MEETING

STATE OF CALIFORNIA

CALIFORNIA INTEGRATED WASTE MANAGEMENT BOARD

MARKET DEVELOPMENT COMMITTEE

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Board Room

8800 Cal Center Drive

Sacramento, California

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Wednesday, May 12, 1993

10:08 a.m.

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A P P E A R A N C E S

COMMITTEE MEMBERS:

Paul Relis, Chairman
Wesley Chesbro, Member
Jesse Huff, Member

STAFF MEMBERS PRESENT:

Robert Conheim, Senior Legal Counsel
Howard Levenson, Advisor
Sharon Waddell, Committee Secretary

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PROCEEDINGS

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COMMITTEE CHAIRMAN RELIS: The Market Development committee will convene.

Would you please call the roll?

COMMITTEE SECRETARY MS. WADDELL: Board members Chesbro?

COMMITTEE MEMBER CHESBRO: Here.

COMMITTEE SECRETARY MS. WADDELL: Huff?

COMMITTEE MEMBER HUFF: Here.

COMMITTEE SECRETARY MS. WADDELL: Chairman Relis?

COMMITTEE CHAIRMAN RELIS: Here.

Any communications prior to this meeting?

COMMITTEE MEMBER HUFF: Nothing related to this meeting.

COMMITTEE MEMBER CHESBRO: You mean like ex parte, that type of communication?

COMMITTEE CHAIRMAN RELIS: Yes, ex parte.

COMMITTEE MEMBER CHESBRO: Well actually this morning, yes, I did have a conversation with Mark Maldonado about the two tax credit bills, representing materials for the Future Foundation.

COMMITTEE CHAIRMAN RELIS: Okay. We'll move to the agenda then. And John Smith, please let us know what we're going to take up.

MR. SMITH: Let's see, we're taking up, we're taking up three items today. And I'd like to start off with the recommendations for the loan, second cycle. We'll also be discussing the report we did on the recycling investment tax credit program and suggested changes to that program. And the third item today, we will revisit the work done by California Futures on market based strategies.

I will be introducing all three items today, and we'll proceed with the first item.

The first item deals with board staff's and the loan committee's recommendations for second cycle loan applicants. Today we'll be considering six loans for approximately $2.1 million. These loans cover a wide variety of waste types and waste reprocessing, manufacturing industries.

Ms. Jill Larner is here to present the item.

MS. LARNER: Good morning. Is this on? I'd like to present to the committee this morning the second quarter recycling market development zone loan applications. Seven loan applications were received by the second quarter submittal deadline on March 11th. Staff prepared credit analyses on each applicant. And five of the seven applications plus one first quarter application were presented and approved by the loan committee on April 30th.

The loans for consideration this morning are summarized in order of project priority in the updated Attachment 1.

I'd like to now make sure that all of the committee members have the corrected Attachment 1. It should include eight loans which will be the eight loans considered by the board later this month. We are considering specifically six of those here today. Two will be going before the board and were already approved by Market Development Committee last month.

Real quickly I'd like to run through what the five new loan applications are. First one, Organic Recycling West, is a startup composting operation in the San Diego zone.

Amigo Bag and Lining Company is a small business in the Oakland, Berkeley recycling market development zone that remanufactures industrial sized bags.

Badger Forest Products is also in the Oakland, Berkeley zone and is an existing business which supplies secondary paper to local markets.

Pacific Air, Oil, and Filter Company is an existing air, oil remanufacturer in the Glenn County zone, which is proposing to start a oil filter recycling operation in that area.

Snitzer Steel is a large metal shredder which is proposing a white goods recycling operation at their shredding plant in the Oakland Berkeley zone.

I'd like to mention that the Talco Plastics project structure had changed significantly since the committee approved it last month and has gone back through loan committee as well and is up for consideration here today.

Staff is requesting that committee approve the loans in Attachment 1 to be considered by the board later this month.

And if there's any specific questions --

COMMITTEE CHAIRMAN RELIS: Well before we get into this item, since we have the recycling matter before us again I would like to read into the record something I'd stated earlier on this.

> "I will be abstaining from participating in the discussion of a vote on the loan to Cyclean, Inc. during review of this loan a question arose as to whether or not an investment that I hold was somehow connected to this particular company. Consultation with the legal staff was determined that I would not benefit from approval of this loan and it would probably not materially benefit the separate company in which I hold an investment.

However, in order to avoid any appearance of a conflict I've decided to abstain from participating in this decision. I will however participate in the decisions regarding the other loans to be discussed here today as their approval or disapproval will have no effect on the recycling loan."

Okay.

MS. LARNER: If there are any questions from the committee at this point?

COMMITTEE MEMBER CHESBRO: Yeah. I wanted to ask in relation to McCoy. It's, actually you referred to remanufacture but it's actually a reuse. I mean they do recondition the bags but in essence it's a reuse processing business, is it not?

MS. LARNER: Yeah, that's borderline. They do do extensive cleaning and the, I guess you would say it was remanufacturing.

COMMITTEE MEMBER CHESBRO: Well the reason I'm asking is because I think it's positive that we are --

MS. LARNER: Yeah.

COMMITTEE MEMBER CHESBRO: -- not just focusing on a process which completely breaks a product down and manufactures a new product. But if it's reconditioning a product to put back out in the marketplace, I think that that's exceptional that we have a business that's qualified doing that and I hope that there's more.

MS. LARNER: That's correct.

MR. SMITH: There will be.

COMMITTEE MEMBER CHESBRO: So I wanted to highlight that as a positive. On the other hand I wanted, without naming any individual businesses, once again to ask that the last one, as we begin to see loan applications questions begin to come up in your mind about priorities --

I don't think we should have an extensive discussion today but when we get to the priorities again we should probably consider several additional factors. One is do we want to get into the post-consumer question, post-consumer waste having any priority in the process? I'm not answering it today. I'm just mentioning that as a factor we might want to think about.

Another, and I don't actually think any businesses here raise this question directly, but one of them stimulated me to think about it. And that is if it were a business that were coming from an already stable and well developed industry, for example for scrap metal from cars, would we consider that a priority or not? You know, some high quantity, mature industry that already exists, whether or not the use of the funds for that purpose is a good idea.

And so those are just some random thoughts that popped up in looking at this list that we might want to look at when we get to the priority setting process again. I guess three or more months when we do that again. But it's a great list --

COMMITTEE CHAIRMAN RELIS: And, yeah.

COMMITTEE MEMBER CHESBRO: -- and I'm prepared to move it. Do you want to do like we did?

COMMITTEE CHAIRMAN RELIS: I would like to break the motion and separate recycling.

COMMITTEE MEMBER CHESBRO: Okay. I would move the list with the exception of the recycling loan for recommendation to the board.

COMMITTEE CHAIRMAN RELIS: Okay.

COMMITTEE MEMBER HUFF: Second.

COMMITTEE CHAIRMAN RELIS: Call the roll.

COMMITTEE SECRETARY MS. WADDELL: Board members Chesbro?

COMMITTEE MEMBER CHESBRO: Aye.

COMMITTEE SECRETARY MS. WADDELL: Huff?

COMMITTEE MEMBER HUFF: Aye.

COMMITTEE SECRETARY MS. WADDELL: Chairman Relis?

COMMITTEE CHAIRMAN RELIS: Aye.

COMMITTEE MEMBER CHESBRO: I'll move the recycling role.

COMMITTEE MEMBER HUFF: I'll second it.

COMMITTEE CHAIRMAN RELIS: Call the roll.

COMMITTEE SECRETARY MS. WADDELL: Board members Chesbro?

COMMITTEE MEMBER CHESBRO: Aye.

COMMITTEE SECRETARY MS. WADDELL: Huff?

COMMITTEE MEMBER HUFF: Aye.

COMMITTEE SECRETARY MS. WADDELL: Relis?

COMMITTEE CHAIRMAN RELIS: I abstain.

Okay. Shall we put that on consent?

COMMITTEE MEMBER HUFF: Consent.

COMMITTEE CHAIRMAN RELIS: And --

COMMITTEE MEMBER HUFF: Do you want recycling on consent because --

COMMITTEE MEMBER CHESBRO: List it separately.

COMMITTEE CHAIRMAN RELIS: That, I'll probably have to make the statement, statement, yes. So we put the first motion or the first action on consent.

COMMITTEE MEMBER HUFF: Yes.

COMMITTEE CHAIRMAN RELIS: And recycling would be taken up separately and would be taken up at the board meeting. Okay. Thank you very much. Good job.

MR. SMITH: Okay. Moving to item number 2. Revenue and Taxation Code section 17052.14 and 23612.5 established the Recycling Equipment Tax Credit Program. As you're all aware that program is scheduled to be sunset January 1st, 1994. Two bills have already been introduced in the Assembly to extend this program.

In order to give the committee a idea of how best to deal with these bills and come up with appropriate recommendations for changing these programs, staff has done a report, a study on the existing Tax Credit Program and is here today to discuss what they found out in that study and share with you some possible alternatives or changes to the existing program. And the hope is so that we could then be able to immediately respond to the legislative proposals out there if necessary.

COMMITTEE CHAIRMAN RELIS: And I understand this has been taken up in leg committee?

MR. SMITH: Yesterday, right. It was taken up yesterday.

COMMITTEE CHAIRMAN RELIS: Do you want to say anything about that?

COMMITTEE MEMBER CHESBRO: Yes, Mr. Chair. Yesterday at the legislative committee we had the two bills, the numbers of which I don't have, Assembly Bill 1263 and Assembly Bill 1638, both of which the committee unanimously recommended support if amended to the full board. But rather than having the legislative committee discuss and determine what the ammendments should be, it was felt that this, the

Market Committee is the appropriate place to do that. And so the responsibility for, for developing proposals for ammendments was deferred to the, the legislative, I'm sorry, the Market Development Committee.

The approach that I thought would be most effective after the staff made its presentation would be rather than for us to necessarily analyze what's right and wrong about each bill, since we don't really have the bills in the packet although I know the staff has them if committee wants to go into them. But the approach that seemed most sensible was to develop a generic list of what we think would, should be changed about the tax credit in this legislation, and then ask staff to essentially use that as a template against each bill to propose ammendments that would be consistent with those concepts. So that's the approach that I would suggest when we get to discussing those ammendments.

COMMITTEE CHAIRMAN RELIS: Mr. Huff, do you have anything?

