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APPEARANCES

MR. WESLEY CHESBRO, CHAIRMAN
MR. JESSE HUFF
MR. PAUL RELIS

ADVISORS

SUE SIMS
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1 CALIFORNIA INTEGRATED WASTE MANAGEMENT BOARD .

2 MARKET DEVELOPMENT COMMITTEE

3 TUESDAY, JUNE 9, 1992

4 10 A.M.

5
6 CHAIRMAN CHESBRO: GOOD MORNING. THANK YOU FOR
7 JOINING US. THE PURPOSE OF THIS MORNING'S WORKSHOP IS TO
8 BECOME BETTER INFORMED AND TO EXCHANGE INFORMATION ON THE
9 SUBJECT OF BOND FINANCING FOR RECYCLING-BASED ECONOMIC
10 DEVELOPMENT.

11 RECYCLING-BASED ECONOMIC DEVELOPMENT IS THE
12 MOST IMPORTANT AREA OF EFFORT IN WORKING TO MEET THE 25
13 PERCENT YEAR 1995 AND 50 PERCENT YEAR 2000 DIVERSION
14 RATES ENVISIONED IN ASSEMBLY BILL 939.

15 WHILE STRICT MANDATES OF AB 939 ARE
16 NECESSARY AND HAVE BEEN VERY SUCCESSFUL GETTING LOCAL
17 GOVERNMENT'S ATTENTION FOCUSED AND GETTING PLANS AND
18 PROGRAMS FOR DIVERSION STARTED. THERE ARE LIMITS TO HOW
19 MUCH LEGISLATIVELY MANDATED CHANGE CAN ACCOMPLISH.

20 ULTIMATELY A MUCH MORE POWERFUL FORCE TO
21 BRING ABOUT MAXIMUM DIVERSION IS GOING TO BE THE
22 MARKETPLACE. IN THE LONG RUN. RAISING THE VALUE OF
23 RECOVERABLE MATERIALS THROUGH RECYCLING-BASED ECONOMIC
24 DEVELOPMENT WILL NOT ONLY REDUCE THE ODDS THAT THOSE
25 MATERIALS WILL WIND UP IN THE LANDFILL. BUT WILL ALSO



1 GENERATE THE NECESSARY REVENUE TO HELP OFFSET THE COST OF
2 WASTE COLLECTION AND PROCESSING. AND WE ALSO HOPE THAT
3 WILL RESULT IN THERE BEING AN INCENTIVE FOR PRIVATE
4 INDIVIDUALS TO GET INVOLVED -- MORE INVOLVED IN PULLING
5 THE MATERIALS OUT OF THE WASTESTREAM.

6 AS A CONSEQUENCE, THERE IS WIDESPREAD
7 AGREEMENT AMONGST THE MEMBERS OF THE INTEGRATED WASTE
8 MANAGEMENT BOARD. AMONG LOCAL GOVERNMENTS. THE PRIVATE
9 WASTE MANAGEMENT INDUSTRY, AND THE ENVIRONMENTAL
10 COMMUNITY THAT MARKET DEVELOPMENT HAS GOT TO BE TOP
11 PRIORITY IN OUR EFFORTS TO MAKE WASTE DIVERSION
12 SUCCESSFUL.

13 MEMBERS OF THIS COMMITTEE AND OUR BOARD'S
14 MARKET DEVELOPMENT STAFF HAVE TRAVELED AROUND THE STATE
15 AND MET WITH BUSINESS PEOPLE WHO ARE EITHER BUILDING NEW
16 SECONDARY MATERIALS MANUFACTURING PLANTS OR CONVERTING
17 EXISTING FACTORIES OR PLANNING TO DO THOSE THINGS. THE
18 SINGLE ISSUE THAT KEEPS COMING UP OVER AND OVER AGAIN IS
19 THE DIFFICULTY IN OBTAINING FINANCING.

20 WHILE FINANCING FOR INDUSTRIAL EXPANSION IS
21 A PROBLEM FOR PRETTY MUCH OF ALL INDUSTRY IN THIS
22 RECESSIONARY CLIMATE THAT WE'RE IN RIGHT NOW. SECONDARY
23 MATERIALS INDUSTRIES FACE A UNIQUE SET OF OBSTACLES IN
24 ADDITION TO THOSE FACING OTHERS.

25 AT A CRUCIAL MOMENT IN THE HISTORY OF



1 RECYCLING DEVELOPMENT IN CALIFORNIA. MANUFACTURERS AND
2 PROSPECTIVE MANUFACTURERS OF RECYCLED GOODS ARE IN MANY
3 CASES FACING ROADBLOCKS. NOT BECAUSE THEY AREN'T VIABLE
4 ENTERPRISES. BUT RATHER BECAUSE THEY'RE TRYING TO DO
5 SOMETHING DIFFERENT.

6 FROM A PUBLIC POLICY STANDPOINT. THAT
7 SOMETHING DIFFERENT THEY'RE TRYING TO DO IS TO CREATE
8 JOBS IN AN ENVIRONMENTALLY RESPONSIBLE FASHION WHILE
9 HELPING CALIFORNIA'S LOCAL GOVERNMENT MEET THEIR
10 RECYCLING RESPONSIBILITIES.

11 THE MEMBERS OF THIS COMMITTEE FELT IT WAS
12 TIME TO BEGIN A DIALOGUE ABOUT THE ROLE THAT PUBLIC
13 FINANCING. SPECIFICALLY STATE BONDS. MIGHT PLAY IN
14 ADDRESSING THIS PROBLEM.

15 WE HAVE THIS MORNING A VERY DISTINGUISHED
16 GROUP OF INDIVIDUALS WHO ARE GOING TO ADDRESS THE
17 COMMITTEE AND THE PUBLIC WHO ARE WITH US TODAY ON VARIOUS
18 TOPICS RELATED TO BOND FINANCING. I'M GOING TO GO
19 THROUGH AND INTRODUCE EACH OF THEM AND TELL YOU WHO THEY
20 ARE. AND THEN AS WE GO THROUGH THE PROGRAM. I WILL JUST
21 CALL UPON THEM. I'D LIKE TO GIVE ALL THE BACKGROUNDS
22 NOW.

