Recycling Market Development Zone
Loan Program Eligibility Criteria

December 2021

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. “[T]he 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 several statewide initiatives and CalRecycle goals, including three important pieces of legislation (AB 341, AB 1826, and SB 1383), all of which will create increased supplies of recovered materials.

Priority for funding shall be given to projects for circular recycling programs that result in the product being recycled into a product that is also recyclable, as determined by the department, or that has a minimum lifespan of 10 or more years.

Disclaimer

The RMDZ Loan Program Financial and Project 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 financial analysis, priorities, jurisdictional needs, and the goal to maintain a diversified loan portfolio.

Process, Timeline, and Questions

- Loan applications are accepted continuously and are processed on a first-come-first-served basis, subject to availability of program funds.
- To view the full 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
    - 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

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 must be located in California and preferably be in a CalRecycle designated Recycling Market Development Zone. 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 designated commercial property siting for new and expanding recycling manufacturers. All local jurisdictions can apply to CalRecycle for an RMDZ Designation (for more information see https://www.calrecycle.ca.gov/rmdz/faq.

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.

Loan Term (N = Number of Payments)
The term of a loan is based on the loan purpose (short-term, medium, 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. Interest Rate Pricing per borrower will be determined based on the riskiness of repayment (i.e. Ability to Repay, as analyzed pursuant to the 5-C’s of Credit), and interest income needed to pay program administrative expenses.
The interest rate is posted on the RMDZ loan program home page at https://www.calrecycle.ca.gov/RMDZ/Loans and updated when changes are made.

**Borrower Concentration Limit**
A borrower may have one or multiple loans (Short, Medium, or Long Term), but will be limited to 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 and may include equipment, inventory, accounts receivable, commercial and personal real estate (including single-family residences), vehicles, and other assets. Collateral will include assets funded with loan proceeds.

**Guarantor(s)**
Business and/or personal guarantee requirements will be determined based on the loan applicant’s financial ability to repayment (i.e. Ability to Repay). Collateral will include assets funded with loan proceeds.

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

**Schedule of Fees**
- Preliminary application fee: $-0-
- 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
  - Refinancing of onerous debt
  - 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 California. 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, and In-Vessel Digestion
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, 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, 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.
IV. FINANCIAL ANALYSIS AND APPROVAL PROCESS

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

The SLEQ 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 products are recyclable or have a lifespan of 10 or more years)

Full Loan Application
In addition to the SLEQ, 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 (1st source of loan repayment)
3. Capital / Guarantors (2nd source of loan repayment)
4. Collateral (3rd 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.