CALIFORNIA INTEGRATED WASTE MANAGEMENT BOARD
8800 Cal Center Drive
Sacramento, CA 95826
(916) 255-2200

Wednesday, July 9, 1997
9:30 a.m.
meeting of the

MARKET DEVELOPMENT COMMITTEE

Paul Relis, Chairman
Wesley Chesbro, Member
Daniel G. Pennington, Member

AGENDA

Note:

- *Agenda items may be taken out of order.*
- *If written comments are submitted, please provide 15 two-sided copies in advance of the Committee meeting and include on the first page of the document the date, the name of the committee, the agenda item number, and the name of the person submitting the document.*
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Some of the items listed below may be removed from the agenda prior to the Committee meeting. To verify whether an item will be heard, please call Donnell Duclo, Committee Secretary, at (916) 255-2157.

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Notice: The Board or the Committee may hold a closed session to discuss the appointment or employment of public employees and litigation under authority of Government Code Sections 11126 (a) and (q), respectively.

For further information or copies of agenda items, please contact:

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Results of the Market Development Committee
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Item 2 (CALCAP)
3-0 (not on consent) to forward staff's recommendation to the Board with the following amendments and clarifications:

a) Eligibility – clarify language regarding expanded eligibility criteria, add reuse as eligible criterion, and include a provision regarding the Board's ability to subsequently modify the eligibility criteria;
b) Indemnification provision – check with Legal Office;
c) Internal Approval – change to approval to be made by the Deputy Director and either the Chair of Market Development Committee or the Chair of the Board; and
d) Monitoring – directed staff to provide monthly update on types of loans being funded through CALCAP.

Item 3 (Loan Eligibility)
2-0 (not on consent) to forward staff's recommendation to the Board with the following amendments and clarifications:

a) Eligible Costs and Project Match – directed staff to present information on history of loans that would require expanded project definition in order to be considered;
b) Onerous Debt – clarify that projects strictly involving onerous debt are ineligible, but that refinancing debt as minor portion of projects leading to increased diversion is eligible;
c) Source Reduction – clarify that need demonstrable evidence that waste was going to landfill; and
d) Reuse – clarify that need demonstrable evidence that waste was going to landfill, delete "diaper services" from list of ineligible projects, and clarify language re: "cleaning services."

Item 4 (Loans)
2-0 to approve all 3 loans; MBA Polymers, Inc., and TWDC Industries, Inc., on consent; Evergreen Glass, Inc., not on consent.

CALIFORNIA INTEGRATED WASTE MANAGEMENT BOARD

Market Development Committee
July 9, 1997

AGENDA ITEM 2

ITEM: CONSIDERATION OF PROPOSAL FOR PARTICIPATION IN THE CALIFORNIA CAPITAL ACCESS LOAN PROGRAM (CalCAP) ADMINISTERED BY THE CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY (CPCFA)

I. SUMMARY

This item seeks approval of a proposal for CIWMB participation, on a pilot basis, in CalCAP and authorization for the Executive Director to execute an Interagency Agreement (IAA) and any other necessary documents with CPCFA to implement such participation.

II. PREVIOUS COMMITTEE ACTION

At its February 6, 1997 meeting the Market Development Committee (Committee) directed staff to work with CPCFA to develop a detailed proposal for CIWMB participation in CalCAP.

III. OPTIONS FOR THE COMMITTEE

The Committee may:

1. Recommend, and forward to the Board, approval of the proposal as presented, including authorization for the Executive Director to enter into an IAA.
2. Modify staff's recommendation and forward to the Board, for its approval, the modified proposal.
3. Provide staff with guidance and direct staff to modify the proposal and return to the Committee for consideration.

IV. STAFF RECOMMENDATION

Staff recommends that the Committee recommend to the Board approval of the CalCAP participation proposal and authorization for the Executive Director to execute the implementation IAA and any other necessary documents with the CPCFA.

V. ANALYSIS

Background - Existing CalCAP Program

The CalCAP Program was initiated by CPCFA in April 1994. It is designed to provide small businesses with access to sources of debt capital. It is not a low-interest-rate loan program. It is a market-based program designed to leverage private sector capital resources. It endeavors to encourage banks and other commercial lending institutions to make loans to small businesses that fall just outside of most banks' conventional credit underwriting standards.

All credit decisions are made by the lending bank. The Program is designed to be user-friendly for all participating parties - borrowers, banks, the Program Trustee and CPCFA. Thus it is designed to be quickly responsive from the initial application stage, through credit analysis and decision, and to loan enrollment in the CalCAP loan portfolio insurance program.

CalCAP provides a form of loan portfolio insurance. It does not, however, provide a full or partial guarantee for a specific, designated loan. The loan portfolio insurance is in the form of a dedicated loan loss reserve account at each participating bank. The total loan loss reserve account is available to the bank to cover 100% of the defaulted amount on any single loan in the portfolio, up to the limit of the portfolio loan loss reserve account. After a bank's loan loss reserve account has been drawn down to a zero balance, the CalCAP Program does not provide any additional coverage for any additional default on any loan remaining in that bank's CalCAP loan portfolio. By Program design, the risk of loss, if any, on any loans beyond the coverage of the loss reserve account is borne completely by the individual lending institution.

The total loan loss reserve account (available, as outlined above, to reimburse the bank for up to 100% of the defaulted amount on any single CalCAP loan) is funded from three designated sources for each loan enrolled in CalCAP. There is (1) a stated contribution required from or on behalf of the borrower; (2) a matching contribution from or on behalf of the lending institution (CalCAP regulations allow this cost item to be passed on to the borrower either as an explicit, up-front charge or - more typically - incorporated into the terms of the loan); and (3) a "combined match" contribution from the CPCFA, equalling the total of the above contributions.

(1) The statute provides for a minimum stated contribution ("Fee") from the borrower of 2% of the principal obligation

for each loan of each borrower and a maximum of 3 1/2% for each loan, cash at the time of loan origination.

(2) The bank matching contribution (chargeable directly to the borrower or incorporated into borrower cost-of-capital-access, as outlined above) would also thus be in the range of 2% to 3 1/2%.

(3) The "combined match" ("100% match") from the CPCFA would thus be in the range of 4% to 7% of the principal obligation for each CalCAP enrolled loan. (The CPCFA contribution can be a 150% match (a) for "early stage" loans for an individual bank and (b) for loans granted in enterprise zones or in economically impacted areas "contiguous to the boundaries of a military base designated for closure".)

Eligible small business borrowers are limited to specified SIC Code categories (Standard Industrial Classification Code, designated by the U.S. Office of Management and Budget). Generally, eligible categories include substantially all agricultural production, extractive industries, construction, manufacturing, and transportation equipment. Generally excluded are warehousing, transportation services, retail stores and professional and business services (e.g., brokers, bankers, doctors, lawyers, engineers).

Legislation effective in January 1996 allows third-party entities to participate in CalCAP as "Independent Contributors" to the portfolio insurance loan loss reserve accounts. The CPCFA subsequently adopted amended regulations specifying the detailed requirements for such third-party participation. The proposal for CIWMB participation is designed to comply with these requirements.

Background - CIWMB Initiatives for Participation in CalCAP

The Board recommended participation in CalCAP, on a pilot basis, for not more than $500,000, in the RMDZ Loan Program Evaluation Report submitted to the Legislature in May 1995. During 1996 informal staff level discussions took place between CPCFA and CIWMB as did presentations of the CalCAP Program by CPCFA staff to members of the Committee and the Board.

Legislation effective in January 1997 (SB 1535 [Killea]) provided that the Board "may, on a pilot basis, participate, in an amount not to exceed five hundred thousand dollars ($500,000)," in the CalCAP Program. At its February 6, 1997 meeting the Committee directed staff to develop a proposal for Committee and Board consideration regarding CIWMB participation in CalCAP.

The availability of the CalCAP Program was one item covered in the RMDZ Loan Program Workshop on February 5, 1997. Potential CIWMB participation was discussed at the Zone Administrators' Meeting in March 1997 and was included in the Eligibility Questionnaire circulated in April 1997. A conference call to a sub-group of Zone Administrators on June 9, 1997, elicited favorable comments regarding such participation.

The CPCFA staff is currently involved in a thorough, third-year CalCAP Program review and evaluation and may not be prepared to enter into an IAA as early as July 1997. CPCFA staff has indicated a willingness to work closely with CIWMB staff to develop such an IAA, in conformance with the CalCAP Regulations, for the CIWMB to become the first Independent Contributor for the Program. They are also interested in jointly developing a marketing/outreach program to maximize CalCAP effectiveness. This provides an opportunity to leverage existing state resources in a manner beneficial to the programs of both agencies.

Upon direction by the Board, staff will continue discussions with CPCFA to develop an IAA implementing CIWMB participation in CalCAP.

Options for CIWMB Funding Participation in CalCAP

1. Participation by providing a borrower's contributions to a loan loss reserve account, covering the borrower's total cost of access to capital under CalCAP, through an IAA with CPCFA utilizing existing Program mechanisms.

   This is the option chosen by staff as the proposal for recommendation to the Committee and the Board. It will be presented in greater detail in a subsequent section of this staff analysis.

   Reasons chosen:
   (a) Maintains procedural simplicity of the existing CalCAP Program.
   (b) Maintains clarity of roles and required actions for borrower, bank, CPCFA and Program Trustee and specifies role of and actions required by CIWMB.
   (c) Provides for deposit of CIWMB funding contribution at the appropriate, existing time slot in the sequence of the process of loan application/credit approval/CalCAP loan enrollment.
   (d) Formalizes relationships and mutual obligations between CIWMB and CPCFA and between CIWMB and the Program Trustee.

(e) Provides for establishment of a clear record trail of CIWMB loan eligibility approvals and funding authorizations.
(f) Provides clear accountability for deposit and utilization of CIWMB funds.

2. Participation in providing borrower's loan loss reserve account contributions (borrower's cost of capital access) for an individual borrower directly through borrower and/or individual bank without receiving formal concurrence of CPCFA.

<u>Reasons not chosen:</u>
(a) In the past, CPCFA staff had anecdotally expressed "indifference" as to the source of funds for the loss reserve account contributions of a single borrower. However, this is not consistent with a long-term, ongoing cooperative relationship with CPCFA.
(b) Would be administratively cumbersome, requiring additional procedural interfaces and separate documentation outside of the existing, relatively simple Program procedures and documentation; could impose additional record-keeping burdens on CIWMB, the Program Trustee and the CalCAP bank, which might be a disincentive for a bank to make a particular loan.

3. Explicit buy-down of borrower's loan interest rate.

<u>Reasons not chosen:</u>
(a) Not authorized in CIWMB statute or regulations.
(b) Not specifically authorized in CalCAP regulations.

4. Provide a separate CIWMB "lending incentive" contribution to the loan loss reserve accounts, <u>in addition</u> to the borrower/bank and CPCFA contributions.

<u>Reasons not chosen:</u>
(a) CPCFA regulations are silent on this procedure.
(b) Could require extensive negotiations with banks and/or CPCFA to implement.
(c) Potential "lending incentive" benefits are achievable through the proposed option and more easily administered under explicit provisions of existing CalCAP regulations.

5. CIWMB loss reserve account contribution of only the borrower's "stated" required contribution amount.

Reasons not chosen:

(a) Borrower would still bear the "cost of capital access" charge represented by the "bank's" contribution (either by an explicit, up-front cash charge or built into the terms of the loan).

(b) May not be enough of an "incentive" for the bank to make a loan it would not otherwise make; i.e., there is no "new" third-party-substitute source of funding that the bank would not already have had access to "in the deal" to cover the cost of capital access.

Key Issues: Elements of the Proposed Option for CIWMB Participation in CalCAP and Compliance with Requirements of CalCAP Regulations

1. Adoption of CIWMB eligibility "Standards" for CalCAP participation

The CalCAP regulations require that the Independent Contributor adopt its own "Standards", meaning "the criteria, limited to geographical area and/or type of business, to be used by an Independent Contributor in selecting businesses to assist through the Program."

The proposed eligibility criteria are as follows:

a. Businesses located in a Recycling Market Development Zone

b. Businesses utilizing recycled feedstock and producing a recycled-content, value added product, or otherwise increasing demand for materials that are normally disposed in a sanitary landfill.