23 WE WILL START WITH AN OVERVIEW OF BOND
24 FINANCING BY CONSTANCE HORNIG. WHO IS AN ATTORNEY.
25 MUNICIPAL BOND ATTORNEY. WITH OVER 14 YEARS EXPERIENCE IN



1 FINANCING PUBLIC AND PRIVATELY OWNED PROJECTS. SHE
2 CURRENTLY HAS HER OWN PRACTICE IN LOS ANGELES WITH AN
3 EMPHASIS IN THE FINANCING OF WASTE DISPOSAL FACILITIES
4 AND FINANCE LAW.

5 THEN WE WILL ADDRESS THE QUESTION OF
6 SECONDARY MATERIALS BUSINESS FINANCING NEEDS. THAT WILL
7 BE PRESENTED BY SCOTT RODDE. MR. RODDE IS THE WEST COAST
8 DIRECTOR OF THE NATIONAL DEVELOPMENT COUNCIL, WHICH IS A
9 NOT FOR PROFIT CORPORATION THAT WORKS WITH STATE AND
10 LOCAL GOVERNMENTS TO CREATE JOB OPPORTUNITIES AND
11 GENERATE INVESTMENT IN DISTRESSED AREAS.

12 SCOTT HAS OVER 20 YEARS OF EXPERIENCE IN
13 THE FIELD OF FINANCE AND HAS BEEN WORKING WITH THE
14 INTEGRATED WASTE MANAGEMENT BOARD TO HELP GENERATE
15 INVESTMENT IN THE RECYCLING INDUSTRY.

16 THEN WE WILL HAVE A PANEL OF BUSINESS
17 PEOPLE, WHO WILL ADDRESS EXPERIENCE OF SECONDARY
18 MATERIALS BUSINESSES IN OBTAINING FINANCING. THAT PANEL
19 WILL BE MADE UP OF MIKE KOPULSKY, WHO IS THE CHIEF
20 EXECUTIVE OFFICER OF ENVIROTHENE, WHICH IS A PLASTICS
21 PROCESSING PLANT IN SOUTHERN CALIFORNIA.

22 ENVIROTHENE HAS BEEN IN BUSINESS FOR TWO
23 YEARS AND IS NOW LOOKING FOR FINANCING TO OPEN A SECOND
24 PROCESSING PLANT THAT WOULD DOUBLE ITS CAPACITY.

25 HE WILL BE FOLLOWED BY JIM SCIARONI. MR.



1 SCIARONI IS SOMEONE WHO I'VE KNOWN FOR A WHILE SINCE WE
2 COME FROM THE SAME COMMUNITY. HE IS THE OWNER OF CASCADE
3 FOREST PRODUCTS, A WOODWASTE COMPOSTING BUSINESS IN
4 HUMBOLDT COUNTY. HE'S BEEN IN BUSINESS FOR THE PAST 15
5 YEARS AND IS NOW LOOKING FOR EXPANSION FINANCING TO OPEN
6 NEW FACILITIES ELSEWHERE IN THE STATE.

7 AND THEN WE'LL HEAR FROM JOHN RICHARDSON.
8 MR. RICHARDSON IS CHIEF FINANCIAL OFFICER OF REPROCELL, A
9 PLANT IN SOUTHERN CALIFORNIA WHICH MANUFACTURES A PULP
10 SUBSTITUTE OUT OF MIXED WASTEPAPER.

11 MR. RELIS AND I HAD THE OPPORTUNITY TO
12 RECENTLY VISIT THAT PLANT. AND I KNOW THAT MR.
13 RICHARDSON HAS SOME INTERESTING THINGS TO SAY AS WELL
14 ABOUT WHAT THEY'RE DOING.

15 REPROCELL IS LOCATED IN AN OLD PAPER MILL.
16 AND THE COMPANY IS NOW LOOKING FOR FINANCING TO FULLY
17 CONVERT THE PLANT TO 100 PERCENT SECONDARY MATERIAL
18 CAPACITY.

19 WE HAD ON THE AGENDA MANUEL MATEO OF THE
20 STATE TREASURER'S OFFICE. HE WAS UNABLE TO BE WITH US
21 THIS MORNING. AND THE TREASURER'S OFFICE EXPRESSED THEIR
22 APOLOGIES FOR NOT BEING ABLE TO PARTICIPATE.

23 AND THEN WE WILL BE HEARING FROM JEANNE
24 WIRKA. WHO IS -- WORKS FOR THE CALIFORNIANS AGAINST WASTE
25 FOUNDATION. WHICH ORIGINATED EARLIER THIS YEAR A BOND



1 FINANCING CONCEPT, WHICH WILL POTENTIALLY PROVIDE THE
2 BASIS FOR OUR DISCUSSION WITH THE LEGISLATURE, THE
3 TREASURER, AND THE GOVERNOR, AND OTHERS ABOUT WHETHER OR
4 NOT BOND FINANCING FOR THIS PURPOSE IS A POSSIBILITY.

5 MS. WIRKA IS A MEMBER OF CALIFORNIANS
6 AGAINST WASTE FOUNDATION AND IS THE DIRECTOR OF THEIR
7 RECYCLING AND ECONOMIC DEVELOPMENT PROJECT. SHE ALSO
8 CO-AUTHORED THE INDUSTRIAL DEVELOPMENT BOND PROPOSAL.

9 SO WITH THOSE INTRODUCTIONS, I WILL ALSO
10 MENTION THAT MR. HUFF HAS JOINED US. OH, YES. I WAS
11 GOING TO SAY WE SENT OUT INVITATION LETTERS TO MEMBERS OF
12 THE LEGISLATURE AND SOME OTHERS WHO WE FELT WE WANTED TO
13 MAKE SURE THEY KNEW THIS WAS TAKING PLACE AND WE INVITED
14 THEIR COMMENTS.

15 WE WILL BE, AT THE END OF THE AGENDA, AFTER
16 THE AGENDIZED SPEAKERS HAVE COMPLETED THEIR
17 PRESENTATIONS, INVITING COMMENTS. I KNOW WE HAVE HAD A
18 REQUEST FROM CALIFORNIA RESOURCE RECOVERY ASSOCIATION. I
19 KNOW THAT MR. LISS IS HERE.