COMMITTEE MEMBER HUFF: (Member shook head.)

COMMITTEE CHAIRMAN RELIS: Okay.

MR. SMITH: Mr. Chairman, that sounds like an acceptable approach. I'd now like to turn the presentation over to Bill Huston in the Market Development branch.

(Thereupon there was discussion off the record.)

MR. HUSTON: Good morning. After that long pause I trust that each of you has received a copy of the briefing paper that we submitted yesterday, is that correct?

COMMITTEE CHAIRMAN RELIS: Yeah.

MR. HUSTON: For people in the audience there are additional copies in the back of the room as well.

I want to begin by briefly giving an overview of the successes of the tax credit that we have now to date. We have received 87 applications for certification. We've issued 48 certificates to receive the tax credit, and have denied eight. The allowed credit for those certified is $5.3 million, with an expended usage of about four million tons of secondary material, which includes post-consumer material, annually, by the qualified taxpayers.

The results of the first four years of the credit are shown on the overhead. And as you can see, a large percentage of both the numbers of applications received, the amount of dollars spent, and the amount of tons that are expected to be used annually fall into the asphalt concrete category and the metals category. To a great extent these are industries that have been in operation for many years, have been cost effective, and generally are quite successful without an incentive such as the tax credit.

As John mentioned, there have been two bills introduced which directly impact the current recycling equipment tax credit statute.

Assembly Bill 1638 by Assemblyman Bates makes several changes to the tax credit including extending the sunset date to January 1st of 1997, allowing machinery or equipment which is used to handle or prepare reused goods to reenter the marketplace. And there's still some, some drafting and crafting going on to define what kind of goods are they referring to and what kind of equipment. They do in fact want to clearly define reuse as, as eligible for the tax credit. It also makes ammendments applicable to, it makes the ammendments applicable beginning this calendar year.

So even though the bill might not go into effect until January of next year, the provisions would become effective this year. It does set a cap on the, the overall cost of the credit to the state at $5 million. It requires the taxpayer to be precertified by the board. So it would put an extra step in the precertification as well as postcertification. And it does give preference in awarding the tax credits to companies who intend to increase the number of employees at the facility where the qualified property would be installed.

Assembly Bill 1263 by Assemblywoman Bowen proposes to extend the sunset date to January 1st of the year 2000. It would also limit the statewide amount for the credit of $5 million a year. It provides specific preferences for paper, plastic, and glass. It gives preferences to taxpayers who intend to increase the number of employees. It allows the credit between primary user and seller or lessor. So it does, it does cover these situations giving the credit to the lessor. It requires the taxpayer to be precertified and it no longer specifies compost as a finished product.

In last year's changes to the statute we had specifically included compost as a finished product to make it very clear that our regulations were consistent with statute where we said compost was qualified. We put that language in. For some reason Assemblywoman Bowen is proposing to take out that clarification. We're not exactly sure why.

I would also want to point out that Senate Bill 1082, which does not deal directly with recycling equipment only, but it does exempt manufacturing equipment from the sales tax, the state sales tax. So that is another bill in the legislature that may have some impact on, on our industry.

COMMITTEE MEMBER HUFF: Minor bill.

MR. HUSTON: Yes.

COMMITTEE MEMBER HUFF: Carried by who?

MR. HUSTON: Willie Brown.

COMMITTEE MEMBER HUFF: Yes.

MR. HUSTON: Kathleen's father as I understand it.

is that right?

COMMITTEE MEMBER HUFF: That's right.

MR. HUSTON: Staff, to get a better handle on our Tax Credit Program, staff conducted two telephone surveys. The first was to other states that had tax credits, either equipment tax credits or other kinds of tax credits. The second one was to applicants for our tax credit to determine whether they felt the tax credit was an incentive, what changes they might suggest to make it more effective for them, whether they thought the process was reasonable, and some of those kinds of questions.

Twenty states were contacted for the out-of-state survey. Other than New Jersey all of those states had a relatively new program, had not done an assessment of their, of their program, and were really not able to provide any suggestions to us on how we might improve our credit or make it more effective.

In the case of New Jersey, they did report to us that they had received 127 applications, or they certified 127 taxpayers dealing with processing equipment, transportation equipment, and manufacturing equipment. So their, their tax credit was a bit broader than ours.

In the, in the survey to the applicants three major issues became very clear to us.

The first, and I think the one that is most important, is that the tax credit has not been a major influence to entice taxpayers to purchase equipment. In fact in most cases the taxpayer found out about the tax credit after the equipment had been purchased and put into operation, usually when they submitted their documentation to their tax consultant at the end of the year.

Secondly, the tax credit has not been helpful for many startup businesses since most of these businesses have little profit during the first years and thus have a low tax liability. Rather, those companies suggested we have a funding program for them rather than a Tax Credit Program.

And third, the tax credit should be allowed, they suggested, for lease purchase agreements. One viable option for companies that do not have a lot of capital is to get somebody else to buy the equipment and then lease it or rent it back to do their manufacturing.

The way the current tax credit is drafted the, the, neither the lessee nor the lessor qualified because the credit is specific in that the person that owns it also has to be the person that uses it. So we would, they had suggested that the lease purchase options be considered.

In our analysis we looked at several alternatives that the committee should, should consider. The first of those was to change the credit from a tax credit to a loan or grant program. I think especially if the, if the, if an extended credit contained a statewide cap the staff would be reasonable for not only looking at each application in terms of how it qualifies in terms of the regulations in statute, but would also have to compare them one application to another. And it starts looking very much like a, like a grant program rather than a Tax Credit Program.

On the other hand I think a grant loan program may have to be funded out of our integrated waste management account rather than out of the general fund which is how the current tax credit is funded.

Another option obviously is to extend the sunset date. And although the current program has not been a significant incentive for equipment purchases, it certainly has put California in the forefront of states willing to invest in private industry recycling activities, and I don't think that that should be overlooked.

We had also suggested that the equipment eligible for the credit be more specific, be more focused on certain materials. Again looking at the first chart, many of the materials, most of the tax credit went to asphalt pavement and scrap metal industries. If we look at the other industries the tax credit approvals were fairly modest.

We would suggest that as an alternative the committee might consider removing asphalt and concrete and scrap metal, other than tin cans and white goods, from eligibility for the tax credit; or as an alternative, to consider focusing it on those materials that were considered during the development of the market development plan, those priority materials that we have assessed in the past. We can certainly change from an equipment to a procurement tax credit.

That way the more secondary material that is used the more the tax credit would be. But certainly for those industries that are already using secondary materials it would represent a windfall to them. We could certainly limit the amount of the credit annually. That would certainly put a cap on the potential drain to the general fund, but it does look again more like a loan credit. It looks more like a grant program and we may be required to assess each applicant against one another. The possible results there, obviously is that similar purchases by different companies at different times during the year, from one tax year to the next, may have very different decisions on whether they would get a tax credit or not.

One option that is not on my overhead would be to allow the credit to the lessees rather than to leasors. We believe that the lease purchase agreement, the leasing agreements do meet the board's intent of getting more infrastructures, more capability to process and use secondary materials into the industries. But since the lessee is the one that's actually using the equipment, is responsible for producing the finished product, is responsible for purchasing the secondary and post-consumer material, we believe that they are the ones most responsible for, for using the equipment as it was intended to be used and most familiar with how much secondary material they're using. So we would suggest that the lessee option be considered as well. Many of those options I think could be combined into a final committee provision.

The final option obviously, is to leave the tax credit as it is and allow it to sunset at the end of this calendar year. It has not been a significant incentive for the purchase of equipment but it has, as I mentioned before, put the state in the forefront of those states willing to invest with private industry and the recycling markets. And I think also that it could send a signal if we did not continue the credit, that we may not, California may not be as interested in the recycling business as it once was.

So with that, as Member Chesbro pointed out, we are not necessarily looking for detailed language today on, on how the credit might be changed or how we might make specific word changes to the two bills that had already been introduced, rather we're looking for just general direction, sort of a framework of where we should go from here.

There are two folks at the table that were extremely instrumental in doing the survey work and implementing the program over the past year. One is Jan Welch who is our tax credit expert. The other one is Jay Getler who has done all of the research work for us. And they're available as well as I to answer any question you might have.

COMMITTEE CHAIRMAN RELIS: Thanks. Let's go into discussion.

COMMITTEE MEMBER CHESBRO: We have a legislative reporting requirement on the tax credit, is that correct?

MR. HUSTON: Yes. We are required to submit to the legislature in our annual report for this year. So in about a year the results of the tax credit, what kind of equipment was purchased, what kind of industries were, took advantage of the tax credit.

The work that we've done so far is in anticipation of that report, but we wanted to start bringing the results to the committee now so that if we have the opportunity to continue the tax credit without a gap, without losing a year, that we could do that.

COMMITTEE MEMBER CHESBRO: Well --

MR. HUSTON: And also in response to the two bills that have been introduced.

COMMITTEE MEMBER CHESBRO: Well in terms of a general comment I'd like to say that the data and information you've gathered is very helpful and very good. I'm concerned about the tone of the conclusions that, well I don't think this was intentional. They come across as questioning the underlying logic or the underlying effectiveness of the tax credit. And from my standpoint the information you've developed points out the need to modify the tax credit but doesn't question that it is a useful tool. But you can read, I think you could certainly read the way this is crafted as being, it's questioning.

I mean when you say that the tax credit has not been a major influence to entice taxpayers to purchase equipment, "Well why is that?" I think, are tax credits in general a failure? Or is this particular tax credit, was it focused in the wrong place and does it need to be refocused?

And certainly the thrust of my response is that it is misfocused and we've now got some experience behind us from which to judge that, to make the modifications necessary to make it work. And that's the approach I would like to see us taking.

COMMITTEE MEMBER HUFF: See I have a different perspective. I think tax credits in general are failures, particularly state tax credits. People don't make decisions based on tax credits. They may make decisions based on the federal tax structure but I don't think they're making them basing on what little incentive is provided by a, really very small elements in their picture.

There is an article in Sunday's Bee on precisely that point from certainly a person who is not regarded as being some sort of right wing ideamonger either. That's exactly that. Tax credits in fact are the political system's way of dolling out favors to whoever might be in politically or whoever might provide the best fodder for legislative newsletters.

