

# California Carpet Stewardship Plan ADDENDUM #2

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Submitted by:

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Submitted to:

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## Plan Addendum #2

The revised CARE California Carpet Stewardship Plan (v3.2.2) was approved in spring 2014 to fulfill part of the requirements of the California Carpet Stewardship Program (the 'Program'). CalRecycle approved **Addendum #1** in January 2015.

This **Addendum #2** is submitted as the next in the series of two planned addenda resulting from continuing market headwinds throughout 2014 and 2015, feedback obtained through five stakeholder workshops held in July and August 2015, and the 2014 non-compliance determination by CalRecycle in September 2015. Based on these developments, CARE is looking at a number of additional aggressive strategies to increase collection, recycled output and diversion of post-consumer carpet in California to demonstrate continuous meaningful progress toward Program goals.

The impact of falling demand for recycled commodities in general, along with a collapse in pricing due to the rapid decline in the price of oil, is putting severe pressure on the supply chain comparable to the decline experienced during the 2008 recession. This document outlines one of several strategies presently under development by CARE in response to current conditions, in an effort to demonstrate timely responsive action to market changes. The next addendum in this series, **Addendum #3**, is anticipated on or before November 30, 2015 and will constitute CARE's full response to the CalRecycle finding of September 15, 2015.

### **Background:**

Throughout 2015, feedback received through program participants, stakeholder comments, as well as workshops held in July and August included several proposed strategies and direct requests for grant and/or loan incentives to support progress toward Program goals. In response to these developments, and using feedback from stakeholders and CalRecycle, the Sustainable Plan Committee (SPC) has examined several approaches to enable such opportunities to come to fruition. Consultation with CalRecycle indicated that the currently approved Plan does not include the ability to offer loans or grants for capital projects. ***The purpose of this timely Addendum #2 is to seek rapid approval of a Plan modification that would allow CARE to establish multifaceted grant and loan options to support the goals of the Program.***

### **New Carpet Stewardship Grant and Loan Program Incentive:**

The proposed grant and loan program is intended to provide greater flexibility to support and enable Program goals through multiple targeted funding opportunities, to be released in 2015 and 2016. The Program is also intended to continue beyond this term on an annual basis to be further described in the New Program Plan scheduled for adoption in 2017.

### **Purpose:**

The purpose of this new Program incentive is to offer grant and/or loan funding principally focused on supporting capital investment in processing and/or operational capacity to increase, improve, enhance or expand post-consumer carpet collection, recycled output, diversion, and/or recycled product manufacturing. In addition to capital investments, subsequent grant and/or loan solicitations may also be offered to support other critical program goals, such as but not limited to, recycled product procurement, public agency engagement, technology or product

testing, research and development, product demand, or similar activities consistent with the goals of the Program.

CARE has modeled the proposed incentive based on CalRecycle's successful existing and historical grant and loan programs and discussions with CalRecycle staff. CARE will continue to work with CalRecycle to apply lessons learned from previous CalRecycle grant and loan program offerings, and refine the solicitation process over time.

**Process:**

CARE will employ a competitive, transparent process to support the goals of the Program, provide fair opportunity for participation by qualified applicants and benefit the citizens of California consistent with the goals of AB 2398. Priority will be given to California-based applicants, as one of the selection preference criterion by which projects will be evaluated. The proposed grant and loan program may be offered on an annual basis through one or more Request For Proposals (RFP) or Notice of Funds Available (NOFA) solicitation process(es) and use a set of published criteria, outlined within each solicitation. In the case of a loan program it is the intent of CARE that these would be no/low interest loans.

CARE requests general approval for grant and loan program elements up to \$3M per year combined to be released as grant and/or loan offerings consistent with the goals of the Program. CARE anticipates \$1M to \$3M will be allocated annually to fund grant and/or loan efforts under this new program incentive, at the discretion of the SPC. The precise allocation of funding and specific criteria and/or focus areas may be adjusted annually based on the needs of the Program, availability of funds, and feedback from stakeholders, changing market conditions and/or other factors. CARE requests the right to modify the criteria from time to time as such factors may dictate. Additional details regarding this proposed program incentive are outlined further later in this document. The incentive provides for two funding elements described in further detail below: Grant Program Element, and Loan Program Element.