It is proposed that participation in the portion of the CalCAP sponsored by the CIWMB would be open to some companies which may not now receive priority consideration under the Recycling Market Development direct loan program. These would include smaller loan amounts; weaker credits; borrowers who need more than one-half of the project costs to bridge a gap in credit availability; applicants utilizing recycled materials not as high on the CIWMB targeted priority scales for type of material, amount of diversion or stage of activity in the recycling, re-processing, recycled content manufacturing continuum. Specifically, this would include companies involved in collection, baling, densification, procurement and materials forwarding activities which enhance recycled-content-product market development within a Zone.

2. Additional Requirements of CalCAP Regulations

   a. Agreement not to establish an exclusive arrangement with a particular CalCAP participating bank.

   b. Indemnification of CPCFA "against any loss, liability or claim arising from the use of [CIWMB] funds in the [CalCAP] Program."

   c. Representation of understanding of and intention "to abide by the provisions of the [CalCAP] Law and [Regulations] with regard to [CIWMB] participation in the [CalCAP] Program."

   d. Agreement to deposit in a CIWMB account with the CalCAP Program Trustee (currently Bank of New York, Western Trust Division) an initial deposit of available Program funds.

   e. Agreement to pay normal account fees specifically attributable to this CIWMB account. **NOTE:** This account will be an interest bearing, money market account. Interest payments can be used to offset account fees or for any other valid Program purpose. Money in this account is withdrawable by the CIWMB until committed to the origination of a specific CalCAP enrolled loan.

3. Deposit of Initial CIWMB Amount: $500,000

It is proposed that the total available pilot program funds of $500,000 be deposited with the CalCAP Program Trustee in a single deposit. This will facilitate timely application of CIWMB funds to a loan application-in-process through procedures already in place with the CalCAP Program Trustee.

The CalCAP regulations require a minimum initial deposit of $15,000 and a minimum continuing balance of $5,000. If the Board were to approve only the minimum initial deposit of $15,000, for example, only two $100,000 loans or five $50,000 loans could be funded by the banks (utilizing the full $10,000 of "free balance" of available CIWMB funds) before staff would have to return to the Board for further authorization at a regular or special meeting of the Board. This disbursement request would then have to be processed through the State Controller's Office, resulting in further delay and a break in the flow of loan applications and approvals. This situation would completely defeat the existing simple and timely procedures already built into the CalCAP Program.

The CPCFA has typically deposited funds in the amount of $2,000,000 to $3,000,000 in a single deposit in order to have money available to cover an anticipated six to ten months of Program activity. The CIWMB should follow this same procedure for its pilot participation in CalCAP.

As noted above, the CIWMB account with the CalCAP Program Trustee is under the control of CIWMB; is interest bearing; and is withdrawable at the discretion of CIWMB until committed to a specific individual CalCAP loan, when funds are transferred to the applicable loss reserve account covering the portfolio of loans including the newly enrolled loan.

After this time, CIWMB no longer has any control over the funds in a loss reserve account. Funds in loss reserve accounts are controlled by CPCFA and can be released only to the bank and only upon CPCFA approval of a bank claim for reimbursement for losses on a specified loan. ALL recoveries by the bank against that defaulted loan **MUST** be re-deposited in the applicable loss reserve account.

4. Application of CIWMB Funds to Reduce Borrowers' Cost of Access to Capital and Limitations of Use of CIWMB Funds

It is proposed that CIWMB funds be used to cover the initial contributions into the loan loss reserve account which are now payable either directly or indirectly (in the interest cost or other terms of the loan) by the borrower as a cost of access to a CalCAP loan. This means providing a minimum of 4% of the principal obligation of the loan, up to the statutory limit of 7% of loan principal, for initial deposit into the loan loss reserve account. Thus, the maximum limit for the CIWMB contribution is proposed to be 7% of the principal amount of a single loan.

CalCAP regulations specifically authorize the payment of the loan loss reserve account contributions by an Independent Contributor.

Contribution of funds from "outside the deal" provides an incentive for a bank to make a loan it might not otherwise make or to improve the terms of the loan to the borrower. This supports the objectives of the CIWMB to provide financial assistance to borrowers to achieve waste reduction and recycled-content-product market development.

The amount of the CIWMB contribution for an individual loan would be determined by a market-driven risk assessment made by the bank regarding an individual loan, and would be within the established statutory limits. Since it is not possible to decide in advance how much of an incentive might be required, it is appropriate in a pilot program to let the market set the risk parameters. As the history of the CalCAP program indicates, very few loans have required coverage by the maximum allowable loan loss reserve deposits.

5. <u>Additional Proposed limits on Amount of CIWMB Funding</u>

a. It is proposed to limit the CIWMB contribution to CalCAP enrolled loans of $1,000,000 or less. This is consistent with existing CIWMB policy on maximum loan size.

b. It is proposed to provide CIWMB support for CalCAP loans greater than one-half of the project cost.

This CIWMB contribution to CalCAP is not a direct loan. The loan itself is fully funded by the bank. Many borrowers need a loan of more than 50% of the project cost and have no other source of funds to fill this gap. The CIWMB-supported CalCAP loan can bridge this gap and provide needed niche financing. This use of CalCAP loans is a common practice in the existing program. And since the amount of the CIWMB contribution to induce the loan will not in any case come close to one-half of the loan amount, it is appropriate not to apply the "one-half" limit to the CalCAP Program loans.

c. It is proposed that the maximum amount of the CIWMB contribution to the loss reserve account for any individual loan be $50,000.

With such a $50,000 cap on CIWMB contribution to the loss reserve account <u>and</u> at the maximum CIWMB contribution per-centage of 7% of the principal amount of the loan, the maximum principal amount of a CIWMB supported CalCAP loan would be $714,285. With the same $50,000 cap <u>and</u> a 4% CIWMB contribution rate, the maximum CalCAP loan size could be $1,250,000, **<u>except</u>** it would be limited to $1,000,000 because of the loan size maximum stated in 6.a.,above.

6. <u>CIWMB Internal Approval Processes</u>

It is proposed that a determination of eligibility be made by the Deputy Director for Waste Prevention and Market Development in accordance with the Board approved criteria. This is a necessary element for the timely processing of loan applications by the CalCAP banks. The CalCAP regulations require that evidence of CIWMB eligibility accompany the bank application for loan enrollment into CalCAP. The bank will want evidence of inducement and support by CIWMB in its loan approval process.

The internal CIWMB process would work as follows. Potential loan applications would be received by CIWMB staff directly, through Zone Administrators or by bank referral. Staff would perform a due diligence review of the application information for conformance with CIWMB guidelines and make a recommendation of eligibility to the Deputy Director. The Deputy Director would approve or disapprove; forwarding the finding of eligibility with the loan application to the appropriate bank.

The bank would then perform its CalCAP credit review and, if approved, forward the CalCAP loan enrollment form to CPCFA, accompanied by the evidence of CIWMB eligibility. This latter document would substitute for the otherwise required deposit slip indicating prior funding of the first half of the required loss reserve account contributions. Upon approval by CPCFA, the enrollment form is forwarded to the CalCAP Program Trustee. The CPCFA approval triggers the transfer of CPCFA funds into the loss reserve account; and the accompanying CIWMB eligibility document would trigger the transfer of CIWMB funds into the loss reserve account. Typically, it is at this point that the underlying loan to the applicant is funded by the bank.

VI. ATTACHMENT

1. Resolution # 97-278

VII. APPROVALS

Prepared by: Keith Seegmiller Phone: 255-2498

Reviewed by: John Smith Phone: 255-2413

Reviewed by: Caren Trgovcich Phone: 255-2320

Legal: ______ Date/Time: 6/30/97 2:15pm

CALIFORNIA INTEGRATED WASTE MANAGEMENT BOARD
RESOLUTION NO: 97-278

FOR CONSIDERATION OF PROPOSAL FOR PARTICIPATION IN THE CALIFORNIA CAPITAL ACCESS LOAN PROGRAM (CalCAP) ADMINISTERED BY THE CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY (CPCFA) AND AUTHORIZATION FOR THE EXECUTIVE DIRECTOR TO EXECUTE A MEMORANDUM OF UNDERSTANDING (MOU) WITH THE CPCFA TO IMPLEMENT SUCH PARTICIPATION

WHEREAS, the California Pollution Control Financing Authority ("CPCFA") currently administers the California Capital Access Loan Program ("CalCAP") for assistance in providing small businesses in California with access to private sector capital resources in the form of loans from private sector lending institutions; and

WHEREAS, the form of assistance under CalCAP consists of specified contributions of CPCFA funds to loan loss reserve accounts to provide a form of loan portfolio insurance to private sector lending institutions to induce them to make such loans; and

WHEREAS, the CalCAP regulations provide for the participation of third-party entities in CalCAP as Independent Contributors to the portfolio insurance loan loss reserve accounts; and

WHEREAS, legislation effective in January 1997 provided that the California Integrated Waste Management Board ("Board") "may, on a pilot basis, participate, in an amount not to exceed five hundred thousand dollars ($500,000)," in the CalCAP Program administered by the CPCFA; and

WHEREAS, the Market Development Committee ("Committee") of the Board, at its February 6, 1997 meeting directed staff to work with the CPCFA to develop; a detailed proposal for Committee and Board consideration regarding Board participation in the CalCAP Program, including details on business eligibility and internal Board approval processes; and

WHEREAS, such a proposal was presented to both the Committee and the Board.

NOW, THEREFORE, BE IT RESOLVED that the Board hereby approves the proposal for Board participation as an Independent Contributor in the CalCAP Program; and

BE IT FURTHER RESOLVED that staff is hereby directed to continue discussions with the CPCFA to develop a Memorandum of Understanding ("MOU") implementing such Board participation; and

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BE IT FURTHER RESOLVED that the Executive Director is hereby authorized to execute the MOU, provided that the final MOU document does not differ substantially from the CalCAP participation proposal herein approved.

CERTIFICATION

The undersigned Executive Director of the California Integrated Waste Management Board does hereby certify that the foregoing is a full, true and correct copy of a resolution duly and regularly adopted at a meeting of the California Integrated Waste Management Board held on July 23, 1997.

Dated:

Ralph E. Chandler
Executive Director

CALIFORNIA INTEGRATED WASTE MANAGEMENT BOARD

Market Development Committee
July 9, 1997

AGENDA ITEM 3

ITEM: CONSIDERATION OF 1997 RECYCLING MARKET DEVELOPMENT ZONE (RMDZ) LOAN PROGRAM ELIGIBILITY AND PRIORITY CRITERIA

I. SUMMARY

According to Recycling Market Development Revolving Loan Program (Program) regulations, the Board must annually determine any program priorities. This item considers input and makes recommendations for adoption by the Board regarding program eligibility and priorities.

II. PREVIOUS BOARD ACTION

At its February 27, 1996 meeting, the Board adopted its 1996 Loan Program Objectives and Lending Procedures.

III. OPTIONS FOR THE COMMITTEE

The Committee may:

1. Recommend, and forward to the Board, adoption of the 1997 Program Eligibility and Priorities (Attachment #1).

2. Modify staff's recommendation and forward to the Board, adoption of the modified 1997 Program Eligibility and Priorities.

3. Provide guidance to staff, instruct staff to revise the item and return to the Committee for consideration.

IV. STAFF RECOMMENDATION

The Committee recommend, and forward to the Board, adoption of the 1997 Program Eligibility and Priorities contained in Attachment #1.

The Committee provide staff with input on the proposed new rating system and direct staff to return to the Committee for consideration of the revised rating system at its August 1997 meeting.

V. ANALYSIS

BACKGROUND:

Statutory and Regulatory Authority:

Statutory authority for the program is contained in Public Resource Code 42010. Program regulations are contained in Chapter 4, Section 17930-17936.

1996 Objectives and Lending Procedures Action:

On February 27, 1996, the Board approved the program objectives and lending procedures (Attachment #2). The objectives can be summarized as follows:

- Staff shall target businesses and projects to best achieve program objectives.
- The program is a market development tool for projects which manufacture recycled-content end-products, or otherwise increase demand for secondary materials.
- Priority will be given to projects which utilize the Board's priority materials, divert the greatest tonnage, or use construction and demolition material.
- Give the lowest priority to transformation and alternative daily cover projects and limit their funding to not more than 10% of loans.

1997 Eligibility and Priorities:

Outreach Effort:

In effort to increase participation from interested parties, staff have made several outreach efforts.