COMMITTEE MEMBER CHESBRO: I don't think that that is the case universally. I think it really depends on how they are focused. I think you have the example, for example, of low income housing tax credits. Because they're usable to attract capital, to help attract capital for specific purposes they're very useful. But if they're only usable by the person operating the, actually operating the business then I think they have very narrow application because the person has to have the income level at that precise moment and that particular year.

COMMITTEE MEMBER HUFF: You have to make a profit before you have a credit.

COMMITTEE MEMBER CHESBRO: That's right. And so --

COMMITTEE MEMBER HUFF: And if you're making a profit you did, don't need the credit.

COMMITTEE MEMBER CHESBRO: -- the problem that we identified in our financing workshop and in our market development strategy as being central to, a central barrier to the accomplishment of recycling market development is the attraction of capital, the ability to get the capital in place, to get infrastructure, private manufacturing infrastructure up and operating.

And I think it's clear from a number of other applications of tax credits and state tax credits that you can attract capital if they're drafted properly. You can use them just to attract capital if a lessor is able to take the credit in the lease purchase agreement situation. Or a limited partnership is another way in which a person can become an investor and take a disproportionate share of the tax credit for that investment if the partners agree, as a way of getting someone to essentially provide the necessary investment to purchase that piece of equipment that's necessary for the business to run.

And so I would like to see the board focus on a series of ammendments that would attempt to more narrowly and specifically focus this tax credit and make it more applicable and useful than it has been.

COMMITTEE CHAIRMAN RELIS: Just a observation, and I know Howard's going back to work at the OTA. Before you came to this board I think you had done work on the tax credit issue. And I think that the findings that staff has about the effectiveness of tax credits is somewhat consistent with that, but I see it in a somewhat different way.

As we'll hear later on in a, I think a presentation from Commerce Department, what we are faced with in California is competing for recycling industries with other states. We're in fairly intense competition. And while this may or may not be a big deal as far as making a critical difference, I see it as part of the mix of offerings the state has that just indicates the level of interest and a range of ways that, to induce businesses to think about investment in this area.

But clearly the present way it's set up is demonstrably benefiting a couple of areas far more than our priority materials would indicate. And so for that reason and for the reason of even reporting, although I have some questions about that.

If we were to follow what track staff's recommended here about the, the pre-application requirement, I understand that that would give us information about what motivated a party to seek a tax credit which right now we really don't, we don't have. The indication is that a lot of people find out that there was a tax credit after they got the equipment which clearly isn't very convincing that we're doing much there. But if, would this require a great deal of paperwork, this pre-application approach?

MR. HUSTON: Let me just make a brief comment and possibly Jay can provide some more detail. We understand that one of the states we contacted does have a precertification requirement. Their comment was that if they'd like to, they would like to get rid of that. And what they find is that they get many, many, many, many, many more requests for precertification than what they get applications for the credit. And we recognize that there's a time lag because you have to naturally have more than one of the actual certifications. But our understanding is they receive many requests for precertification from fairly vague, fairly not at all thought through ideas. And they're, they are for the most part --

COMMITTEE CHAIRMAN RELIS: So it becomes a big deal. They have to cope --

COMMITTEE MEMBER CHESBRO: It seems to me though that there's a hybrid solution that should be fairly simple. Someone has to file some limited paperwork in advance to prove they were aware of the tax credit before the purchase and then get certified once they have made the purchase and the equipment is in fact in place. You can have the best of both worlds.

MR. HUSTON: There could certainly be that kind of requirement that they'd have to designate before they bought the equipment that they were going to buy it.

COMMITTEE MEMBER CHESBRO: But you don't have to go through this process of certifying all the ones that don't result in an actual purchase of equipment, you know, by not having it certified in advance.

COMMITTEE CHAIRMAN RELIS: Now what about this focused approach where right now according to the record you have here asphalt concrete, and metals have taken the lion's share of the advantage on the tax credit. These are two areas that are not priority materials for us. But what are your thoughts on that if we were to exclude or focus the materials as opposed to leave them wide open?

MR. HUSTON: The information that we have at this point is that both of those industries are extremely cost effective as they are now and have been without the tax credit, and especially in the case of scrap metal, have well established markets, well established collection and processing, and sources to sell the material once it's been collected. In the case of pavement and asphalt the use of that material is extremely cost effective compared to the use of, I hate to use the term virgin rock, of rock that has been recently mined --

COMMITTEE CHAIRMAN RELIS: It's stretching the boundaries of our sensibility.

MR. HUSTON: But rock that hasn't been used for stuff before. So if, if the tax credit is intended to truly stimulate markets and get people thinking about using secondary material instead of virgin material, I think that, especially if we're going to be limiting or have a limit placed on the amount of money that the state is in a position to invest in these kinds of things. I think it makes sense to focus it on those materials where we don't have the established markets yet, where the cost effectiveness may be a bit more marginal, and not, I have to speak from a personal perspective here, I think it makes a lot of sense to limit it to the, to the other materials and to specifically exclude asphalt, concrete, and scrap metal other than tin cans and white goods.

COMMITTEE CHAIRMAN RELIS: And then the focus, your other recommendation or option would be to put the emphasis more on the -- let's see if I've got it right. The lessor would be the party that could benefit from the tax credit, or do I have that right?

MR. HUSTON: Both parties --

COMMITTEE CHAIRMAN RELIS: The lessor --

MR. HUSTON: Is the one that owns it.

COMMITTEE CHAIRMAN RELIS: -- owns it and the lessee --

MR. HUSTON: The lessee is the one that uses it.

COMMITTEE CHAIRMAN RELIS: And since the lessee is the one that usually doesn't have any profit to take advantage of the tax credit so it's, what Mr. Huff was saying is true, that they're not in a position to benefit from the tax credit that the lessor, the leasing company or the party --

MR. HUSTON: Yeah, the options that we indicate that we might go either way or it could be even left to negotiating so that, you know, between the lessor and the lessee they would determine which one would get, would qualify for the credit.

One of the concerns that we have with the lessee or with the lessor obtaining the credit is to, the way it's crafted now, to continue to receive the credit they are required to report to the board on an annual basis for three years how much secondary and post-consumer material they have used. And since the lessor is not actually using the equipment the data that we get back may have questionable accuracy. The lessee may be unwilling to share the true numbers.

COMMITTEE MEMBER CHESBRO: Well then it would have to be, the burden would be on the lessor to have in their lease purchase agreement some reporting requirement from the person who's, who's using the equipment I would think.

MR. HUSTON: Certainly I think it would be possible to get numbers. Again I'm in the, depending upon the arrangement and a lot of other things, we might question the accuracy of those numbers is the only point I want to make.

But from a, an attraction of capital perspective, certainly to give the credit to the lessor, the one that owns the equipment is probably more beneficial. You can probably attract more capital that way than by giving it to the lessee.

COMMITTEE MEMBER CHESBRO: Well I'm assuming that it's in the best interests of the operator or lessee to have this equipment, you know, to operate their business. And so it seems to me that you could again, creatively in the law, provide some requirement that they have to report in order for the, they have to agree to that they will report in order for the lessor to take the credit. I mean there should be some sort of an agreement requirement in there that says that you will get the same thing as you would if it was the operator claiming the credit. That seems doable to me.

MR. HUSTON: It certainly could be.

COMMITTEE MEMBER CHESBRO: I mean if there was no connection at all between the lessor and lessee in terms of interest here it might be difficult to accomplish. But the whole purpose of doing this is so that it makes it possible for the recycling business to attract that investor who will lease the equipment to them. So I would think it would be in their interest to, if there's a necessity for some reporting, to make sure that that reporting takes place so they can get that equipment.

MR. HUSTON: Clearly the lessor's continued receipt of the tax credit for the three years would be, would be dependent upon getting numbers from the lessee.

COMMITTEE MEMBER CHESBRO: So --

COMMITTEE CHAIRMAN RELIS: Well my observation just for, to move this along, is that I'm generally supportive of keeping it around, keeping the tax credit for the reason said earlier, not because I think it's going to be a huge factor in the marketplace here. It's probably very minor, but it's important in the mix. But I think that we should make it focused and that would include resolving that issue on the, or giving you direction on the lessor emphasis. In other words find a way if we can to make that work, and priority material focus.

And then at least it's consistent, I think with the direction of our market plan which we should try to be creating some synergy there between all, whatever stimuli we're looking at to tie 'em back to our market plan. And I wouldn't see that we'd want to spend too much time with this.

COMMITTEE MEMBER CHESBRO: Well I have, was this morning looking over these bills and looking at the staff's report I drew up some suggestions for amendments that we would support. And then presumably between now and the board meeting the legislative staff could analyze the two bills from the standpoint of which ones need to be amended, how to accomplish those, those, those elements.

The first one is to extend the sunset date. I'm not particular about which one. It might be something to be said for the shorter one so it could be analyzed again whether it's working which is what, 1997 I think --

COMMITTEE MEMBER HUFF: Why bother?

COMMITTEE MEMBER CHESBRO: -- in one of the bills.

Secondly, I think the idea of it being effective this year was a good one because that allows the narrowing of the issues to take effect immediately which has some potential, immediate budgetary benefit that might be attractive to the legislature.

Then I think the monetary cap, even though there are good arguments against it, I think politically in this budget environment it makes sense to accept a limit. And so I think we should support a monetary cap.

COMMITTEE MEMBER HUFF: I'm not sure. Now I'm just stepping out of, I mean you already know where I am on this, but I recall some time ago, you have to be careful with structuring monetary caps. There have been some caps in the past on credits that the courts have blown up. So it becomes just window dressing.

COMMITTEE MEMBER CHESBRO: Well maybe I guess the way to put it would be, "We're not going to, we wouldn't object to a monetary cap." I mean I'm thinking in terms of trying to make this thing palatable to the legislature.

COMMITTEE MEMBER HUFF: I understand, but the legislature also knows. The legislature knows there is a credit extended to, I think it was computer companies that donated computers to schools, okay. And I think John Bask himself in fact wrote the legislation. And it turned out to be a great way for computer companies to dump their surplus inventory of oblete computers and claim a credit at the same time. That's not what John had intended but that's how it sort of came out. The volume was far more than intended so the legislature put a cap on the credit. The court said there's no way that the taxpayer can know, okay. The taxpayer just reads the code and says he's entitled to a credit. Okay. So they blew up the credit. They blew up the cap. So, you know, cap may be a nice appearance but may have no effect.

