

RESOLUTION NO. 2018- 393

A RESOLUTION APPROVING THE USE OF SECOND GENERATION ENTERPRISE ZONE ASSISTANCE FUNDS FOR ECONOMIC DEVELOPMENT LOAN TO 1450 N. MAIN ROAD, LLC.

WHEREAS, the City of Vineland Revolving Loan Fund Second Generation Loan Committee has submitted a proposal dated August 28, 2018, for use of Second Generation Enterprise Zone Assistance Funds for the following project: Economic Development Loan to 1450 N. Main Road, LLC.; 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:

1450 N. Main Road, LLC	\$275,000.00
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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 Dept.
www.vinelandcity.org

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PO Box 1508
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Phone: (856) 794-4100
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MEMORANDUM



TO: City Council President and Members

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

SUBJECT: **Applicant:** 1450 N. Main Road, LLC
Loan Amount: \$275,000.00

DATE: August 28, 2018

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

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 Forsisky
Director of Economic Development

SF/fd

cc: Frank DiGiorgio
file



Special arrangements for persons with disabilities may be made if requested in advance by contacting the Business Administrator's office at 856-794-4144.

**VINELAND UEZ LOAN COMMITTEE
LOAN PROPOSAL**

Date: 07/11/2018

Borrower Name and Address (s): 1450 N. Main Road, LLC
1450 N. Main Road
Vineland, New Jersey 08360

Request: \$275,000.00 commercial term loan (\$205,000 is new money). Involves the restructure of existing UEZ loan and primary lender financing into one new loan.

Interest Rate: 5.50%, Fixed.

Term of Loan: 5/15 Years.

1. **Background:** Gary E. McClain (71 years of age), owns various real estate properties in Pennsylvania and New Jersey. He previously owned a landscape and construction company based in Clayton, New Jersey, where he employed 42 people in New Jersey and 5 people in Pennsylvania. The business was known as The Plant Place. He was in business since 1969. He sold the business in 2017.

John Polaha (47 years of age) was a resident of Vineland, New Jersey up until his marriage when he moved to Pennsylvania. He has operated his landscape business, JP Land Enterprises, LLC ("JP Land"), a single member limited liability company, for many years in Vineland, New Jersey. John Polaha is the son-in-law of Gary E. McClain.

Gary E. McClain and John Polaha formed a real estate holding company in 2007 known as 1450 N. Main Road, LLC to purchase the property located at 1450 N. Main Road, Vineland, N.J. Mr. McClain owns 60% and John Polaha owns 40%. Their real estate holding company leases the property to JP Land Enterprises, LLC, a landscaping company owned by John Polaha.

Messers. McClain and Polaha purchased the property for \$325,000 with financing from New Century Bank, a financial institution in Pennsylvania, along with the Vineland UEZ in 2007. In addition to the purchase, improvements were made to the property including an addition of a metal building (+1,750 sq. ft.). Total financing of \$265,000 from New Century Bank and \$125,000 from UEZ was disbursed.

The financing with New Century Financial has matured and will reprice. As a result, the terms, primarily the interest rate (8%) which will be charged is in excess of the Vineland UEZ loan rate. The loan is on interest only at this time. Messers. McClain and Polaha have requested consideration for the Vineland UEZ to be the primary and sole lender and to have the rate fixed and to re-amortize the proposed loan on a 15 year schedule. This will allow for improvement in cash flow via a reduced payment and provide the opportunity for consistent cash flow to assist in maintaining debt service payment. This will also place the Vineland UEZ Loan in first position.

1a. **Project:** Project involves restructuring the loans of an outside financial institution and an existing UEZ Loan. Below are the details.

		<u>Original Amount of Loans</u>
Existing New Century Bank financing	+-\$200,000	\$265,000
Existing UEZ financing	70,000	125,000
<u>Closing Costs</u>	<u>5,000</u>	
Total	\$275,000	

The restructured new loan of \$275,000 will consist of +-\$205,000 of "new money" as the UEZ portion is already outstanding.

2. **Collateral:** a.) First position mortgage lien on the real estate located at 1450 N. Main Road, Vineland, Cumberland County, New Jersey a/k/a Block 1801, Lot 72,
b.) Second position mortgage lien on the real estate located at 612 Brookside Avenue, Wayne, Delaware County, Radnor Township, Pennsylvania a/k/a Block _____, Lot _____,
c.) Assignment of rents and leases on properties referenced in a.) and b.),
d.) UCC-1 filing and security agreement (Cumberland County filing) on all business assets of 1450 N. Main Road, LLC.
e.) Hypothecation Agreement from John and Aimee Poloha for personal residence lien.
3. **Guarantors:** a.) Personal Guaranty of Gary E. McClain,
b.) Personal Guaranty of John P. Polaha.
4. **Lien Position:** First.
5. **Dollar Amount and Holder of Prior Liens:** N/A.
6. **Size of Parcel:** 1.5393 acres.
7. **Improvements Thereon:** A 2-story dwelling type structure that is used as an office. Other improvements consist of a +-1,750 sq. ft. metal building and site work for a landscape business operation.
8. **Location of Property:** 1450 N. Main Road, Vineland, Cumberland County, New Jersey a/k/a Block 1801, Lot 72.
9. **Property Valuation / LTV:** The City of Vineland has the property assessed at \$162,000 (land \$34,200 and improvements at \$127,000). Please note that the property was purchased at the top of the real estate market in 2007. As a result, the properties valuation will likely not achieve a 90% LTV. Somewhat mitigating this would be the fact that the UEZ will be in primary position on the property. The Borrowers and Guarantors have indicated their intention to maintain business operation and make payments even though the property valuation may not offset the amount of the loan. This writer believes the property could be valued at \$200,000. Land at \$35,000, and improvements at \$165,000 (house/office of \$100,000 and building at \$65,000). Mr. Poloha will pledge his personal residence (2nd mtg. to UEZ) with equity of +-\$75,000 - \$100,000.
10. **Financial:**

11. **Substantiation:** LTV = +-91%*, DSCR = 1.02x

***Includes residential equity.**

- Assist small business.
- UEZ improves collateral position to first.

12. **Recommendation:**