1. On February 5, 1997, a workshop was held to discuss and solicit input on a variety of topics related to the program. Issues from the workshop were also the subject of agenda items for the February, March, and April Committee meetings.
2. Eligibility for the program, specifically relating to the proposed addition of source reduction, was discussed at the March 10-11, 1997 CARMDZ meeting in Long Beach.

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3. On April 3, 1997, a discussion paper and survey (Attachment #3) was sent to all 40 Zone Administrators asking for their input on program eligibility issues. The responses are also summarized in Attachment #3.

Items Proposed to be Changed from 1996:

The 1997 Program Eligibility and Priorities have been summarized in a two part document (Attachment #1) which, when adopted by the Board, will be distributed to the 40 zones and other interested parties. Attachment #1 will provide clear guidelines on program eligibility. This approach was adopted in response to numerous requests by interested parties desiring summary guidelines of program eligibility and priorities.

The approach followed in presenting this agenda item revolves around Attachment #1 which reflects both existing policy and items which are recommended for change (indicated in redline). Section A of Attachment #1 summarizes general program eligibility, with Section B presenting specific eligibility issues. Each agenda section heading contains a reference number to the section in Attachment #1 that is affected by the policy decision under consideration. The agenda item is structured in the same sequence as Attachment #1 to facilitate comparisons.

Revised program regulations (Chapter 4, Section 17930-17936) were approved by the Board at its May 28, 1997, meeting and are pending formal approval by the Office of Administrative Law and the Secretary of State's Office. **As a result, the source reduction eligibility criteria contained in Attachment #1 will not take effect until final approval of the proposed regulations by the Secretary of State's Office.**

Policy items under consideration are:

1. Clarification of eligible costs and project match. (Attachment #1 Section B.I.a.)

2. Refinance of onerous debt. (Attachment #1 Section B.I.b.)

3. The addition of source reduction as an eligible activity. (Attachment #1 Section A.II. & B.II.)

4. Clarifying the eligibility for certain reuse projects. (Attachment #1 Section A.III.)

5. Clarifying the eligibility for certain recycling projects.
(Attachment #1 Section B.IV.a.& b.)

In addition, this item presents a revised priority rating system for loan applications received. This draft rating system is included as information only and will be considered at a future meeting. It is not intended for Committee consideration at this time.

Items for Consideration:

1. **Eligible Costs and Project Match**
(Attachment #1 Section B.I.a.)

Some projects contain both eligible and non-eligible components. Program statutes (PRC 42010(d)(4))[1] and regulations (17934)[2] governing this area are broad in nature. There are three possible approaches in determining project costs and match.

Using the following example, we can examine the three options available: A company seeks to expand its sorting and baling lines (ineligible project costs) and wishes to include a glass beneficiating operation as part of the total project (eligible project costs). The eligible project components are ($800,000) and ineligible project components are ($1 million), with a total project cost of $1.8 million. The options are:

a. If the assumption is made that the glass beneficiating operation cannot exist separate from the sorting and baling operation, then the total project cost may include all costs associated with the proposed project, or $1.8 million. In this case, eligible project costs are $800,000, which is the maximum loan amount allowed. The remaining $1 million of ineligible project costs will be considered as project match. Only $800,000 of the total project cost is eligible for loan funding, which would also be the maximum loan amount. The maximum loan amount would not be $900,000 (50% of $1.8 million), because only the eligible project costs ($800,000) can be funded under the program. The loan may

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[1] PRC 42010(d)(4) "The board shall finance not more than one-half of the cost of the project, or not more than one million dollars ($1,000,000) for loans to the project, whichever is less."

[2] Section 17934. Loan Amounts. The maximum loan amount is the lesser of 50% of the cost of any project or $1 million.

fund total eligible project costs, with total ineligible project costs available as the match.

b. If the assumption is made that only those costs associated with the glass beneficiating operation are eligible project costs, then the total project cost would be $800,000. The maximum loan amount would be $400,000 (50% of $800,000) and the remaining $400,000 of the total project cost would be the project match. The $1 million investment in ineligible project costs would not be considered as part of the eligible project, thus would not count toward the match requirement nor potential loan amount. The loan may fund 50% of the total eligible project costs, with the remaining 50% of eligible project cost available as match.

c. Another option would be to assume that those costs directly associated with the glass beneficiating operation are eligible project costs. Also eligible maybe a set of costs that "but for" those costs, the eligible project would not be possible. Examples could include a portion of a conveyor line which is necessary to move the eligible material, bins to provide temporary storage of the eligible material to be processed, and those other costs that are necessary for the program eligible activity to occur. It should be pointed out that the determination of eligible versus ineligible costs may be a point of negotiation or disagreement, and that adding a layer of indirect costs would complicate the problem further.

In this option the total direct project costs are $800,000, the indirect costs are $200,000, and the ineligible costs are $800,000. The maximum loan amount would be $500,000 (50% of both the $800,000 and $200,000) with the project match being the remainder of the direct and indirect eligible project costs ($800,000). The loan may fund 50% of the total eligible project costs, (both direct and indirect) with the total remaining eligible costs (both direct and indirect) being available as match.

Summary of Options

	Max. Loan Amt.	Project Match
Option a	$800,000	$1,000,000
Option b	$400,000	$400,000
Option c	$500,000	$500,000

Assumes $800,000 in eligible project costs, $200,000 in indirect eligible costs and $800,000 in ineligible project costs.

Pro:

Option a. increases the amount of financial assistance that could be provided to eligible recycling-related businesses. A number of inquiries for loan assistance, similar to the example noted above, have been received by staff. Approach a. provides the most flexible option for funding these projects.

Option b. is consistent with the program's current interpretation of eligible costs and project match.

Option c. provides a. compromise between the flexible interpretation in option a and the conservative interpretation in option b. However, option c. adds considerable subjectivity into the process and may prove difficult to implement. The process of determining eligible/ineligible and then taking that process further to direct/indirect costs opens the door to disagreements with applicants, where a clearly defined criteria would not be possible due to the complexity of most production operations.

Con:

As loan fund availability declines, the eligibility criteria contained in option a. will result in higher funding levels, and less funding availability. This translates into fewer funded projects.

Many businesses are interested in expanding and/or lowering their operating costs through replacing or modifying equipment. The funding amount in option b. may not provide sufficient low-priced capital to achieve the desired program activities.

The indirect costs considered in option c. can be open to interpretation and may be a subject for negotiation or disagreement.

Recommendation:

Total project costs include eligible and, if applicable, non-eligible costs. The maximum loan amount shall not exceed the lessor of the total eligible project costs, 50% of the total project, or $1 million. Project match includes eligible and non-eligible costs not funded by the Program's loan. (Option a.)

2. Refinance of Onerous Debt
(Attachment #1 Section B.I.b.)

The Program's low interest loan benefits a company in two ways: by reducing interest expense (improving profits) and by improving cash flow with lower debt payments. The question is, when if ever, should public funds be used to replace private sector loan funds, transferring the risk of loss to the State. The factors that need to be considered are as follows:

a. Program eligibility is mostly determined by diversion of or market development for recycled materials. If a "project" consists solely of the refinance of debt, there is no increased or additional diversion. Hence, the "project" would not be otherwise eligible, as it does not meet program objectives.

b. There is an argument that refinance of debt at a lower interest rate will decrease expenses/increase profits, thus enable a company that is marginally profitable to continue to operate. While the refinance of debt may postpone business closure, if the basic business problems which are causing the company's cashflow difficulties are not resolved, eventual failure is likely and most times unavoidable. Often, the presence of onerous debt is a sign of poor management.

   In this case, public funds may be used to artificially support a business by transferring the existing lender's risk to the Board. The risk factor will be extraordinarily high, as the business is requiring extraordinary measures to return itself to a profitable operating position, which it is unable to accomplish through sound management practices.

c. There may be circumstances, a change in public policy (legislation), natural disasters, or some other extraordinary event, for which a company may justify refinancing of onerous debt. The Small Business

Administration and other state and federal programs were established to aid businesses in these circumstances.

Pro:

Restructuring onerous debt may, under extremely limited circumstances, allow an existing business to temporarily maintain or increase diversion.

Con:

Refinancing onerous debt results in little or no permanently increased diversion. As refinancing onerous debt, in and of itself, does not address the underlying causes of a business' cashflow problems, it does not provide a permanent solution to the company's profit or operating problems. In most cases, refinancing onerous debt will simply delay business closure, while substituting the Board for the original lender in terms of foreclosure risk.

Recommendation:

Refinance of onerous debt is not an eligible use of program funds.

3. **<u>The Addition of Source Reduction as an Eligible Activity</u> (Attachment #1 Section A.II. & B.II.)**

<u>Source Reduction-General:</u>

The program's goal is to maximize waste diversion and market development (dealing with the waste stream by either reducing/eliminating waste generation or by using recovered waste to produce a value-added product). In support of that goal, proposed changes to program regulations would make source reduction (also known as waste prevention) an eligible activity. While there are no existing program policies regarding eligibility of source reduction projects, source reduction is defined in Public Resource Code Section (PRC) 40196[3].

[3] Public Resource Code 40196 "Source reduction" means any action which causes a net reduction in the generation of solid waste. "Source reduction" includes, but is not limited to, reducing the use of nonrecyclable materials, replacing disposable materials and products with reusable materials and products, reducing packaging, reducing the amount of yard wastes generated,

While the PRC definition is broad, only those aspects of source reduction that promote program objectives should be eligible. For purposes of program eligibility criteria, source reduction includes projects which result in a net decrease in the California waste stream by reducing the amount of waste material generated. Consistent with previously adopted Board policy, any proposed project to procure (purchase) a product, even if that product is reusable and replaces a previously disposed product, is not eligible.

Categories of eligible projects could include:

a. Reducing the Use of Nonrecyclable Material

Manufacturing a product which uses less virgin material (than previously) or which substitutes recyclable material for material which is not readily recyclable should be eligible. For example, manufacturing a product previously made of different plastic resin types, effectively making the product nonrecyclable, with a product with fewer plastic resin types may enable the product to become recyclable.

Pro:

Reducing the amount of nonrecyclable material used, or the substitution of recyclable material, will reduce the nonrecyclable material landfilled.

Con:

It may be difficult to demonstrate or quantify the amount of non-recyclable material previously being used or whether California landfills will be affected.

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establishing garbage rate structures with incentives to reduce the amount of wastes that generators produce, and increasing the efficiency of the use of paper, cardboard, glass, metal, plastic, and other materials. "Source reduction" does not include steps taken after the material becomes solid waste or actions which would impact air or water resources in lieu of land, including, but not limited to, transformation.

b. Reducing the Amount of Packaging Material

Manufacturing boxes, containers or other types of packaging in a manner which uses less material than previously used. This does not include recycling-related operations which purchase (procure) the packaging material (ie. containers) and fill them with product.

Pro:

Reduced packaging can have a direct impact on the California's landfills if it can be verified that the raw material came from California and/or the finished product is disposed of in the state.

Con:

Reducing the amount of material used in recyclable packaging material decreases the amount of material recovered per item, thus could have a negative effect on the economics of recycling.

It may be difficult to identify and quantify the effect on California's waste stream where the manufacturer has both interstate and intrastate sales.

c. Increase the Efficiency of the Use of Materials

Projects that convert or replace operating equipment to minimize secondary waste generated, such as optimizing saws for furniture manufacturers.

Pro:

Projects which reduce the amount of waste material generated (increased efficiency) not only reduce the amount of material landfilled, but usually result in reduced disposal costs for the business. Such projects increase profits and become a model for the rest of industry to follow.

The Program's reduced interest rate will shorten the payback period of such equipment, acting as a true incentive for early conversion.

Con:

Source reduction is a new category for the program which has the potential to make a significant impact on California's waste stream and could generate a significant demand for loan funds.

Such projects could detract the program from its main function of creating markets for post consumer recycled materials.