20 THOSE OF YOU WHO WOULD LIKE TO ADDRESS THE
21 COMMITTEE, DO WE HAVE THE SPEAKER FORMS WITH US? PLEASE
22 GET A COPY OF THE SPEAKER FORM, SO I CAN KNOW THAT YOU
23 ARE HERE AND CALL ON YOU IF YOU'RE NOT LISTED ON THE
24 AGENDA. BUT WE DO WELCOME YOUR INPUT AS TIME ALLOWS.

25 NOW, I WILL MOVE TO THE AGENDA AS



1 PUBLISHED. AND WE WILL BEGIN WITH MS. HORNIG. ADDRESSING
2 AN OVERVIEW OF BOND FINANCING.

3 MS. HORNIG: THANKS. I AM REALLY PLEASED TO BE
4 THE FIRST SPEAKER IN THE MORNING WHILE YOU'RE ALL FRESH
5 AND ALERT BECAUSE MY MUNI-BOND TOPIC CAN BE A REAL
6 SLEEPER.

7 CHAIRMAN CHESBRO: I'M ALWAYS FRESH AND ALERT.

8 BOARD MEMBER HUFF: I'VE NEVER KNOWN A TIME WHEN
9 YOU WEREN'T. SIR. ESPECIALLY FRESH.

10 MS. HORNIG: THE MUNICIPAL BOND FINANCING. THERE
11 MAY BE NOTHING INTUITIVE ABOUT IT. AND EXCEPT FOR JESS.
12 I THINK NO ONE IS BORN KNOWING ANYTHING ABOUT IT. SO NO
13 ONE SHOULD BE SHY ABOUT ASKING QUESTIONS. A LOT OF THE
14 CONCEPTS AND DEFINITIONS CAN BEAR REPEATING.

15 I THINK WHEN, AS LAYMEN, WE THINK ABOUT
16 MUNICIPAL BONDS. WE MEAN TAX-EXEMPT DEBT OF PUBLIC
17 ENTITIES. AND BY TAX-EXEMPT, THAT MEANS IF YOU OR I BUY
18 A \$5,000 MUNICIPAL BOND. THE INTEREST THAT WE EARN ON
19 THAT IS EXEMPT FROM INCOME TAXATION BY THE FEDERAL
20 GOVERNMENT.

21 IF THAT BOND WERE TAXABLE AND, SAY, WE WERE
22 LUCKY ENOUGH TO BE IN A 50 PERCENT TAX BRACKET, WE WOULD
23 HAVE TO BE EARNING DOUBLE THAT AMOUNT OF INTEREST TO TAKE
24 HOME THE SAME AMOUNT. SO THERE'S A SPREAD BETWEEN
25 TAXABLE AND TAX-EXEMPT DEBT. WHICH FREQUENTLY MAKES



1 TAX-EXEMPT DEBT THE CHEAPEST WAY OF BORROWING MONEY TO
2 FINANCE A PROJECT LIKE A MRF OR SECONDARY MATERIALS
3 FACILITY.

4 BUT I WANT TO NOTE THAT MUNICIPAL BONDS. BY
5 THEIR NATURE. ARE NOT CREATURES THAT ARE TAX-EXEMPT. AND
6 SINCE THE TAX REFORM ACT OF 1986. WHICH CONSTRAINED THE
7 ABILITY OF PUBLIC ENTITIES TO ISSUE TAX-EXEMPT DEBT FOR
8 FUNDAMENTALLY PRIVATE PROJECTS OR PRIVATE CORPORATIONS.
9 WE CAN HAVE TAXABLE MUNICIPAL DEBT AS WELL.

10 IN EFFECTUATING A BOND TRANSACTION. WE DEAL
11 WITH ALL WIDE PANOPLY OF LAW BEGINNING WITH THE STATE
12 BOND AUTHORIZATION LAW AND FEDERAL AND STATE TAX LAW.
13 INCLUDING SECURITIES LAW. ENVIRONMENT REGULATION. AND
14 REAL ESTATE. AND UCC. AND SO ON.

15 WITH RESPECT TO THE BOND AUTHORIZATION LAW.
16 WE LOOK AT STATE STATUTES AND WITH RESPECT TO CITIES
17 PERHAPS CITY CHARTERS FOR THE PROCEDURE PURSUANT TO WHICH
18 WE CAN ISSUE LEGALLY VALID AND BINDING DEBT.

19 SO. FOR EXAMPLE. THE CBCFA CAN ISSUE
20 REVENUE BONDS FOR PRIVATE POLLUTION CONTROL PROJECTS
21 UNDER ITS CBCFA ACT. AND CITIES AND COUNTIES CAN ISSUE
22 UNDER STATE LAW AND CHARTERS OR THE REVENUE BOND ACT OF
23 1941 TO ISSUE FOR MRF'S AND SECONDARY MATERIALS.
24 WE HAVE JOINT POWER AGENCIES. AND JPA'S CAN DERIVE A
25 POWER DELEGATED FROM THEIR MEMBERS OR ISSUE BONDS UNDER



1 THE JOINT EXERCISE OF POWERS ACT.

2 AND THEN THERE ARE, UNDER OUR INTEGRATED
3 WASTE MANAGEMENT ACT, WE HAVE GARBAGE DISPOSAL DISTRICTS
4 AND GARBAGE AND REFUSE DISPOSAL DISTRICTS. THERE ARE
5 COMMUNITY SERVICE AND SANITARY DISTRICTS. ALL THOSE
6 SPECIAL DISTRICTS HAVE THEIR OWN ENABLING LEGISLATION
7 PURSUANT TO WHICH THEY CAN ISSUE BONDS.

8 NOW, BOND ENABLING LEGISLATION IS A
9 PROCEDURE. IT'S AN OUTLINE THAT YOU HAVE TO FOLLOW IN
10 ORDER TO ISSUE YOUR DEBT. AND IT'S GENERALLY MEANT TO
11 PROTECT US CITIZEN TAXPAYERS FROM CAPRICIOUS OR MERELY
12 UNWANTED DEBT LIABILITY THAT THEY WOULD HAVE TO PONY UP
13 TO PAY.

