

Request for Approval

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

From: **Michelle Martin**
Branch Chief, Financial Resources Management Branch

Request Date: January 3, 2019

Decision Subject: Approval of a Greenhouse Gas Reduction and Recycling Market Development Zone Loan for Peninsula Plastics Recycling, Inc. (Greenhouse Gas Reduction Revolving Loan Fund, Fiscal Years 2014–15 and 2015–2016) and Recycling Market Development Revolving Loan Subaccount, Fiscal Year 2018–19)

Action By: January 15, 2019

Summary of Request

Staff requests approval of a Greenhouse Gas Reduction Loan (GHG Loan) in the amount of \$2,000,000 and a Recycling Market Development Zone Loan (RMDZ Loan) loan in the amount of \$2,000,000 to Peninsula Plastics Recycling, Inc. (PPR). The request is more fully described under *Applicant Profile*.

Recommendation

Staff recommends approval of a GHG loan for \$2,000,000 and a RMDZ loan for \$2,000,000 to PPR.

Table 1. Funding

Fund Source	Amount Available	Amount to Fund Item	Amount Remaining	Line Item
GHG Revolving Loan Fund (Fiscal Year (FY) 2014–15)	\$250,000	\$250,000	\$0	Direct GHG Loan
GHG Revolving Loan Fund (FY 2015–16)	\$5,000,000	\$1,750,000	\$3,250,000	Direct GHG Loan
RMDZ Loan Subaccount (FY 2018–19)	\$6,865,000	\$2,000,000	\$4,865,000	Direct RMDZ Loan
Total	\$12,115,000	\$4,000,000	\$8,115,000	

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 a \$2,000,000 Greenhouse Gas Reduction Loan and a \$2,000,000 Recycled Market Development Zone Loan to Peninsula Plastics Recycling, Inc.

This approval is subject to:

1. The return by the Applicant of a signed Loan Commitment Letter within thirty (30) days of the date of the Commitment Letter that covers both loans.
2. All terms and conditions contained in the Loan Agreements and other loan documents to be prepared by loan program staff in accordance with applicable laws, and such other terms and conditions as duly authorized staff in their sole discretion deem necessary or advisable.
3. The Applicant's signing of loan documents within the 90-day loan commitment period, which begins on approval of this RFA. The loan commitment period may be extended, for cause, for an additional 90 days. Extension of the loan commitment period beyond the second 90-day period shall occur only if agreed to by both CalRecycle and the Applicant.

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

Dated: January 15, 2019

Signed By: Cara Morgan for Howard Levenson

Howard Levenson
Deputy Director

Background and Findings

GHG Loan Statutory Authority

PRC sections 42995-42998, added to statute by the June 20, 2014, enactment of SB 862, authorize the California Department of Resources Recycling and Recovery (CalRecycle) to provide loans under the Greenhouse Gas Reduction Revolving Loan Program (GHG Loan Program) for capital investments that expand waste management infrastructure, with a priority in disadvantaged communities. Investment is needed for new or expanded organics infrastructure, such as composting and anaerobic digestion facilities, as well as for facilities that manufacture recycled materials into beneficial products. This investment in the waste management and recycling infrastructure is necessary to reduce greenhouse gas (GHG) emissions and divert more materials from landfills in support of the State's greenhouse gas reduction and 75 percent solid waste recycling goals.

RMDZ Loan Statutory Authority

The Recycling Market Development Zone Loan Program (RMDZ Loan Program) was established by Senate Bill 2310 (Bergeson, Statutes of 1990, Chapter 1543), 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.

GHG Loan Program Background

CalRecycle administers the GHG Loan Program to provide funds to California-based recycling businesses to support the expansion of the waste management infrastructure that meets both AB 32 and AB 341 policies. This program provides direct, low-interest loans for the purchase of equipment and other related business costs.

RMDZ Loan Program Background

CalRecycle administers the RMDZ Loan Program to encourage 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

- GHG: The GHG Loan Program criteria was approved by CalRecycle on October 15, 2015.
- RMDZ: The RMDZ Loan Program criteria was approved by CalRecycle on December 20, 2018.
- 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 applications were reviewed for completeness and evaluated consistent with the approved criteria for the GHG and RMDZ loan programs and commercial loan industry practices, to determine the appropriate loan amount and structure that is being recommended for each loan:

- The Local Assistance and Market Development Branch determined the feedstock documentation is adequate for each loan and that the RMDZ project meets project eligibility criteria.
- The Statewide Technical and Analytical Resources Branch assessed the reasonableness of the equipment for the projects and determined that the applicant achieved a passing GHG score.
- The Waste Permitting, Compliance and Mitigation Division advised that it appears that a Solid Waste Permit is not required for the projects.

- The Applicant stated that it has or will obtain all applicable major permits required to operate the business and the equipment to be financed by the proposed loans.
- The Stanislaus County RMDZ Administrator is aware of the project and confirmed that the project that is the subject of the recommended RMDZ loan is within the boundaries of the Stanislaus County RMDZ.
- The Loan Committee met on December 20, 2018, and recommends approval of both loans based on the applicant’s ability to repay and collateralize the loans.
- The Budget Office has confirmed that sufficient monies are allocated for the GHG loan from FY 2014–15 and FY 2015–16 funds and for the RMDZ loan from FY 2018–19 funds.
- Legal Counsel is not aware of any significant legal issues related to the loans.

Staff Recommendation

Based on the above factors, and in consultation with the applicant, staff recommends approval of an RMDZ loan and a GHG loan to PPR for \$2,000,000 each.

Applicant Profile

Peninsula Plastics Recycling, Inc.

Project Descriptions and Use of Funds: PPR proposes to use the \$2,000,000 GHG loan to purchase and install additional equipment (i.e. debalers, separators, sorters) to sort/process materials from low grade 1-7 mixed containers that China is no longer accepting due to its National Sword policy. PPR proposes to use the \$2,000,000 RMDZ loan to purchase wet grinders that will be used in conjunction with the GHG loan equipment and to purchase a solar power system for their existing recycling facility in Turlock. The solar power system will provide power to run the plastics recycling and sorting lines. The lines will produce various types of plastic resins.

Grant and Loan History

- PPR received a \$1,000,000 CalRecycle Fiber, Plastic and Glass grant in 2014 to purchase equipment to process low-grade plastics to create bender board.
- PPR received a RMDZ loan for \$2,000,000 in 2009 to fund equipment (for the solid state polycondensation line, extrusion and pelletizing line, and other processes) when the facility opened. After the two loans are approved, PPR will remain under the \$5,000,000 CalRecycle loan cap for all loans and the \$3,000,000 cap for all RMDZ loans.
- This is the first GHG loan request from PPR.

Table 2. Diversion, GHG Reductions, and Jobs

Diversion, GHG Reduction, & Jobs	Current	Projected Increase or (decrease)	Total
GHG Loan Tons per Year	0	17,000	17,000
RMDZ Loan Tons per Year	28,300	2,000	30,300

Diversion, GHG Reduction, & Jobs	Current	Projected Increase or (decrease)	Total
GHG Loan Annual GHG Reductions (in metric tons of CO2 equivalent)	0	(24,100)	(24,100)
GHG Loan Jobs Created (estimated)	37	12	49
RMDZ Loan Jobs Created (estimated after GHG Loan)	49	0	49