Recommendation:

Determine as eligible those projects which:

a. **Reduce the use of nonrecyclable materials, or,**

b. **Reduce the amount of packaging material, or**

c. **Increase the efficiency of the use of materials by reducing the amount of waste generated.**

4. <u>**Clarifying the Eligibility for Certain Reuse Projects**</u> **(Attachment #1 Section B.III)**

Currently eligible, but not previously defined in program regulations, reuse is now included in the proposed regulation's definition for value-added[4]. A value-added reuse project would take a product (not a material) which has served its useful life (or is factory defective), and provide reconditioning, reprocessing, or some other process to make it usable and valuable again.

a. Disassembly of Electronic or Durable Goods and Repairing Electronic and/or Appliances (Attachment #1 Section B.III)

Applicants that dismantle/disassemble electronic or durable goods into component parts for reuse or resale on a volume basis, such as regional or national operations, are consistent with the above definition and should be considered eligible. Companies such as local electronic and/or appliance repair shops provide a repair service and have low volume operations. These companies provide incidental diversion and should not be considered eligible.

b. Service Providers and Thrift Shops (Attachment #1 Section B.III)

Projects which provide only cleaning services, such as laundry/diaper services, food collection and distribution

[4] 17931(v) "Value added product means an item which has increased in value or changed its character or composition though a manufacturing or reuse process."

operations, and thrift shops do not satisfy the value added criteria contained in the reuse definition and therefore are ineligible.

Pro:

The clarified definition is consistent with proposed program regulations and would keep the program focused on diversion related activities.

Con:

The clarified definition would exclude service only operations.

Recommendation:

Adopt the definition of reuse project eligibility as: Reuse means to take a product (not a material) which has served its useful life (or is factory defective), and provide new value to the product, by reconditioning, reprocessing, or some other value adding process which makes the product usable again for its original intended purpose. Also determine that service only operations and thrift shops are ineligible.

5. Clarifying the Eligibility for Certain Recycling Projects **(Attachment #1 Section B.IV.a.& b.)**

a. Land Application or Reclamation Projects Using Mulch or Compost:

One use for compost and/or mulch is soil application to improve or reclaim soil. Production of compost or mulch is clearly an eligible activity. However, land application or reclamation is considered procurement (purchase) of a product (compost or mulch). The improvement of soil is an activity to increase agricultural production, soil improvement is not considered production of a product. Consistent with existing program policies which consider procurement an ineligible activity, procurement of compost or mulch for land application or reclamation should not be considered an eligible project.

Agricultural operations interested in using mulch or compost to improve their soil should contact their local Resource Conservation District. Agricultural operations may be able to receive up to 75% of the cost of implementing an approved soil conservation plan from the federal government.

Pro:

Land application or reclamation is an activity and does not produce a product. Considering the mulch or compost used as procurement of a product, and as such not eligible, is consistent with existing program policies.

Con:

The use of mulch or compost for land application or reclamation could provide a major use of organic material which comprises a significant portion of the waste stream.

Recommendation:

Land application or reclamation projects using mulch or compost are not eligible.

b. Paper Production and Converting (Attachment #1 Section B.IV.a)

With its adoption of the 1996 Program Objectives and Lending Procedures, the Board established eligibility for paper converters as follows:

> A minimum of 75% of the paper used in the loan funded project must meet or exceed the Federal EPA minimum postconsumer content guidelines (expected to be announced in spring 1996) for that particular paper type. Additionally, the Board would favor applicants who propose usage greater than the required minimum amount.

Subsequent to Board adoption of the 1996 Objectives and Lending Procedures, EPA finalized its recycled-content guidelines for paper, and published a Recovered Materials Advisory Notice, which recommended ranges of recycled-content for each product designated in the guidelines (See 61 Federal Register, Section 26985, May 26, 1996). For some products, the lower end of the recycled-content range in the EPA guidelines (aka EPA standard) is less than the secondary and/or postconsumer material percentages in California's standard.

Comments made at previous Loan Committee and Market Development Committee meetings stated that applicants should be held to a higher standard than the industry in general. Accordingly, staff proposes that paper converters and paper producers be held to the higher of the EPA or State standards for both the secondary material and postconsumer material percentages. Where a range of percentages are specified in the EPA standard, the lower percentage in the range shall be the percentage used to compare with the respective State standard.

In the following examples, paper fiber content shall be expressed as a percentage of secondary material/recovered fiber and postconsumer material/postconsumer fiber. State of California figures shall be expressed as CA. EPA figures shall be expressed as EPA.

> A loan applicant produces paperboard which is used to produce folding cartons (also known as "boxboard") to package cereal. The recycled-content standards for boxboard, a paper product that is not newsprint or uncoated fine printing and writing paper, are 50/10 CA and 100/40-80 EPA. In order for the applicant to be eligible for a loan, the applicant must produce folding cartons containing at least 100% recovered fiber/40% postconsumer fiber. (EPA standard applies.)

An example of an eligible paper converting project would be:

> A loan applicant converts rolls of tube, can & core paperboard ("industrial paperboard") into mailing tubes. The recycled-content standards for industrial paperboard are 50/10 CA and 100/45-100 EPA. In order for the applicant to be eligible for a loan, at least 75% of the industrial paperboard that the applicant uses in the loan project must contain at least 100% recovered fiber/45% postconsumer fiber. (EPA standard applies.)

Recommendation:

Paper converting projects must ensure that a minimum of 75% of the paper used in the loan project meets the applicable recycled-content standard. All paper production and converting projects must meet a recycled content standard which is the higher of the two components of the applicable recycled-content standard for either:

1. **the State of California (as defined in Public Contract Code, Section 12161, and, for newsprint, Public Resources Code, Section 42756); or**

2. **the U.S. Environmental Protection Agency (as defined in the Recovered Materials Advisory Notice, published in the Federal Register on May 29, 1996).**

Where a range of percentages is specified in the EPA standard, the lowest percentage in the range shall be used to compare with the respective percentage in the California standard.

c. Agricultural Crop Residue (Attachment #1 Section B.IV.b.)

The 1996 Loan Program Eligibility, Priority, and Lending Process stated that only projects which use materials normally disposed in solid waste landfills, as of 1990, are eligible under the program. "Normally disposed of" refers to those waste categories which constitute at least .001% of the total weight of solid wastes disposed of in a solid waste stream attributed to the jurisdiction as of January 1, 1990. Until recently, it was unclear whether various uses of agricultural crop residue were eligible under the program.

Staff believes that the production of a product or performing a value-added processing of agricultural crop residue may be an eligible project. According to Board information, agricultural crop residue comprised .2% of the material disposed of statewide in 1990. In many cases, no specific information was maintained on the disposal of rice straw and other individual agricultural residues in a local jurisdiction's study, but rather were included in a broader category called "Agricultural Crop Residue". Accordingly, material included in the agricultural crop residue category, such as rice straw, should be eligible for the program.

Examples of eligible projects for rice straw (a.k.a. agricultural crop residue) include the production of a agricultural pulp which can be used in the production of paper or the processing of the residue into building materials.

Pro:

Agricultural crop residue may become a waste problem as a result of pending restrictions on agricultural burning. A number of alternatives for creating a value added product are currently being explored and program contacts in this area are increasing. The above eligibility criteria would provide the Board flexibility in assisting the diversion of agricultural crop residue, including rice straw, from landfills.

Con:

Agricultural crop residue comprised a minimal amount (.2%) of material disposed of state-wide. For example, rice straw would be represent only of a portion of the .2% figure and would provide a minimal impact on disposal state-wide.

Recommendation:

Production of a product from agricultural crop residues is eligible for the program if the residue is individually specified in the jurisdiction's study or the study contains a broader miscellaneous "Agricultural Crop Residue" category.

d. Metal Production

Metal production includes any operation which processes or produces a product from any ferrous or non-ferrous metal. There are many such manufacturing operations in California and the United States. These operations enjoy a well-established market and collection infrastructure than many materials do not share. Providing program assistance would do little to further diversion of metals while rapidly depleting scarce program resources.

Pro:

Allowing metals operations as eligible would significantly increase program activity.

Con:

Metals operations already have an existing well established market and collection infrastructure.

If metals operations were eligible for program loans, they could very rapidly consume program resources.

Recommendation:

Metal production operations are not eligible for the program.

Development of a Revised Priority Rating System
Because the scoring system is proposed to be significantly changed with a new system rather than being modified, the section is being presented for discussion purposes only. This section is not intended for Committee consideration at this time. Based upon guidance provided by Committee Members, staff will present this section for Committee consideration in subsequent months.

Priority Projects:

The current internal process for scoring loan is as follows:

The likelihood of each proposed project to increase market demand for postconsumer materials.	50 Points
The impact on markets for the Board's priority materials(mixed paper, high-density polyethylene, mixed plastics and compostable materials).	25 Points
The size, in tons per year, of the proposed project.	10 Points
Classification of the project within the integrated waste management hierarchy.	10 Points
The use of other funds in the proposed project in addition to RMDZ loan funds.	5 Points

The existing process has been difficult to apply consistently from loan to loan and is quite subjective. A new scoring system is being proposed which takes into consideration the company's overall financial strength, direct impact on demand or the promotion of source reduction, promotion of new technology, use of priority materials, leveraging of funds and diversion levels in excess of existing portfolio averages. An example of the new scoring system follows. A complete discussion of how the scoring sheet works, follows the example.

Recycling Market Development Project Scoring Sheet

Company: ______________________ **Date** __________

1) Based on historical record - likelihood business will provide sustainable market development. **0**
   - a) Last three years profitable w/stable market share - 35 points
   - b) Two out of three years profitable w/established market share - 20 points
   - c) Startup operation without proven market share -10 points

2) Project directly increases market demand for the recycled post-consumer material or is a qualifying source reduction project -15 additional points **0**

3) Company uses new technology or a new application of existing technology involving the recyclable material(s) -13 additional **0**

4) Company uses a priority material as defined in the current market development plan - 13 additional points **0**

5) Additional points for outside funding in excess of the 50% match requirement. **0**
   - a) Matching share exceeds 50% - 6 points
   - b) Matching share exceeds 75% - 12 points

6) Additional points for diversion in excess of the portfolio average for like commodities (see below). **0**
   - a) Tonnage exceeds average by 25% - 6 points
   - b) Tonnage exceeds average by 50% or more - 12 points

Portfolio Averages (tpy): compostable greenwaste/___ ; C&D/___ ;Plastic mfg/___ ;Plastic processor/___ ;Paper/___ ;Textile/___ ;Glass/___ ;Tires/___ .

Total Points Scored **0**

The scoring factors are applied as follows:

1. One of the following point totals are awarded. A total of 35 points is awarded to a company that has a successful operating history (profitable operations for the prior 3 years) and stable market share. A total of 20 points is awarded to a company with less than the full 3 years of profitable operating history, but can demonstrate an established market share. A total of 10 points is awarded to a startup company (less than 3 full years operating history) with no demonstrated market share. This first scoring factor provides base points related to the likelihood that the company will provide sustainable market development.

2. One of the following point totals may be awarded. An additional 15 points is awarded to a company for directly effecting market demand for a recycled post consumer material. The term "directly effect market demand" differentiates between those companies making a consumer product directly from post consumer recycled material and those companies that perform intermediate processing of the recycled material for resale to manufacturers. An eligible source reduction project is awarded 15 points representing the top rung of the Waste Management Hierarchy.

3. An additional 13 points is awarded to a company that uses new technology or a new application of existing technology to create a product out of recycled materials. This scoring factor will allow a startup company that utilizes new technology (23 points) to compete with an established company with an documented market share that does not use new technology (20 points).

4. An additional 13 points is awarded to a company that uses a priority material as defined in the Board's current market development plan.

5. A total of 6 points is awarded where match exceeds 50% - of the loan amount and 12 points is awarded where match exceeds 70% or greater of the loan amount.

6. Additional points are awarded for diversion tonnages that exceed the portfolio average for the same type of commodity as the applicant. A total of 6 points is awarded where the company's diversion exceeds the portfolio average by 50% and a total of 12 points where the diversion exceeds the average by 70% or more. Diversion averages will be calculated twice a year, at January 1 and July 1 and will be the basis for comparisons.

The new scoring form is much less subjective than the previous form and has a clearly defined and measurable criteria.

Recommendation:

That the Committee provide input on the draft revised Priority Rating System, and direct staff to bring the proposed rating system back for consideration at the August 1997 meeting of the Market Development Committee.