14 SO THE PROCEDURE MIGHT INCLUDE PUBLIC
15 HEARING REQUIREMENTS, NOTICE PROVISIONS. THERE MAY BE
16 CONSTRAINTS ON THE MANNER IN WHICH BONDS ARE SOLD,
17 REQUIRING A PUBLIC BIDDING PROCESS IN LIEU OF A PRIVATE
18 NEGOTIATED SALE WITH UNDERWRITERS OR PRIVATE PLACEMENTS.

19 BUT ONE OF THE MOST SIGNIFICANT
20 REQUIREMENTS IN AN ENABLING ACT MAY BE THE REQUIREMENT TO
21 HAVE A REFERENDUM TO HAVE VOTER APPROVED BONDS. AND THAT
22 CAN BE TRUE FOR REVENUE BONDS AS WELL AS GO BONDS.

23 NOW, IN CALIFORNIA IN ORDER TO PROVIDE A
24 LITTLE BIT OF FLEXIBILITY WITH THIS BOND ISSUING PROCESS
25 AND IN ORDER TO COPE WITH PROP 13, WHICH IS A



1 CONSTITUTIONAL RESTRICTION OR MAYBE EVEN INABILITY TO
2 LEVY -- TO RAISE OUR TAX LEVIES. WE'VE DEVELOPED AN
3 ALTERNATIVE MECHANISM TO ISSUING BONDS. AND THEY ARE
4 CERTIFICATES OF PARTICIPATION, COP. WE CALL THEM COPS.

5 AND FOR YOU AND I, COPS LOOK, FEEL, AND
6 SMELL VERY MUCH LIKE BONDS. BUT FOR PURPOSES OF PROP 13
7 AND THE CALIFORNIA CONSTITUTION AND ALL OF THESE ENABLING
8 LEGISLATION, COPS ARE NOT DEBT. THEY ARE LEASE
9 TRANSACTIONS OR INSTALLMENT SALE ACTIONS. AND INSTEAD OF
10 LOOKING TO BOND AUTHORIZATION LAW, WE LOOK TO A PUBLIC
11 ENTITY'S ABILITY TO LEASE AND LEASE BACK TO SELL AND BUY
12 BACK.

13 WE SELL LITTLE PIECES OF THE RENTAL INCOME
14 THAT THAT TRANSACTION GENERATES OR THE INSTALLMENT SALES.
15 WE PARTICIPATE OUT THAT, AND WE BUY A COP PAPER INSTEAD
16 OF A BOND DEBT PAPER. BECAUSE RATING AGENCIES PERCEIVE
17 THAT A LEASE TRANSACTION, A COP TRANSACTION, HAS A LITTLE
18 BIT HIGHER RISK OF NONPAYMENT THAN A BOND OR A DEBT.

19 THOSE COPS WILL HAVE A LITTLE BIT HIGHER
20 INTEREST RATE THAN A COMPARABLE DEBT INSTRUMENT FOR THE
21 SAME SORT OF PROJECT OR ISSUER. THERE'S A SPREAD BETWEEN
22 A COP AND A BOND DEBT.

23 MOVING AWAY FROM STATE BOND LAW TOWARDS THE
24 FEDERAL TAX LAW -- FROM A FEDERAL TAX PERSPECTIVE, WE CAN
25 TALK ABOUT COPS OR BONDS. DOESN'T MATTER WHICH. FROM



1 THE PERSPECTIVE OF THE U.S. TREASURY AND THE IRS. THEY
2 DIVIDE THE WORLD OF MUNI BONDS INTO GOVERNMENTAL PURPOSE
3 BONDS AND PRIVATE ACTIVITY BONDS.

4 PRIVATE ACTIVITY BONDS. AGAIN. FOR A
5 FUNDAMENTALLY PRIVATE PROJECT OR CORPORATION. AND THEY
6 SAY, WELL. WE REALLY DON'T LIKE PRIVATE ACTIVITY BONDS
7 THAT ARE ISSUED ON A TAX-EXEMPT BASIS BECAUSE WE PERCEIVE
8 THAT THAT'S A LOSS TO THE FEDERAL TREASURY.

9 THE PRIVATE CORPORATION. INSTEAD OF GOING
10 OUT AND BORROWING AT A TAX-EXEMPT RATE. WOULD OTHERWISE
11 HAVE TO GO OUT AND BORROW TAXABLE DEBT, AND WE WOULD GET
12 THE REVENUE ON THAT TAXABLE DEBT.

13 NOW, I AM CERTAINLY BIASED. BUT I WOULD
14 ARGUE THAT -- AND I THINK SCOTT WOULD SUPPORT ME -- THAT
15 MANY SMALL PROJECTS. IN PARTICULAR, MAY NOT BE
16 ECONOMICALLY FEASIBLE IF THEY HAVE TO BORROW AT A TAXABLE
17 RATE SO THAT THOSE ISSUES WOULD NEVER GO TO MARKET IF
18 THEY WERE TAXABLE. AND THAT'S ONE ARGUMENT WE RAISE WITH
19 RESPECT TO SMALL ISSUE IDB'S, WHICH ARE CONTINUALLY
20 SCHEDULED FOR TERMINATION OR SUNSET.

21 GIVEN THEIR PREDISPOSITION AGAINST PRIVATE
22 ACTIVITY BONDS. THE INTERNAL REVENUE CODE AND THE
23 IMPLEMENTING REGULATIONS PLACE MANY CONSTRAINTS ON OUR
24 ABILITY TO ISSUE TAX-EXEMPT DEBT FOR PRIVATE ACTIVITY
25 PROJECTS. AND. IN GENERAL. THE RULE TO REMEMBER IS THAT



1 PRIVATE ACTIVITY BONDS ARE TAXABLE. YOU HAVE TO START
2 FROM THE PREMISE THAT THEY ARE TAXABLE DEBT.

3 WHEN WE ENGAGE IN A FINANCING TRANSACTION
4 FOR A MRF OR A SECONDARY MATERIALS FACILITY, THEREFORE WE
5 HAVE TO LOOK AT A SORT OF BIFURCATED TEST OR A TANDEM
6 TEST SET OUT IN THE CODE TO DETERMINE WHETHER OR NOT WE
7 HAVE A GOVERNMENTAL PURPOSE BOND OR WE HAVE A TAXABLE
8 PRIVATE ACTIVITY BOND.

