

RESOLUTION NO. 2019- 186

A RESOLUTION APPROVING THE USE OF SECOND GENERATION ENTERPRISE ZONE ASSISTANCE FUNDS FOR ECONOMIC DEVELOPMENT LOAN TO LEE RAIN (OR ITS ASSIGNS).

WHEREAS, the City of Vineland Revolving Loan Fund Second Generation Loan Committee has submitted a proposal dated April 30, 2019, for use of Second Generation Enterprise Zone Assistance Funds for the following project: Economic Development Loan to Lee Rain (or is assigns).; 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:

Lee Rain (or its assigns)                      \$1,700,000.00

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 Members

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

SUBJECT: **Applicant:** Lee Rain  
**Loan Amount:** \$1,700,000.00

DATE: April 30, 2019

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

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 Forosisky  
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:** February 26, 2019

**Borrower Name and Address (s):** Lee Rain

**Request:** \$1,700,000

**Interest Rate:** 5.75%

**Term of Loan: interest only 6 months  
20 year amortization thereafter**

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- 1. BACKGROUND:** Lee Rain is requesting a loan from the UEZ in the amount of \$1.7 million to take out four loans with M & T bank in excess of \$2.5 million plus accrued interest of over \$100,000. M & T has agreed to write off the balance of the loan since it has been in default for over a year. The company experienced losses in 2016 and 2017 for reasons they have explained below. The bank has also agreed to pay off the IRS lien in the amount of \$263,372.

**Mature Market Area** – For over 40 years the company has been covering the same geographic area. The amount of growth in the same area is limited.

**Internet/Ecommerce Business** – The ecommerce business model has taken away from the volume in supplies sales. The acceptance rate of doing business with their existing customer base has grown dramatically over the past 5 years. The company has subsequently rolled out an ecommerce site.

**The Economy** – The downturn in the economy during 2016 and 2017 in all 5 sectors of their business: grain growers, fruit growers, nurseries, vegetable growers and wastewater. These sectors have rebounded and 2018 was a much better year.

**M&T Bank Relationship** – The company lost its personal banking relationship manager and they did not have a personal relationship any longer to work through the difficult times. The bank also froze their line of credit.

The company also acknowledges that they did not make changes to the company as quickly and drastically as they should have to address what was happening. They have subsequently made drastic cuts in overhead, added an ecommerce site and have expanded into other geographic areas. Other improvements include taking on new equipment and adding a new Greenhouse/High Tunnel growing system. They also just received their first US patent on their monitoring technology.

- 1a. COMPETITION:** Locally, **Farm Rite** (a family business owned by Strang Family from Shiloh) – Shiloh, NJ, Hammonton, N.J, Long Island, NY. (not in wastewater business but sell tractors and irrigation materials where Lee Rain is involved in small equipment sales and irrigation systems parts etc.).

Other competition for irrigation is from catalog vendors such as Rain Flow in Pennsylvania and Shoemaker in Ohio, but they do not service. These online vendors do not assemble or provide service. Can only beat Lee Rain on price only on parts. There are specialized and e-commerce business which exist, but Lee Rain has launched an online store to address this area of commerce as well.

Lee Rain provides service from an “eye dropper to ocean” in terms of service – in terms of size of project – from small to large (others do not do as in depth as Lee Rain and they do not turn any size down). At this time, not really a competitor who is in all facets of their business locally.

**1b. BUSINESS CYCLE:** Seasonal and cyclical, but also weather driven. For example a wet year translates into less service revenue which is a higher margin profit business for Lee Rain. A dry year translates into more service. The economy impacts nursery and sod marketplace. Less purchases in nursery or sod due to economy or weather (impacts landscape contractors and consumer purchases etc.) translates into less revenue for companies like Lee Rain. Also impacts to developers via the wastewater requirements via legislation, although not as prevalent in New Jersey, could have a material impact (positive) on business as states and/or municipalities continue to enhance requirements for wastewater (tract development primarily) treatment, runoff etc.

There are also several irrigation regulations that landscape and irrigation contractors could and should be paying attention to. Legislation impacts could have positive consequences to vendors (e.g. required spending on materials and parts to address water efficiency and runoff etc.).

Potable water use for irrigation. As drought pops up in different areas, major strain is placed on water sources for different uses of water. This can effect municipal, **agriculture**, environment, landscaping and other industries. Because the majority of water used for landscape irrigation throughout the U.S. is potable water, **regulators will be looking to irrigation first for potential water savings.**

According to the Irrigation Association (“IA”), another issue is, scope of practice. Unfortunately, especially in states without a landscape irrigation license, other trades (plumbing, landscape architecture, etc.) attempt to define irrigation under their license. For example, in Illinois and Connecticut, the irrigation contractor license is administered by the respective state plumbing board. The IA believes that if irrigation contractors are licensed in a state, they should be governed by a board of their peers due to the technical aspects of irrigation.

