

REQUEST FOR APPROVAL

To: **Howard Levenson**
Deputy Director, Materials Management and Local Assistance Division

From: **Shirley Willd-Wagner**
Branch Chief, Financial Resources Management Branch

Request Date: January 18, 2011

Decision Subject: Approval of a Recycling Market Development Zone Loan for Princess Paper, Inc.
(Recycling Market Development Revolving Loan Subaccount, Fiscal Year 2010/11)

Action By: January 28, 2011

Summary of Request:

This memo requests approval of a Recycling Market Development Zone (RMDZ) loan to Princess Paper, Inc. located in Vernon, California (Los Angeles County RMDZ). Princess Paper is a secondary processor/paper converter producing a variety of tissue and towel products from post consumer and post industrial recycled paper. Princess Paper plans to utilize loan funds to upgrade their current paper napkin production capacity by installing a third paper napkin production line. This loan project meets the required eligibility criteria established in September 2008 to receive loan funding. The loan application was considered and approved by the Loan Committee on December 16, 2010. If approved by the Deputy Director, this loan will be funded from the Recycling Market Development Revolving Loan Subaccount, Fiscal Year 2010/11.

Recommendation:

Staff recommends approval of this RMDZ loan, subject to the conditions and directions specified below in "Deputy Director Action." This project is expected to further increase both local and regional diversion efforts, as well as increase employment and local revenues.

Deputy Director Action:

On the basis of the information and analysis in this Request for Approval and the findings set out herein, I hereby approve the following Recycling Market Development Zone loan in the original principal amount shown next to the Borrower's name, subject to all terms and conditions contained in the loan agreement to be prepared by loan program staff in accordance with applicable regulations, and on such other terms and conditions as duly authorized staff in their sole discretion deems necessary or advisable:

Princess Paper, Inc.....\$150,750

I further direct staff to conduct all acts necessary to fund this loan, including but not limited to the preparation and execution of the loan agreement and other loan documents.

Dated: _____

Howard Levenson
Deputy Director, Materials Management and Local Assistance Division

Proposed Loan Project

Princess Paper, Inc. is requesting a loan totaling \$150,750 from the Recycling Market Development Zone Loan Program (RMDZ loan). Princess Paper plans to upgrade their current paper napkin production capacity by installing a third paper napkin production line at its Vernon facility. The proposed RMDZ loan will be used to purchase equipment; cover installation costs and the loan fee. The proposed equipment will enable Princess Paper to convert big jumbo paper rolls made from post consumer feedstock into a consumer usable 13 inch by 10 inch size paper napkin product.

This is the fourth RMDZ loan application submitted by Princess Paper. Other loans approved by CalRecycle are as follows:

- o 1998 – A loan of \$375,000 was made to the company to purchase equipment.
- o 2000 – A loan of \$700,000 was made and allowed the company to increase the annual diversion from 900 tons to 1,000 tons. Loan funds were used to purchase equipment and for working capital.
- o 2006 – A third RMDZ loan of \$2,000,000 enabled the company to expand to a larger facility. Loan funds were used to purchase commercial property, equipment and make site improvements.

The company has an excellent loan payment history. The first two loans were sold to Capital Crossing/Aurora Bank in 2004 and were paid off per schedule.

In their responses to CalRecycle’s annual diversion survey, Princess Paper reported 4,522 tons for 2009. As a result of the proposed loan, Princess Paper plans to divert approximately 4,900 tons annually and create up to four new jobs in the Los Angeles County region.

Diversion Volumes	Current	Projected Increase	Total
Tons per Year	4,500	450	4,950
Jobs Created	35	4	39

Loan Program and Project Eligibility

The purpose of the RMDZ Loan Program is to provide low-interest loans to private businesses and not-for-profit organizations to increase diversion of non-hazardous solid waste from California landfills and to promote market demand for secondary and postconsumer materials. Funding for the Loan Program is authorized by Statute in Public Resources Code, Section 42023.1.

In accordance with established procedures, all loan applications are reviewed and evaluated to ensure that the project meets current eligibility and underwriting criteria and has obtained required permits as determined by CalRecycle permit staff. The Loan Committee then considers the fiscal soundness and terms of the proposed loan and recommends that the loan request be either approved or declined. Upon conclusion of this process and Loan Committee approval recommendation, CalRecycle senior management staff reviews the loan request and determines whether to make a commitment to approve and fund the loan.

Project Eligibility Criteria for the RMDZ Loan Program were approved in September 2008. Staff reviewed the application and determined it is consistent with the established criteria.

Interdivisional Reviews were performed by various entities within CalRecycle. Their findings are indicated below:

- The Budgets Office confirmed there are sufficient monies allocated for Fiscal Year 2010/2011 to fully fund this loan.

Fund Source	Amount Available*	Amount to Fund Item	Amount Remaining	Line Item
RMDZ Loan Sub Account, FY 2010/11	\$1,167,500	\$150,750	\$1,016,750	Direct Loan

*Estimated

- Legal Counsel for the RMDZ Loan Program was involved in staff discussions evaluating the merits and eligibility of the loan project prior to the Loan Committee meeting. Legal Counsel is not aware of any significant legal issues related to this loan.
- Staff from the Permitting and LEA Support Division has reviewed the project and determined that the project does not require a Solid Waste Facilities Permit.
- Staff from the Local Assistance and Market Development Division has reviewed the project and determined that the post consumer or post industrial paper feedstock is currently landfilled, sold out of state or recycled. Staff reported that although California has no large paper recycling facilities that bleach or pulp paper, primary processors located out of state receive their feedstock from California. The 2008 state Waste Characterization Study Report by Cascadia Consulting Group (funded by CalRecycle) disclosed that California disposes approximately 6.8 million tons of paper waste annually in California landfills.
- Staff from Statewide Technical and Analytical Resources Division has reviewed the project and determined that the equipment to be purchased with loan funds is standard equipment for this type of project.

The **Loan Committee** met on December 16, 2010 and recommended this loan be approved for funding.

Applicant Profile

Princess Paper, Inc. headquartered in Vernon, CA. is a 12-year old paper converter/manufacturer specializing in the secondary use of post consumer and post industrial recycled paper. The company is operated by its current owner, Abraham Hakimi, who has been with Princess Paper since 1998.

The company operates two divisions, the Retail Division and the Industrial Division. Products from the Retail Division include bathroom tissue, luncheon napkins and kitchen paper towels. These products are meant for home use and sold to major supermarkets, dollar retail stores, drug store chains, etc. In early 2000, Princess Paper started its Industrial/Food Service Division, specifically to service janitorial, healthcare, restaurant suppliers, private label and food service distribution businesses. This division produces jumbo bathroom tissue rolls, hard wound towels, folded napkin products, dinner napkin and dispenser napkins. Sales territories are California, Arizona, Nevada, Texas, Colorado, New Mexico, Utah as well as Canada.

Summary

This project will assist in the implementation of CalRecycle's Strategic Directive Number 6 by providing an RMDZ loan to assist in the development of viable, sustainable markets to divert materials from landfills. This loan will also result in residual benefits to stakeholders and the State:

- The Zone Administrator for the Los Angeles County RMDZ supports this project as it has the potential to increase local landfill diversion, retain 35 jobs and create four more jobs in the Los Angeles County region.
- This project will process 4,900 tons per year of paper and will contribute to the diversion of post consumer and post industrial paper waste from the local waste stream and will assist the Los Angeles County RMDZ to comply with the 50% disposal reduction mandate under the Integrated Waste Management Act, Assembly Bill 939.