9 THE FIRST PART OF THAT TEST IS CALLED THE
10 PRIVATE BUSINESS USE TEST, AND THE SECOND IS THE SECURITY
11 INTEREST AND PAYMENTS TEST.

12 NOW, YOU AND I, WHEN WE GO TO SCHOOL, WE
13 WANT TO PASS TESTS. BUT, UNFORTUNATELY, IN THE TAX
14 WORLD, WE WANT TO FLUNK THESE TESTS BECAUSE WE DON'T WANT
15 TO BE A PRIVATE ACTIVITY BOND IF WE CAN HELP IT.

16 SO WE ASPIRE TO MAKE SURE THAT LESS THAN 10
17 PERCENT OF OUR BOND PROCEEDS, 10 PERCENT OF THE MONEY
18 THAT WE BORROW, THAT WE RAISE IN A BOND ISSUE, IS USED
19 DIRECTLY OR INDIRECTLY, AND THEY CAST A WIDE NET, IN THE
20 TRADE OR THE BUSINESS OF A NONGOVERNMENTAL ENTITY, OF A
21 PRIVATE ENTITY.

22 AND THEN, SIMILARLY, WE WANT TO BE SURE
23 THAT LESS THAN 10 PERCENT OF THOSE BOND PROCEEDS ARE
24 SECURED BY COLLATERAL IN A PRIVATE BUSINESS OR DERIVED
25 FROM PAYMENTS FROM A PRIVATE BUSINESS.



1 IF WE CAN'T -- IF WE PASS THOSE TESTS AND
2 WE ARE PRIVATE ACTIVITY BONDS. WE ARE TAXABLE. AND WE
3 HAVE TO GO INTO ANOTHER LEVEL OF TAX ANALYSIS AND DIG
4 DEEPER TO LOOK TO SEE IF WE CAN PIGEONHOLE OURSELF INTO A
5 NUMBER OF EXCEPTIONS THAT THE CODE PROVIDES THAT WOULD
6 ALLOW US TO BE TAX-EXEMPT PRIVATE ACTIVITY BONDS.

7 NOW, FOR US, THE EXEMPTION THAT WE
8 SCRUTINIZE IS THE SOLID WASTE DISPOSAL FACILITY EXEMPTION
9 AND PERHAPS THE SMALL ISSUE IDB EXEMPTION FOR SMALL
10 ISSUES OF \$10 MILLION.

11 NOW, WHEN WE LOOK AT AB 939, WE HAVE
12 DEFINITIONS OF SOLID WASTE. BUT THAT'S NOT WHAT WE'RE
13 TALKING ABOUT. WHEN WE LOOK AT A SOLID WASTE FACILITY
14 EXEMPTION, WE HAVE TO LOOK AT TAX CODE DEFINITIONS OF
15 BOTH A SOLID WASTE DISPOSAL FACILITY AND OF SOLID WASTE.

16 IN PARTICULAR, A SOLID WASTE FOR TAX LAW
17 PURPOSES IS REALLY NASTY. IT'S USELESS, UNUSED,
18 UNWANTED, DISCARDED, AND IT HAS NO MARKET VALUE AT THE
19 PLACE WHERE IT'S LOCATED.

20 NOW, YOU GENTLEMEN HAVE BEEN GOING THROUGH
21 THIS EXERCISE OF SCRUTINIZING SOLID WASTE AND SOLID WASTE
22 DISPOSAL FACILITIES IN THE MCMILLAN PROJECT, FOR EXAMPLE.

23 IN TRYING TO MEET A SOLID WASTE DISPOSAL
24 DEFINITION, WE HAVE TO BE SURE OF TWO THINGS. THE FIRST
25 IS THAT 65 PERCENT OF THE FEEDSTOCK THAT ENTERS OUR



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FACILITY CONSTITUTES THIS SOLID WASTE. THIS USEFUL.
USELESS. DISCARDED. UNWANTED MATERIAL WITH NO VALUE.

AND, SECONDLY, WE HAVE TO BE SURE THAT 95
PERCENT OF THE BOND PROCEEDS THAT WE ISSUE GO TO FINANCE
A, QUOTE. SOLID WASTE DISPOSAL FACILITY. SOMETHING THAT
IS PROCESSING ONLY MATERIAL WITHOUT VALUE. AND.
THEREFORE, WHEN YOU EXAMINE A DEINKING FACILITY, FOR
EXAMPLE. YOU WANT TO BE SURE THAT YOUR FEEDSTOCK COMING
IN IS VALUELESS.

ON A CASE-BY-CASE BASIS. AS WE START TO
WORK ON A MRF OR A SECONDARY MATERIALS PROJECT FINANCING.
THAT CAN BE A TOUGH QUESTION BECAUSE WE ARE ESTABLISHING
INFRASTRUCTURE. WE ARE SPENDING MONEY TO SEPARATE
RECYCLABLES AT THE CURB.

WE HAVE TO ASK AT WHAT POINT THE MONEY
INVESTED IN COLLECTION AND TRANSPORTATION. MONEY INVESTED
IN PROCESSING TO COMPRESS OR DENSIFY OR SHRED. RESULTS IN
A PRODUCT HAVING MARKETABLE VALUE AND DISQUALIFYING
FURTHER TAX-EXEMPT FINANCING.