**Grant Program Element:**

The Carpet Stewardship Grant Program will be administered by CARE, with oversight by CalRecycle. CARE will secure necessary and appropriate legal and administrative resources to administer this Program. The first cycle solicitation will be released following approval by CalRecycle in late October 2015. Approximately, \$2-3M will be allocated for 2015-2016 [Cycle 1], of which up to \$300K may be utilized for administrative staffing or legal services necessary to support the Program. CARE may elect to review proposals on an on-going basis to maximize responsiveness and minimize time to market for new ideas. Carpet Grant Program 1 funding will seek proposals from eligible applicants for capital improvements to establish new facilities and/or expand existing capacity and/or throughput, in line with Program goals and consistent with the stated purpose described above. Program details including general eligibility requirements, eligible projects, criteria, and other aspects are discussed in further detail below.

Additional targeted grant cycles are under consideration for release in 2016, to include product procurement grants for CA public agencies, as well as product testing grants for processors and manufacturers. CARE intends to launch a 2016 grant solicitation to facilitate increased procurement of recycled carpet content products, which could include grants to California public

entities (state government, local government, public schools, colleges and universities) for procurement above and beyond their statutory requirements for recycled products, or for procurement pilots for environmentally preferable leadership products. The offering will be modeled after similar public agency grants offered under the CalRecycle Tire Program. Product testing grants may be issued as early as 4<sup>th</sup> quarter 2015. Additional solicitations, consistent with this Addendum may follow in 2016. CARE will work closely with CalRecycle and seek stakeholder input from the California Council on Carpet Recycling (see below) to inform the details on these or other solicitations consistent with the goals of the Program, while also setting a goal for expeditious action to make these funds available as soon as possible over the next 18 months.

**Loan Program Element:**

CARE requests approval to develop a revolving loan program offering, which may be available in future funding cycle releases following additional legal consideration and input from stakeholders. The loans would be targeted as no/low interest instruments and be informed by existing CA loan programs. The Carpet Stewardship Loan Program would operate as an element of the Grant Program administered by CARE, with oversight by CalRecycle, and in line with the overall goals of the Program. Precise funding allocation and other loan details such as application fee (if any), interest rates, collateral, etc. will be outlined in a subsequent solicitation, following this analysis. Eligible projects are likely to include such components as, but not necessarily limited to, infrastructure, equipment, research and development, etc. Presently, CARE estimates up to \$1M may be available through annual loans. Administrative support for the grant and loan programs will be shared, within the funding estimate allocated above.

**New California Council of Carpet Recycling:**

In addition to the proposed grant and/or loan program, CARE proposes to establish a new stakeholder representative committee, to be known as the California Council on Carpet Recycling (CCCR) for feedback consistent with confidentiality and competitive considerations on an ongoing basis. The establishment of this new Council will be outlined in further detail in the upcoming Addendum #3 and serve to provide a forum for ongoing stakeholder feedback and insight on a variety of Program areas, including but not limited to, future grant and/or loan program offerings. The Council is scheduled for initial formation in 4<sup>th</sup> quarter of 2015.

**Addressing Key Findings in CalRecycle Request for Approval (RFA) dated September 15, 2015:**

The proposed Program changes listed above are the first of many additional Program changes presently under development. These changes will support CARE's effort to respond to the CalRecycle's RFA key findings, ***but do not constitute CARE's full response to these findings.***

**CARE will respond to the full suite of Key Findings and Action Items in the upcoming Addendum #3.**

**Additional Discussion Regarding Grant Program:**

As noted above, the purpose of this funding incentive is to provide catalyzing funding to establish, increase, improve and/or enhance post-consumer carpet collection, recycling, diversion, and/or utilization in recycled content product manufacturing. Cycle 1 funding will seek proposals from eligible applicants for capital improvements to establish new facilities and/or expand existing capacity and/or throughput, in line with Program goals.

**This special addendum is intended to demonstrate timely responsive action by providing an immediate funding infusion focused on capital investment to provide flexibility to:**

- Ensure existing processors/collectors/manufactures stay in businesses
- Prevent further contraction of the limited existing carpet recycling marketplace
- Encourage new development, expansion and increased capacity for carpet recycling
- Allow existing processors/collectors/manufacturers to increase capacity for processing, improve quality, increase collection, and/or increase storage capacity within defined parameters to be defined
- Provide operational support to encourage the use of energy recovery diversion strategies over landfill disposal, within approved allowable thresholds
- Keep material flowing through the system
- Allow new processors to get established thereby increasing California capacity for collection, processing, and storage
- Support new and existing collector/sorter entrepreneurs (CSEs) to increase capacity for collection and sorting
- Support new and existing processors in the development of new processing lines or other infrastructure to increase quality, capacity and throughput
- Support Tier 2 manufacturers to enter the marketplace, establish new product lines, improve existing products and/or perform research, development and testing for potential new products
- Support innovative partnerships between collectors, processors and Tier 2 manufacturers
- Support processors, Tier 2 manufactures and CSEs in identifying new markets for whole carpet, processed recycled output, and new product lines
- Demonstrate a good faith effort to comply with the requirements of AB 2398 by supporting continuous and meaningful improvement toward program goals
- Expand access to recycling services for California retailers, collection sites, consumers and other stakeholders
- Provide immediate competitive, transparent financial incentives to support the goals of the Program
- Provide fair opportunity for participation by qualified applicants and benefit the citizens of California consistent with the goals of AB 2398
- One or more projects can be selected per funding cycle