VI. ATTACHMENTS

1. The 1997 Program Eligibility and Priorities

2. 1996 RMDZ Loan Program Objectives and Lending Procedures

3. Discussion Paper and Staff Survey on Loan Program Eligibility Issues and Responses

VII. APPROVALS

Prepared by: Calvin Young Phone: 255-2476

Reviewed by: Robert Caputi Phone: 255-2442

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Reviewed by: Caren Trgovcich Phone: 255-2320

Legal Review:__________ Date/Time:__________

A. ELIGIBLE PROJECTS

I. GENERAL ELIGIBILITY

The following provides a summary of applicant and project eligibility to the Recycling Market Development Revolving Loan Program (Program). General Eligibility identifies criteria which every applicant and project must satisfy. Following the general criteria are specific standards for various projects eligible under the program. Where items are referenced to Section B, please refer to that section for additional factors concerning specific project eligibility and examples of eligible projects.

a. The project, or if a mobile operation the primary business location, must be located within a Recycling Market Development Zone.

b. The program can fund a maximum of 50% of costs directly attributed to an eligible project. (See B.I.a.)

c. Eligible use of funds include: M&E, working capital, real estate purchase, and loan points and fees. Refinance of onerous debt is not an eligible use of program funds.

d. Eligible applicants must use recycled/recovered materials, which are normally disposed of, to produce a finished product or perform necessary intermediate processing. Research and development projects are not eligible.

e. Applicants include businesses, not-for-profit organizations, and local governments and agencies. Loans to local governments can be either for infrastructure to support other eligible applicants or for its own eligible recycling-related operation.

II. SOURCE REDUCTION

Source reduction, for the purpose of program eligibility, means specific actions which cause a material net reduction in the generation of solid waste in the production of a product. In all cases, the project must demonstrate that it will have a direct impact on California's landfills. Projects involving only procurement of items are not eligible. Source reduction includes; reducing the use of virgin/nonrecyclable materials, reducing packaging material content, increasing the efficient use of various materials. (See B.II.)

Eligible Projects	Ineligible Projects
1. Producing a product from a few recyclable plastic resin types rather than many different resin types which make the product nonrecyclable	1. Purchasing items not directly involved in the production of a product, such as recycled or reusable pallets, reusable containers, or reusable filters
2. Manufacturing bottles, boxes, or containers using less material	
3. Converting to optimizing equipment (such as saws) to reduce waste generation	

III. Reuse

Reuse means to take a product (not a material) which has served its useful life (or is factory defective), and provide new value to the product, by reconditioning, reprocessing, or some other value adding process which makes the product usable again for its original intended purpose. Service only operations and thrift shops are ineligible.

<u>Eligible Projects</u>	<u>Ineligible Projects</u>
1. Washing and reconditioning items for reuse	1. Repairing electronic items and/or appliances, etc.
2. Dismantling/disassembly of electronic or durable goods into component parts for reuse or resale	2. Providing laundry and diaper services
	3. Performing food collection and/or distribution operations
	4. Operating thrift shops
	5. Auto dismantling

IV. RECYCLING

Recycling means using postconsumer or secondary materials to produce a value-added finished product or provide necessary intermediate processing of a recycled/recovered material. A value-added product is one in which a material has changed its character or composition through a manufacturing process. This differs from collecting, sorting, and baling of recycled/recovered material for convenience or ease of transportation which is ineligible.

Eligible Projects	Ineligible Projects
1. Producing recycled-content plastic pellets	1. Printers
2. Producing a finished product with recycled-content materials, such as plastic pellets	2. Collecting, sorting, and baling activities
3. Composting	3. Metal production
4. Paper production and converting-(See B.IV.a.)	4. Land application or reclamation projects using mulch and/or compost
5. Agricultural crop residue-(See B.IV.b.)	

V. TRANSFORMATION AND ALTERNATIVE DAILY COVER

Transformation means projects which involve pyrolysis or producing a product which may be transformed when consumed. Alternative daily cover (ADC) (14 CCR 17682 and 17258.32) projects include the equipment to exclusively produce and spread ADC. Projects are given the lowest priority, are subject to funding availability and are limited to those projects which:

i. Produce a value-added product

ii. Are not detrimental to current or future efforts to increase source reduction, recycling or composting of the project's material type.

iii. Do not, in the aggregate, exceed 10% of all loan funds to be awarded during any annual loan funding cycle.

Eligible Projects	Ineligible Projects
1. Heat logs, fire starters, waste and tire derived fuel.	

B. SPECIFIC ELIGIBILITY ISSUES

I. GENERAL PROJECT ELIGIBILITY

a. Eligible Costs and Project Match

Total project costs include eligible and, if applicable, non-eligible costs. The maximum loan amount shall not exceed the lessor of the total eligible project costs, 50% of the total project, or $1 million. Project match includes eligible and non-eligible costs not funded by the Program's loan.

II. SOURCE REDUCTION

Eligible projects are those which:

a. Reduce the use of nonrecyclable materials, or,

b. Reduce the amount of packaging material, or

c. Increase the efficiency of the use of materials by reducing the amount of waste generated.

III. RECYCLING:

a. Paper Production and Converting:

Paper converting projects must ensure that a minimum of 75% of the paper used in the loan project meets the applicable recycled-content standard. All paper production and converting projects must meet a recycled content standard which is the higher of the two components of the applicable recycled-content standard for either:

1. the State of California (as defined in Public Contract Code, Section 12161, and, for newsprint, Public Resources Code, Section 42756); or

2. the U.S. Environmental Protection Agency (as defined in the Recovered Materials Advisory Notice, published in the Federal Register on May 29, 1996).

Where a range of percentages is specified in the EPA standard, the lowest percentage in the range shall be used to compare with the respective percentage in the California standard.

b. Agricultural Crop Residue:

Production of a product from agricultural crop residues is eligible for the program if the residue is individually specified in the jurisdiction's study or the study contains a broader miscellaneous "Agricultural Crop Residue" category.

Eligible projects would include the production of a agricultural pulp which can be used in the production of paper or thè processing of an agricultural waste into building materials.

1996 RMDZ Loan Program Objectives

Preamble: In marketing the RMDZ Loan Program, staff shall target businesses and projects which would best serve to achieve the program objectives adopted by the Board.

Objective #1: Maximize the effectiveness of the RMDZ Loan Program as a market development tool by restricting funding to projects which use materials normally disposed in solid waste landfills, as of 1990, as recycled feedstock to manufacture recycled-content end-products, or otherwise increase demand for secondary materials which directly support achievement of local waste diversion goals from solid waste landfills. Manufacturing, as described, does not include the clean up of nonhazardous contaminated soil.

Objective #2: Support the Board's current Market Development Plan by giving priority consideration to projects which utilize the Board's priority materials and divert the greatest tonnage, and-support projects which utilize construction and demolition waste materials as feedstock.

Objective #3: Support the integrated waste management hierarchy by promoting in order of priority: 1) source reduction; 2) recycling and composting; 3) environmentally safe transformation and environmentally safe land disposal.

To achieve this objective, the Board shall:

a. Give priority lending consideration to source reduction projects which satisfy objectives 1 and 2 above; and
b. Give lowest lending priority to alternative daily cover and transformation projects, and limit funding of such projects to those which:
    i. Produce value-added products.
    ii. Are not detrimental to current or future efforts to increase source reduction, recycling or composting of the project's material type.
    iii. Do not, in the aggregate, exceed 10% of all loan funds to be awarded during any annual loan funding cycle.

Loan Program Eligibility Issues
Board Staff Questions and Responses

The Board annually determines objectives and lending procedures for the loan program. The current program eligibility and objectives are discussed in Attachment 1. The Market Development Committee is scheduled to discuss the loan program objectives and lending procedures at its May 7, 1997 meeting. The Board is scheduled to make a final determination at its May 28, 1997 meeting. In an effort to ensure input from a large number of interested parties, Board staff has prepared this document to serve as a stimulus for discussion via teleconference to be held in early April. This document is not intended to cover all possible issues, please feel free to discuss other items which relate to loan program eligibility in the teleconference or your written comments.

Please review this survey and respond to the requests for comments. If you are interested in participating in a teleconference please call Phillip Bielz by April 8 at (916) 255-2465 and leave your name, zone, phone number and e-mail address (if available). If you want to submit additional written comments please include the comments along with this survey and return them by April 14 (if possible) to:

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E-mail bcaputi@mrt.ciwmb.ca.gov

POSSIBLE CHANGES:

Proposed changes to program regulations and participation in the California Capital Access Program (CalCAP), could expand eligibility.

Regulations

The Board is currently involved in the formal rulemaking process to make certain changes to program regulations. These proposed changes would expand eligibility by adding source reduction and clarify the definition of other categories. This would result in the following types of projects being eligible for funding:

- Source reduction
- Reuse (contained as part of the value added definition)
- Producing a value added product from postconsumer or secondary waste material
- Transformation

The following is a discussion of the above areas and other areas and raises some questions for which staff is requesting input:

Source Reduction

As defined in the Public Resource Code Section 40196[5], source reduction provides a very wide range of possibly eligible projects. Conceivably, eligible projects could range from thinning the walls of plastic bottles to reduce the use of virgin plastic, redesigning packaging to use less material, reducing the amount of waste generated in the production process, to using mulching mowers or planting slow growing grass in order to reduce the amount of yard waste generated. Because of the broad nature of the statutory definition, several aspects must be explored in order to define a workable program eligibility criteria.

An important factor concerning source reduction projects is determining the amount of diversion impact a source reduction project may have. How does the program identify or quantify the impact on the state or local waste streams or the impact on achieving AB 939 diversion goals? If the products are being sold outside of California is there any effect on California's waste stream?

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[5] Public Resource Code 40196 "Source reduction" means any action which causes a net reduction in the generation of solid waste. "Source reduction" includes, but is not limited to, reducing the use of nonrecyclable materials, replacing disposable materials and products with reusable materials and products, reducing packaging, reducing the amount of yard wastes generated, establishing garbage rate structures with incentives to reduce the amount of wastes that generators produce, and increasing the efficiency of the use of paper, cardboard, glass, metal, plastic, and other materials. "Source reduction" does not include steps taken after the material becomes solid waste or actions which would impact air or water resources in lieu of land, including, but not limited to, transformation.

What types of projects should be eligible. Possibilities include:

* Reducing the use of nonrecyclable materials by either using less nonrecyclable material or by substituting recyclable material
* Replacing disposable materials and products with reusable materials and products
* Reducing the amount of yard waste generated
* Increasing the efficiency of the use of various materials by generating less waste in the production process

Comments:

Commentor P-1, expressed concern that source reduction does not create markets for materials collected. If a milk jug is source reduced, the overall cost of recycling increases as less plastic is available to recoup costs. Commentor P-2 is supportive of the inclusion of source reduction as an eligible activity. The commentor states that some industries, such as the furniture industry, can make use of increased efficiency to reduce waste.

Reuse

Not previously defined in regulations, reuse is now included in the definition for "value added." To be value added a reuse project would typically take a product which has served its useful life, and provide some reconditioning, reprocessing, or other process to make it usable again. Previous reuse projects which have either applied or received loan approval included; the washing and reconditioning of large industrial bags, reclaiming of foundry sand, and bottle washing. Other than food banks and thrift shops which are discussed in Specific Eligibility Issues question #2, staff is not aware of any substantive issues regarding eligibility of reuse projects.

Comments:

Commentors P-1 and P-2 are very supportive of reuse as an eligible activity. Commentor P-2 also asks whether retail discards (due to damaged packaging), laundry and diaper services (which increase the use of durable products) would also be included.

Producing a Value Added Product from Postconsumer or Secondary Waste Material

The program objectives approved by the Board at its meeting on February 27, 1996, include the language, "normally disposed in solid waste landfills, as of 1990." Using the "normally disposed of" eligibility criteria keeps the focus of the program on the defined AB 939 waste stream. However, a strict interpretation also would not consider changes to the local waste stream, effectively eliminating projects which deal with post 1990 problem materials from funding consideration. Legislative or regulatory changes (such as elimination of the burning of rice straw), may cause materials to now, or in the future, be landfilled. How should the program address these issues?

Comments:

Commentor P-1 felt that the program remain flexible to accommodate new materials being generated and differences in the waste stream of various communities.

Another issue to be addressed is at what point does the "collecting and baling" cease and the "value added" processing begin? Does the value adding point differ by material? Generally, the program considers value added processing as projects which actually increase the value of a material, not just the sorting or baling of material for convenience or for easy of transportation. Undecided is whether it is value added processing to sort, via special equipment, carpet, glass, plastic, or other material into recyclable and non-recyclable portions? Also, is it value added processing to cut certain materials (such as tires) or densify material (such as polystyrene) in order to make transportation and recycling of these materials economically viable?

Comments:

Collecting and baling is not manufacturing and these activities will develop as part of the natural economic cycle (assuming manufacturing uses). Collecting and baling projects should be on the lowest point of funding, if at all.

