

RESOLUTION NO. 2014- 518

A RESOLUTION APPROVING THE USE OF **SECOND GENERATION ENTERPRISE ZONE ASSISTANCE FUNDS FOR ECONOMIC DEVELOPMENT LOAN TO GIORDANO'S VINELAND SCRAP MATERIAL, LLC.**

WHEREAS, the City of Vineland Revolving Loan Fund Second Generation Loan Committee has submitted a proposal dated November 25, 2014, for use of Second Generation Enterprise Zone Assistance Funds for the following project: **Economic Development Loan to Giordano's Vineland Scrap Material, 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  
Giordano's Vineland Scrap Material, LLC      \$2,500,000.00**

BE IT FURTHER RESOLVED that the Mayor is hereby authorized to execute all documents associated with this loan.

Adopted:

\_\_\_\_\_  
President of Council

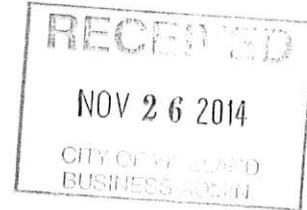
ATTEST:

\_\_\_\_\_  
City Clerk



Sandra Forosisky, Director  
Economic Development Dept.  
[www.vinelandcity.org](http://www.vinelandcity.org)  
email: [sforosisky@vineland.org](mailto:sforosisky@vineland.org)

640 E. Wood Street  
PO Box 1508  
Vineland, NJ 08362-1508  
Phone: (856) 794-4000 ext. 462  
Fax: (856) 405-4607



MEMORANDUM

TO: City Council President and Members

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

SUBJECT: **Applicant:** Giordano's Vineland Scrap Material, LLC  
**Loan Amount:** \$2,500,000.00

DATE: November 25, 2014

Dear Council President Fanucci, Councilmen Procopio, Spinelli, and Councilwomen Calakos and Gonzales:

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 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



VINELAND UEZ LOAN COMMITTEE  
LOAN PROPOSAL



**Date:** October 30, 2014

**Borrower Name and Address (s):** Giordano Vineland Scrap Material, LLC, et al.  
110 N. Mill Road  
Vineland, New Jersey 08360

**Request:** \$2,500,000 commercial term loan to assist a local company with restructuring. The loan will be accomplished via a purchase and participation of a loan with Capital Bank of NJ.

**Interest Rate:** 5.50%

**Term of Loan:** 20 Years

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**1.BACKGROUND:**

Giordano's Recycling (the "Company" or "Giordano's" or "Giordano's Recycling" or "GVSM") operates a recycling facility which recycles many types of material and provides recycling services to commercial, industrial, municipal and residential customers in four states. Over the past 30 years, the Company has established excellent domestic and international customer relations with numerous mills to which material is sold. These relationships are a vital factor for continued success in the fluctuating commodity markets in which they conduct business. The Company is also a solid waste hauling company which is a natural fit in servicing customers recycling needs.

Within the recycling facility there are several divisions that include non-ferrous metals, ferrous metals, wastepaper (high grades and low grades), cardboard and plastic. Giordano's Recycling also has a trucking division with 23 trucks (employs a team of mechanics) and owns approximately 400 containers and 100 trailers that service its numerous customer accounts. A brokerage Company, GIO International Trading Corporation (GIO), was formed as a separate legal entity in 2006 and operations were stepped up in the last quarter of 2008. Giordano's Recycling still handles some brokerage transactions but the majority of brokerage transactions are now handled through GIO. These entire divisions make Giordano's Recycling a unique entity in the recycling spectrum because the majority of recycling facilities are in either the wastepaper business, handling both wastepaper and cardboard or the scrap metal business, handling both ferrous and non-ferrous metals. This diversity allows the Company the ability to continue to generate revenues and profits when certain markets drop, as is the case over the past year or so as evidenced in the scrap metal industry. Giordano's Recycling has embarked on its second major expansion in the last eight years since the Company purchased and installed a new baler with new technology from IPS in 2002. This baler processed more than three times its predecessor baler processed when baling non-ferrous metals, cardboard, high/low grade wastepaper and plastic. This new baler and the implementation of computerized recycling software installed served as a springboard of significant growth with the Company. Net revenues in the year 2002 were \$4,078,834, hitting a high of \$30,540,000 combined net revenues in 2011. However, the companies sensitivity to the to the economic environment has resulted in revenues stabilizing in the +- \$18,000,000 range in 2013.