**Urgency:**

- We are seeing significant contraction in (CA and beyond) the carpet recycling marketplace
- Existing retailer and other collection sites are having their service discontinued, prices increased and or not being able to find willing service providers
- Existing service providers are contracting from the marketplace, discontinuing service or closing their doors entirely
- Recent developments have raised concerns regarding the Program's throughput capacity:
  - insufficient collection/sortation providers

- insufficient collection/sortation infrastructure/capacity
- insufficient processing infrastructure/capacity
- insufficient storage infrastructure/capacity
- underutilization of energy recovery diversion strategies
- insufficient secondary product markets
- insufficient secondary product demand

Due to the above factors, Cycle 1 funding is proposed to allow for utilization of grant funds to support infrastructure that increases throughput capacity, especially within the capital investment areas described above. Limited grant funds may be expended to offset the operational cost of diversion via energy recovery (CAAF, Kiln and/or Waste-To-Energy) for waste materials and/or in those circumstances when material has exceeded storage guidelines and end markets cannot be identified for recycled output. Grant recipients will be required to keep careful records on any grant funds utilized for diversion via energy recovery. It should be emphasized however, that the principle focus of these grants is intended to support program goals including collection, recycled output, diversion and recycled product manufacturing. Use of funds for storage and/or utilization of energy recovery diversion shall be limited and temporary, hold to defined quantity and timeline thresholds and be consistent with the CA waste hierarchy. However, CARE reserves the right to consider such proposals should they be submitted.

Current pinch points within the system are limiting the amount of material being sold as bundled whole carpet or processed recycled output. In response, CARE is actively working to increase utilization and diversification of secondary products to pull this material through the system. Infrastructure funding through this opportunity is intended, in part, to help address this need in tandem with additional new and existing incentives. However, it will take time for the market to rebound and these new technology improvements to take hold in the marketplace. Rather than establishing a long-term incentive, grant funds can be targeted to particular places of need, automatically sunset at the end of the grant term, and be reallocated to new need areas for future funding cycles over time as conditions change and/or new/better recycling and diversion opportunities are available. In this way, long-term utilization of strategies higher on the waste hierarchy are increasingly emphasized over time, while helping to improve diversion during this economic decline cycle.

**Specific requirements for eligible applicants, project requirement, eligible projects, timeline, scoring and evaluation criteria are subject to change for each grant funding cycle.** A summary of key elements to be included in the Cycle 1 solicitation is presented below, as an example.

**Eligible Applicants**

Eligible applicants may be adjusted for each solicitation release, consistent with the objectives of the funding cycle and goals of the Program. In general:

- All existing CARE members are eligible applicants; applicants can choose to become a CARE member prior to submission an application (membership is required)
  - Operators of Tier 1 processing facilities, Tier 2 product manufacturing facilities handling California post-consumer carpet;
  - Carpet manufacturing facilities participating under CARE’s approved California Carpet Stewardship Plan;

- Collector/Sorter Entrepreneurs (CSEs) operating in the state of California;
- Private, for-profit entities. For purposes of this program, a “private, for-profit entity” is defined as a business intended to operate at a profit and return a profit to its owners. This definition includes benefit corporations, as defined in Corporations Code section 14601(a). The business must be a Member in good standing of CARE and verify there are no local, state or federal violations or notifications pending.