COMMITTEE MEMBER CHESBRO: Well perhaps the way to, we could phrase it artfully to say, "No objection to the monetary cap but there may be legal concerns."

COMMITTEE MEMBER HUFF: You could say that.

COMMITTEE MEMBER CHESBRO: Something to that effect. But the other way that's been proposed to limit it is by limiting the materials that would be eligible by eliminating some of the --

COMMITTEE MEMBER HUFF: That you can do.

COMMITTEE MEMBER CHESBRO: -- some of the high volume materials that, as Mr. Relis has indicated --

COMMITTEE MEMBER HUFF: Because there a taxpayer has certainty and knows most how the code applies to him.

COMMITTEE MEMBER CHESBRO: Right. So the suggestion I would have is to limit the materials to general categories that have been supported as high priority for needing attention in our market's plan which would be paper, plastic, glass, and compost. Those materials ought to be the ones that we get the things targeted on.

Further, in addition to the lease purchase arrangements, and I need to understand this better, but it's been pointed out to me as an area that would additionally help focus this. And that is the idea of limited partnerships being able to allow an investor to disproportionately share the tax credit so that somebody could invest specifically in order to help that piece of equipment he purchased and take the tax credit for that if the other partners agreed to share it that way. That has been used with other state tax credits effectively to help attract capital which again I think is our goal here, is to try to encourage investment in these activities.

And then fifth, to allow reusables. But that has to be really carefully defined. What we mean about, you know, equipment which is for the purpose of cleaning or reconditioning durable products for multiple reuses in the economy.

For example bottle, or I should say container cleaning machines that will return containers to the, that can be reused over and over again such as milk bottles or beverage containers.

Another example would be potentially reusable diapers as another type of durable product that can be reused over and over again. And there's equipment necessary to, for that purpose.

Now I don't know how you craft language which makes the distinction between that and someone who refinishes old furniture, let's say. I don't think we ought to --

MR. HUSTON: What about the washer and drying machines that we all have for clothes in our house?

COMMITTEE MEMBER CHESBRO: Right. Exactly. So obviously it needs to be tightly, very tightly defined or we're running the other direction in terms of, we don't want to be using this to, open this thing up again to a broad range of unfocused uses. I think it, any reuse language ought to be very narrowly targeted on certain activities that --

MR. HUSTON: I can also point out that we have approved reuse equipment already --

COMMITTEE MEMBER CHESBRO: Oh, we have?

MR. HUSTON: -- under the current statute.

COMMITTEE MEMBER CHESBRO: I did not know that.

MR. HUSTON: The one that comes to mind is a company that washes wine bottles. And we tried to, we tried to make a distinction between products that were intended to be reused such as cloth diapers versus products that were only intended to be used once like wine bottles. And, and if somebody used the diapers after they were all holey and couldn't be used as diapers anymore and made something from them, then we would allow that kind of a business, but --

COMMITTEE MEMBER CHESBRO: That's the stretch you had to make under the current statute.

MR. HUSTON: Yeah.

COMMITTEE MEMBER CHESBRO: And what I'm saying is I think that there are legitimate businesses that are helping to accomplish waste diversion and it will, if we can encourage more of them to help to accomplish waste diversion that are using durables that will be reused over and over and over again returned to the marketplace, that we ought to be focusing on.

And we had a specific example, and this is really the one that's motivating me to push this. There is a company, GE Plastics, that is marketing a refillable plastic milk bottle. But in order to use it the dairy bottling plants need to re-, need to buy new equipment. And to me that is every bit as legitimate a use of this tax credit as someone who's manufacturing a product from recycled materials.

And I think that we are quite likely to see more of that go on if the tax credit exists. I really do. I think that it gives that additional incentive to make it for an industry, to switch over essentially that is currently operating with the traditional plastic jugs or cardboard milk cartons, you know.

So the issue of how to narrow it needs a lot of discussion and I don't know that today we can, we can prescribe that, but just suffice it to say, assuming that something like what I'm talking about passes the committee here, that we indicate a support for a narrow definition to avoid abuses.

COMMITTEE CHAIRMAN RELIS: It seems to me the direction, at least that's been expressed, you asked for general direction, and the general direction would be to focus and restrict the materials and, I don't know, this suggestion Mr. Chesbro made. My only concern would be if it gets too difficult to fold that into our recommendations and direction, then I would not want it to deter the other.

COMMITTEE MEMBER CHESBRO: No, I agree with that. All these suggestions are flexible in nature. They're not drop-dead, you know, "If you don't do this we don't want it."

COMMITTEE CHAIRMAN RELIS: And then the overriding thing would be given again the view that this probably got limited impact, not to burden ourselves with a cumbersome system, keep it very simple, as simple as you can get it because the, the diversion potential here probably doesn't warrant too much staff time on this.

COMMITTEE MEMBER CHESBRO: I, I didn't put this on my list but we did talk about it earlier. I think that along those lines the idea of a, some sort of a early filing, pre-purchase filing of some paperwork would be necessary to qualify, and then the certification would take place after purchase. I think we should look, try to work on some approach that would accomplish both, both needs of keeping the paperwork down and making sure that people were aware of the tax credit before they made the purchase.

MR. HUSTON: And is the intent of that to make sure that they knew about the credit before they bought the equipment? Is that as I understand --

COMMITTEE MEMBER CHESBRO: Yes.

MR. HUSTON: -- what the idea is here? So it's not something, it's to try to eliminate the windfall aspect of this, is that right?

COMMITTEE MEMBER CHESBRO: Right. Right. I mean it's not a perfect solution.

COMMITTEE MEMBER HUFF: What did they know and when did they know it.

COMMITTEE CHAIRMAN RELIS: It's not the windfall so much as that there's some decision has been made that's tied to the tax credit, and after. But again if that were to become highly burdensome I wouldn't even consider that crucial.

COMMITTEE MEMBER CHESBRO: I think though that New Jersey was complaining about the need to go through and analyze and certify the multiple pre-purchase applications they had. And if we don't have to certify something, we don't know if it's even gonna happen, but we simply have some sort of a filing process that is a notice of intent maybe, something like that. Some sort of a, a, so it accomplishes the goal without our staff having to necessarily do wasteful certification for things that may never happen.

MR. HUSTON: We could certainly, for example, ask them to just pre-file basically and also to tell us what secondary material they expect to use and a rough estimate of how much annual, sort of clear the lines.

COMMITTEE MEMBER CHESBRO: It's very simple. Simple. Simple.

COMMITTEE CHAIRMAN RELIS: Well is there a motion on this?

COMMITTEE MEMBER CHESBRO: Yeah. I would move that we forward the, or give the staff a list of potential amendments to work on between now and the board meeting, and present those to the board in conjunction with the legislative committee's recommendations for, to support or amend.

COMMITTEE CHAIRMAN RELIS: Call the roll.

COMMITTEE SECRETARY MS. WADDELL: Board members Chesbro?

COMMITTEE MEMBER CHESBRO: Aye.

COMMITTEE SECRETARY MS. WADDELL: Huff?

COMMITTEE MEMBER HUFF: No.

COMMITTEE SECRETARY MS. WADDELL: Chairman Relis?

COMMITTEE CHAIRMAN RELIS: Aye.

So this will not be a matter of consent?

COMMITTEE MEMBER CHESBRO: No.

COMMITTEE CHAIRMAN RELIS: Okay. We'll move on to the next item. And we'd like to call in Wes Ervin from the Department of Trade and Commerce who we've asked to be with us today. I know this is one item out of order but since you're here and time is important to you. We appreciate your patience.

But Wes, you're prepared to give us a report on the Arizona law that has passed and its' relationship to our efforts to attract secondary industry, correct?

MR. ERVIN: Yes, a very brief one.

COMMITTEE CHAIRMAN RELIS: Okay. I would just like to say a couple of words in advance of this. I think this subject is extremely important to our market development efforts. It's clear that some states are recognizing that as we have found out in our analyses, that there's job generation potential and fairly substantial in attracting secondary industries to states. And the Arizona law I think speaks to that, and this is real important information for this board to consider. So please go ahead.

MR. ERVIN: Okay. Thanks, Paul and committee members. Thank you for inviting Trade and Commerce and myself here to provide an update on some attraction efforts and specifically a, an individual attraction effort.

I'm Wes Ervin. I'm a business development specialist at the Trade and Commerce Agency. Our agency has for two years now enjoyed a good working relationship with the integrated waste board, primarily through our mutual membership and participation on red teams which in several cases are teams that we've pulled together to attract paper projects including paper recycling projects, including two that are considered to be very major projects in California, MacMillan Bloedel and Fort Howard.

Fort Howard I'll speak to specifically since the Arizona legislation has affected that attraction effort. It is by all measures a major industrial attraction project in California. It involves $500 to $600 million investment on

2,000 acres. Would employ up to a thousand people permanently, and would recycle a humongous amount of mixed paper waste --

COMMITTEE CHAIRMAN RELIS: A what?

MR. ERVIN: Humongous.

COMMITTEE CHAIRMAN RELIS: Could you qualify what you mean by humongous?

COMMITTEE MEMBER HUFF: Is that a technical term?

MR. ERVIN: That's generated in the Southern California, Los Angeles area.

COMMITTEE CHAIRMAN RELIS: Is that a proprietary number?

MR. ERVIN: Right. Just don't have it handy.

They would convert this mixed paper into tissue products. This is, as you know, a major United States manufacturer based in Green Bay, Wisconsin. The company, its representatives have visited California four times over the past year, looked at a number of sites, and have indeed found a viable site in Southern California in an enterprise zone, in a market development zone. Our competition currently is Arizona. Nevada has been dropped out as a candidate.

The two key issues facing us in attracting this project, in wooing Fort Howard, are costs, both construction and operating costs, and the permit process.

In the area of costs. Until May 6th of this year

California was competing head-to-head on total overall costs with Arizona. We had some disadvantages but we had a distinct advantage in the area of water and in transportation. We were closer to the supply and to the market.

With regard to taxes we were, until the legislation passed in Arizona this month, competitive. We had a lower property tax but a higher sales tax.

On May 6th however the Governor of Arizona signed Senate bill 1421 which provides property sales and income tax breaks to "environmental technology manufacturers, producers, or processors." If environmental technology is defined the same way we're intending to define it in California that could include everything from solar electricity generation, electric vehicles, and recycling, and a number of other categories. The bill passed and essentially it gave Arizona suddenly about a $40 million tax advantage over California.

