

**REQUEST FOR APPROVAL**

**To:** **Scott Smithline**  
Director

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

**Request Date:** April 1, 2016

**Decision Subject:** Eligibility, Scoring Criteria, and Evaluation Process for the Organics Grant Program (Greenhouse Gas Reduction Fund, Fiscal Year 2016–17)

**Action By:** April 19, 2016

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**Summary of Request**

Staff seeks approval of the proposed eligibility, scoring criteria, and evaluation process for the Organics Grant Program for fiscal year (FY) 2016–17, pursuant to California Public Resources Code sections 42995 et seq., upon passage and the adoption of the Budget for FY 2016–17.

Staff proposes to implement the changes summarized below and described under the *Proposed Changes* section:

1. Include new performance-based payment methodology.
2. Include additional preprocessing requirements.
3. Modify points in scoring criteria compared to previous cycle.
4. Include new Rural Program.
5. Include additional food waste prevention expenses.

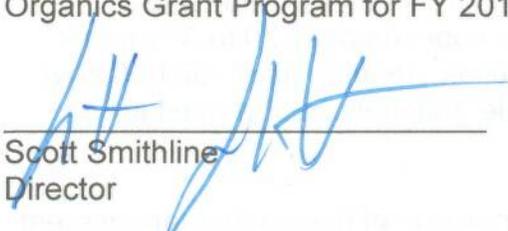
**Recommendation**

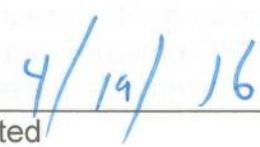
Staff recommends approval of the proposed eligibility, scoring criteria, and evaluation process for the Organics Grant Program.

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**Director Action**

On the basis of the information and analysis in this Request for Approval and the findings set out herein, I hereby approve the eligibility, scoring criteria, and evaluation process for the Organics Grant Program for FY 2016–17.

  
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Scott Smithline  
Director

  
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Dated

**Attachments**

Attachment 1 – Organics Grant Program Scoring Criteria

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## Background and Analysis

### Statutory Authority

Public Resources Code section 42995 et seq., added to statute by the enactment of SB 862 (Statutes of 2014, Chapter 36), authorizes the California Department of Resources Recycling and Recovery (CalRecycle) to award grants and loans to provide financial incentives for capital investments that expand waste management infrastructure resulting in greenhouse gas emission (GHG) reductions, with a priority in disadvantaged communities. The total funding in the Governor's proposed budget for FY 2016–17 is \$100,000,000. If approved, this allocation will fund the previously established Organics Grant Program, Recycled Fiber, Plastic and Glass Grant Program, and Greenhouse Gas Reduction Revolving Loan Program, and two new programs (Food Waste Prevention and Rescue Grant Program and the Demonstration Projects Program).

### Program Background

California has an estimated recycling rate of 50 percent (this rate does not include materials being sent to landfills for alternative daily cover (ADC) and other beneficial uses, and materials being sent to transformation facilities). Although impressive, about 30 million tons of materials are still going to landfills, which are a significant source of methane emissions. Of the material going to landfills, about 40 percent is organic material (grass, yard waste, food waste, lumber and wood waste), 17 percent is paper and paperboard, and 10 percent is plastics.

Two important pieces of legislation, AB 32 and AB 341, provide the policy drivers to realize significant GHG emission reductions through increased diversion of materials from landfills via source reduction, recycling and composting.

- ***AB 32 and Climate Change Priorities***

The Air Resources Board's AB 32 Scoping Plan Update, adopted in 2014, identifies recycling and organics management issues as key priorities in the Waste Management Sector Plan and includes activities to foster increased diversion of organics and recyclables from landfills. Organic materials management was also identified as a key priority in the Administration's April 2013 Cap-and-Trade Auction Proceeds Investment Fund, in the FY 2014–15 and FY 2015-16 Budgets and in the proposed FY 2016–17 Budget.

- ***AB 341 and Statewide Goal of 75 Percent***

AB 341 established a new statewide goal of reducing, recycling, or composting 75 percent of the state's waste by 2020. There is a direct relationship between waste diversion from landfills and GHG emission reductions. CalRecycle estimates that 20 to 25 million more tons of material will need to be reduced, recycled, or composted by 2020 to reach this goal. This would dramatically reduce methane emissions from landfills and GHG emissions associated with manufacturing processes, by approximately 20 to 30 million metric tons of GHG emission reductions, as well as result in creating up to 100,000 new local jobs, to the extent that these organic and recyclable materials can be used in California.

