

# Recycling Market Development Zone Loan Program Eligibility Criteria

September 2023

## I. INTRODUCTION

The Department of Resources Recycling and Recovery (CalRecycle) administers the Recycling Market Development Zone (RMDZ) Loan Program.

The purpose and importance of the RMDZ Loan Program is set forth in Section 42001 of the California Public Resources Code.

*“The purpose of this chapter [is] to stimulate the use of postconsumer waste materials and secondary waste materials generated in California as raw materials used as feedstock by private business, industry, and commerce.”*

The RMDZ Loan Program supports CalRecycle’s circular economy goals, CalRecycle’s mission, and four important pieces of legislation (AB 341, AB 1826, SB 54, and SB 1383), all of which will create increased supplies of recovered materials.

Loans will be prioritized for new and expanding projects that fill gaps in California’s circular economy that demonstrate innovative reduction, reuse, recycling, or remanufacturing of materials that otherwise could have entered the waste stream. Some of these gaps will be identified in the Zero Waste Plan, SB 54 Needs Assessment, SB 1383 Capacity Plans, Five-Year Tire Plan, and other resources published by CalRecycle.

More Information about legislation and initiatives is available at <https://calrecycle.ca.gov/RMDZ/Loans/LawAndPolicy/>

Loan requests will fund projects that conserve resources and develop markets for post-consumer recycled material, and will be prioritized based on the following benefits to California:

- Projects that are innovative and transition the state from a disposable to a fully circular economy such as:
  - Projects that use recycled content to manufacture products that are also recyclable, or
  - Projects that use recycled content to manufacture products that have a lifespan of 10 or more years, or
  - Projects that recycle organics and other materials into high value recycled products

- Projects that provide jobs and community benefits

The Director will prioritize loan requests that focus on investments directly related to the benefits above to help develop a circular economy in CA.

### **Disclaimer**

The RMDZ Loan Program Eligibility Criteria are a guide for loan prospects, RMDZ Zone Administrators, and CalRecycle staff. These criteria are not intended to be all inclusive. CalRecycle retains the discretion to determine loan eligibility based on the circularity of the products, financial analysis, priorities, jurisdictional needs, and the goal to maintain a diversified loan portfolio.

### **Loan Application Process, Timeline, and Questions**

- Loan applications are accepted continuously, and loans will be awarded subject to availability of program funds.
- To view the loan application materials, see the Forms and Documents on the internet at <https://www.calrecycle.ca.gov/rmdz/loans/forms>
- For more information:
  - CalRecycle:
    - Call (916) 341-6199
    - Send an email to [LAMD@calrecycle.ca.gov](mailto:LAMD@calrecycle.ca.gov)
    - Submit a [Contact Form](#) that is available on the Internet at <https://www2.calrecycle.ca.gov/Forms/BizAssistance/RMDZInfo/>
  - The [Local RMDZ Administrator](#) list is available on the internet at <https://www2.calrecycle.ca.gov/bizassistance/rmdz/zones/contacts>

## **II. FINANCIAL ELIGIBILITY CRITERIA**

### **RMDZ Loan Application**

The [RMDZ Loan Application Documents](#) are available on the Internet at [www.CalRecycle.ca.gov/rmdz/loans/forms](http://www.CalRecycle.ca.gov/rmdz/loans/forms)

### **Eligible Applicants**

- Private, for-profit entities
- Nonprofit organizations (except private schools)
- Local government entities
  - Cities, counties, and cities and counties
  - Regional or local sanitation agencies, waste agencies, and joint powers

### **Location**

- Projects may be located inside a CalRecycle designated RMDZ. To determine if your business is in an RMDZ, search [RMDZ Maps](#) on the Internet at <https://www2.calrecycle.ca.gov/BizAssistance/RMDZ/Zones/> Local RMDZ Zone Administrators are available to provide business, technical, permit assistance, and have preferred siting for new and expanding manufacturing.

