

REQUEST FOR APPROVAL

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

From: Shirley-Wildd Wagner
Branch Chief, Financial Resources Management Branch

Request Date: July 5, 2012

Decision Subject: Recycling Market Development Zone Loan for Clean World Partners (Recycling Market Development Revolving Loan Subaccount, FY 2012/13)

Action By: July 12, 2012

Summary of Request: Staff requests approval of a Recycling Market Development Zone (RMDZ) loan for \$2,000,000 to Clean World Partners, LLC. Staff recommends that \$1,000,000 be disbursed at loan inception to fund necessary equipment. The remaining \$1,000,000 will be disbursed after the company has obtained all final operating permits and completed six months of successful and full operation. The recommendation and business background are more fully described in the Application Review and Applicant Profile sections.

Recommendation: Staff recommends approval of a RMDZ loan to Clean World Partners, LLC for \$2,000,000.

Fund Source: RMDZ Loan Subaccount	Amount Available	Amount to Fund Item	Amount Remaining	Line Item
FY 2012/13	\$5,000,000	\$2,000,000	\$3,000,000	Direct Loan

Deputy Director Action: On the basis of the information and analysis in this Request for Approval and the findings set out herein, I hereby conditionally approve a Recycling Market Development Zone loan to Clean World Partners, LLC for \$2,000,000.

The approval is subject to:

- The return by the proposed Borrowers of a signed Loan Commitment Letter within thirty (30) days of the date of the Commitment Letter.
- All terms and conditions contained in the Loan Agreement and other loan documents to be prepared by loan program staff in accordance with applicable regulations, and such other terms and conditions as duly authorized staff in their sole discretion deem necessary or advisable.
- Confirmation that Clean World Partners, LLC has \$2,000,000 available to pay for phase one costs of the project, of which \$1,000,000 may be from a short-term loan.

I further direct staff to conduct all acts necessary to fund these loans, including but not necessarily limited to the preparation and execution of the Loan Agreement and other loan documents.

Dated: 7/12/12


Howard Levenson
Deputy Director, Materials Management and Local Assistance Division

Background and Findings

Statutory Authority

The Recycling Market Development Zone (RMDZ) Program was established by Senate Bill 1322 (Bergeson, Statutes of 1989, Chapter 1096) and codified in Public Resources Code sections 42010-42024. Program regulations are found in Title 14 of California Code of Regulations, sections 17901-17939.5. Public Resources Code (PRC) Section 42023.1 (f) authorizes the Department of Resources Recycling and Recovery (CalRecycle) to approve RMDZ loans to eligible businesses and not-for-profit organizations located in designated zones.

Program Background

CalRecycle administers the RMDZ Revolving Loan Program to encourage California-based recycling businesses located within designated zones to site new manufacturing facilities, expand existing operations and processing capabilities, and create additional markets for recycled-content products. This program provides direct, low-interest loans for the purchase of equipment and other related business costs. Since 1993, CalRecycle has approved and funded 174 loans totaling approximately \$122 million.

Process

General: The General Loan Criteria for the RMDZ Loan Program was approved by the former California Integrated Waste Management Board in September 2008, and the Project Eligibility Criteria was approved by CalRecycle in March 2012.

Loan applications are reviewed and evaluated in accordance with established procedures to ensure that the project meets current eligibility and underwriting criteria and that required permits have been obtained. The Loan Committee considers the financial soundness of the applicant and the terms of the proposed loan and recommends to CalRecycle that the loan request be either approved or declined. Upon conclusion of this process and Loan Committee's approval recommendation, CalRecycle senior management staff reviews the loan request and determines whether to make a commitment to approve and fund the loan.

Application Review: CalRecycle received one eligible application requesting \$2,000,000. The application was reviewed for completeness and evaluated consistent with approved General and Project Eligibility Criteria and commercial loan industry practices, to determine an appropriate loan amount and structure that is being recommended for the applicant.

For the recommended loan:

- The project is located within the boundaries of an RMDZ.
- The waste materials to be recycled are generated within California.
- The waste materials are normally disposed of in California landfills.
- The business has demonstrated the ability to repay and collateralize the loans.
- The local RMDZ Administrator supports the project, attested to the reasonableness of the employment and diversion projection of the project and has certified that the requested loan is compatible with their RMDZ's Action Plan and Objectives.
- Loan Staff has conferred with the Local Assistance and Market Development Branch to determine that the materials are generated in California and normally disposed in California landfills.
- Loan Staff has conferred with the Statewide Technical and Analytical Resources Branch as to the reasonableness of the proposed equipment for the projects.
- Loan Staff has conferred with the Waste Permitting, Compliance and Mitigation Division concerning applicable Solid Waste Facility or Waste Tire Facility Permits.

- Legal Counsel for the RMDZ Loan Program was involved in staff discussions evaluating the merits and eligibility of the project prior to the Loan Committee meeting. Legal Counsel is not aware of any significant legal issues related to the loans.
- The Budget Office has confirmed that sufficient monies are allocated for FY 2012/13.
- The Loan Committee met on June 27, 2012, and recommends approval of the \$2,000,000 loan as two \$1,000,000 disbursements with specific conditions required for each disbursement. The specific terms and conditions are confidential and are detailed in the Confidential Credit Presentation, Loan Agreement and other loan documents.

However, the general conditions are that upon verification that Clean World Partners, LLC has \$2,000,000 (\$1,000,000 of which may in the form of a short-term loan) to cover phase one construction costs, CalRecycle will disburse \$1,000,000 for the purchase of equipment. The other \$1,000,000 from CalRecycle will be disbursed after Clean World Partners, LLC has obtained all final operating permits and has six months of successful (no major equipment malfunctions) and full (at or near capacity) operation. It is anticipated that this disbursement will be used to refinance equipment originally funded by a short-term loan.

Based on the above factors, and in consultation with the applicants, staff recommends approval of the loan to Clean World Partners, LLC for \$2,000,000. The applicant has been informed and agreed with the recommended amount and conditions.

Applicant Profile

Clean World Partners, LLC

Use of Funds & Project Description: Located in the Sacramento RMDZ, Clean World Partners, LLC (CWP) proposes to use the \$2,000,000 RMDZ loan to finance equipment for a new anaerobic digestion (AD) facility. The facility will recycle food waste into compressed natural gas (CNG) that will be used to refuel waste hauling trucks, generate electricity and produce various residual by-products.

The overall project consists of two phases. The first phase (subject of this loan request) is construction of the processing facility (to process up to 25 tons per day [TPD] of food waste) and CNG fueling station. Phase two (funded by a \$6,000,000 grant from the California Energy Commission) will increase production from 25 TPD to 100 TPD.

Similar AD equipment was used in a pilot demonstration project at the University of California, Davis. CWP's first AD project is located at American River Packaging. That facility became operational in March 2012. This project is anticipated to be fully operational by October 2012.

This project is noteworthy because it is the first AD facility financed by CalRecycle under the recently revised Project Eligibility Criteria. AD is an emerging technology which holds promise to assist local jurisdictions to more effectively manage certain waste streams and also assist CalRecycle toward its 75% recycling goal.

Diversification and Jobs: As a result of the RMDZ loan, CWP is projected to divert an additional 9,125 tons of food waste annually from California landfills and create an additional six jobs.