**Company History:** Joseph T. Giordano, Sr. had recycling in his blood as his father Rocco, recycled rags and anything else he could prior to and during the depression. In 1948, Joseph T. Giordano, Sr. purchased land on Mill Road and opened a scrap yard that has now grown into today's facility at Giordano's Recycling. The small independent scrap business was not the most lucrative business back then when the environment was less regulated as compared to today. Yet Joseph T. Giordano, Sr. managed to keep the yard open and provide for his wife and three children. All three children helped in the family business during their youth and his oldest son, Joseph T. Giordano, Jr., upon graduating college with a degree in education, decided to forego a career in education and joined his father in the family business as an equal partner over 30 years ago. With timely business decisions made and equipment purchased, the business continued to grow slowly. Joseph T. Giordano, Sr.'s

**1.BACKGROUND (continued):**

youngest child, son Brian, joined the family business over 20 years ago and eventually took control of Joseph Giordano Sr.'s share of the business. Since that time Joseph Giordano, Jr. and his brother, Brian Giordano, own all entities, land and operations equally. In 1986, the recycling Company installed its first automated baler (still in operation today) and over the years continued to add land, equipment and trucks to its operations. The Company suffered the loss of founder Joseph Giordano, Sr. in 1996. His sons continued to add to their father's legacy by expanding the operations. In 2001, the sons created two real estate holding entities that contain the facility property and residential rental properties (including a cellular telephone tower) on West Landis Avenue. At the same time the original partnership was merged into the legal entity it is today, Giordano Vineland Scrap Material, LLC (Giordano's Recycling). By 2002, employment grew to 17 employees just prior to installing an IPS Baler at the end of that same year. Since installing the IPS Baler the Company has experienced significant growth in revenues, purchased numerous machinery and equipment and has grown to a Company with over 70 full-time employees. All three of Joseph Giordano Jr.'s sons, now adults, joined the business over the last several years and actively serve in key positions of business operations.

**Key Personnel**

**Joseph T. Giordano, Jr.** is the Company Chief Executive Officer. He has spent the majority of his life in the recycling business. Joe implemented the marketing of material both domestically and internationally, creating very important business relationships over the past 34 years with mills and companies to which Giordano's et al. sells recycled material to, receives and processes materials by the company operations. Joe also assumed and managed the financial responsibilities of the Company. Joe continues to provide oversight on all aspects of the Company with his primary focus in marketing material and monitoring the fluctuating commodity pricing. Joe is well known and well respected throughout the recycling community and takes great pride in the business he helped create and takes pride in his children joining the family business and performing key roles within the Company.

**Brian Giordano** is the Company Chief Operating Officer who also spent the majority of his life in the recycling business. Brian manages the facility operations, which includes managing the majority of the Company employees. Brian also oversees the Company's fleet of vehicles, drivers and team of mechanics. Like his brother, Brian has performed many roles over the years in the Company, including the marketing of material. Brian has a passion for cutting edge technology and has led the charge in implementing innovative new systems and processes, the largest being the expansion that brought the IPS Baler (the first of its kind) and computerized recycling software. Brian provided his expertise on equipment technology and spent years of research on the equipment and layout design which is a dream he has shared with his brother which is now being realized.

**Nicholas Giordano** is the oldest son of Joe Giordano. Nick joined the Company full-time after graduating college with a Bachelors degree. Nick took over the marketing of wastepaper and cardboard and passed that on to take over the marketing of ferrous and non-ferrous metals. Nick travels to various mills domestically and internationally to strengthen business relationships and also attends most industry related conventions. Nick manages current market commodity positions and analyzes this information to provide the necessary and valuable information in setting pricing for purchasing of material. Nick serves as the Vice-President of the New Jersey chapter of ISRI (Institute of Scrap Recycling Industries) and is well known and well respected in the ferrous and non-ferrous industries.

**Brad Giordano** is the middle son of Joe Giordano. After spending some time in college Brad decided to join the Company full-time and jumped into a role in sales. Brad spearheaded the wastepaper sales and in particular grew the high grade wastepaper division of the Company. With the acquisition of former 84 Lumber Building which has full rail access, Brad can focus on new business relationships that he has shied away previously from because of facility limitations.

**1.BACKGROUND (continued):**

**Matt Giordano** is the youngest son of Joe Giordano. Matt came to the Company full-time upon graduation of high school and now oversees the marketing of the wastepaper and cardboard divisions. Matt is in constant contact with the paper mills domestically and internationally to monitor pricing, which is vital in setting the prices paid for material. Matt also manages the Company inventory that he markets to the various mills around the world.