NOW. I ALSO MENTIONED THE SMALL ISSUE IDB.
IT IS. AS I SAID. SUBJECT TO TERMINATION AND SUNSET. AND
I WON'T PREDICT WHAT'S HAPPENING. BUT I WANT TO MENTION
IT BECAUSE IN ORDER TO PIGEONHOLE YOURSELF INTO A SMALL
ISSUE IDB EXEMPTION AND QUALIFY FOR TAX-EXEMPT FINANCING.
WE DON'T HAVE TO WORRY ABOUT SOLID WASTE AND SOLID WASTE



1 DISPOSAL FACILITIES.

2 WE HAVE AN ENTIRELY DIFFERENT SET OF RULES
3 TO COMPLY WITH RELATED GENERALLY TO CAPITAL EXPENDITURES.
4 AND I THINK THE RULES ARE ACTUALLY EVERY BIT AS COMPLEX
5 AS THE SOLID WASTE DISPOSAL FACILITIES. YOU START TO ASK
6 BRANCHING DECISION TREE OF QUESTIONS RELATING TO CAPITAL
7 EXPENDITURES FOR THREE YEARS. BEFORE YOU ISSUE YOUR BONDS
8 UNTIL THREE YEARS AFTER YOU ISSUE YOUR BONDS. NOT ONLY
9 FOR THE. SAY. CORPORATION THAT IS DEVELOPING A PROJECT.
10 BUT ALL OF THE FAMILY AND RELATED -- PERSONS RELATED TO
11 THE PARTIES. PARTNERSHIPS RELATED, CORPORATE AFFILIATES.
12 SUBSIDIARIES, PARENTS. YOU'RE LOOKING AT A PARTICULAR
13 GEOGRAPHIC AREA. YOU'RE LOOKING NATIONALLY. THE ACT IS
14 MEANT TO SUBSIDIZE ONLY REALLY THE SMALL BUSINESSMAN.

15 IF WE CAN BECOME A SOLID WASTE DISPOSAL
16 FACILITY OR WE CAN QUALIFY WITH A SMALL ISSUE IDB RULE.
17 THEN WE CAN BE A TAX-EXEMPT PRIVATE ACTIVITY BOND.

18 THERE ARE A NUMBER OF ADDITIONAL
19 CONSTRAINTS THAT THE TREASURY AND THE IRS LAY ON US TO
20 FURTHER RESTRICT THEIR USE. THEY INCLUDE. FOR EXAMPLE,
21 LIMITATIONS ON THE MATURITY OF YOUR BOND. PUBLIC HEARING
22 REQUIREMENTS. LIMITATION ON ISSUANCE COSTS THAT CAN BE
23 PAID FROM BOND PROCEEDS.

24 NOW. THE BOND LAWYERS AND THE UNDERWRITER'S
25 COUNSEL AND THE CONTRACTS COUNSEL AND THE COMMUNITY'S



1 COUNSEL AND THE COMPANY'S COUNSEL, ETC., ETC., ADD UP TO
2 A LOT OF ISSUANCE COSTS FREQUENTLY. AND FOR SMALL
3 PROJECTS, THAT'S OFTEN MORE THAN 2 PERCENT.

4 YOU HAVE GREAT ECONOMIES OF SCALE IN BOND
5 ISSUANCE. A \$100 MILLION PROJECT MAY NOT HAVE THAT MANY
6 MORE ISSUANCE COSTS THAN THE LITTLE \$3 MILLION ONE. AND
7 SO I SHOULD THROW IN A PLUG FOR THE CBCFA SMALL BUSINESS
8 PROGRAM BECAUSE IT'S MEANT TO HELP SUBSIDIZE ISSUANCE
9 COSTS FOR THE LITTLE ISSUER.

10 THE MOST SIGNIFICANT CONSTRAINT ON PRIVATE
11 ACTIVITY BOND FINANCING, HOWEVER, IS THE DEBT CAP, THE
12 DEBT LIMIT ALLOCATION. A DEBT LIMIT ALLOCATION IS NOT A
13 BUDGETING OF ACTUAL MONEY FROM THE STATE. THE CALIFORNIA
14 DEBT LIMIT ALLOCATION COMMITTEE IN THE TREASURER'S
15 OFFICE, SIDLAC, RATHER A LOT -- MORE LIKE A HYPOTHETICAL
16 DOLLAR AMOUNT TO YOUR PRIVATE ACTIVITY BOND FINANCING.

17 THE TAX LAW LIMITS THE AMOUNT OF PRIVATE
18 ACTIVITY BONDS THAT WE CAN ISSUE IN CALIFORNIA BASED ON A
19 PER CAPITA LIMIT. AND THAT HAS TRADITIONALLY BEEN ABOUT
20 ONE AND A HALF BILLION DOLLARS. SO WE HAVE TO GET A PART
21 OF THAT ONE-AND-A-HALF-BILLION-DOLLAR ALLOCATION.

22 THAT IS HARDER THAN IT MAY SEEM BECAUSE
23 HISTORICALLY THAT ALLOCATION HAS GONE TO HOUSING AND
24 MORTGAGE BONDS AND PERHAPS OTHER TYPES OF EXEMPTED
25 FACILITIES WITH WHICH WE MUST COMPETE FOR ALLOCATION.



1 I WOULD NOTE THAT MY IMPRESSION IS THAT
2 MANY COMMUNITIES IN CALIFORNIA, AND PARTICULARLY CITIES
3 WHICH HAVE NOT OWNED AND OPERATED THEIR OWN SOLID WASTE
4 MANAGEMENT FACILITIES, BUT WHICH HAVE CONTRACTED FOR
5 THEIR COLLECTION AND DISPOSAL OF WASTE, LOOK TOWARD
6 IMPLEMENTING THEIR DIVERSION PLANNING AND NATURALLY LOOK
7 TOWARDS PRIVATE ENTERPRISE TO DEVELOP THEIR MRF'S AND
8 COMPOSTING FACILITIES.

9 I WOULD JUST NOTE THAT, UNLIKE THEIR
10 COLLECTION AND DISPOSAL CONTRACTS, THERE'S A PROBABILITY
11 THAT THEY'RE PARTICIPATING IN TAX-EXEMPT FINANCING FOR
12 THESE PRIVATE FACILITIES. AS A PRIVATE ACTIVITY BOND
13 FINANCING WILL PROBABLY MEAN THAT THAT MRF CAN BE
14 CONSTRUCTED WITH CHEAPER DEBT, LESS EXPENSIVE CAPITAL,
15 AND THEY SHOULD, THEREFORE, CONSIDER HELPING THEIR
16 PRIVATE ENTERPRISE IN THE FINANCING OF A NEW OR EXPANDED
17 MRF.