COMMITTEE CHAIRMAN RELIS: For this project?

MR. ERVIN: For this project.

COMMITTEE CHAIRMAN RELIS: $40 million?

COMMITTEE MEMBER HUFF: What percentage of the taxes? I mean what are we talking about? A ten percent cut? Twenty percent cut?

MR. ERVIN: I don't know that in terms of percentage. What it did is it concentrated in three areas.

One is that it reduced the property tax so that it's now essentially comparable to California. It provided sales tax exemptions, and both of those were about a $20 million shift in the tax liability.

COMMITTEE CHAIRMAN RELIS: Now is that over many, many, many years?

MR. ERVIN: That I don't know. We've had a --

COMMITTEE MEMBER HUFF: Yeah, that's --

MR. ERVIN: We've had a earlier version of the bill. Also there are some construction and material tax credits, consumables and construction. So in essence the company has told us that Arizona, they've told the press by the way. Nothing about this is confidential. Everything I'm saying is in the press --

COMMITTEE CHAIRMAN RELIS: Okay.

MR. ERVIN: -- or has been in the press. They've told us that Arizona would not have been considered without the passage of that bill, but now that it has passed Arizona is probably the primary site.

COMMITTEE MEMBER CHESBRO: It's a bidding war.

COMMITTEE MEMBER HUFF: Well it's not the first time that companies have played states off against each other in a bidding war.

COMMITTEE MEMBER CHESBRO: I don't mean this to be negative about this concept of helping. In fact I'm supportive. But I do remember a time when I heard that it was going to Arizona and California hadn't been raised yet, and it makes you kind of wonder about the company's strategy in trying to maximize whatever they could get out of whoever winds up getting the site.

MR. ERVIN: That is also true and much of it is speculative.

COMMITTEE MEMBER CHESBRO: That's not a reason to be competitive. Don't misinterpret what I say.

COMMITTEE MEMBER HUFF: The $40 million, that's a big number. Would you like to reconsider your thoughts on tax?

COMMITTEE MEMBER CHESBRO: (Member laughed.)

COMMITTEE MEMBER HUFF: Well I'm serious. I mean, the speaker has mentioned, does a bill have to be exempt from state sales tax manufacturing equipment?

MR. ERVIN: That's correct.

COMMITTEE MEMBER HUFF: Okay. And the California Manufacturing Association is strong supporters of that bill. They say it creates jobs, that the tax cut more than pays for itself with the jobs it creates. I think the speaker says that too.

COMMITTEE MEMBER CHESBRO: Sounds like supply side.

COMMITTEE MEMBER HUFF: Well the speaker is the supply side.

COMMITTEE CHAIRMAN RELIS: Well let's go on with the presentation.

MR. ERVIN: Let me say just a minute or two about permits. Even they, we still have some advantages and some disadvantages. The main concern expressed by the company was a concern with the permit process in California. It is more lengthy, more costly, less certain, and certainly more complex than the Arizona process. Also they had been watching the process of getting the MacMillan Bloedel project permitted in West Sacramento.

So without belaboring the point or without myself getting involved in the debate about incentives for companies and states playing off against each other, etcetera, to be competitive with Arizona and other states what we must do is to improve our business climate.

As you all know Adept, I believe it was yesterday, announced its legislative package for economic development. The Governor has a plan, a similar plan. There have been bills to reform the CEQA process introduced, bills for tax credits to manufacturers including the Speaker Brown bill, including the ones that you've been discussing earlier, regulatory reform bills, and bills for loan and grant programs to encourage selected industries. So there is a plethora of economic development legislation and almost everybody is universally concerned about California's competitive climate. I don't have anything else to add.

COMMITTEE CHAIRMAN RELIS: What, just in terms of the permitting process, from what you understand in Arizona, what would they be able to do that we might not be able to do in terms of -- turnaround time, I suppose, is the big consideration?

MR. ERVIN: In terms of turnaround time my understanding is that it would be a matter of nine months to a year instead of certainly over a year in California with the complexity and the size of the projects involved.

COMMITTEE CHAIRMAN RELIS: Well this was brought up as an information item. It's also been raised by several people that, on the board that this is something we ought to take a look at from the standpoint of our market plan, set a goal, or not a goal but it's stated that we had 20 to 25,000 potential manufacturing jobs in the state, but only if we were in a position to close deals, have them locate here. I wonder where we go with this.

COMMITTEE MEMBER CHESBRO: You have to wonder where the people are going to work in California, who are the market that are supposed to buy these products that these manufacturers that are in California's borders are going to be producing, you know. It's kind of strange.

COMMITTEE CHAIRMAN RELIS: Do you have any thoughts, Mr. Huff, with your background in watching the states compete with each other here? A state, a neighboring state is determined that they want to attract environmental technologies and ante up, I guess in a pretty big way.

MR. ERVIN: Did I have any thoughts?

COMMITTEE CHAIRMAN RELIS: Well I was asking Mr. Huff.

COMMITTEE MEMBER HUFF: Well it puts California in a hard spot with our current economic budgetary constraints. California has never really played that game.

COMMITTEE CHAIRMAN RELIS: Yeah, I know.

COMMITTEE MEMBER HUFF: And there have been a number of things that has been said that we lost. The Saturn plant to what, Tennessee, and a number of other things. I remain of the belief that many times, maybe not to the tune of $40 million, but many times the concessions are the, just sort of the icing on the cake, that the real decision still centers around the fundamentals of the business, whether the supply lines are too long, whether the permit process or the overall costs of doing business are beneficial. And that these things, with some exception perhaps, because like I said $40 million is a big number, with some exception these things are just extras that businesses manage to induce out of particularly smaller states. I don't think many of the big states play this game.

MR. ERVIN: I think in terms of incentives probably the discussion you had this morning in terms of monetary incentives is generally acknowledged amongst the economic development committee that they are not often, I mean they can be major incentives, and states and communities can in fact buy projects.

I think we heard one on the radio yesterday. A company is moving out of, I think it's the Dreyfuss Companies are moving out of New York and into Connecticut because of some significant incentives. However I think it's generally considered that they are more in terms of tie breakers as opposed to significant decision, decision-making elements.

And something earlier that you said, Paul, having to do with the mix of incentives, and the mix of business climate issues are very important. The proper mix is situational depending on the type of company. It depends on, first of all, what other states are doing, obviously. It depends on the type of industry involved. The growth industry such as the biotech industry for instance, typically has, has little interest in an enterprise zone incentives. But a smaller company or a company in a declining industry might really leap at an enterprise zone tax credit. It also depends on the phase of the industry whether the industry is in a growth, mature, or declining stage, whether the company is a startup or not. So there are many, many factors involved in these incentives.

COMMITTEE CHAIRMAN RELIS: You know is this a, if I could just ask, is this all public now? They've announced, Fort Howard has, about the location that was under consideration in California?

MR. ERVIN: They have announced that and it has appeared in the paper, but California is still in the running for this project.

COMMITTEE CHAIRMAN RELIS: Yeah. Because I was down just a couple of weeks ago at the site where this proposed mill was going to go in and met with the zone or the Riverside zone manager there. And at that point this bill was only an idea or, I mean it was a bill not a law. And with distinct advantages. The water rates and the property taxes, suprisingly the property taxes were well below what they were in Arizona at that time and of course the transport distances.

So I don't think we're out, completely out of this yet because we still have, we have the 32 million people approximate to where this mill would be and I'm just, I'm obviously concerned and distressed that we could lose this particular plant. The Fort Howard is an excellent company, its environmental controls, its technology is world standard technology in paper making, and converting mixed paper. This was going to be, this is a priority material for us. So I assume the red team is still intact and --

MR. ERVIN: The red team is intact and we are still working very hard to attract this company to California and we still could do that. We're one of three sites still currently in the running.

The Arizona bill, it's my understanding that it passed very, very rapidly after it was introduced and there were about five major projects that they were trying to attract to California or to Arizona including the Fort Howard project.

COMMITTEE MEMBER CHESBRO: The other thing to keep in mind, to be, to rain on the parade a little bit, and I've hinted at this earlier. I've had an experience on the north coast where a major manufacturer came to town and the community thought that they were serious about locating there. They had another proposal going in Seattle where they already operated and they also had union contracts. And come to find out that their application, their application in Humboldt, after we spent a lot of time and money trying to help them was, appeared in the end to really be aimed at giving them more leverage for rollbacks in Seattle with their workers, you know, so that they could, they could say to them, "Well we could afford to stay here if you'll agree to a couple bucks less an hour." That was quite a disheartening experience for the community because we spent a couple of years pursuing these folks in good faith.

I know nothing, no where near enough about the Fort Howard situation to know that that's the case. But I think you also have to really keep your antennas out and be alert to whether you're simply being used as a leverage to get the maximum advantage and whether or not the intent is serious or not.

Certainly it is, and I agree with Paul it's a reputable company, certainly if it is, you know, we need to do what we can to get them within reason.

But it's just another thing that happens sometimes with these, in these situations is that having a, I mean it's just good business to have a number of options available in order to get the best deal that you can, and if you, you know, ride into town and say we've selected you and you're the only place you don't really have any leverage to get the best deal. So we have to just be aware that's, that that can happen as well.

COMMITTEE CHAIRMAN RELIS: Well I know we've worked real closely with Wes and with Trade and Commerce and with the offices of Planning and Research on the fast track approaches. I'm just trying to think and ask the committee members what if anything we could do to direct staff to, I don't know, look at our zone program, ways of enhancing our role in better determining what could be offered?

COMMITTEE MEMBER CHESBRO: On a broader basis --

COMMITTEE CHAIRMAN RELIS: What makes sense?

COMMITTEE MEMBER CHESBRO: This is the flip side of what I was saying. I think there's a broader positive impact on the zone, potential impact on the zones and on recycling market development of having an example like this to help focus the legislature, the administration, and the public on the potential that recycling market development has, and it could be an opportunity to bring more resources, more incentives and more resources to bear in the zone.

I mean if if we can focus on a major facility like this I think it can demonstrate that the zones have far more potential than just the relatively small businesses that the existing incentives are designed to attract. And perhaps we could have more mechanisms built into the zone program that we could look at a legislation which would, you know, provide greater opportunities. And I would be very open to that.