Thirdly, is drought. States are beginning to realize that drought can hit at any moment and sustain for a long period of time. Therefore, drought plans are being drafted throughout various states. Though landscape irrigation water use is a “first line” of water savings, turning off access to water for landscape irrigation should be done only as a last resort.

Technology, efficiency improvements and proper management should be part of a sustainable long term plan. Technology is becoming more important and playing a role. Lee Rain has secured patents for software and data collection (uses algorithms etc.). Water management, using water more efficiently, properly managed irrigation enables farmers to use chemicals and fertilizers more effectively. The greatest deterrent to agriculture investment into new technology is the initial cost involved.

**1c. INDUSTRY AND MARKET ANALYSIS / INDUSTRY OUTLOOK:** The Irrigation Systems Industry is defined as very capital intensive. The infrastructure required to supply agriculture users and wastewater improvements with a reliable and sufficient water supply is large. Projects could include a series pumping stations, water treatment, system of pipes, parts and service and the amount of money to be spent is high. A large amount of capital must be invested to ensure that these system function properly, as the consequences of failure can be catastrophic to the user. This is a positive for companies like Lee Rain, however, as previously stated, the economy and weather drives the business fundamentals. The advancements in irrigation will provide higher quality water supplies leading to higher food security and higher food quality when adoption of technology takes place. Adoption of technology and conversion may lead to increased revenues for companies, but initiatives to introduce the technology in the forms of incentives may be necessary. The outlook remains stable with moderate growth expected in the irrigation side of the business.

The waste water business is a new and exciting business area for Lee Rain. For example - developers doing tract development (especially in Pennsylvania where Lee Rain has customers) are required to have a waste water treatment system for sewer treatment for residential development (every 30 houses or so). Subsequently, the developer turns over the system to local municipality or sewer authority. Lee Rain has been in this business sector for ten years – providing the system, installation and parts. However, this part of their business is economically sensitive and should improve with economic upswing. This area was hurt with the past economic downturn. Three years ago this sector of their business made up 20% of the total business before it slowed considerably and the economy turned negative. This should improve with uptick in economy.

Lee Rain recently was awarded a \$450,000 contract in the town of Hammonton to install an irrigation system for treated waste water. They are also now getting into the greenhouse/high tunnel growing systems. The company has also just received its first US patent on monitoring technology.

**1d. PROJECT:** Take out loans from M&T bank at discount to restructure debt.

**2. COLLATERAL:**

- a.) 1<sup>st</sup> mortgage 2079 W. Wheat Road, assessed for \$1,250,000
- b.) 1<sup>st</sup> mortgage 2137 E. Wheat Road, assessed for \$110,000
- c.) 1<sup>st</sup> position UCC filing on company Assets
- d.) Mortgage 2092 N. Main Rd. (Lirio Fiocchi)
- e.) Mortgage 1724 East Wheat Rd. (Lirio Fiocchi)

**3. GUARANTORS:**

- a.) Lee Fiocchi and wife
- b.) Todd Fiocchi and wife
- c.) Lirio Fiocchi Sr. and wife
- d.)

**4. LIEN POSITION:** 1<sup>st</sup> position; however, there is a federal tax Levi for \$232,000 in addition to the M&T loan which will be paid from the proceeds at settlement. Lirio Fiocchi has two rental properties that we may want to lien as well.

**5. DOLLAR AMOUNT AND HOLDER OF PRIOR LIENS:** Condition of loan is no prior liens.

**6. SIZE OF PARCEL:** 2079 E. Wheat Road – 3.5 acres; 2137 E. Wheat Road – 8.5 acres

**7. IMPROVEMENTS THEREON:** 26, 205 sq. ft. bldg. and 2 houses

**8. LOCATION OF PROPERTY:** Block 1905, lots 5 and 6

**9. APPRAISAL INFORMATION:** N/A

**10. FINANCIAL:** See Attached

**11. SUBSTANTIATION:** With additional collateral from Lirio Fiocchi, the loan has a LTV of less than 95% after discounting inventory substantially and using conservative market values for real estate. The DSCR is .99 if we amortize immediately; however, if we give them 6 months interest only, the DSCR is 1.13 and at 12 months interest only the DSCR goes to 1.2 and after the 12 months full amortization would have a 1.35 DSCR due to several loans being paid off.

The IRS lien will be paid from the loan proceeds and M & T will be writing off the balance of their debt after receiving payment from the UEZ in the amount of \$1.7 million less IRS debt.

**12. RECOMMENDATION:**