The Organics Grant Program provides funds to support expansion of the waste management infrastructure that meets both AB 32 and AB 341 policies, particularly for new or expanded organics infrastructure such as composting and anaerobic digestion facilities. This investment will result in reduced methane emissions from landfills; benefit disadvantaged

communities by upgrading existing facilities and, where warranted, establish new facilities; result in air and water quality benefits in addition to GHG emission reductions; and feed people in need, and create jobs.

CalRecycle held a workshop on March 19, 2015, to discuss proposed grant and loan programs for FY 2015–16. However, the Legislature did not take action on most California Climate Investments funding allocations prior to the end of the legislative session and CalRecycle did not receive funding for these programs for FY 2015–16. CalRecycle staff has continued to consider stakeholder comments from the workshop and subsequent discussions, and consequently proposing some revisions for the FY 2016–17 cycle, as described in the *Proposed Changes* section below, and in the Scoring Criteria (Attachment 1).

### Funding

The Organics Grant Program will be administered by both the Financial Resources Management Branch and the Statewide Technical and Analytical Services Branch. The total appropriation in the Governor's Proposed Budget from the Greenhouse Gas Reduction Fund is \$100,000,000. Staff proposes to allocate \$61,000,000 which will be distributed as follows:

- \$57,000,000 for standard organics grant applications, which includes separate allocations for compost projects (\$30,000,000) and for digestion projects (\$27,000,000). The maximum grant award for compost projects is \$3,000,000 per application. The maximum grant award for digestion projects is \$5,000,000 per application.
- \$4,000,000 for Rural Program applications. The maximum grant award is \$2,000,000 per application.

If either of the standard application project types or the Rural Program are undersubscribed, CalRecycle may move funds from one type or program to another in order to fund eligible applications in an oversubscribed program.

### Project Requirements

Projects must be located in California and result in permanent, annual, and measurable:

1. Reductions in GHG emissions of California-generated green and food materials compared to existing practice of landfilling; **and**
2. Increases in quantity (tons) of California-generated green materials or food materials, newly diverted from landfill disposal or ADC use, **and** composted, or digested.

“Newly diverted” means the tons of materials that are currently being landfilled or used as ADC that will instead be diverted as a result of this project.

### Proposed Process and Eligibility

Staff will review all applications for completeness and eligibility. Complete applications will be evaluated and scored by a review panel of CalRecycle staff based on the Scoring Criteria (Attachment 1). For standard applications, the same scoring criteria will be used for both compost and digestion projects. However, compost projects will be scored competitively against each other and separately from digestion projects, which in turn will be scored competitively against each other. For Rural Program applications, all projects will be scored against each other. See below for specific Rural Program Project Requirements.

Only two applications per qualifying entity will be accepted. Eligible applicants may submit an individual, cooperative, or regional application. For a cooperative or regional application, one entity must be identified as the Lead Participant to act on behalf of the participating entities.

Eligible applicants include:

- Local governments (cities, counties, or cities and counties).
  - Cities, counties, and cities and counties as defined in Public Resources Code section 30109.
  - Regional or local sanitation agencies, waste agencies, or Joint Powers Authorities.
- Private, for-profit entities. A “private, for-profit entity” is defined as a business intended to operate at a profit and return a profit to its owners. The business must be qualified to do business in California and be in good standing with all applicable California state agencies, including, but not limited to, the Secretary of State and the Franchise Tax Board. Any and all subsidiaries, divisions or affiliated businesses are considered part of the primary business entity for the purpose of applying for and receiving a grant award. A business is considered an “affiliated business” if it has at least one owner with a forty (40) percent or greater interest in another applicant business.
- State agencies (including offices, departments, bureaus, and boards).
- The University of California, the California State University, or California Community Colleges.
- Nonprofit organizations (except private schools) registered with the federal government under 501(c)3, (c)4, (c)6 or (c)10 of the Internal Revenue Code.
- Qualifying Indian Tribes. A “Qualifying Indian Tribe” is defined as an Indian tribe, band, nation or other organized group or community, residing within the borders of California, which:
  1. Is recognized for special programs and services provided by the United States to Indians because of the status of its members as Indians; or
  2. Can establish that it is a government entity and which meets the criteria of the grant program.