COMMITTEE CHAIRMAN RELIS: Well for one thing I think it would be helpful at the market committee, just from this, to have a regular exchange with Trade and Commerce if it wouldn't be too much trouble. If we could call on you from time to time, Wes, to --

MR. ERVIN: We'd all be delighted over there.

COMMITTEE CHAIRMAN RELIS: -- to get this feedback going. And then, then, do you have, Jess, do you have any thoughts?

COMMITTEE MEMBER HUFF: (Member shook head.)

COMMITTEE CHAIRMAN RELIS: Okay. Well I'm going to suggest that staff in the, be directed to track this very closely and report back to the committee at the next meeting on the status of this project, and any thoughts about the relationship of our zone program as currently constructed to how it might be enhanced to be more attractive in consultation with the Department of Trade and Commerce. And that's general but I think, I don't know what more to say about it at this point.

COMMITTEE MEMBER CHESBRO: Well one idea I have that may or may not turn out to be a useful one. But in addition to the question of state taxes and state incentives we also want to consider whether authorization could be given to local governments to provide additional incentives to, you know, provide, within recycling market development zones.

COMMITTEE CHAIRMAN RELIS: But they have that already I would think.

COMMITTEE MEMBER CHESBRO: I don't think so. I think their authority is pretty limited in terms of the kinds of, what's the right word here, different, differing tax treatments and differing businesses depending on whether they're in the location or not. I believe within, within enterprise zones they have more flexibility in terms of, for example lower sales tax or lower property tax or specifics.

But they, I think within the recycling zones the tools that they have are somewhat limited.

Is anybody here on staff aware of how much flexibility local governments have within recycling zones? For example, to offer a lower property tax rate or a lower sales tax or --

MR. SMITH: I don't know in detail what the legal requirements are for setting those incentives. I know that in the number of applications that we've received for zones that there are quite a number of incentives listed. Now I think we have to look to see what, you know, what those actual limits are.

COMMITTEE MEMBER CHESBRO: My impression is that they are mostly linked to other programs like redevelopment agencies, enterprise zones, CDBG block grants, other programs that they're combining with what we offer from the state level, but that their legal ability to say give relief on certain types of taxes. And they can ask for fees I believe, you know, building fees, but I don't think property tax and sales tax type of activities that they have the authority to --

MR. SMITH: I think we have to look into that to answer your question.

COMMITTEE MEMBER CHESBRO: So some authority to provide local tax relief might be, I'm just mentioning I'm not pushing that as the solution. I'm just saying that's one of the things that maybe we ought to look at. And that gives the local government a tool if they think it's a worthwhile trade-off. The benefits they would gain versus whatever price might be involved.

MR. SMITH: I think we as staff could look into the types of incentives and where those authorities have come from.

COMMITTEE MEMBER CHESBRO: Of course if they don't get any property taxes anymore then as someone over there in the Capitol has proposed --

COMMITTEE CHAIRMAN RELIS: Well let's get a preliminary rundown at the next meeting.

COMMITTEE MEMBER HUFF: But our schools win too.

COMMITTEE MEMBER CHESBRO: (Member laughed.)

COMMITTEE CHAIRMAN RELIS: I'd like to thank Wes Ervin for coming here and that's an excellent presentation.

MR. ERVIN: Thank you.

COMMITTEE CHAIRMAN RELIS: Okay. Well we'll move onto the next item then.

MR. SMITH: Okay. This is the presentation by California Futures reporting research on minimum content tradable credits and manufacturer's responsibility. As you recall at the committee's December 10th, 1992 committee meeting, California Futures presented six of 22 market development recommendations they had investigated under contract to this board.

At that committee meeting the committee directed staff and California Futures to more fully analyze each option, compare their effectiveness, and present their findings to committee. California Futures has completed that work and will now present these findings.

But first of all I'd like to have Bill Huston provide a little introduction. Bill.

MR. HUSTON: Since I was totally unprepared for this I'd just like to introduce Bill Shireman, president of California Futures.

COMMITTEE CHAIRMAN RELIS: Our intention will be to break about 12:30 so if you could focus your comments and then give us some time for discussion?

MR. SHIREMAN: Okay. We will be concise. Good morning, Mr. Chairman and members and staff. I'm Bill Shireman with California Futures. This is Wendy Pratt with California Futures, and Mark Merritt.

This morning we will be presenting the results of the cost benefit analysis that we have been developing of six Market Development policy options. This is the second phase of the work that we have been performing for the Market Development subcommittee for the board.

In the first phase we developed a universe of market development options from which policy options could be selected for further analysis.

The second phase narrows that list of 22 options to six and, for further discussion.

The presentation this morning -- if I can figure out the system here which evidently I can't.

The presentation this morning is going to touch on five points. First, we're going to discuss the policies themselves, present the list of policies that we analyzed.

Second, we will go through the method of analysis, the cost benefit analysis method that we used to develop the data.

Third, we will summarize our findings.

Fourth, we will present to you the detail of some of those findings.

And fifth, we'll go thorugh our conclusions.

The policies that we looked at in depth are first, manufacture utilization. That is a requirement that manufacturers earn or purchase credits equalling 50 percent of the packaging that they put in the marketplace.

Second, a requirement that 15 percent of glass and plastic bottles be refilled, beverage bottles be refilled.

Third, a recycle content requirement for corrugated and box board of 80 percent.

Fourth, a printing, writing paper, requirement of

30 percent recycled content.

Fifth, a requirement that public agency who use compost must use 80 percent yard trimmings and other materials from municipal solid waste.

And sixth, that there be 40 percent recycled content in plastic industrial containers. That process is specifically is aimed at HDPE Market Development.

The cost benefit approach that we used is straightforward. And that is that the net benefit, or cost of the policy overall to the California economy, is the sum of first the value of the materials that are being diverted plus the natural value of indirect jobs that are created, less the net cost of collection and recycling after deducting avoided collection and disposal costs, less the total additional cost to end users, public administration, and private administrative costs.

COMMITTEE MEMBER CHESBRO: Why did you say indirect jobs only?

MR. SHIREMAN: They are, the value of direct jobs or the cost and value of direct jobs is already encompassed in the costs to end users and the cost of recycling. So both are counted but the indirect benefits also need to be added to the analysis.

The proper use of this cost benefit analysis is really in indicating the relative direction and magnitude of the effects that can be expected from these policies, not necessarily to determine the precise costs and benefits or jobs that are, that would result from these policies.

So for example, you can use this analysis to determine whether a particular policy is going to result in a net cost or a net benefit. And you can use it to compare one policy to another to get a feel for the magnitude, the comparative magnitude of those costs or benefits.

MS. PRATT: The costs and benefits can be expressed on a per ton basis, on a total net cost and benefit basis, and on a diversion basis. First we're going to compare policies overall and then go into a little bit more detail on each of those.

We're going to be to be switching back and forth from overheads to slides so bear with us here.

COMMITTEE MEMBER CHESBRO: Are we, I hate to like dwell on something, but are we in too big a hurry for me to really understand this cost benefit equation?

MR. SHIREMAN: We can go back, sure. Assuming I can figure out this we can go back.

COMMITTEE MEMBER HUFF: We do not want you to be in the dark.

COMMITTEE MEMBER CHESBRO: Are these pluses and minuses on the slide? Are they meant to be pluses and minuses? Because if the indirect jobs are counted as a plus and the direct jobs are under additional cost to end users then those are considered a minus in terms of cost. I don't really understand how they're, one's being viewed as a cost and one's being viewed as a benefit.

MR. SHIREMAN: I think it may be most useful to examine this in the individual case studies because I think the illustrations will be valuable.

COMMITTEE MEMBER CHESBRO: Obviously you didn't intend to do that so I just haven't figured out your methodology yet. I'll trust you for the moment. Maybe I'll understand it better when you --

MR. SHIREMAN: Okay. Or we can pursue questions at that time.

COMMITTEE MEMBER CHESBRO: Okay. Okay.

COMMITTEE CHAIRMAN RELIS: Are you on page six? Is that where you were?

MS. PRATT: Yeah, six. On a cost or benefit per ton diverted basis, the plastic and glass refillable policy has the highest net benefit of up to $1,000 per ton. The corrugated, printing and writing, and compost policies also have a net benefit. The manufacturer utilization policy has a modest net cost about $40 a ton. And the plastic industrial container recycle content policy has a high net cost of almost $1,000 a ton.

If we look at the total net cost of benefit over the seven years of the analysis, and that would be up to the year 2000, the corrugated policy has a net benefit of about $1.5 billion. The, together printing, writing, compost, and the refilling policies have a combined benefit of about three-quarters of a billion dollars. And the manufacture utilization and plastic industrial container policies have a net cost of up to $2 billion. And it's important to point out that most of the cost of those two policies is driven by the high cost of recycled plastic.

Now looking at diversion instead. The utilization policies have the most dramatic impact. And they could potentially divert between 10 to 20 percent of the waste stream each year.

Corrugated also has a fairly high diversion impact of about four percent of the waste stream each year.

The other policies have relatively modest diversion impacts of two percent or less annually.

COMMITTEE CHAIRMAN RELIS: Do you have compost?

MS. PRATT: Compost would be about two percent. Now what that says is that public agencies used a lot of compost they would divert. They could divert two percent of the waste stream. If compost was made that's a different diversion estimate.

MR. SHIREMAN: And would compost, we think the issue there is the particular policy that was analyzed not the potential of compost.

COMMITTEE CHAIRMAN RELIS: Yeah, yeah. Okay.

MR. SHIREMAN: And we have some comments on that later. This gets to the jobs impact. We analyzed the overall impact that these programs would have on jobs, that the direct jobs that would be created. The indirect jobs that are created as an effect of the multiplier effect there, and also any jobs that might be lost directly or indirectly through the diversion of capital or of investment to, to these functions.

The largest increase in jobs, and this is net jobs again, overall jobs including gains and losses. The largest increase in jobs resulted from the utilization policies. That resulted in about a 6,500 net increase. That was followed by the corrugated policy, an increase of almost 3,000 jobs. And the refilling policies, and the printing and writing paper policy which resulted in about 800 jobs. Interestingly, and we'll get into this in a bit, the plastic recycle content policy produced about 1,100 jobs and lost about 1,000 jobs so it came out virtually, virtually even.