**Project Requirements (Use of funds):**

Projects must use or manage California generated post-consumer carpet consistent with the goals of AB 2398

- **Projects must increase the quantity (pounds) of California generated post-consumer carpet collected, recycled, diverted from landfill(s), and/or utilized in the manufacturing of Tier 2 recycled products**
- For the purpose of this incentive, a manufactured “product” is defined as a good or package in a form which requires no further processing or forming before it is offered for sale to an end-user. Eligible applicants with operations in California and/or whose operations contribute to the creation of new California green jobs may be prioritized for funding
- Projects must specify itemize and quantify pounds to be diverted via reuse, energy recovery, export, or other strategies.
- Projects must submit a storage management plan to CARE outlining quantities of materials to be stored and timeline and/or quantity thresholds at which materials will be diverted via energy recovery or other strategies, as well as when disposal would be utilized.
  - Strategy must identify how many additional pounds can be collected through this mechanism, how project team will ensure the material is prioritized for best use consistent with CA waste hierarchy; how/when energy recovery would be utilized vs. storage
  - Energy recovery strategy must be well outlined, including identification of potential facility outlets, how/when CAAF/Kiln would be utilized vs. WTE; how incentive funds are proposed to offset this cost; incineration is prohibited

**Eligible Projects**

- Capital investment, infrastructure, equipment, trailers, construction, renovation or expansion of collection, processing or manufacturing facilities which manage or utilize California generated post-consumer carpet
- Recycling or diversion of materials not otherwise eligible for Program incentives
- Partnerships aimed at establishing or increasing use of energy recovery mechanisms in California especially Kiln and CAAF, as well as Waste To Energy, with potential benefit to the broad carpet recycling marketplace (e.g. collective brokering)

**Major Components of Cycle 1 Application** (subject to further refinement by CARE)

- Executive summary
- Project Narrative (Concept Proposal)
  - Applicant/Team qualifications and experience
  - Project Need

- Goals, Objectives and Measurable Outcomes
- Project Impact/Cost Effectiveness
- Project timeline including expected full-scale operation and capacity
- Applicant Commitment, Sustainability, Conservation
- Strategy for Throughput (describe proposed plan for Sale, Shipment, Storage, Energy Recovery, Export, including any grant funds requested to support these strategies)
- Creation of CA Jobs, CA Facilities, Disadvantaged Communities
- Project Work Plan, Milestones and Deliverables
- Proposed Budget
- Letters of Commitment/Letters of Support
- Other Documentation

**Tentative Timeline**

Suggested Timeline is outlined below subject to incentive approval at CalRecycle Public Meeting on October 20, 2015. The goal of this timeline is to release Cycle 1 funding notification, receive and evaluate proposals, and select awardees before the end of 2015. In order to meet this ambitious timeline, CARE requests approval issue Cycle 1 solicitation immediately following the approval of this Addendum #2.

CARE will post NOFA or RFPs on CARE website informing potential applicants of the funding, requirements, deadlines and other important information. Notices will also be released via CARE list serve, member communications, CalRecycle web posting (if appropriate) and list-serve, and/or other various stakeholder distribution pathways. CARE will coordinate with CalRecycle’s Local Assistance and Market Development staff to inform local jurisdictions for various solicitations as deemed appropriate/relevant.

Precise timeline dates listed below subject to change.

KEY DATES – Based on CalRecycle Public Meeting October 20, 2015	KEY ACTION
<b>October 9, 2015</b>	Submit Plan Amendment #2 for Grant Program Emergency Allocation
<b>October 20, 2015</b>	Approval by CR of Plan Amendment #2
<b>October 21, 2015</b>	<b>Notice of Funds Available</b>
October 28, 2015	Question & Answer Period
November 6, 2015	Q&A Responses (if offered)
<b>November 20, 2015</b>	<b>Application Due Date</b>
November 21- December 4, 2015	Proposal Evaluation by CARE
<b>December 31, 2015</b>	<b>Notice of Proposed First Award(s)</b>
January 2015	<b>First Grant Agreements Routed to Awardees</b>
January/February 2016	<b>Grant Term Begins</b>

**Evaluation & Scoring Criteria:**

Draft criteria have been identified based on review of previous similar CalRecycle offerings and initial consideration by CARE. Evaluation and scoring criteria will be developed for each funding solicitation and include criteria, such as but not limited to:

- Quality of Proposal, Probability of Success,
- Applicant Qualifications & Experience,
- Need, Proposed Effectiveness,
- Work plan, Market-Readiness,
- Budget, Cost Effectiveness,
- Applicant Commitment,
- Sustainability, Resource Conservation,
- Project Impact,
- CA Job Creation/Retention, CA Business Location.

An evaluation committee will be formed by CARE at the direction of the Executive Director and/or SPC. CARE will seek stakeholder input from the CCCR to make recommendations for future funding cycle focus areas and proposed evaluation criteria, subject to consideration, and approval by CARE. CARE shall maintain records of selection process, as directed by CalRecycle, consistent with requirements of AB 2398. CARE may set a minimum annual impact requirement for funding consideration based on program feedback.

