

REQUEST FOR APPROVAL

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

From: **Laurie Kikumoto**
Section Manager, Special Waste Grants and Loans Programs

Request Date: March 17, 2014

Decision Subject: Recycling Market Development Zone Loan for Fireclay Tile, Inc.
(Recycling Market Development Revolving Loan Subaccount, FY 2013/14)

Action By: March 28, 2014

Summary of Request: Staff requests approval of a Recycling Market Development Zone (RMDZ) loan in the amount of \$1,250,000 to Fireclay Tile, Inc. (Fireclay). The request is more fully described under *Applicant Profile*.

Recommendation: Staff recommends approval of a RMDZ loan to Fireclay in the amount of \$1,250,000.

Fund Source: RMDZ Loan Subaccount	Amount Available	Amount to Fund Item	Amount Remaining	Line Item
FY 2013/14	\$7,500,000	\$1,250,000	\$6,250,000	Direct Loan

Deputy Director Action: On the basis of the information and analysis in this Request for Approval and the findings set out herein, I hereby conditionally approve the Recycling Market Development Zone loan to Fireclay Tile, Inc. for \$1,250,000.

This approval is subject to:

1. The return by the proposed Borrower of a signed Loan Commitment Letter within thirty (30) days of the date of the Commitment Letter.
2. All terms and conditions contained in the Loan Agreement and other loan documents to be prepared by loan program staff in accordance with applicable regulations, and such other terms and conditions as duly authorized staff in their sole discretion deem necessary or advisable.

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

Dated: 3/19/14



Howard Levenson
Deputy Director

Background and Findings

Statutory Authority

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

Program Background

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

Process

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

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

Application Review: The application was reviewed for completeness and evaluated consistent with approved General and Project Eligibility Criteria and commercial loan industry practices, to determine an appropriate loan amount and structure that is being recommended for the loan:

- The project is located within the boundaries of the Central Coast RMDZ.
- The waste materials to be recycled are generated within California.
- The business has demonstrated the ability to repay and collateralize the loan.
- The local RMDZ Administrator supports the project, attested to the reasonableness of the employment and diversion projection of the project and has certified that the requested loan is compatible with their RMDZ's Action Plan and Objectives.
- Loan Staff has conferred with the Local Assistance and Market Development Branch and determined that Fireclay will get construction and demolition waste such as source separated post-consumer porcelain waste, old and damaged porcelain toilets and bathtubs, granite dust recovered from granite rock processing and source separated waste glass, primarily waste glass recovered by certified glass processors. The waste materials are normally disposed of in California landfills.
- Loan Staff has conferred with the Statewide Technical and Analytical Resources Branch as to the reasonableness of the proposed equipment for the projects. Staff's opinion is

that Fireclay will be using equipment that is of standard variety for the type of business activity. According to staff, the demand for recycled tiled products is expected to grow in response to a demand for recycled content products in LEED projects.

- Loan Staff has conferred with the Waste Permitting, Compliance and Mitigation Division concerning applicable Solid Waste Facility or Waste Tire Facility Permits. The staff has determined that a Solid Waste Facility Permit is not required for the project as the business receives source separated materials for use as feedstock in their manufacturing process.
- Legal Counsel for the RMDZ Loan Program was involved in staff discussions evaluating the merits and eligibility of the project prior to the Loan Committee meeting. Legal Counsel is not aware of any significant legal issues related to the loans.
- The Budget Office has confirmed that sufficient monies are allocated for FY 2013/14.
- The Loan Committee met on February 13, 2014, and recommends approval of the loan.

Based on the above factors, and in consultation with the applicant, staff recommends approval of the loan to Fireclay for \$1,250,000. The applicant has been informed and agreed with the recommended amount and conditions.

Applicant Profile

Fireclay Tile, Inc.

Use of Funds and Project Description: Located in Aromas, San Benito County, California, and within the Central Coast RMDZ, Fireclay proposes to use the \$1,250,000 RMDZ loan to expand and grow the business. Fireclay plans to use the RMDZ loan to purchase kilns, crushing equipment, material handling equipment, drying trays, glaze line equipment, a fork lift, construct an additional building at the existing Aromas site and finance the loan fee. Fireclay makes recycled content custom handmade and extruded ceramic, glass and glazed thin brick tiles. The tiles are used in flooring and walls of commercial and residential building applications such as kitchens and bathrooms.

Fireclay was founded in 1986 by its Chief Ceramicist, Paul Burns, with an intention to make high quality, durable and aesthetic handmade ceramic and glass tile that is unique, affordable and “green”. In 2007, Fireclay was awarded a five-year grant of up to \$1,541,000 under the Beverage Container and Market Expansion Grant Program. The grant enabled the company to add 25 employees to its payroll. Eric Edelson joined the company in 2009 as their Chief Executive Officer.

Fireclay currently employs 85 people across three locations in Northern California: San Jose where they retain their original manufacturing facility with a showroom; San Francisco where they have an administrative office and a showroom and Aromas which is their primary manufacturing facility.

Diversion and Jobs: As a result of the RMDZ loan, Fireclay is projected to increase diversion from 300 to 600 tons of waste annually from California landfills. The company’s payroll is projected to increase from the current 85 employees to 125 employees.

