50 available sites, including bare land, existing buildings, and buildings under construction or to be built. The project team pre-screened these and worked with Paine/Wetzel to plan two tours. Tour I covered Bedford Park, McCook, Bolingbrook, and Chicago. Tour II covered Bensenville, Northlake, and Glendale Heights. In all, 19 properties were seen in October, all in Illinois.

Of the 22 total sites inspected to that point, 18 were judged to be worthy of initial rating by the project team. The project team rated each site according to the following criteria:

- Location in relation to the target areas.
- Number of truck docks, if an existing building.
- Ceiling height, if an existing building.
- Site and/or building size.
- The ability of Goodness Greeness to be the sole tenant, if leased.
- Estimated cost of purchase or lease.
- Development risk (i.e., the commercial complexity of finalizing a deal).

Following a team meeting to review the ratings, several sites were eliminated from further consideration, leaving 9 sites for further consideration.

Based on properties inspected to that point, there appeared to be few suitable bare-land sites on the market. In contrast, there were many new, empty warehouses as well as warehouses planned or under construction, all of which were built or were to be built on

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speculation by developers. The challenge this presented was to determine how our conceptual design might be adapted to any particular developer's building or site. This situation was expected to add to the cost of site selection (e.g., extra management time plus the expense of having our architect adapt the conceptual design to high-potential buildings).

In October we began negotiating with Amstadter Architects to provide technical services to support site selection and for early-stage final design, equipment specification, and cost estimating.

Meetings and teleconferences related to development of the project occurred in October, including one with Teamwork Englewood, an organization that wanted Goodness Greeness to relocate close to its current location. We also completed the project's "profile" for the Illinois Department of Commerce and Economic Opportunity, a potential source of financial support.

November 2006

The main focus during the month of November continued to be site selection. Paine/Wetzel provided information on additional properties, including bare land, existing buildings, and buildings planned by developers. The project team pre-screened these and worked with Paine/Wetzel to plan a third tour. Tour III, undertaken in November, included properties in Chicago, Bolingbrook, and Woodridge. No further tours were anticipated at that point.

Of all the properties inspected to date, 14 remained under consideration. Following a presentation of site ratings to the owners of Goodness Greeness, it was agreed to issue formal Requests for Proposal (RFPs) to the owners/developers of five high-potential properties. These were in locations ranging from Chicago to the Southwest suburbs of the city.

In November, letters were sent to selected area municipalities requesting that we be advised of any properties they control that might be of interest to us.

Also in November, Goodness Greeness entered into an agreement with Amstadter Architects to provide technical services to support site selection and for early-stage final design, equipment specification, and cost estimating.

The project team met twice in November with the developer of a property owned by the City of Chicago. We discussed joining the developer in an exploratory meeting with city officials.

Also during the month, we conducted follow-up teleconferences and correspondence with the Illinois Department of Commerce and Economic Opportunity and the Delta Institute, potential sources of financial support.

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December 2006

The primary activity during the month was the development and release of RFPs for three of the five sites then actively under consideration. Released to targeted real-estate developers in December, each RFP package consisted of (1) an RFP letter from our brokers, Paine/Wetzel, outlining the terms and conditions under which the developer would prepare their proposal; (2) an architectural drawing, which was an adaptation by Amstadter Architects of our conceptual design to the actual site; and (3) a copy of updated specifications for the distribution center.

Also during December, we participated in an exploratory meeting with the City of Chicago concerning one of the sites for which an RFP was issued. This property, owned by the city, was the subject of a draft Redevelopment Agreement between the city and a developer.

January 2007

The main focus during the month of January was the evaluation of proposals from the owners/developers of the three sites that were the subjects of the first RFPs. We met with Paine/Wetzel to agree to evaluation procedures. By the end of the month the proposals had been evaluated as to completeness and consistency with our specifications; queries had been drafted; and Amstadter Architects had produced a slightly revised layout drawing for each site, reducing the dissimilarities among them.

Also during January, we had a project review meeting with the owners of Goodness Greeness; a project team meeting; and a follow-up meeting with the Delta Institute regarding possible financial support.

February 2007

Site selection and the arrangement of financing were the main activities in February. Follow-up queries were sent to the developers who had responded to RFPs. Their clarifications subsequently were received, and meetings were held with two of them. By the end of February the evaluation of proposals had been completed, and a recommendation to the owners of Goodness Greeness had been agreed within the project team (i.e., to request revised proposals from the developers).

In the course of evaluating the developers' proposals, the project team observed that the lease and purchase prices being offered were higher than anticipated.

Key meetings during the month of February:

- With Department of Planning of the City of Chicago to discuss Empowerment Zone (EZ) Bond financing and other financial incentives.

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- With the owners of Goodness Greeness to report on progress.
- With LaSalle Bank to discuss EZ Bonds.
- With Paine/Wetzel to confirm details of pricing received from developers.
- Team meeting to develop a recommendation to the owners of Goodness Greeness.