Leo Pound of Pound Consulting, a business consulting firm committed to assisting businesses in transition, has been active at the company over the past year to assist the Company with navigating debt restructuring as well as assisting the company with operational efficiencies. “We are not here to liquidate companies. We have a moral and ethical obligation to our clients to protect them and their families,” says Leo Pound, who personally proposes, leads and closes each assignment. Pound Consulting’s team are all former senior executives, bringing over 25 years experience to every project. Each member of the team has lead a successful career at family-owned, private equity funded and public companies from \$5 million to \$500 million in annual revenue. According to Mr. Pound, “The value Pound Consulting Inc. brings to the table is measurable”. Mr. Pound has already identified and made several adjustments to inventory and operations of Giordano’s Recycling.

The Company hired Mr. Pound over one year ago and he has been instrumental in providing guidance on efficiencies and inventory adjustment. Mr. Pound and the Company are currently negotiating the Company’s debt structure with lender Citizens Bank (this area is further addressed in other sections of this proposal) which comprise the purpose of this request.

**1a. COMPETITION:** Competitors include Cumberland Recycling in Vineland and American Scrap in Egg Harbor City, NJ. In addition, smaller players such as Landis Recycling on East Landis compete albeit on a much smaller scale.

**1b. INDUSTRY AND MARKET ANALYSIS / INDUSTRY OUTLOOK:**

The recycling facilities industry, or businesses selling recycled commodities and finished goods, has grown at an annual rate of 3.3 percent in the past five years, according to a new study conducted IBIS World.

“Although the recession reduced consumer demand for products in general, demand for products manufactured with recycled goods has risen overall during the past five years due to shifts in consumer preference toward products that are perceived as environmentally friendly,” said Deonta Smith, industry analyst for Santa Monica, Calif.-based market research firm IBISWorld. Because of that, the report states, recycled product makers have demanded more recycled commodities from wholesalers, aiding demand for recycling facilities in turn. Prices for recycled commodities slumped during the recession but have since rebounded. The report concludes that consumers will increasingly demand recycled products in the next five years. The recycling world continues to rebound from the crash caused by the Great Recession. According to the Washington, D.C. based Institute of Scrap Recycling Industries (ISRI), the combined tonnages of iron, steel, paper, aluminum, copper, lead, zinc and electronics.

However, the same cannot be said for the paper markets. According to the American Forest & Paper Association, volumes of old corrugated container (OCC) fiber have risen, as have office grade paper volumes. Mixed paper volumes have been, appropriately, mixed. Office grade is up while old newspaper pulp (ONP) is down. Nevertheless, prices are up across all grades.

What happened to mixed paper volumes? In 2009, U.S. mills exported 7.6 million tons of mixed paper. That number plummeted to 4.9 million tons in 2010, with most of the drop in exports to China. “I think a

**1b. INDUSTRY AND MARKET ANALYSIS / INDUSTRY OUTLOOK (CONTINUED):**

lot of that was related to low quality,” says Bill Moore, president of Atlanta-based Moore & Associates. “A lot of fiber is contaminated by plastics, glass and metals.”

The high levels of contamination are likely associated with single stream recycling.

The ONP story is even worse. Tonnage has fallen steadily in recent years. In 2009, U.S. paper mills produced 6.6 million tons of ONP for export and domestic use. Last year, a decline in exports and a slight rise in domestic use led to an overall decline in ONP tonnage to 6.5 million tons.

ONP tonnage continues to fall. Despite the mixed performance on the supply side, prices have, somewhat surprisingly, surged across the board. The component of high-grade deinking office paper is called “sorted office paper”. That category pricing has also increased.

Despite the dwindling demand for ONP, prices have strengthened. As paper mills close, Moore explains, ONP demand is outstripping supplies, driving the price increases.

“Overall, the health of the domestic paper industry is not real good today,” says Moore. “I think we’re going to see more of the same: supply constraints making markets appear strong, with China continuing to build new mills for recycled fiber and putting more upward pressure on prices.”