Now a valuable question to ask is how much is the costing or benefiting society as a whole for each job that is created? Five of the policies here essentially paid society to create jobs based on the analysis that we performed. They pay about $14,000 to $15,000 per job. In other words, as a net economic benefit from the implementation of the policies. The utilization policy as it's, as it is structured in the report costs about $40,000 per job. And again most of that cost is driven by the cost of plastic. The plastic recycle content policy imposes rather enormous costs of about $1 million per year per job.

MS. PRATT: We also estimated the seven-year administrative costs for each policy, and then again this is more of a comparison between the policies.

Only two of the policies are likely to have significant public and private administrative costs, the utilization and the corrugated. For the manufacture of utilization policy, administrative costs could be about $500 million. Corrugated administrative cost would be approximately $200 million. Again, this is spread over a seven-year period. The other policies have lower administrative costs, $15 million or below over that seven years.

COMMITTEE MEMBER CHESBRO: Can I ask you another question?

MS. PRATT: Uh-huh.

COMMITTEE MEMBER CHESBRO: You split packaging utilization into two different categories. What's the difference?

MS. PRATT: Right. What we looked at with utilization was one policy that was a straight 50 percent utilization. The second policy we refer to as increasing packaging utilization, hyped up utilization rates to 80 percent in two thousandths. That's two years at 50 percent, two at 60, two at 70 --

COMMITTEE MEMBER CHESBRO: Phase in.

MS. PRATT: -- and then 80 percent.

COMMITTEE MEMBER CHESBRO: Okay. Thank you.

MS. PRATT: Next we're going to go through each of these, these policies. We're going to summarize some of the results.

MR. SHIREMAN: For the manufacture utilization policies there's very interesting results. It shows a cost per ton of $40 and again a seven-year net cost of 1.5 to $2 billion. It achieved the highest level of diversion, 11 to 18 percent diversion, creating 6,500 new jobs at an annual cost per job of about $44,000.

Now very significantly again, if plastic were excluded from this policy or if the policy were restructured in some way to reduce plastic related costs, then the policy results in a benefit of $70 per ton. So the policy impact switches there.

The -- is this right? Yeah, it is. Okay. Since we're there.

We know that sometimes one particular assumption will drive the results of an analysis very powerfully in one direction. And so for each policy we changed key assumptions to determine the impact of changes those assumptions had on the results of the analysis. We look at such things as including or excluding different material types, changing assumptions about jobs and so on.

And we concluded that, for example, without aluminum, the cost of manufacturer utilization policy almost doubles. Very interestingly without plastic again, the manufacturer utilization policy reverses from the $40 per ton cost to the $70 per ton benefit because the cost of recycling plastic is so high.

Now also interestingly, you can see from this chart, to put the cost of manufacturing utilization in perspective, as the cost of landfill disposal increases over time --

COMMITTEE CHAIRMAN RELIS: What page are you on now?

MR. SHIREMAN: This is now, I'm sorry, 14. So we switched 15 and 14 on you.

As a cost of landfill disposal increases over time the cost of manufactured utilization deceases. So that you can see on this chart that we begin with a $70 per ton cost under the program. We end in the year 2000 with a cost of a little less than $10 per ton.

MS. PRATT: For the policy that mandates a 15 percent refillable market share for glass and plastic beverage containers, this policy has the highest net benefit of any of the policies that we analyzed. For plastic containers there's a potential benefit of up to $1,000 per ton of plastic diverted. For glass there's a smaller but still significant benefit of between 260 and $460 per ton.

The combined seven-year net benefit of the policy ranges from $40 million to $112 million. Refilling has a relatively low diversion impact but it will have a positive impact on glass and plastic secondary markets. The policy will create about 800 new jobs and these have an annual benefit of between 14,000 and 23,000 per job.

COMMITTEE MEMBER CHESBRO: What is the beneficial impact on secondary glass and plastic markets?

MS. PRATT: By refilling you're diverting glass, cullet, and plastic, secondary plastic from the marketplace, so you're reducing the supply of cullet and plastic.

COMMITTEE MEMBER CHESBRO: Oh, okay.

MR. SHIREMAN: You also may be, and part of the intent of these policies is not necessarily to create a demand that is in and of itself sufficient to provide for the supply of materials that are generated but to stimulate investments that can have other purposes. And so this policy, we think, may help to lay the foundation for a greater reuse and refill opportunities. So the direct, so while the diversion impact of the policy directly may be limited, it may spur investment that would create opportunities elsewhere.

MS. PRATT: In the sensitivity analysis for glass refilling none of the assumptions that we vary, are varying, all these assumptions didn't change the overall benefit of the policy. And in fact when we increased the refillable market share to 20 or 25 percent the benefit per ton increases. And basically no matter what reasonable assumptions that we made the policy results in a net benefit.

For plastic refilling, with a lower market share or lower cost container such as school milk cartons, there may be a cost to the policy, and that's at the bottom of these blocks here. With higher market share or more valuable containers being refilled such as HDPE soda bottles, the benefit increases and in fact it's quite large, $1,000 per ton or so.

MR. SHIREMAN: For the corrugated box board policy there is a net benefit that ranges from $13 to $115 per ton, and a seven-year net benefit of $130 million to $1.7 billion. Now that's a ten-fold spread between the low estimate and the high estimate of benefits for this policy.

The three factors that are most responsible for this ten-fold spread are first, the price of the material which can vary a great deal; second, the quantity of material that we assume to be diverted from the California waste stream; and third, the investment that is required by the end user. And that very significantly is driven by whether trading is allowed and facilitated, trading of credits is allowed and facilitated under this policy.

If trading is permitted then a few end users can make the investment to achieve the overall recycled content mandate. If trading is not permitted then all end users would need to make that investment. And so the total amount of investment required would be much higher and hence the costs of the policy would be higher.

If we use the mid-range estimate of diversion from California, this policy converts two million tons a year or about four percent of the state's waste. It creates 2,800 new jobs overall at an annual benefit of about $43,000 per job. The sensitivity analysis for corrugated indicates that if, changing two assumptions resulted in an increase in the benefits, in the benefits of this policy, changing three assumptions reduces the benefit of the policy. Using relatively high estimates of indirect job creation and diversion increases the benefit. On the other hand using more modest estimates for job creation, recycling cost, and landfill cost reduces the benefit.

MS. PRATT: The next policy we looked at would require 30 percent recycled content in printing and writing paper. This policy has a benefit of around 50 to $100 per ton. The seven-year net benefit would be between 100 and $400 million. The primary reason is the high value of paper that's being diverted under this policy. California diversion is going to be relatively low. We estimate about one percent. This is low in part because most of the printing and writing paper that's sold in California is manufactured out-of-state. This policy --

COMMITTEE CHAIRMAN RELIS: So you're not assuming then that there would be a cycle of plants developed here? How would that affect --

MS. PRATT: In our sensitivity analysis we looked at what would happen if diversion increased and that makes the policy more beneficial. But we're assuming initially that it's the same.

COMMITTEE CHAIRMAN RELIS: All right.

MS. PRATT: The policy creates about 400 new jobs and these have an annual benefit of $48,000. In the base line model we used relatively high recycling costs and low diversion estimates. The sensitivity analysis shows that if you use a lower recycling cost or higher diversion in the model the benefits of the policy increase. With this policy though no matter what assumptions that we made the policy resulted in a net benefit.

MR. SHIREMAN: For the public agency compost use policy the benefit or the cost really depends on the level of use that public agencies make of compost. In a time when budgets are highly constrained the easiest way to get out of the costs that are associated with this policy might be for public agencies simply not to use compost at all. And consequently this policy, at a low level of use would result in a cost of about $32 per ton of material.

We believe that it may be more advisable to look at the development of compost policies aimed at agriculture or land reclamation and we have some recommendations along those lines. An alternative policy such as that that looks at land reclamation, and agriculture is more likely to result in a benefit in the neighborhood of at least $26 per ton or more.

Now identifying those policies would require that the board do two things. First, address barriers to agricultural compost use. And we have added a section to our report that discusses some of those, some of those barriers.

And secondly, to quantify the benefits of agricultural use of compost. And again we have a discussion that relates to those two points in our, in our report.

The sensitivity analysis for compost essentially repeats the bottom line that we need a policy that develops a much higher usage of compost so that the cost of the policy can be spread across a larger tonnage of material.

If the public agency compost use is increased more than ten-fold, in our assumptions the policy results in a net benefit. And that's the top line that you see or the tops of all of the bars in this chart. No matter what assumption changes are made in the X axis below, the policy is a benefit.

At the current level of use however, there's a cost, again no matter what assumption, no matter what other changes and assumptions you make. And that cost is shown as the lower part of the bar that shows the range.

MS. PRATT: The last policy that we looked at would require a 40 percent recycled content in plastic industrial containers that would be crates, drums, that sort of thing. This policy has by far the highest cost of any of the six ranging between seven and $950 per ton diverted. The seven-year net cost would be about one-half billion dollars. Now while the costs are high the policy has a minimal diversion impact. It would divert less than a tenth of a percent of the waste steam each year. It would however, create a relatively strong demand for HDPE milk jugs.

Looking at jobs, the policy creates about 1,100 new jobs, and this would be through collection and processing and also indirect jobs. There will be an indirect job loss of about 1,000 jobs. There's a net then of 74 jobs. These have, again, an extremely high annual cost of about $1 million each.

In the base line model we used a plastic recycling cost as $750 a ton, and this is consistent with several published studies. The sensitivity analysis shows that if plastic recycling costs are reduced to around $200 a ton the policy could result in a net benefit. And again as we've pointed out before, the plastic recycling costs tend to drive policies that involve plastic, towards negative cost.

MR. SHIREMAN: So our conclusions overall can be summarized as follows. The policies that produce the highest benefit per ton are the refilling policies, the 15 percent plastic refill, and the 15 percent glass refill policy.

The policies that provide the highest overall benefit are the corrugated and the printing and writing paper policies.

And the policies that result in the highest level of diversion are the manufacturer utilization policies and the corrugated policy.

Finally, the policy that provides the highest jobs benefit per job, the highest annual dollar benefit per job created, are the corrugated, the printing, writing paper, the glass refill, and the plastic refill policies.

The next steps -- we almost made it all the way through without major video glitches. Amazing.