CalRecycle requires that any application that includes a charter city (either as the sole applicant, as a participant in a regional application, or as a member of an applicant Joint Powers Authority) include a certification by the applicant that all charter cities included in the application are eligible to receive grant funds for the project described in the application. If it is later found that grant funds were received in violation of Labor Code section 1782, the grant will be terminated and the grantee will be required to return any grant funds.

Eligible projects include:

- Construction, renovation, or expansion of facilities to increase in-state infrastructure for the digestion or composting of organics into compost, soil amendments, biofuels, or bioenergy.
- Construction, renovation, or expansion of facilities to increase in-state infrastructure for the preprocessing of organics when providing preprocessed materials to an in-state digestion or composting facility that is using the waste to make compost, soil amendments, biofuels, or bioenergy.
  1. Project must result in an increase in tons of material diverted from landfills beyond that which the preprocessor was already diverting.

2. Preprocessor must provide proof of binding agreement with a California facility that is receiving the preprocessed feedstock to make compost, soil amendments, biofuels, or bioenergy.
  3. If the composting or digestion facility that receives materials from a preprocessing applicant also submits an application, the applicant must demonstrate how each project will result in discrete increases in tons of material diverted from landfills and reductions in GHG emissions.
- Food waste prevention projects must be partnered with a compost or digestion project and result in measurable food waste reduction. The food waste prevention component of a project is one that measurably prevents food waste or rescues edible food from becoming waste normally destined for landfill disposal. The food rescue aspect may result in rescued food being distributed to people; any food waste residuals from the food rescue project must be sent to a compost, digestion, or fermentation facility when one is available within the food waste prevention projects service area.
  - Expansion of projects that have previously received funding are eligible provided the project meets the criteria and the previously funded project is progressing in a manner satisfactory to CalRecycle.

### Rural Program Project Requirements

An eligible applicant may choose to apply under the Rural Program if the project will be sited in a rural county and serve, at least in part, a rural community. Rural is defined in statute (Public Resources Code 40184) as a county annually disposing no more than 200,000 tons of solid waste. In order to determine if the County where the facility is located disposes less than or equal to 200,000 tons of waste in a year, applicants must generate a [Single-year Countywide Origin Detail](#) Disposal Reporting System web report. Applicants should use the latest report to determine their eligibility (currently 2014 data).

The Rural Program has a maximum award amount of \$2,000,000 per applicant, with a proposed total of \$4,000,000 being set aside for this program of the total \$61,000,000 allocation. Rural Program applications will be scored separately from the standard applications. The project requirements, eligible projects, ineligible costs, required application documents, scoring criteria, and minimum score requirements are the same for the Rural Program as the standard Organics Grant Program.

### Proposed Changes

#### **1. Include new Performance-Based Payment Methodology**

Both CalRecycle staff and stakeholders have raised the concern that these funds will be disbursed, yet awarded projects may not fully achieve anticipated GHG emission reductions for a variety of reasons (e.g., partial construction, inadequate funding for the total project, project delays, permit issues, failure to secure adequate feedstock, etc.). To address this concern, staff proposes to change the payment methodology to a performance-based approach, to ensure that projects not only execute construction but also successfully achieve production that realizes anticipated GHG emission reductions. This performance-based payment methodology also provides an incentive to set realistic tonnage and GHG emission reduction projections in project applications and it provides a disincentive to grant “banking” (i.e., when grant funds are awarded but not expended for an extended period of time) or to apply for and receive funding for projects that the grantee is unlikely to develop in a manner similar to that originally proposed.

Staff proposes that the performance-based methodology function as follows:

- An applicant for a compost project can request up to \$3,000,000. An applicant for a digestion project can request up to \$5,000,000. Payment of requested funds will be divided between infrastructure and performance payments. The infrastructure portion of the grant will be paid on a reimbursement basis. An applicant can request up to, \$2,400,000 for compost projects and \$4,000,000 for digestion projects for capital expenses and other eligible expenses for the infrastructure portion of the project (as described in the eligible projects section). An amount up to twenty-five (25) percent of the amount requested for those expenses can then be requested as performance payments. In contrast, performance payments will be made for each ton of California-generated green waste, food materials, or ADC diverted from landfills and composted or digested during the term of the grant. The payments will be made quarterly on a per ton basis with the dollar amount being determined by dividing the amount requested for performance payments by the total number of tons diverted under the project during the grant term, as stated in the application.
  - *Example 1:* Applicant may request \$4,000,000 for the construction of a new anaerobic digestion facility that will divert 50,000 tons of previously landfilled organic material during the grant term (10,000 tons per year for the five-year term of the grant). This applicant may request \$1,000,000 (25 percent of \$4,000,000) in performance payments for a maximum grant request of \$5,000,000. These payments would be at a rate of \$20/ton (\$1,000,000 divided by 50,000 tons).
  - *Example 2:* Applicant may request \$2,400,000 for the conversion of a windrow composting facility into an aerated static pile. The conversion will allow the facility to compost an additional 50,000 tons of organic waste during the grant term (10,000 tons per year for the five-year grant term). The applicant may request up to \$600,000 (25 percent of \$2,400,000) in performance payments for a maximum grant request of \$3,000,000. These payments would be at a rate of \$12/ton (\$600,000 divided by 50,000 tons).
- An applicant in the Rural Program can request up to \$2,000,000. Payment of funds is divided between infrastructure and performance payments. The infrastructure portion of the grant will be paid on a reimbursement basis. An applicant can request up to \$1,600,000 for capital expenses and other eligible expenses for the infrastructure of the project (as described in the eligible projects section). All other aspects of payment would be the same as described above for standard projects.

## **2. Include Additional Preprocessing Requirements**

Staff proposes the following additional requirements for preprocessing to incentivize building infrastructure for processing of feedstocks to improve quality and/or remove contaminants prior to composting or digestion:

- Project must result in new diversion from landfills (i.e., beyond that which the preprocessor was already diverting).
- Preprocessor must provide proof of binding agreement with a California facility that is receiving the preprocessed feedstock to make compost, soil amendments, biofuels, or bioenergy.

- If the composting or digestion facility that receives materials from a preprocessing applicant also submits an application, the applicant must demonstrate how each project will result in discrete increases in tons of material diverted from landfills and reductions in GHG emissions.

### **3. Modify Points in Scoring Criteria Compared to Previous Cycle**

- Application completeness points are not needed because an application must be complete in order to be submitted. Eliminate the Application Completeness category (5 points) and add it to Tons of Organic Material Composted, Digested, or Food Waste Prevented for a total of 20 points.
- To recognize the importance and provide priority to disadvantaged communities, increase points for Disadvantaged Communities from 10 to 15 points and reduce Air and Water Quality Benefits from 10 to 5 points.

### **4. Include New Rural Program**

Reserve \$4,000,000 for Rural Program projects, with a maximum of \$2,000,000 per application.

- Rural is defined as a county annually disposing no more than 200,000 tons of solid waste.
- Maintain separate funding from the rest of the Organics Grant Program, with Rural Program applications scored competitively against each other. Applicants must decide upon applying whether to partake in the Rural Program or the standard Organics Grant Program. If funding for the Rural Program is not fully allocated, it may be put towards the standard Organics Grant Program.

### **5. Include Additional Food Waste Prevention Expenses**

- Expand eligible costs to include purchase of food waste prevention software that can be shared with food waste generators.
- Remove Food Waste Prevention salaries (driver/nonprofit labor) from 5 percent of the total grant budget cap on salaries; allow up to 50 percent of Food Waste Prevention budget to pay for salaries.

#### Tentative Timeline for FY 2016–17

Staff will post a Notice of Funds Available on CalRecycle's website that includes the funding, eligibility requirements, deadlines, and other important information. Notices will be distributed through CalRecycle's local assistance and market development staff to inform their local jurisdictions, the Grants Management System database, applicable listservs, outreach presentations, and newsletters.

**Table 1. Tentative Timeline**

<b>FY 2016–17</b>	<b>Activity</b>
May/June 2016	Post Notice of Funds Available, application, and related instructions and documents on the web site
June/July 2016	Question and Answer Period – due date for question submittal is approximately three weeks after the release of the application
July/August 2016	Applications due
August - December 2016	Conduct application evaluation/review process and determine funding for eligible applicants
January 2017	Grant Awards
January - March 2017	Grant Agreements distributed and executed
April 1, 2021	Grant term ends

For more information, please refer to CalRecycle’s website, <http://www.calrecycle.ca.gov/Climate/GrantsLoans/Organics/default.htm>.