- Projects may be located outside an RMDZ when the loan will benefit a local jurisdiction or assist a local jurisdiction in complying with Public Resources Code section 40051.

**Ability to Repay** (PMT = Monthly Payment Amount)

- The department shall approve only those loan applications that demonstrate the applicant's ability to repay the loan.
- The borrower's ability to repay is the first source of loan repayment. The formula ( $PV$ ,  $N$ , and  $I = PMT$ ) considers the loan amount ( $PV$ ), number of payments ( $N$ ), and interest rate ( $I$ ) to calculate the monthly payment ( $PMT$ ). The monthly payment is analyzed against the borrower's historical and projected financial capacity and cash flow.
- In addition, see the financial 5-C's of Credit section below.

**Loan Amount** ( $PV$  = Present Value)

The loan amount will be determined by loan staff analysis of the loan applicant's overall need, financial capacity, and cash flow ability to repay, and may not exceed \$3 million dollars without Director approval.

**Loan Term** ( $N$  = Number of Payments)

The term of a loan is based on the loan purpose (short-term or long-term) and the useful life of the loan collateral.

**Loan Interest Rate** ( $I$  = Interest Rate)

- The loan interest rate will be as low as possible to make projects feasible, is based on the Ability to Repay as analyzed pursuant to the 5-C's of Credit (see below), and the interest income needed to pay program administrative expenses.

**Borrower Concentration Limit**

A borrower and its related entities may have one or more loans in a combined amount not to exceed 20 percent of the outstanding performing loan portfolio plus available funds for new loans. The CalRecycle Director reserves the right to consider exceptions to the borrower concentration limit on a case-by-case basis.

**Collateral**

Collateral is required. Collateral will include assets funded with loan proceeds, and other collateral as needed.

**Guarantor(s)**

Business and/or personal guarantees requirements will be determined based on the loan applicant's financial ability to repay.

**Permits**

The loan applicant should provide documentation of significant permits approval before the loan request is presented at a loan committee meeting but is required before the loan is funded.

### **Schedule of Fees**

- Preliminary application fee: \$-0-
- Full Application fee \$300
- Closing Points: 0.5% of the loan amount.

### **Life Insurance**

Assignment of life insurance may be required for key owner(s) and/or management when they are essential to the success of the business.

### **Use of Funds**

- Private entity and nonprofit organizations can use loan funds for:
  - Machinery and equipment, including vehicles or other “rolling stock”
  - Working capital
  - Real estate purchase
  - Real estate leasehold improvements
  - Real Estate capital improvements
  - The Department may consider refinancing onerous debt that meets the below regulatory definition:
    - (“Onerous Debt” means debt with high interest rates and/or short terms that causes a negative impact on the Borrower's cash flow and jeopardizes the Borrower's ability to convert to or expand its diversion of recycled or secondary material. 14 CCR 17931(n))
  - Loan-closing points
- Local government entities can use loan funds for infrastructure and/or capital improvements in support of private, for-profit entities, and nonprofit organizations engaged in value added processing or manufacturing using recycled materials.

## **III. PROJECT ELIGIBILITY CRITERIA**

### **Feedstock**

Eligible feedstock is postconsumer or secondary recovered waste material that is generated in CA and that is typically landfilled. However, the recovered waste material does not have to be currently landfilled if it is being used to manufacture a value-added feedstock or a finished product. One key criterion is whether a project results in expanded market demand for recycled materials.

### **Eligible Project Types – see examples below**

#### **1. Waste Prevention**

Waste Prevention projects change the process by which products are made, resulting in a net reduction of feedstock used and/or waste generated. This can be accomplished by modifying equipment or processes, improving operations and maintenance, or changing materials in manufacturing. The project will result in less waste generated during the manufacturing process.

#### **2. Reuse**

Reuse projects will prolong the useful life of a product, delaying final disposal or recycling, and may involve the repair, repurposing, reconditioning, washing, or treatment of a worn or used product that makes the product useable again for its originally intended purpose or for a similar purpose.