**1d. PROJECT:**

The request involves consideration from the UEZ Loan Program to participate in the restructuring of the Company’s debt with a new institution (the specific breakdown is further addressed below and in this Loan Proposal - Financial Section). The Company and its lender, Citizens Bank, through lengthy negotiation process, have arrived at an agreement to allow for a discounted payoff on the loans with Citizens Bank, which in turn will allow for the company to restructure all debt which will improve / enhance the company’s operations in Vineland and provide future stability and growth. The Company has received a commitment from Capital Bank of New Jersey to fund a \$5,000,000 million dollar commitment where \$4,500,000 will be used to assume all commercial loans held by Citizens Bank that presently total \$5,500,000 million (which includes principal, accrued interest, a swap termination fee, and other fees etc.). The remaining \$500,000 will fund a special purpose deposit account to be held at Capital Bank of New Jersey. The Citizen Bank loans will be completed as a discounted loan purchase by Capital Bank of New Jersey with the Vineland UEZ purchasing a participation thereafter. Debt associated with The First National Bank of Elmer will be subordinate.

**2. COLLATERAL AND LOCATION OF COLLATERAL:**

- a.) 2<sup>nd</sup> position Mortgage Lien on the property located at:
  - 2046-2070 W. Landis Avenue, Vineland, Cumberland County, NJ, Block 2605, Lot 7 & 8,
  - 1950 W. Landis Avenue, Vineland, Cumberland County, NJ, Block 2605, Lot 10,
  - 110 N. Mill Road, Vineland, Cumberland County, NJ, Block 2605, Lot 12,
  - 119 N. Mill Road, Vineland, Cumberland County, NJ, Block 2708, Lot 22,
  - 149 N. Mill Road, Vineland, Cumberland County, NJ, Block 2708, Lot 23,
  - 586 S. Mill Road, Vineland, Cumberland County, NJ, Block 3402, Lot 40,
  - 624 S. Mill Road, Vineland, Cumberland County, NJ, Block 3402, Lot 41.
- b.) Assignment of Rents and Leases for all properties mentioned in item a.), above.
- c.) A subordinate perfected UCC -1 Security Interest in all accounts receivable, inventory, machinery, equipment, furniture, fixtures and all business assets, tangible and/or intangible, now owned and hereafter acquired of the Borrower and Guarantors.
- d.) Assignment in subordinate position to Capital Bank of NJ, the specific assignment of business interruption insurance and insurance associated with the accounts receivable, if applicable.
- e.) Assignment of Life Insurance on Joseph T. Giordano, Jr. and Brian Giordano, \$1,000,000 each.
- f.) All customary, standard and required UEZ conditions typical to settle loan.
- g.) Hypothecation Agreements, if applicable.

### **3. Environmental Matters:**

- a.) UEZ will accept the Borrower's existing Preliminary Site Assessment Report prepared in 2010 on the properties located at 110 N. Mill Road, Vineland, NJ and 1050 W. Landis Avenue, Vineland, NJ.
- b.) UEZ will require receipt of a new Preliminary Site Assessment Report or Phase 1 on the property located at 2046-2070 W. Landis Avenue, Vineland, NJ.
- c.) UEZ will require receipt of detailed environmental questionnaires on all other collateral properties, recent inspections, proof of no outstanding environmental claims, and verification that all on-going compliance is being satisfied.
- d.)

#### **Notes:**

We are in receipt of a Preliminary Site Assessment from 2010 on the borrower's operating facility. We will require a new Preliminary Site Assessment or Phase I report on the borrower's storage facility (the former 84 Lumber location). For all other properties, detailed environmental questionnaires will be conditioned.

The 2010 report on the borrower's operating facility analyzed 16 areas, including but not limited to the property's operations, neighboring properties, historical review, underground and above ground storage tanks, chemical and hazardous materials, waste generation and disposal, asbestos containing materials, radon, and water testing.

No further action was recommended in 12 of these 16 areas. The following items were recommended:

- A neighboring property is listed as an "active" site on several environmental databases. A file review of this property was recommended (estimated cost of \$1,500)
- Fuel containers were recommended to be move to another location (no estimated cost)
- Cleaning of two balers was recommended (estimated cost of \$350)
- Due to the age of one of the property's office buildings (a converted residence), an "Asbestos Containing Materials Plan" and a "Lead-Based Paint Plan" were recommended (estimated cost of \$1,000)

The recommended remediation costs totaled less than \$3,000, considered more than acceptable given the nature of borrower's operations. The account officer will follow-up with the borrower to determine if these recommended items were completed.

The Borrower also indicated that all of its properties were recently inspected by the Department of Environmental Protection this past August. No items were cited. We will require receipt of these inspections, along with proof that there are no outstanding environmental claims. (The account officer also checked the Department of Environmental Protection's Data Miner database, and could not find any open cases associated with the borrower's primary collateral property.)