18 NOW, THAT IS RELATED TO THIS DEBT LIMIT
19 ALLOCATION ISSUE BECAUSE THE PRIVATE ACTIVITY BOND FOR A
20 SOLID WASTE DISPOSAL FACILITY IS ANOTHER EXCEPTION AMONG
21 A WORLD OF EXCEPTIONS. IF WE HAVE A PUBLICLY OWNED SOLID
22 WASTE FACILITY, EVEN IF WE PASS ALL THESE TESTS AND IT
23 CONSTITUTES A PRIVATE ACTIVITY BOND BECAUSE WE HAVE
24 EXTENDED -- EXTENSIVE PRIVATE OPERATION, FOR EXAMPLE,
25 THAT REALLY MAKES IT LOOK LIKE A PRIVATE FACILITY, IF IT



1 IS PUBLICLY OWNED. WE DON'T HAVE TO COMPETE FOR THAT
2 ALLOCATION.

3 SO I WOULD URGE MUNICIPALITIES. EVEN IF
4 PRIVATE ENTERPRISE AND A PRIVATELY OPERATED MRF MAKES
5 SENSE TO THEM. TO CONSIDER THE PUBLIC OWNERSHIP OPTION
6 WITH A SERVICE AGREEMENT. WHICH PUTS THEM IN THE SAME
7 MANAGEMENT OR LACK OF MANAGEMENT RELATIONSHIP. TO TRY AND
8 REALIZE SOME OF THE SAVINGS OF TAX-EXEMPT FINANCING AND
9 TO OBTAIN THE NECESSITY OF GOING TO THE STATE FOR VOLUME
10 CAP ALLOCATION.

11 I THINK THAT AFTER TALKING ABOUT BOND
12 AUTHORIZATION AND TAX LAW. THE NATURAL SEGUE IS INTO
13 CREDIT AND MARKETING BECAUSE AFTER ALL. ALL OF THIS
14 COMPLICATED STATE AND FEDERAL LAW SCHEME IS NO GOOD
15 UNLESS YOU CAN ACCESS THE DEBT MARKET. AND THAT IS WHERE
16 SCOTT AND OUR MANUFACTURERS TODAY WILL SHARE THEIR
17 EXPERIENCES ON THE DIFFICULTY OF OBTAINING CREDIT.
18 GETTING THE BONDS TO MARKET.

19 SO AS A FINAL PREFACE TO SCOTT'S REMARK. I
20 WANT TO ENUMERATE THE FIVE TYPES OF CREDIT THAT I SEE
21 BACKING A MUNICIPAL FINANCING. THE SOURCES OF MONEY THAT
22 GO TO PAY MUNICIPAL BONDS.

23 THE FIRST IS THE MUNICIPAL CREDIT. WHICH
24 COULD BE A GENERAL OBLIGATION BOND. WHICH IS PAID BACK
25 FROM A TAX LEVY. OR IT COULD BE PAID FROM A GENERAL FUND.



1 LIKE A COP FINANCING. A GENERAL FUND OBLIGATION THAT IS
2 BUDGETED IN EACH YEAR'S MUNICIPAL BUDGET.

3 THE SECOND CREDIT WOULD BE A CORPORATE
4 CREDIT. IN A PRIVATE ACTIVITY BOND DEAL, THE
5 CORPORATION'S CREDIT IS ON THE LINE. IT IS DEBT THAT'S
6 CARRIED ON THEIR BOOKS. THEY PAY IT BACK.

7 THIRD WOULD BE PROJECT CREDIT. A REVENUE
8 BOND FINANCING IN WHICH THE BONDS ARE REPAYED SOLELY BY
9 THE INCOME THAT'S GENERATED BY THE PROJECT BEING
10 FINANCED. IN A MRF THAT WOULD BE THE SERVICE FEES PAID
11 FOR PROCESSING AND THE RECOVERED MATERIALS SALES.

12 NOW, BECAUSE OF THE UNCERTAINTY IN WASTE
13 CHARACTERIZATION AND IN MARKETS, THE RATING AGENCIES WILL
14 GENERALLY DISCOUNT RECOVERED MATERIAL SALES PROJECTIONS.
15 IT MAKES IT DIFFICULT TO DO MRF'S ON A PROJECT BASIS
16 UNLESS WE HAVE A VERY STRONG PUT OR PAY SERVICE
17 OBLIGATION, FOR EXAMPLE, OR CORPORATE GUARANTEE.

18 THE FOURTH CATEGORY OF CREDIT I WOULD
19 HIGHLIGHT WOULD BE A SYSTEM-BASED CREDIT AS OPPOSED TO A
20 PROJECT, WHICH IS A SINGLE FACILITY LIKE A MRF OR A
21 WASTE-TO-ENERGY.

22 THE SYSTEM IS BASED ON A PUBLIC ENTITY'S
23 ENTIRE WASTE ENTERPRISES. THE LANDFILL TIP FEES, THE MRF
24 SERVICE FEES, LICENSE FEES, RATE -- SERVICE FEES FROM THE
25 RATEPAYERS. THEY ALL WOULD GO INTO ENTERPRISE FUND WHICH



1 COULD PAY OFF THE BONDS REGARDLESS OF WHICH PARTICULAR
2 PROJECT WITHIN THAT SYSTEM IS BEING FINANCED.

3 AND LASTLY AND FIFTHLY, IF ALL OF THESE
4 OTHER CREDIT MECHANISMS OR MEANS OF REPAYING THE BONDS
5 FAIL, THERE MIGHT BE CREDIT SUPPORT ON A BOND FINANCING.
6 AND THAT MEANS THAT IF THE BONDS ARE NOT PAID, A
7 COMMERCIAL BANK WILL STEP UP AND PAY THROUGH DRAWS ON A
8 LETTER OF CREDIT, OR A BOND INSURER WILL COME UP AND PAY
9 THROUGH BOND INSURANCE PROCEEDS THE DEBT OBLIGATIONS.

10 SO FOR SCOTT AND THE MANUFACTURER, YOU CAN
11 NOW TELL US WHY WHEN YOU NEED CREDIT SUPPORT, YOU CAN'T
12 GET IT; AND IF YOU DON'T NEED CREDIT SUPPORT, IT'S
13 AVAILABLE.

14 CHAIRMAN CHESBRO: OKAY. WE HAVE A COUPLE OF
15 BOARD MEMBERS. I THINK, WOULD LIKE TO ASK YOU QUESTIONS.
16 BUT LET'S TRY TO STICK TO THE SCHEDULE AS BEST WE CAN.