### **3. Recycling, Composting, In-Vessel Digestion, and Remanufacturing**

There are two types of recycling manufacturers:

- 1) Processing a feedstock into a finished product.
- 2) Producing a value-added feedstock for use by other manufacturers that produce a value-added or finished product.

### **Ineligible Project Types - see examples below**

Projects are ineligible for the following reasons:

- 1) Using any of the following material types: hazardous waste, metals and/or any specific materials that are banned from solid waste landfills locally or statewide.
- 2) Producing single use plastic bags or polystyrene food containers.
- 3) Technologies that are transformation, i.e., incineration, pyrolysis, waste-to-energy, etc., gasification, biomass, etc.
- 4) A loan shall not be provided for a project that will result in the production of fuels or energy through transformation, engineered municipal solid waste conversion, or other disposal activities.

### **Examples**

#### **1. Waste Prevention**

##### **Eligible Projects**

- Modifying equipment or processes to make products using less raw material or packaging.
- Purchasing a laser cutter to replace a water saw, to cut more parts from the same sized sheet of plastic.

##### **Ineligible Projects**

- Buying recycled or reusable pallets, reusable containers or reusable filters that are not directly involved in the making of a product.

#### **2. Reuse**

##### **Eligible Projects**

- Separating salvageable items from deconstruction projects for resale.
- Collecting, distributing, and storing edible food for human consumption and/or animal feed.
- Collecting, cleaning, sterilizing and redistributing glass bottles.
- Washing reusable diapers that are used instead of disposable diapers.
- Collecting, sorting, repurposing, and/or repairing items for resale.
- Providing a textiles swap subscription service and assigning a points system for items donated (and therefore for a higher level of reuse).

##### **Ineligible Projects**

- Performing home appliance or automobile repairs.
- Dismantling automobiles or white goods.

- Collecting and refilling propane tanks.
- Washing uniforms that would not otherwise be disposed.

### **3. Recycling, Composting, In-Vessel Digestion, and Remanufacturing, etc. Eligible Projects**

- Producing a recycled intermediate material from non-hazardous solid waste.
  - Cleaning and grinding any type of plastic to produce plastic pellets, flakes, or chips.
  - Processing recovered tires to produce crumb rubber.
  - Deconstructing mattresses and separating the residual wood, metal, and fiber to be made into new products.
  - Deconstructing waste carpet and sorting into residual materials (nylon/plastic/wool fiber, calcium carbonate, etc.) to make other products.
  - Recovering edible food and producing a new product, i.e., using recovered edible food to make prepared meals, such as soups, jams, baked goods, etc.
  - Producing pellets, flakes, or chips by separating, cleaning and grinding plastic casing/containers that previously contained electronic waste, paint, pesticides, plastic parts of solar panels, etc., which therefore are no longer considered hazardous waste.
  - Separating and cleaning casing from electrical cords and grinding the plastic to produce plastic pellets, flakes, or chips.
- Producing a recycled content finished product from non-hazardous solid waste and/or a recycled material.
  - Processing organic materials through a compost system to produce compost.
  - Chipping and grinding organic materials to make mulch or decorative landscape materials.
  - Converting feedstock such as food waste by using in-vessel digestion to produce renewable natural gas, liquid fuels, electricity, heat, soil amendments, and liquid fertilizers.
  - Using paper to produce recycled content finished products such as copier paper, paper towels, table napkins, and facial tissue.
  - Using cardboard and newspaper to produce recycled content finished products, such as bottle shells, boxes and wall insulation.
  - Using carpet fibers to manufacture recycled content carpet underlayment.
  - Using plastic pellets, flakes, or chips to manufacture recycled content plastic pallets, lumber (or other durable building materials), bottles, and food packaging (see Ineligible Project Types for specific exclusions).
  - Using plastic waste that was created during the manufacturing process, then processing it back through the manufacturing process to make post-industrial recycled content finished product. (Note: This waste was previously being disposed.)
  - Using glass to manufacture recycled content glass tiles, flooring, countertops, tableware, trophies and/or gift items.