#### **Coordination with CalRecycle**

CARE will continue to work with CalRecycle in 2015 and 2016 to further refine future grant and loan program offerings under this incentive area. Future coordination may include exploring the opportunity to have CalRecycle manage future grant cycles on CARE's behalf, if deemed advantageous to achieving program goals. CARE will also work with CalRecycle staff to identify and connect applicants to additional California state resources such as lines of credit, additional loans, etc. Additional provisions will be included as deemed necessary, based on direction of CalRecycle, summarized below.

#### **Transparency and Oversight of Grant and/or Loan Process**

- a. CalRecycle has a role in approving the plan addendum and then overseeing overall program implementation including any grant/loan element (not necessarily a role in the selection and award of individual grant/loan recipients). To support CalRecycle oversight, CARE will provide necessary and timely information to CalRecycle upon request, to ensure that funds are expended appropriately. Proper provisions will be enabled to protect proprietary business information which will be necessary to adequately review proposals.
- b. If CalRecycle finds that CARE has failed to administer this Grant and Loan Program Incentive in accordance with the Plan, the Director of CalRecycle (or designee), shall notify the Executive Director of CARE (or designee), in writing. The Executive Director of CARE (or designee), may meet with the Director of CalRecycle (or designee), to discuss program deficiencies and corrective actions that may be taken within a reasonable time in order to permit continuation of the Grant and Loan Program Incentive. If the Director (or designee), determines that CARE has not implemented such agreed-upon corrective action, then upon receipt of a written

notification from the Director of CalRecycle (or designee), no new grants or loans shall be awarded under the Grant and Loan Program without a written order from the Director. If the current grant cycle has been initiated, CARE may continue to receive and evaluate grants, but no additional grants shall be made without a written order from the Director. Any order by the Director to discontinue awarding grants will have no impact on CARE's administration of previously awarded grants and loans.

- c. Grants/loans shall be solicited publicly. CARE shall direct a confidential copy of any grant/loan to the Department within 10 business days of receipt for informational purposes.
- d. CARE will seek legal guidance, implement appropriate terms and conditions and procedures and requirements to hold awardees accountable to fulfillment of specific grant or loan obligations.
- e. When any grant/loan is issued by CARE using California Assessment Funds, CARE will provide relevant particular information, including but not limited to the name of the recipient, amount granted/loaned, purpose of the grant/loan, regarding that grant/loan to CalRecycle once a decision is made by the SFOC.
- f. No Grant or loan of funds shall be made from the California Assessment for any political purpose, or for marketing outside of California.
- g. When any loan is issued, CARE will provide a copy of the loan documents to CalRecycle as a confidential addendum to the Quarterly Report directed to the Department.
- h. Recipients of any Grant or Loan shall be provided with written notice, as part of the contract, that the Department will have full and unrestricted access to all information made available to CARE associated with the Grant or Loan. Proper provisions will be enabled to protect proprietary business information which will be necessary to adequately review proposals.
- i. CARE shall maintain all documents relating to grant/loan recipients, as well as solicitations, responses/bids for each grant/loan, for 3 years after the grant/loan has been issued.
- j. The CARE Annual Report shall include a section titled "Loans & Grants", providing information regarding the general status of the Loan & Grant Elements of the Program. In particular, this section will list the recipients of any grants/loans issued during the period, along with the amount granted/loaned, a statement of the intended use of the grant/loan, and an accounting of how the grant/loans are performing and contributing to continuous and meaningful improvement in the Program. Also, the Annual Report will list the names of all loan recipients with an outstanding balance and provide, at a minimum, the outstanding balance of the loan (this information will be duplicated in the Budget section of the Annual Report).
- k. To ensure the best use of assessment funds, towards the Program goals, CARE shall make particular efforts to avoid conflicts-of-interest regarding the issuance of all grants or loans. CARE shall establish conflicts-of-interest procedures regarding grants

and loans in 2016. Draft and final versions of the conflicts-of-interest shall be provided to the Department for review and ultimately, adoption to the Plan as an Addendum.

### **Summary**

CARE continues to process the feedback from CalRecycle and other stakeholders interested in the long-term success of this Program, and is taking swift and immediate actions to incorporate necessary Program changes for responsive action.

After an analysis was completed by the SPC, the Committee has recommended to the SFOC for approval a set of aggressive initiatives it believes will increase PCC recovery, recycle output, diversion and drive new product development and demand in the marketplace.

The SFOC approved the new program elements proposed in this Addendum #2 after careful review at their September 10, 2015 meeting. An additional suite of changes to be outlined in Addendum #3 is under consideration, with final recommendations scheduled for approval in October/November 2015.