Other - Minimum Tonnage Requirement

Should the program have minimum tonnage requirements, perhaps differing by material type? Typically intermediate processors produce a much greater tonnage of recycled material than a end-user of that material. Should the program have a different standard for intermediate processors versus producers of a final product?

Comments:

Commentor P-1 expressed opposition to establishing any minimum tonnage requirement. The commentor believes that new technologies often do not use large amounts of recycled material.

SPECIFIC ELIGIBILITY ISSUES:

Staff has received inquiries involving the following potential projects. What are your thoughts regarding eligibility of these types of projects?

1. Should products made from aluminum, steel, or other metal products which contain recycled material as part of the normal production process be eligible?

The normal production process of steel and aluminum involves the use of scrap and postconsumer material. Extending eligibility to companies which use steel, aluminum, or similar material would significantly expand the number of companies eligible for the program. Conceivably, manufacturers of cars, trucks, trailers, pickup boxes, equipment, and other products would be eligible.

Comments:

Commentor P-1 is adamantly opposed to lending for metals projects. Comment P-2 recommends including only those projects for new product lines or specific source reduction (new process to use less metal, recycling of oil filters, etc.).

2. Should food banks and thrift shops be eligible for loans under the direct loan program?

While projects of this type are "reuse" projects in the strictest sense, there is minimal tonnage associated with these projects.

Comments:

Both commentors were against funding these projects. Commentor P-1 believes that the program remain focused on manufacturing. Commentor P-2 would only consider projects which demonstrate a large impact on diversion and served an unmet need, like a large salvage operation.

3. Should projects which involve mulching of greenwaste for the sole purpose of being applied to land be eligible? What should the guidelines be for these land reclamation/improvement projects?

Concern has been expressed that mulchers that intend to land apply greenwaste material may do so at concentrations/depths greater than agronomic rates. Should such projects be limited to land reclamation where the application rate is tied directly to proven agronomic rates?

Comments:

Commentor P-1 is not supportive of financing greenwaste mulching projects unless there is some type of beneficial use associated with land application.

4. Should the Board increase market demand for recycled content and/or reusable products by financing the procurement (purchasing) of certain items?

Staff has been approached by two groups of businesses. The first group represents printers which produce a product which may be printed on paper of varying levels of recycled-content, dependent upon the customer's specifications. The Board had previously decided that printers are not eligible because they procure (buy) the recycled-content paper and because printing is not considered manufacturing.

The second group of businesses seek to substitute a disposable supply item (such as wooden pallets) for an item which can be reused many times (such as plastic or rubber pallets or plastic shipping containers) which may or may not contain recycled material. These items are expendable supplies and are not a recycled-content product produced by a company. However, in some cases, the ability to substitute a reusable supply for a disposable supply may have a significant impact on disposal avoidance and developing markets for certain supply items. It may also be considered as a source reduction project.

Comments:

Neither Commentor P-1 or P-2 are supportive of financing procurement. Commentor P-2 suggested that tax incentives and minimum recycled content laws are preferred over program financing.

CALIFORNIA CAPITAL ACCESS PROGRAM:
The California Capital Access Program (CalCAP) is a very successful guarantee program which provide access to capital for "near bankable" small business in California. Administered by the California Pollution Control Financing Authority (CPCFA), CalCAP establishes a specific loss reserve for loans made by lenders under the program. Any losses on loans made under the program can be fully offset against the loss reserve (up to the amount in the reserve). In contrast, the Small Business Administration guarantees individual loans up to a specific percentage (typically 80%-90%).

Consistent with the desire of the Administration and the Legislature not to duplicate existing state programs, the Board's participation in Cal CAP could be an efficient and effective tool to provide access to capital for small and start-up recycling-related businesses. After only 2 1/2 years, the 37 participating banks have made 1,340 loans totaling $184 million affecting nearly 6,700 jobs, representing a 23.4:1 leverage of Cal CAP contributions. Staff estimates that if the Board were to participate in Cal CAP, a $500,000 investment would result in over $12 million in capital for recycling-related businesses which otherwise might not have access to such financing.

The Market Development Committee has directed staff to work with the CPCFA to develop the MOU and IAA (if an IAA is necessary) for the Board's participation in the program. Approval of participation, eligibility criteria, and the internal approval process will be detailed in a Board agenda item in the next few months (the program already exists in CPCFA regulations). If approved by the Board, participation could occur by late summer 1997. Due to the streamlined process of Cal CAP, impact on staff resources should be minimal.

Eligibility for CalCAP need not be the same as for the direct loan program. It has been suggested that eligibility for the direct loan program be expanded for creditworthy companies for whom the cost of capital is the primary issue. CalCAP can be used with significantly expanded eligibility, perhaps also including collection activities, for those companies where access to capital is the primary concern. What are your thoughts regarding eligibility for the Board's participation under CalCAP?

CALIFORNIA INTEGRATED WASTE MANAGEMENT BOARD

Market Development Committee
July 9, 1997

AGENDA ITEM 4

ITEM: CONSIDERATION OF APPROVAL OF RECYCLING MARKET DEVELOPMENT ZONE PROGRAM LOAN APPLICATIONS FOR THE SUMMER QUARTER, 1997:

A. MBA Polymers, Inc.
B. TWDC Industries,Inc., dba Vision Recycling
C. Evergreen Glass, Inc.

I. SUMMARY

This agenda item presents three Recycling Market Development Zone (RMDZ) loans for approval for the second quarter of 1997.

II. PREVIOUS COMMITTEE ACTION

None

III. OPTIONS FOR THE COMMITTEE

The Committee may:

1. Accept staff's recommendation.
2. Modify staff's recommendation.
3. Take no action and provide staff with further direction.

IV. STAFF RECOMMENDATION

The Committee forward to the Board with the Committee's recommendation to:

1) Approve the loans contained in Resolution as follows:

A. MBA Polymers, Inc.
B. TWDC Industries, Inc., dba Vision Recycling
C. Evergreen Glass, Inc.

V. ANALYSIS

Together, the three loan projects represent a combined capacity of 42,075 tons per year (TPY) of new processing and manufacturing capacity. The combined total of RMDZ loan funds is $2,211,134. These loans are projected to create 41 new jobs.

The RMDZ loan program began accepting loan applications in February 1993, the first loan was funded in September 1993. As of June 30, 1997, 54 loans have been closed in the amount of $21.5 million. An additional 4 active loans in the amount of $2.0 million have been approved by the Board, but are not yet closed.

These second quarter 1997 loans recommended to the Loan Committee for review are described in Attachment 4. The Interdivisional reviews of the loans are available upon request.

The Loan Committee met on June 19, 1997 to consider the credit-worthiness of the eligible applicants. The Loan Committee recommends the following:

<u>MBA Polymers, Inc.</u>
Approval per staff's recommendation.

<u>TWDC Industries, Inc., dba Vision Recycling</u>
Approval per staff's recommendation with the following modifications:

1. The loan shall be amortized over seven years. Staff had recommended a five year term.

2. Personal guarantees shall be required of shareholders with 20% or greater interest in the company in accordance with Board adopted policy. Staff had recommended a guarantee from Mr. Del Conte.

<u>Evergreen Glass, Inc.</u>
Approval per staff's recommendation with the following modification:

1. Increased collateral in the form of a trust deed on the business facility, subject to a first and second lien and a security interest in all accounts receivable, subject to a possible lien from Wells Fargo. Any requests for further subordination of the Board's security interest in accounts receivable must be approved by the Loan Committee.

IV. FUNDING INFORMATION

Three loans totaling loans $2,211,134 will be funded from the Recycling Market Development Revolving Loan Subaccount.

Amount Requested in Item: $2,211,134

Fund Source:

- ☐ Used Oil Recycling Fund
- ☐ Tire Recycling Management Fund
- ☒ Recycling Market Development Revolving Loan Account
- ☐ Integrated Waste Management Account
- ☐ Other ______________________ (Specify)

Approved From Line Item:

- ☐ Consulting & Professional Services
- ☐ Training
- ☐ Data processing
- ☐ Other ______________________ (Specify)

Redirection:

If Redirection of Funds: $________________

Fund Source: ________________________

VI. ATTACHMENTS

1. Board Resolution 97-276
2. Loan Program Overview
3. RMDZ Loan Program Priority Criteria and Statutory Priority
4. Summary of RMDZ Loan Applications

VII. APPROVALS

Prepared by: Charles E. Haubrich Phone: 255-2471

Reviewed by: Robert Caputi Phone: 255-2442

Reviewed by: John D. Smith Phone: 255-2413

Reviewed by: Caren Trgovcich Phone: 255-2320

Reviewed by: Gary Arstein-Kerslake Phone: 255-2269

Legal: Elizabeth T. Clayton Date/Time: 6-26-97

CALIFORNIA INTEGRATED WASTE MANAGEMENT BOARD
RESOLUTION 97-276

FOR CONSIDERATION OF APPROVAL OF RECYCLING MARKET DEVELOPMENT ZONE PROGRAM LOAN APPLICATIONS FOR THE SECOND QUARTER, 1997

WHEREAS, the Board is authorized to make loans to recycling businesses using postconsumer or secondary waste materials located in designated Recycling Market Development Zones from its Recycling Market Development Revolving Loan Account;

WHEREAS, Board staff solicited applications for loans for the Loan Program's April 1, 1997 application deadline;

WHEREAS, Board staff has determined that three (3) applicants are eligible for consideration of loan funding and has recommended to the Loan Committee the approval and authorization of the loans to eligible applicants;

WHEREAS, the Loan Committee has considered the credit-worthiness of the eligible applicants and has recommended to the Market Development Committee the approval and authorization of the loans to the eligible applicants;

WHEREAS, the Market Development Committee has considered the extent to which the eligible applicants meet the goals of the Recycling Market Development Zone Loan Program and has recommended to the Board the approval and authorization of the loans to the eligible applicants;

NOW, THEREFORE, BE IT RESOLVED, that in accordance with the recommendations of the Board staff, the Loan Committee and the Market Development Committee, the Board hereby approves the funding of the following loans in the following original principal amounts as set forth next to the borrower's name, subject to all terms and conditions contained in the loan agreement to be prepared by Board staff for the loan in accordance with applicable regulations, and on such other terms and conditions as the Board or its duly authorized staff representative in its or their sole discretion deems necessary or advisable:

	BORROWER	AMOUNT
A.	MBA Polymers, Inc.	$1,000,000
B.	TWDC Industries, Inc., dba Vision Recycling	$371,134
C.	Evergreen Glass, Inc.	$850,000

RESOLVED FURTHER, that the Board, the Executive Director, its authorized representative, or the Executive Director's designee, be and each hereby is, authorized to do and perform any and all such acts, including execution of the loan agreement to be prepared by Board staff and all other documents or certificates as the Board or its authorized representative in its or their sole discretion deem necessary or advisable to carry out the purposes of the foregoing resolution.

RESOLVED FURTHER, that any actions taken by the Board or the Executive Director, its authorized representative, or the Executive Director's designee prior to the date of the adoption of the foregoing resolutions that are within the authority conferred by those resolutions, are hereby ratified, confirmed and approved as the acts and deeds of the Board.

CERTIFICATION

The undersigned Executive Director of the California Integrated Waste Management Board does hereby certify that the foregoing is full, true and correct copy of a resolution duly and regularly adopted at a meeting of the California Integrated Waste Management Board on July 23, 1997.

Dated:

Ralph E. Chandler
Executive Director

Overview of the RMDZ Loan Program

The RMDZ loan program was created pursuant to Public Resources Code section 42010 et seq. The program provides direct loans to businesses and local governments located in RMDZs. To qualify, businesses must use postconsumer or secondary waste materials in their production process and have proposed projects which are consistent with the Board's annually adopted objectives for the RMDZ loan program. Local governments may use funds for public works infrastructure which directly supports businesses who use postconsumer or secondary waste materials. The funds may be used by businesses for real property, equipment, working capital or refinancing of current debt.

Loans may be made for up to 50% of the cost of a project, with a maximum of $1 million. The term of the loans must not exceed 10 years. The current interest rate is 5.5 percent, fixed.

The RMDZ loan program is funded by an annual $5 million allocation from the Integrated Waste Management Account. According to Senate Bill No. 1535, signed by the Governor on September 19, 1996, and effective on January 1, 1997, the program will sunset on July 1, 2006.