- Using crumb rubber to manufacture recycled content weighted bases for traffic safety products, rubber mats, and/or hot asphalt mix.
- Grinding broken concrete and asphalt to manufacture recycled content rock products, gravel, sand, and road base.
- Using recycled content yarn made from recycled plastic to sew garments.
- Chipping, grinding and/or composting using tree mortality feedstock (including pine needles) to make mulch and compost. (Note: For this feedstock material to be eligible supporting documentation must be provided stating that the material would otherwise be disposed without the project).

### **Ineligible Projects**

- Collecting and baling recyclables for shipment only.
- Any project recycling only metal.
- Using woodchips or any other feedstock in a gasification unit to produce biochar as a soil amendment.
- Production of single-use plastic bags with recycled feedstock.
- Production of polystyrene food containers using recycled content feedstock.
- Feedstock, finished product or equipment for use in conversion technologies, such as biomass, transformation (e.g., pyrolysis), gasification.
- Development of a mobile phone application to encourage recycling.
- Using wax produce boxes to produce fire logs.
- Recycling hazardous waste or hazardous portions of electronic waste.

### **Jobs / Workforce Development Plan and Reporting**

The RMDZ Loan Program expects businesses to consider impacts and benefits to the local community, especially jobs and workforce development. The business will be required to provide a Jobs /Workforce Development plan to create and retain high quality jobs, provide job training, and include a targeted hiring strategy that includes priority populations and/or individuals with employment barriers.

Additional information will be provided in the application materials.

## **IV. FINANCIAL ANALYSIS AND APPROVAL PROCESS**

### **Preliminary Loan Inquiries**

Preliminary loan inquiries will be evaluated based on the Loan Eligibility Questions (LEQ) and the loan prospects financial statements. The LEQ determine the loan prospects readiness to apply for a loan and are the most common reasons for loan decline.

### **The LEQ are:**

1. Location (Physical Project Address)
2. Secretary of State Registration (California):
3. Customers (product buyers names and locations)
4. Feedstock (type, quantity, supplier names and locations)
5. Manufacturing Process (current and proposed)
6. Products (Recycled content, and product life span of greater or less than ten years)
7. Circular Economy Investments
8. Jobs / Workforce Development

### **Full Loan Application**

In addition to the LEQ, full loan applications will be evaluated based on the Financial 5-C's of Credit, which are the commercial loan industry standards to analyze and underwrite loans.

#### **5-C's of Credit**

1. Character (Experience of the business, owners, and management)
2. Capacity / Cashflow (1<sup>st</sup> source of loan repayment)
3. Capital / Guarantors (2<sup>nd</sup> source of loan repayment)
4. Collateral (3<sup>rd</sup> source of loan repayment)
5. Conditions (Loan document terms and conditions)

### **Loan Committee**

Loan applicants that meet the financial 5-C's of Credit may be presented to Loan Committee for consideration. Loan Committee may approve, approve with modifications, or deny the loan request.

### **Request For Approval (RFA)**

If Loan Committee approves the financial eligibility criteria, then staff will prepare a Request For Approval and submit to Executive Management for consideration. Executive Management may approve, approve with modifications, or deny the loan request.

### **Loan Documentation**

If Executive Management approve the loan, then staff will prepare loan documents. Additional business documents will be needed to prepare the loan documents.

### **Escrow Account**

The loan applicant must identify and contract with an escrow company for loan documents signing and loan disbursement. Escrow fees are to be paid by the loan applicant. Original signed loan documents must be sent to and received by CalRecycle for review and final authorization.

### **Loan Disbursement**

A borrower may request loan disbursements by contacting the Loans Unit and submitting the proper forms. Staff will review the Disbursement Request to ensure expenses match the approved use of funds. If approved,

staff will direct the escrow company to disburse funds, ideally directly to the borrower's vendor.