Although it appears the environmental condition of our proposed collateral is acceptable (pending additional due diligence), GVSM's operations at these locations pose on-going environmental risks.

It is highly unlikely that any of these properties could be sold for any other use besides a recycling operation. This is mitigated by the belief that the business would be marketable, based upon its high barriers to entry, including its ownership of a Class A recycling license, and its established nature and existing infrastructure. (For additional industry information, please refer to the Industry Analysis section.)

### **4. GUARANTORS:**

- a.) Joseph Giordano
- b.) Brian Giordano
- c.) Other entities owned and associated with the Borrower/Company

### **5. LIEN POSITION: Second.**

### **6. DOLLAR AMOUNT AND HOLDER OF PRIOR LIENS: Capital Bank of New Jersey, \$2,500,000.00.**

**7. SIZE OF PARCEL AND IMPROVEMENTS THEREON:**

- 2046-2070 W. Landis Avenue, Vineland, Cumberland County, NJ, Block 2605, Lot 7 & 8:  
9.44 acres of land improved with 20,000 sq. ft. industrial building in average condition.
- 1950 W. Landis Avenue, Vineland, Cumberland County, NJ, Block 2605, Lot 10:  
1.39 acres of land improved with 1,250 sq. ft. office in average condition and cell phone tower.
- 110 N. Mill Road, Vineland, Cumberland County, NJ, Block 2605, Lot 12:  
8.27 acres of land improved with a 19,200 sq. ft. industrial building in average condition.
- 119 N. Mill Road, Vineland, Cumberland County, NJ, Block 2708, Lot 22:  
0.38 acres of land improved with a single family residence in poor condition.
- 149 N. Mill Road, Vineland, Cumberland County, NJ, Block 2708, Lot 23:  
0.20 acres of land improved with a 900 sq. ft. garage in poor condition.
- 586 S. Mill Road, Vineland, Cumberland County, NJ, Block 3402, Lot 40:  
5.05 acres of land improved with an 1,176 sq. ft. office and a 2,250 sq. ft. garage in average condition.
- 624 S. Mill Road, Vineland, Cumberland County, NJ, Block 3402, Lot 41.  
4.76 acres of land improved with 902 sq. ft. single family dwelling in below average condition.

**Notes:**

**2046-2070 Landis Ave.** is the location of a former 84 Lumber business, which is now being used for the Company’s material storage (e.g. paper).

**110 N. Mill Rd.** is the company’s primary operating facility. In addition to the industrial building, the property is also improved with an office and garage/storage building. This location is serviced by rail.

The two properties on **S. Mill Rd.** are used for truck storage and repairs, and maintain significant amounts of acreage for future expansion (per the borrower).

The collateral properties total 30 acres with nearly 46,000 sq. ft. of improvements.

**8. APPRAISAL INFORMATION /COLLATERAL ANALYSIS:**

<u>Property Location or Asset Classification</u>	<u>Value</u>	
<b><u>Real Estate</u></b>		
2046-2070 W. Landis Avenue	\$1,525,000	
1950 W. Landis Avenue	860,000	<u>Proposed Loan Amounts</u>
110 N. Mill Road	1,590,000	Capital Bank Loan \$2,500,000
119 N. Mill Road	50,000	<u>UEZ Loan</u> <u>2,500,000</u>
149 N. Mill Road	40,000	Total Loans            \$5,000,000
586 S. Mill Road	430,000	
<u>624 S. Mill Road</u>	<u>225,000</u>	
<b>Total Real Estate Value</b>	<b>\$4,720,000</b>	<b><u>Collateral Value at 60% - \$5,659,000</u></b>
<b>Machinery and Equipment (appraisals)</b>	<b>\$2,947,000</b>	<b>LTV = 88%</b>
<b>Inventory (at cost)</b>	<b>404,000</b>	
<b><u>Accounts Receivable (0 – 90 days)</u></b>	<b><u>1,357,000</u></b>	
<b>Total Other Collateral</b>	<b>\$4,708,000</b>	
<b>Total All and Combined Values</b>	<b>\$9,428,000</b>	

**9. FINANCIAL:**

**10. SUBSTANTIATION:** DSCR = 1.27x historical, DSCR 2014 Annualized = 1.61x, LTV = 88%.

- Preservation and maintain jobs. Company employs +-60 people.
- Assist local business.

**11. RECOMMENDATION:**