Overview of Loan Approval Process

The RMDZ loan program operates on quarterly cycles. Loan applications submitted each quarter are evaluated by staff and submitted for approval to the RMDZ Loan Committee, Market Development Committee and the Board. Staff of the Board's Permitting and Enforcement Division review each project to determine whether or not the proposed operations would be considered "Solid Waste Facilities". The types of facilities being recommended for approval for RMDZ loans are considered "recycling facilities" by Permitting and Enforcement Division staff (Attachment 2). Recycling facilities are not included in the definition of "Solid Waste Facility" (PRC sections 40194, 40200) and are not currently required to obtain permits or permit exemptions.

After Board approval, loan documents are prepared by loan program staff and reviewed by the Board's legal counsel and by the borrowers. Usually, loans are approved by the Board subject to a series of special conditions, such as the need to perform an environmental assessment of properties taken as collateral, obtaining appraisals, or other financial documentation. Upon satisfaction of all special conditions, the loan is "closed," and funds are disbursed.

For the second quarter of 1997, the deadline for application submittal was April 1, 1997. Seven new applications and two carried forward from the previous quarter. Staff evaluated each for financial soundness and project eligibility and determined that three qualified for recommendation to the RMDZ Loan Committee. At its June 19, 1997, meeting the Loan Committee met to review the loan requests. The results of that review will be presented to the Market Development Committee at its July 9, 1997, meeting.

Priority Ranking of Loans

As required by program regulations (14 CCR 17935.4 (b)), the loans recommended for approval by the Loan Committee, based strictly on their financial soundness, will be ranked by staff in order of their ability to satisfy the program's market development priorities.

Criteria for determining priority appear in statute, regulations and through annually adopted Board policies. (See Attachment 3.) Using a scoring scheme based on these criteria, RMDZ loan staff scores and ranks each proposed project. The rankings are provided before the date of the Market Development Committee meeting.

The priority criteria used in the scoring are:

The likelihood of each proposed project to increase market demand for postconsumer materials.	50 Points
The impact on markets for the Board's priority materials(mixed paper, high-density polyethylene, mixed plastics and compostable materials).	25 Points
The size, in tons per year, of the proposed project.	10 Points
Classification of the project within the integrated waste management hierarchy.	10 Points
The use of other funds in the proposed project in addition to RMDZ loan funds.	5 Points

RMDZ Loan Program Priority Criteria

Statutory Priority

"The highest priority for funding shall be given to projects which demonstrate that the project will increase market demand for recycling the project's type of postconsumer waste material." (PRC Section 42010(d)(3))

Regulatory Priority

"Priority consideration shall be given to projects which:... demonstrate the greatest use of other funds in the project and/or the highest degree of effort by the borrower to obtain other funds..." (14 CCR 17933 (2))

Board-Adopted Priority

Priority consideration shall be given to projects which satisfy the following 1996 RMDZ Loan Program Objectives:
(See Next Page)

1996 RMDZ Loan Program Objectives

Preamble: In marketing the RMDZ Loan Program, staff shall target businesses and projects which would best serve to achieve the program objectives adopted by the Board.

Objective #1: Maximize the effectiveness of the RMDZ Loan Program as a market development tool by restricting funding to projects which use materials normally disposed in solid waste landfills, as of 1990, as recycled feedstock to manufacture recycled-content end-products, or otherwise increase demand for secondary materials which directly support achievement of local waste diversion goals from solid waste landfills. Manufacturing, as described, does not include the clean up of nonhazardous contaminated soil.

Objective #2: Support the Board's current Market Development Plan by giving priority consideration to projects which utilize the Board's priority materials and divert the greatest tonnage, and-support projects which utilize construction and demolition waste materials as feedstock.

Objective #3: Support the integrated waste management hierarchy by promoting in order of priority: 1) source reduction; 2) recycling and composting; 3) environmentally safe transformation and environmentally safe land disposal.

To achieve this objective, the Board shall:

a. Give priority lending consideration to source reduction projects which satisfy objectives 1 and 2 above; and
b. Give lowest lending priority to alternative daily cover and transformation projects, and limit funding of such projects to those which:
    i. Produce value-added products.
    ii. Are not detrimental to current or future efforts to increase source reduction, recycling or composting of the project's material type.
    iii. Do not, in the aggregate, exceed 10% of all loan funds to be awarded during any annual loan funding cycle.

Summary of RMDZ Loan Applications

A.

Company: MBA Polymers, Inc.

RMDZ: Contra Costa

Loan Amount Requested: $1,000,000

Market Impact:

Plastic	Current	Projected Increase	Total
Diversion	1,000 tpy	8,675 tpy	9,675 tpy
Jobs	11	23	34

Priority Ranking Score: 67

Project:

The project consists of the construction of two industrial plastic recycling process lines, the "dry" process line and the "wet" process line. Both lines will process post consumer durable plastics. The $2,110,000 devoted to the project will be employed in the movement of existing equipment from MBA Polymers' (MBAP) Berkeley facility to the new 50,000 S/F Richmond plant. Included in the project is the installation of an additional $1,152,000 in new equipment.

Company:

MBA Polymers, Inc. (MBAP) emerged from the consulting company, Biddle and Assoc., started by Dr. Michael Biddle in 1991. The company quickly expanded the reputation and contacts already developed by the consulting organization, and built a state-of-the-art pilot processing facility in Berkeley.

During four years of research and development funded by the American Plastics Council and several government agencies MBAP developed Infrared Spectrometers that identifies over 20 types of plastics within 5 seconds or less. Existing Machines previously took up to 30 minutes to identify the 20 plastic types. The result has been that high-value plastics such as ABS, polycarbonate, nylon, and high impact polystyrene (HIPS) have been saved from being discarded into landfills.

Product:

The company will flake or pelletize 20 different plastics, some of these plastics are noted here:

PC, PP, ABS, PC/ABS, HIPS, PET, NYLON, PU, TEC.

Regulatory Compliance:

The applicant has certified that the project is in compliance with all local, state, and federal laws, regulations, requirements and rules, including the California Environment Quality Act found in Public Resources Code Section 21000 et. seq. According to the staff of Permitting and Enforcement Division, this particular project is not currently affected by California Integrated Waste Management Board permitting requirements.

Priority Ranking Worksheet

CRITERIA	MAXIMUM POINTS AVAILABLE	POINTS AWARDED	SCORING JUSTIFICATION
Increase Market Demand	50	30	The project will directly result in a net increase in demand for recycled durable plastics
Priority Material	25	25	Processing of durable plastics which is a priority commodity
Diversion Impact	10	10	Diversion tonnage will average 14,075 annually over the next three years
Support Hierarchy	10	0	
Leverage Other Funds	5	2	RMDZ loan will finance 50% of the project
Total	100	67	

B.

Company Name: TWDC Industries Corp. dba Vision Recycling

RMDZ: South Alameda

Loan Amount Requested: $371,134

Market Impact:

Green waste	Current	Projected Increase	Total
Diversion	27,361 tpy	30,400 tpy	57,761 tpy
Jobs	5	6	11

Priority Ranking Score: 67

Project:

The County of Santa Cruz has granted Vision Recycling an eight year contract to grind local wood and green waste which will be collected by Waste Management Company. Vision will be a subcontractor to Waste Management Company which is the general contractor.

Vision has also signed a new contract with the County of Merced to mulch residential green waste which is currently being deposited in two landfills. The new contract will result in a 4,400 tons annual increase in the diversion of green waste.

The additional equipment purchased for the Santa Cruz and Merced projects will also be employed in other mulching and Demolition & Clean up projects in San Jose, San Luis Obispo, Gilroy and Solano County. **See chart below:**

	Annual tons pre-expansion project	Annual tons post expansion project	Difference in annual processing potential resulting from project
Santa Cruz County	14,261	27,000	12,700
Merced County	2,100	6,509	4,400
Gilroy United Waste	1,400	2,500	1,100
Mighty Mulch	8,800	12,000	4,000
Other Landfill Accounts	-0-	8,000	6,000
Demolition & Construction Clean Up	800	1,752	2,200
TOTALS	27,361	57,761	30,400

Company:

Vision Recycling began as a partnership in September of 1993, with Tom Del Conte having 70% controlling interest. In January 1994, Mr. Del Conte bought all of the interest of the company from the former partner, and placed the company Vision Recycling into a newly formed California Corporation known as T.W.D.C. Industries, Inc.

Del Conte owns and operates the parent corporation known as Del Conte's Landscaping, Inc. This company has been owned by Tom Del Conte since 1972. The Parent company has been instrumental in the growth and development of Vision Recycling. The new company was to employ the existing operational structure of A-1 Landscaping including an established bookkeeping system, equipment maintenance program, business credit relationships, among other sister company advantages.

Product:

Mulch from residential yard waste

Regulatory Compliance:

The applicant has certified that the project is in compliance with all local, state, and federal laws, regulations, requirements and rules, including the California Environment Quality Act found in Public Resources Code Section 21000 et. seq. According to the staff of Permitting and Enforcement Division, this particular project is not currently affected by California Integrated Waste Management Board permitting requirements.

Priority Ranking Worksheet

CRITERIA	MAXIMUM POINTS AVAILABLE	POINTS AWARDED	SCORING JUSTIFICATION
Increase Market Demand	50	30	The project will directly result in a net increase in demand
Priority Material	25	25	Mulch
Diversion Impact	10	10	Increased Annual Diversion of 30,400 tons
Support Hierarchy	10	0	
Leverage Other Funds	5	2	Project financing ratio 50%
Total	100	67	

C. **EverGreen Glass, Inc., a California corporation**

RMDZ: San Joaquin

Loan Amount Requested: $850,000

Use of Funds: Machinery, equipment, and working capital

Market Impact:

Reuse/Glass	Current	Projected Increase	Total
Diversion	1,040 tpy	3,000 tpy	4,040 tpy
Jobs	23	12	35

Priority Ranking Score: 70/100

Company:

EverGreen, Inc.'s principal business is to purchase, sterilize and market recycled glass wine bottle containers to the wine industry. EverGreen began operations in June, 1996. The company's intends to become a full circle recycling facility by collecting, re-sterilizing, and returning bottles generated at a winery's tasting room/production facility, and through providing re-washing and delabeling services to wineries. EverGreen is certified by the State to sterilize bottles.

Since the beginning of operations, the owners have determined that efficiencies could be improved with additional sorting and label removing equipment, and that overall product quality could be improved with mechanized inspection equipment. The project involves the application of existing technology for sorting and inspection, and new technology for removing labels. The company is working with an equipment manufacturer to develop the delabeling equipment, and plans to patent their unique design.

Product:

EverGreen recovers and processes cork-finished 750ml and 1.5L glass wine bottles of various shapes, styles and colors. While there are standard bottle shapes used within the industry, several major wineries have recently switched to new bottle styles in an effort to increase market share. The 750ml size bottle is used five time more often than the larger bottle, and the company has counted in excess of 80 independent 750ml bottle types.

Regulatory Compliance:

The applicant has certified that the project is in compliance with all local, state and federal laws, regulations, requirements and rules, including the CEQA found in the PRC Sections 2100, et seq. According to staff of the Board's Permitting and

Enforcement Division, this particular activity is not currently affected by the Board's permitting requirements.

PRIORITY RANKING WORKSHEET

CRITERIA	MAXIMUM POINTS AVAILABLE	POINTS AWARDED	SCORING JUSTIFICATION
Increase Market Demand	50	50	The project will produce glass wine bottles ready for use. As such, market demand will increase for used glass wine bottles.
Priority Material	25	0	Glass is not currently a priority material.
Diversion Impact	10	6	This project proposed to divert 4,460 of "other material."
Support Hierarchy	10	10	This is a reuse project.
Leverage Other Funds	5	4	Total project costs are $2,212,470. RMDZ funds of $850,000 represents 38% of the total project costs.
TOTAL	100	70	

CALIFORNIA INTEGRATED WASTE MANAGEMENT BOARD

Market Development Committee
July 9, 1997

AGENDA ITEM 5

ITEM: PRESENTATION ON THE NORTHERN CALIFORNIA COMPOST DEMONSTRATIONS RESULTS

I. SUMMARY

The Board funded five compost demonstrations in agribusiness beginning in 1994. The northern California agricultural demonstrations were conducted and funded over a three-year period. These compost and mulch demonstrations have been successfully concluded. Contractors' final reports were recently submitted to Board staff and placed on our Home Page. Staff has drafted a fact sheet that summarizes results of these reports. It is attached and provides the details for this Item.

