

REQUEST FOR APPROVAL

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

From: **Shirley-Willd Wagner**
Branch Chief, Financial Resources Management Branch

Request Date: June 12, 2012

Decision Subject: Recycling Market Development Zone Loans for Canyon Plastics, Inc., American Textile & Supply, Inc. and Peerless Materials Company (Recycling Market Development Revolving Loan Subaccount, FY 2011/12)

Action By: June 19, 2012

Summary of Request: Staff requests approval of three Recycling Market Development Zone (RMDZ) loans totaling \$2,002,500 (\$2,002,500 from FY 2011/12) as listed in Table 1 below and more fully described under Applicant Profiles.

Recommendation: Staff recommends approval of three RMDZ loans, as listed in Table 1 below, for a total of \$2,002,500.

Table 1

Applicant	Fiscal Year	Recommended Loan
American Textile & Supply, Inc.	2011/12	\$300,000
Canyon Plastics, Inc.	2011/12	\$1,200,000
Peerless Materials Company	2011/12	\$502,500

Fund Source: RMDZ Loan Subaccount	Amount Available	Amount to Fund Item	Amount Remaining	Line Item
FY 2011/12	\$2,579,000	\$300,000	\$2,279,000	Direct Loan
	\$2,279,000	\$1,200,000	\$1,079,000	Direct Loan
	\$1,079,000	\$502,500	\$576,500	Direct Loan

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 the Recycling Market Development Zone loans totaling \$2,002,500 as listed in Table 1.

The approval is subject to:

- The return by the proposed Borrowers of a signed Loan Commitment Letter within thirty (30) days of the date of the Commitment Letter.
- All terms and conditions contained in the Loan Agreement and other loan documents to be prepared by loan program staff in accordance with applicable regulations, and such other terms and conditions as duly authorized staff in their sole discretion deem necessary or advisable.

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

Dated: 6/18/12



Howard Levenson

Deputy Director, Materials Management and Local Assistance Division

Background and Findings

Statutory Authority

The Recycling Market Development Zone (RMDZ) Program was established by Senate Bill 1322 (Bergeson, Statutes of 1989, Chapter 1096) 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.

Program Background

CalRecycle administers the RMDZ Revolving Loan Program to encourage California-based 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. Since 1993, CalRecycle has approved and funded 169 loans totaling approximately \$118 million.

Process

General: The General Loan Criteria for the RMDZ Loan Program was approved by the former California Integrated Waste Management Board in September 2008, and the Project Eligibility Criteria was approved by CalRecycle in March 2012.

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: CalRecycle received three eligible applications requesting a total of \$2,002,500. Applications were reviewed for completeness and evaluated consistent with approved General and Project Eligibility Criteria and commercial loan industry practices, to determine an appropriate loan amount and structure that is being recommended for each applicant.

For each of the recommended loans:

- The projects are located within boundaries of an RMDZ.
- The waste materials to be recycled are generated within California.
- The waste materials are normally disposed of in California landfills.
- The businesses have demonstrated the ability to repay and collateralize the loans.
- The local RMDZ Administrators support their respective projects, attested to the reasonableness of the employment and diversion projections of the projects and have certified that the requested loan is compatible with their RMDZ's Action Plan and Objectives.
- Loan Staff has conferred with the Local Assistance and Market Development Branch to determine that the materials are generated in California and normally disposed in California landfills.
- Loan Staff has conferred with the Statewide Technical and Analytical Resources Branch as to the reasonableness of the proposed equipment for the projects.
- Loan Staff has conferred with the Waste Permitting, Compliance and Mitigation Division concerning applicable Solid Waste Facility or Waste Tire Facility Permits.
- Legal Counsel for the RMDZ Loan Program was involved in staff discussions evaluating the merits and eligibility of the projects prior to the Loan Committee meeting. Legal Counsel is not aware of any significant legal issues related to the loans.
- The Budget Office has confirmed that sufficient monies are allocated for FY's 2011/12.
- The Loan Committee has considered and recommends approval of the loans.

Based on the above factors, and in consultation with the applicants, staff recommends approval of three loans totaling \$2,002,500. All of the applicants have been informed and agree with the recommended amounts, which are reflected in Table 1.

Applicant Profiles

American Textile & Supply, Inc.

Use of Funds and Project Description: Located in the Contra Costa RMDZ, American Textile & Supply, Inc., (American) proposes to use the \$300,000 RMDZ loan to finance equipment purchases and working capital. The business recycles post-consumer textiles from California landfills to produce consumer and industrial towels and rags. The additional equipment will enable the business to increase current production. About 85% of American Textile & Supply's wipers are made from post-consumer material and about 15% from pre-consumer. Half of the post-consumer material comes from local textile graders and thrift stores, while the other half comes from area laundries who sell American Textile & Supply their old linens, towels and sheets. The pre-consumer material comes from both off-cuts from t-shirt factories (the left over material after t-shirts are cut and made) and from textiles otherwise rejected during the manufacturing process. This company is affiliated with Peerless Materials Company.

Diversion and Job Creation: As a result of the RMDZ loan, American is projected to divert an additional 1,000 tons of textiles annually from California landfills and create an additional two jobs.

Canyon Plastics, Inc.

Use of Funds and Project Description: Located in the Los Angeles County RMDZ, Canyon Plastics, Inc. (Canyon) proposes to use the \$1,200,000 RMDZ loan to finance equipment purchases, capital improvements, moving expenses to a much larger facility in Valencia, and for other working capital expenses. Canyon manufactures custom plastic injection and blow molded products for various industries and retail markets. The business recycles high density polyethylene, polypropylene, ABS, nylon and polycarbonate and produces recycled-content plastic flakes and pellets which are used internally and by manufacturers to produce finished products.

Diversion and Jobs: As a result of the RMDZ loan, Canyon is projected to divert an additional 582 tons of plastic annually from California landfills and create an additional 36 jobs.

Peerless Materials Company

Use of Loan Funds and Project Description: Located in the Los Angeles County RMDZ, Peerless Materials Company (Peerless) proposes to use the \$502,500 RMDZ loan to purchase equipment and provide permanent working capital. The business recycles post-consumer textiles from California landfills to produce consumer and industrial towels and rags. This company is affiliated with American Textile and Supplies, Inc.

Diversion and Jobs: As a result of the RMDZ loan, Peerless is projected to divert an additional 3,000 tons of textiles annually from California landfills and create an additional five jobs.