The next steps that would be indicated by these conclusions are first, a coordinated strategy. And that is to develop a comprehensive and coordinated strategy for recycled content and manufactured utilization. There are questions such as how might existing laws like SB 235 be modified to fit into a broader policy framework. There is a discussion in our report that has to do with combined, with a combined paper recycled content policy with trading perhaps between grades. Those kinds of issues of coordination are important to develop.

Very significantly number two, a strategy for economic development. One of the advantages of the work that has been performed so far is that we have begun to isolate those factors in the design of policy that result in a net economic benefit to the state that produced jobs and that produces economic growth. And based on that we are in a position now to develop and quantify, a policy approach, an overall policy framework that achieves the 25 percent and 50 percent diversion levels at the greatest potential economic benefit, creating the most jobs and the least costs overall for the state.

Now within that strategy it's very clear to us that the third point needs to be addressed, and that is a compost policy. The work that has been performed so far has not focused on a compost policy that's capable of significant and cost effective diversion of compost. And so we would recommend the further development of the compost policy option with an emphasis on agriculture and land restoration.

So with that that concludes our formal presentation. And we're certainly open to any questions and comments that you may have.

COMMITTEE CHAIRMAN RELIS: This is quite sweeping stuff. This is, this is important. Now I was wondering in terms of trying to still interpret this in the mandates.

Your diversion figures and your employment, they are two exceedingly important factors. If we were to plot out a 25 percent and 50 and we start with a diversion of 12 which is our, roughly our baseline. I would really like to see this information placed on a time and diversion horizon, that is, we've got, and in terms of time, timing for implementation. Because it's the timelines and how quickly the market functions could be met that would answer a lot of the concern being raised by local government. In other words plotting this in a, in a time diversion horizon where you could put the information together on that basis.

MR. SHIREMAN: That would also enable the combined effects of the policies to be analyzed rather than analyzing each of them individually, and I think that would be an important step.

COMMITTEE CHAIRMAN RELIS: In your information what strikes me as quite, particularly interesting, is this utilization, you know. That's being discussed a lot at the federal level that we've brought it up, Ed Boisson brought it up in the presentation before in our workshop just a few weeks ago.

And what you're saying from that I think is that, that's showing a very, very high price associated with it. High diversion but very high cost, high cost diversion.

COMMITTEE MEMBER CHESBRO: But I think with plastics involved that drove that.

COMMITTEE CHAIRMAN RELIS: And you're saying that they're skewing the numbers way up?

MR. SHIREMAN: Right. So the challenge to policymakers may be to look at that plastic category or what, what elements of the policy result in those, in those plastic costs and how they may be, they may be reduced.

COMMITTEE CHAIRMAN RELIS: Well my inclination Would be, and just to kick off discussion, would be to see us enter a very accelerated synthesis, you know. We've got the emerging issues group and the, and now the payoff, the beginnings of the payoffs from the studies we commissioned, the research of which yours is very germane to our whole mission on the area of minimum utilization or minimum content. What areas are the highest payoff areas? You've expressed that to us.

I think we need a certain staff presence and evaluation of that validation of the logic that's being laid out to us here. I'm not doubting it. I'm just saying we need the independent judgment of our staff reviewing this work and helping us interpret it related to our mandates. And I know that's a big undertaking but that's the critical need we have particularly now with the utilization or the proposals for minimum content that's one of our areas under the market plan. What are we going to come forward with?

MR. HUSTON: Certainly we're not looking for -- is this on?

We're not looking for a decision from the board about --

COMMITTEE CHAIRMAN RELIS: Sure.

MR. HUSTON: -- what we do next per se, or specific proposals that we should, we should pursue in detail. What we're truly looking for, we wanted to make this presentation to you and certainly assure you that this work as well as the work of Booz-Allen and Resource Integration will be combined into the Emerging Issues Report in July that we present to you at that time. We will also use not only the results of California Futures' work but also the methodology that they have used for the cost benefit analysis to assess, assess other minimum content proposals or different percentages, and be able to compare those one to the other to bring specific recommendations to you later on.

So this work is, we consider it to be extremely, analysis advancement. I think the work that California Futures is, has gone well beyond what we could find in the current literature --

COMMITTEE CHAIRMAN RELIS: Well --

MR. HUSTON: -- or work that others have done. We've been delighted with the work that they've done and it will certainly be used in the staff analysis to continue, certainly the minimum content work and the emerging issues work that we're pursuing.

COMMITTEE CHAIRMAN RELIS: So in July, what you're, would you repeat what you said about what we're going to get in July?

MR. HUSTON: I'd like Ed to comment on that specifically if he might.

MR. BOISSON: Ed Boisson. The question was, question was what can you expect in July, is that right?

COMMITTEE CHAIRMAN RELIS: Yeah.

MR. BOISSON: I think, well first of all what we're planning on presenting in July will be the four reports that we've already discussed concerning emerging market development options as defined. And what I'm putting a lot of emphasis on is a summary report in which we'll try to link together all of these different options that have been discussed, the specific proposals that we've heard about today and the analysis. And I would even go farther than that to say a lot of information that came out of the material, specific workshops and reports, says a lot about specifically what is the realm of possibility in terms of increasing demand for each material.

And so to sum up I would just say in July what you'll be looking at is a distillation of a lot of, all of this information. It will be in the form of trying to lay out as concisely as possible what the options are, and then I would say, certainly folding in whatever quantitative information we can.

And I would echo what Bill said in terms of I'd like to take a much closer look at some of the assumptions that went into the numbers in today's report. I've gone through the model and I think I understand how it works. And just take a look at what the importance of some of those assumptions are, and if you tweak one number what, you know, what does that do to your conclusions.

And it seems like the main conclusions we can get, as you folks mentioned at the outset, is in comparing policies, not so much in looking at one specific one and saying, "This will create X jobs", or, "It has a net cost of x" but to get that comparison in terms of how the different options compare against each other.

And then the other thing I would say in terms of how we can use this information is, in the report is a lot of qualitative analysis in terms of how utilization rates would work in practice and tradable credits and etcetera. And we'll certainly be benefiting from all of that to the extent that we can.

That's a long winded answer to your question.

COMMITTEE CHAIRMAN RELIS: Is there anything that, I mean, you know, I look at these corrugated numbers here or this analysis. If I were just to look at it today and without digging in deeper, I mean that looks like a pretty impressive return for a, a minimum content type of approach.

Would there be anything that would jump out at you as staff and say you'd want to perhaps fast track more than the overall analysis?

MR. BOISSON: I will, speaking for the team working on the emerging market development options. We have a lot of ideas in terms of where the committee and the board might want to go in terms of fast tracking specific policies and also just looking at general approaches. We've been talking with advisors a lot and will be doing more so and we're going to be giving you an update in June in terms of where we're at. I would agree with you that the compost, the refillable policies, and, and the corrugated struck me as --

COMMITTEE CHAIRMAN RELIS: They're very impressive.

MR. BOISSON: -- as all looking as they appear to have a positive benefit and would certainly do a lot for diversion and possibly kick start investment and have other benefits down the road.

But again I think as part of the team I'd like to take a closer look at that --

COMMITTEE CHAIRMAN RELIS: Uh-huh.

MR. BOISSON: -- before we actually make a recommendation to you.

COMMITTEE CHAIRMAN RELIS: So we'll get a report next month, an update, and then the large body of work would be pulled together at the July meeting?

MR. BOISSON: That's correct.

COMMITTEE CHAIRMAN RELIS: Okay. And this should give us at that time a basis for our recommendations or for board discussion on where do we go on minimum content on broader issues, would that be fair?

MR. BOISSON: That's a fair characterization.

COMMITTEE CHAIRMAN RELIS: Start to reach a decision point there.

MR. BOISSON: I'd like to reiterate that what we're shooting to do with our final reports is lay out a very concise list of options and to discuss quantitatively as well as qualitatively what it would take to actually implement, timing, the types of benefits we could expect, etcetera. On a fairly qualitative level, but to the extent that we can quantitative.

We were not intending to give you the recommendation, "This is what we think you should do."

COMMITTEE CHAIRMAN RELIS: Right.

MR. BOISSON: And so we discussed that in the committee before.

COMMITTEE CHAIRMAN RELIS: We're going to have to mull that.

MR. BOISSON: We'll be looking to advisors over the next month or so to help us out with what the form of our final presentation should look like. We're definitely rolling forward with that.

COMMITTEE CHAIRMAN RELIS: Well this was an information item as well. I think that timeframe seems, I don't know how others feel but it seems like we're moving pretty quickly now towards closure on this. I'd like to get closure on it by July, have a framework for decision.

Mr. Huff, any thoughts?

COMMITTEE MEMBER HUFF: July seems like a good timetable.

COMMITTEE MEMBER CHESBRO: That's right.

COMMITTEE CHAIRMAN RELIS: Okay. I don't have anything more to say. Okay. I think, I appreciate very much the work you've done. California Futures is really, I think contributed a very original work. And as I would echo, you've gone beyond what I've seen and you've put the job analysis in there which is going to be extremely critical to the success of any direction we take and the analysis of what we'll achieve, both the combination of diversion and positive job enhancement in the state. So I commend you for your work.

MR. SHIREMAN: Thank you. And I just wanted to thank also the board and staff for the support that everyone has provided with this project. And in particular I want to publicly express my thanks to our own staff; wendy Pratt, who performed extremely good work on this; Mark Merritt; and our team members, research management associates, CEC, and others. So thank you.

COMMITTEE CHAIRMAN RELIS: That you very much. And that concludes our meeting.

(Thereupon the foregoing meeting of the
CIWMB Market Development Committee was
concluded at 12:11 p.m.)

CERTIFICATE OF CERTIFIED SHORTHAND REPORTER

I, DORIS M. BAILEY, a Certified Shorthand Reporter and Registered Professional Reporter, in and for the State of California, do hereby certify that I am a disinterested person herein; that I reported the foregoing hearing in shorthand writing and thereafter caused my shorthand writing to be transcribed by computer.

I further certify that I am not of counsel or attorney for any of the parties to said proceedings, nor in any way interested in the outcome of said proceedings.

IN member WHEREOF, I have hereunto set my hand as a Certified Shorthand Reporter on the 8th day of June, 1993.

Doris Bailey

Doris M. Bailey, CSR, RPR
Certified Shorthand Reporter
License Number 8751