II. PREVIOUS COMMITTEE ACTION

This issue was last heard by the Committee on August 17, 1995.

III. OPTIONS FOR THE COMMITTEE

This is an informational item only. No action is required on part of the Committee.

IV. STAFF RECOMMENDATION

None.

V. ANALYSIS

Background: The Board funded five compost demonstrations in agribusiness over a three-year period beginning in 1994. Success of the program is most clearly demonstrated through the information that participants have shared with commercial growers and composters.

The demonstrations resulted in many groups networking and dialoguing that had not previously done so. The Cooperative teams' continually stated that their demonstration and the associated field days were valuable sources of information. The primary group targeted for the field days was commercial growers.

Educational outreach activities conducted by these cooperative teams and affiliated non-profit organizations included:

- Well-attended field days,
- Presentations made at several growers' breakfast meetings, BioCycle Conferences, and CRRA Conferences,
- Myriad newspaper and magazine articles crediting the Board's marketing foresight and involvement,
- Several radio and television clips, and
- Farm show dissemination of thousands of fact sheets detailing these agricultural demonstrations of curbside-collected compost and mulch use.

Local market assessments suggest that these agricultural demonstrations had a positive impact on increasing sales of compost to local agricultural operations. One cooperative team also identified marketing techniques for green material use in commercial crop production.

These compost demonstrations in northern California have been successfully concluded. Contractors' final reports were recently submitted to Board staff and placed on our Home Page. Staff has drafted a fact sheet that summarizes results of these reports.

VI. ATTACHMENTS

"Northern California Compost Demonstrations Results"

VII. APPROVALS

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Northern California Compost Demonstrations Results

In 1994 the California Integrated Waste Management Board (CIWMB) funded five proposals from twenty-eight, cooperative team submissions for compost agricultural demonstrations. This market development stimulus was initiated to demonstrate agricultural use of mulch and compost made primarily from curbside collected green material (e.g., yard trimmings).

Overview of Cooperative Teams' Findings

Compost or mulch applications can be beneficial to California commercial growers of crops and nursery stock. Because of the benefits, many of the growers involved with these demonstrations continue to use compost and mulch made primarily from green material.

Benefits observed in one or more of these trials from repeated applications of compost include:

- Increased soil organic content,
- Increased soil pH in acidic soil,
- Increased crop yields (e.g., onions, lettuce, tomatoes, and sweet corn), and
- Specific disease suppression (e.g., brown rot and Fusarium end rot).

Compost varies according to the organic materials used to make it, the composting process used, and the stability of the product marketed. Generally, a good quality compost made from yard trimmings contains lesser amounts of nitrogen, viable weed seeds, and salinity than manure. Compost is an acceptable material for maintaining tree fruit quality, field crop production, and commercial nursery stock.

There is minimal potential for the leaching of nitrate ions into groundwater when a good quality compost is applied at agronomic rates.

Healthy plants usually resist disease better and result in greater crop yields. Therefore, certain soil management practices, including compost application, tend to result in better yields because they improve plant vigor. Conversely, some cultural practices or excess application of commercial nitrogen fertilizer can increase pest pressure on most crops with resultant crop quality and yield decreases.

However, predicting increased crop yields and disease suppression when using compost or mulch remains a challenge. The complex biological interactions that occur between the soil's organic matter, the diversity of microorganisms present, the commercial crop planted, and the unique micro-habitat is not clearly understood. Some initial expectations of growers may not be realized, especially in the short-term of any soil management program.

It is important that the grower have a soil management plan and establish a rapport with the compost or mulch producer before using substantial quantities of compost or mulch on a portion of their farm or nursery operation.

Typically in California, application of compost is during the fall (after harvest) and winter. For maximum benefit, field applications of compost or fresh yard trimmings should be in place at least one or two months in advance of the scheduled planting date. Appropriate application timing is especially important if the compost product continues to heat up when moistened and placed in piles or is directly incorporated into the soil.

Abstracts of the Agricultural Demonstrations

Certain elements were common to each of the five agricultural demonstrations. During the first of three growing seasons, effort focused on involving local farm advisors as part of the cooperative teams. A standardized laboratory analysis for green material applied to each randomized, replicated plot was also established. A wide variety of commercial crops in northern California received annual applications of compost or mulch. Many of the cooperating growers were using compost in their operation for the first time.

The following sections are brief excepts from the cooperative teams' final reports summarized in June 1997. These compost publications can be downloaded in Word or WordPerfect via the Internet from the CIWMB's Home Page found at http://www.ciwmb.ca.gov. Copies of these compost publications are also available by calling the Recycling Hotline at (800) 553-2962.

Fresno County Demonstration
(Publication #422-96-051)

The composted green material, prepared mostly from home garden debris, was applied in a commercial Elegant Lady peach orchard over a multi-year period. The materials compared in this demonstration and research trial included:

- Ammonium nitrate,
- Steer manure,
- Composted steer manure,
- Pelletized chicken manure, and
- Green material compost.

All materials were applied with commercial equipment at a rate of 100 pounds of actual nitrogen per acre. Two additional treatments of ammonium nitrate and steer manure were applied at a rate of 300 pounds of actual nitrogen per acre for evaluation of nitrate leaching potential. All materials were compared to unfertilized control trees in a randomized complete block design, with four replications of 49 trees per treatment plot.

Data showed that green material compost can furnish the necessary level of nutrients to commercial peach trees and compares favorably to the other historically used fertilizers in the cultivation of stone fruits. Fruit yields, size, quality, and postharvest parameters were not significantly different among the treatments. No increase in either disease or insect damage was noted where the green material was used. In one year, there was evidence that brown rot disease was significantly reduced where the green material compost was used. Orchard-wide disease levels during the following two years were so low that validation of this observation was not possible.

A consumer taste test was performed on some of the peaches grown in the demonstration project. Consumers could not detect any differences among the treatments as far as sweetness, color, or aroma were concerned. They did find peaches grown with ammonium nitrate to be less mushy than the peaches grown with either manure or compost. This finding was consistent with the analytical tests performed on the fruit in the laboratory.

Monterey Bay Regional Compost Project
(Publication #422-96-050)

The Monterey Bay project demonstrated the viability of on-farm composting and increased awareness of the potential benefits of compost use in crop production. Most of the crop plots of broccoli, cauliflower, lettuce, onions, potatoes, and beets received one of the following treatments:

- 0 to 20 tons per acre of compost,
- ~120 pounds of sidedress nitrogen, and
- ~180 pounds of pre-plant plus sidedress nitrogen.

There have been varying results from the trials ranging from significant suppression of plant disease to crop pest damage due to a unusually high population density of a soil insect. Yield increases were observed for an onion field and one lettuce field, but not in another lettuce trial conducted in an adjacent county. Differences between compost sources, soil types, crop varieties, fertility management practices, and growing seasons are likely factors influencing crop response. Compost applications appeared to influence soil nitrogen dynamics and soil microbiology. Conflicting results in onion trials regarding suppression of Fusarium end rot was observed. Disease suppression was evident in 1995, but not in 1996. This suggests subtle differences in compost characteristics contributing to quality. One cannot assume that all composts will provide the same benefits in the diversity of soils, crops, and management systems in this geographic region.

Agriculture in Partnership with San Jose
(Publication #422-96-048)

San Jose's cooperative team investigated the use of fresh yard trimmings, semi-mature compost, and mature compost (produced commercially and on-farm) at the following rates:

- 13 to 40 tons per acre of yard trimmings,
- Nine to 30 tons per acre of semi-mature compost, and
- Five to 20 tons per acre of mature compost.

Commercial crops in Alameda, San Benito, and Santa Clara counties included apricots, cherries, wine grapes, peppers, radicchio, strawberries, tomatoes, Christmas trees, and walnuts.

Test results show that composting effectively eliminates weed seed viability. Composting for 30 days usually kills all the seeds and other viable plant parts. Fresh yard trimmings, in comparison, can have substantial numbers of viable seeds and are not suitable for applications where weed growth would be of concern.

In general, crop yields were not significantly influenced by the addition of organic matter. The use of mature compost did not increase yields, nor did the use of fresh yard trimmings reduce yields. The trial results show that potential benefit from these amendments lies more in improved soil quality than in short-term crop yield increases. Increased soil organic matter can result in the slow release of nutrients over a longer period of time with minimal leaching to ground water. There appears to be no short-term negative impact in the form of nitrogen deficiency, disease incidence, or uncontrollable weed pressure.

The "Yard Trimmings Products Use Guide," (Publication #422-96-049: Appendix E of San Jose's final report) is separately available.

Stanislaus County Compost Demonstration
(Publication #422-96-053)

The Stanislaus County team designed trials to measure benefits of compost use on ornamental nursery stock and on field crops. The nursery trials were conducted for two years and the field crops for three years. Different rates of compost were used as follows:

- Grower's potting mixes containing 0, 25, 50, 75, or 100 percent compost, or
- Compost applied at rate of 10 or 20 ton per acre compared to a commercial fertilizer treatment and untreated control field plots.

The nursery trials used five commonly planted landscape plant species: Fraser's Photinia, Chinese pistache, Gold Coast Juniper, Pink Indian Hawthorn 'Springtime' and Belgian indica azalea. The field crops consisting of sweet corn, watermelons, and tomatoes were selected for their different root systems and growth patterns.

The trials showed that the five species of ornamental nursery stock can be successfully grown in potting soil that contains compost. Compost was shown to have several good qualities as a component of potting soil. Preplant soil tests showed that potting media containing compost has greater nutrient-holding capabilities than media that lacked compost, especially for nitrogen. For most of the plants tested, a 25 percent compost and potting soil mix performed well as a growing media.

The field trials of sweet corn, tomatoes and watermelon on sandy soils showed that compost treatment beneficially changed soil structure and significantly increased soil organic matter and pH in this acidic soil. Compost increased tomato and sweet corn production when applied at the 10 ton per acre rate.

The fine texture of compost also increases the soil's water-holding capacity. This may have important implications for water savings in field crop production and potted plants.

Tulare County Compost Demonstration
(Publication #422-96-052)

The Tulare project demonstrated the use of green material compost. Three treatments were compared on each season's crop:

- Commercial synthetic fertilizers without soil amendments,
- Poultry manure in conjunction with commercial synthetic fertilizers, and
- Green material compost in conjunction with commercial synthetic fertilizers.

Each treatment, replicated three times in a randomized complete block design, was approximately 3.6 acres. In 1995, compost was applied at 3.5 tons dry weight per acre, and in 1996 the rate was 3.9 tons dry weight per acre. Analyses proved that compost provided some nutrients and a lower level of salts than manure.

Cotton was planted in the first year of the demonstration with a preplant starter fertilizer applied to all treatments. During that season, nitrogen was sidedressed on all treatments, but the compost and manure treatments received 60 pounds less nitrogen per acre than the conventional treatment.

Wheat was planted after cotton. The second compost application was applied following harvest of winter wheat and prior to planting silage corn. In addition to the original compost treatments, compost at the rate of 20 tons dry weight per acre was applied during 1996 on either side of the initial demonstration. Stand counts, gypsum block readings, and tissue analyses were taken from all treatments.

No significant differences in yield were observed in cotton or wheat. In corn, the compost treated plots yielded statistically less than conventional and poultry manure plots. This may have been a result of the irrigation pattern since it took several days to irrigate and the compost plots were always watered last.

This demonstration showed that compost is amenable to large-scale commercial agriculture application. Analyses demonstrated that compost provided some nutrients and was lower in salts than poultry manure. Commercially available loading, hauling, and spreading equipment routinely handled the compost. Given that there was no tangible or measured benefit from two years of low rates of green material compost or from one year of a relatively high rate, the short-term economics of green material compost applications in field crops do not seem favorable. It remains unknown whether there would be benefits to cotton, silage corn, or wheat from long-term applications at relatively low annual rates.

The Next Phase
CIWMB, the City of San Diego, the City of Los Angeles, and the County of Santa Barbara are financing a compost and mulch demonstration in a four-county area of southern California. Commercial orchards are being evaluated for disease suppression of *Phytophthora cinnamomi* (avocado) and crop yields (avocado and citrus) over the next two years.

CIWMB staff are working with the USDA Natural Resources Conservation Service to promote agricultural use of compost and mulch made from green material. USDA programs on soil health and erosion control for California agriculture are considering the use of compost and mulch products made from green material.

For further information, please contact Pat Paswater at CIWMB (916) 255-2295.

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