March 2007

Focal points during the month of March included (1) “value engineering” (i.e., changes in project concept to reduce costs); (2) requests for revised proposals from the developers of candidate sites; and (3) discussions with potential lenders and preparation of requests for financing.

The project team established several points of revision to building design, technical specifications, and scope of supply intended to reduce costs. These ideas were incorporated into formal requests for revised proposals from the developers of the three candidate properties that were the subjects of the RFP. By month’s end, one revised proposal has been received and a first negotiation meeting held. The other two proposals were forthcoming.

Key meetings during the month of March:

- With the owners of Goodness Greeness to review results of the RFPs.
- With Paine/Wetzel to discuss value engineering, target pricing, and how to obtain revised proposals from developers.
- With GE Capital to discuss financing for the project.
- Project team meeting to discuss procurement of equipment.
- First negotiation with one of the developers.
- With Cohen Financial to discuss financing for the project.

April 2007

In April, in response to some changing market conditions,¹ the owners of Goodness Greeness requested a reevaluation of the proposed building size (a “right sizing” evaluation). As a consequence, most feasibility-phase activity was suspended, including negotiations with developers, pending results of this evaluation.

The main focus during the month of April, therefore, was the right-sizing evaluation: planning, establishment of a methodology, gathering of information, analysis, reporting, and discussion. Results were written up and at month’s end were being reviewed by Goodness Greeness management.

¹ These changing markets conditions are discussed in greater detail in the Feasibility Phase Business Plan.

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Key meetings during the month of April:

- Follow-up meeting with GE Capital to discuss financing for the project.
- Meeting between the Project Manager and the General Manager of Goodness Greeness to plan the right-sizing evaluation.

May 2007

In May, results of the right-sizing evaluation were being reviewed by Goodness Greeness management. Most other project activity was on hold pending a management decision on right-sizing. No project meetings during the month, apart from internal discussions among Goodness Greeness management.

June 2007

In June, Goodness Greeness management suspended development of the project indefinitely. In effect, changing market conditions had determined the project not to be feasible at this time.

No project-related meetings with third parties during the month. There were, however, internal meetings involving Goodness Greeness management and one project management team meeting. The project team began to work on final reports.

2.0 Results and Economic Impact

2.1 Results

Listed below are the goals of the feasibility phase (grant phase) of the project, as stated in the AgriFIRST grant application, followed by brief summaries of results:

- Secure an option on the site where the distribution center will be built: At the time development activity was suspended, negotiations on three short-listed sites were under way.
- Obtain a final design, equipment specifications, and cost estimate from a qualified architect/engineer to facilitate development of a Business Plan: Moving toward finalization, our conceptual design and specifications were adapted to the three short-listed sites, and cost estimates were updated periodically, as new information became available.
- Develop a Business Plan to facilitate the arrangement of financing for the project: The Business Plan has been completed, taking into account the suspension of development activities.

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- Screen potential construction contractors and develop a construction contract: Contractors were screened by means of a formal Expression of Interest process. Contract-related research was completed, and standard contract forms were purchased from the American Institute of Architects. However, in the course of project development, the project team determined that the most likely approach to construction would be build-to-suit, under which the developer controlling the site on which the facility would be built would take full responsibility for the construction (i.e., Goodness Greeness would not be a party to the construction contract).

- Arrange financing for the project: At the time development activities were suspended, the project team had completed a project financing plan (with options for both purchase and lease) and had identified high-potential sources of financing. Numerous meetings took place with lenders and arrangers, project information was shared, and Goodness Greeness financial statements were provided in certain instances.

Notwithstanding many positive accomplishments during the feasibility phase of the project, the key result was negative; that is, the owners of Goodness Greeness concluded that the project, as conceptualized, was not feasible. Changes in market conditions led to the conclusion that it would not be prudent to move to a larger facility at this time.

2.2 Economic Impact

Had the proposed distribution center been built, several economic impacts were anticipated, for example:

- Enhancement of the value of Illinois Agricultural products through expanded warehousing and distribution capacity in the state.
- Increased employment at Goodness Greeness.
- Local multiplier effects: investment and employment near the new facility in restaurants, motels, filling stations, convenience stores, and other retail activity, with consequent local and state sales taxes.
- Addition to the tax base of the community in which the new facility is built.
- Increased sales and profit for Goodness Greeness.

The positive economic impacts of projects that do not progress past the feasibility phase tend to be concentrated in the consulting sector, which was the case in this instance (e.g., work for Goodness Greeness consultants WellSpring Management and Amstadter Architects).

From our experience in the development of capital projects, most do not make it all the way from concept to financial closing (i.e., the facilities do not get built). This is to emphasize the value of – and the inherent wisdom in – feasibility work. When, following

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proper feasibility analysis, a project is deemed not feasible, the positive economic impact is the avoided cost of a bad business decision.

The feasibility work undertaken here with the assistance of an AgriFIRST grant enabled Goodness Greeness to exercise good business judgment and avoid the negative consequences of moving ahead with a major capital project without adequate justification.