17 MR. HUFF.

18 BOARD MEMBER HUFF: WELL, I'VE HAD SOME
19 FAMILIARITY WITH SOME OF THIS STUFF, BUT THERE'S ONE AREA
20 THAT I MIGHT BE A LITTLE LESS FAMILIAR. THAT'S THE
21 OWNERSHIP DODGE. OKAY.

22 WHAT DO THE FEDS THINK CONSTITUTES
23 OWNERSHIP?

24 MS. HORNIG: WELL, BEFORE -- A SLIGHT
25 DIGRESSION. BEFORE '86 THERE WERE A LOT OF TAX CREDITS.



1 ENERGY TAX CREDITS, AND ACCELERATED DEPRECIATION TAX
2 BENEFITS AVAILABLE FOR SOLID WASTE DISPOSAL FACILITIES.
3 IT ADVANTAGED PRIVATE PARTIES IN MANY INSTANCES TO OWN
4 THEIR FACILITY BECAUSE -- OR TO SYNDICATE OWNERSHIP
5 BECAUSE THEY COULD TAKE ADVANTAGE OF THOSE TAX BENEFITS
6 WHICH THE PUBLIC ENTITY COULDN'T.

7 BUT NOW THAT HAS GONE AWAY, SO THE -- WHERE
8 THE TITLE RESIDES IN A PUBLIC ENTITY OR PRIVATE MAY
9 MATTER LESS. AND IT IS -- IT'S FUNDAMENTALLY BOOK TITLE.
10 THEN THE MUNICIPAL OWNER WOULD HAVE A SERVICE AGREEMENT.
11 THEY WOULD -- PROBABLY THEY WOULD HAVE A DESIGN
12 CONSTRUCTION OPERATION AGREEMENT WITH THE PRIVATE SECTOR.
13 AND THE PRIVATE SECTOR WOULD THEN BE REALIZING ITS PROFIT
14 THROUGH ITS SERVICE FEE -- ITS CONSTRUCTION FEE AND ITS
15 SERVICE FEE.

16 SO THE PRIVATE SECTOR WOULD NOT GET TO
17 THE --

18 BOARD MEMBER HUFF: THAT'S SIMPLE BOOK TITLE.

19 MS. HORNIG: RIGHT. BUT THERE ARE -- BUT THERE
20 WOULD BE IMPLICATIONS FOR THE DEPRECIATION AND SO ON THE
21 PRIVATE SECTOR WOULD NOT BE ABLE TO TAKE.

22 BOARD MEMBER HUFF: ALSO IMAGINE CIRCUMSTANCES
23 IN WHICH WHO OWNS THE FACILITY MIGHT REALLY BECOME AN
24 AREA OF LONG-TERM CONCERN VIS-A-VIS SUCH RESPONSIBILITIES
25 AS SUPERFUND LIABILITY.



1 MS. HORNIG: ABSOLUTELY.

2 BOARD MEMBER HUFF: AND I CAN IMAGINE. AT LEAST
3 IN THE CURRENT ENVIRONMENT, WHERE MUNICIPALITIES DON'T
4 WANT IT.

5 MS. HORNIG: THAT IS ABSOLUTELY TRUE. THE
6 POTENTIAL ENVIRONMENTAL LIABILITIES CONSIDERATION,
7 ALTHOUGH WE HAVE NOT YET CARVED OUT OUR MUNICIPAL
8 LIABILITY FOR EVEN SUPPLYING WASTE TO A PROJECT. SO
9 PERHAPS THE RISK POSTURE, ESPECIALLY WHEN WE ARE DEALING
10 WITH MRF'S AND LANDFILL DISPOSAL, IS SLIGHTLY LESS FROM
11 THE ENVIRONMENTAL POINT OF VIEW.

12 ANOTHER PUBLIC/PRIVATE CONSIDERATION IS
13 THAT SOME MUNICIPALITIES FEEL IF THEY HAVE A SERVICE
14 AGREEMENT WITH A PRIVATELY OWNED FACILITY, AS THEY COME
15 TO THE END OF THE TERM OF THAT SERVICE AGREEMENT, THEY
16 HAVE VERY LITTLE LEVERAGE FOR NEGOTIATING A NEW PRICE.

17 IF THEY ARE COMING TO THE END OF AN
18 OPERATING AGREEMENT AND THEY OWN THE FACILITY, IT MAY BE
19 EASIER TO BRING IN A NEW OPERATOR FOR AN ACCEPTABLE
20 OPERATING FEE. BUT TO GO TO -- FIND AN ENTIRELY NEW
21 VENDOR IN THE COMMUNITY WITH ANOTHER FACILITY, SO
22 LOOKING FORWARD TO RENEGOTIATING CAN MAKE A DIFFERENCE IN
23 THE PUBLIC/PRIVATE DYNAMICS.

24 OF COURSE, YOU COULD ALSO -- AND THEN
25 AGAIN, IN THE PRIVATELY OWNED FACILITY, YOU COULD THINK



1 ABOUT PURCHASE OPTIONS OF THE INDIVIDUAL. TOO. SO YOU
2 MIGHT GET TO THE SAME PLACE THERE ALSO.

3 BOARD MEMBER HUFF: YOU MIGHT. IN FACT. IF YOU
4 OWN A FACILITY OR A SITE FOR A FACILITY. IT'S EASY TO
5 IMAGINE ALL MANNER OF CONDITIONAL SALES BETWEEN PRIVATE
6 AND PUBLIC. AND I WAS WONDERING HOW DEEPLY THE FEDS
7 LOOKED INTO THOSE.

8 MS. HORNIG: WELL. IT IS LOOKING AT THE --
9 REALLY THE TITLE ON THE BOOKS, BUT ALSO CONSISTENT TAX
10 POSTURES.

11 I WOULD JUST ADD THAT IN THE INSTANCE WHERE
12 COMMUNITIES ARE RELUCTANT TO ENTER INTO LONG-TERM SERVICE
13 AGREEMENTS FOR MRF'S BECAUSE THEY'RE UNCERTAIN AS TO WHAT
14 WASTESTREAM CHARACTERIZATION THEY CAN DELIVER OR WHERE
15 THE MARKETS ARE GOING. THEY NEVERTHELESS SHOULD EXPECT TO
16 BE PAYING A SERVICE FEE DURING THE TERM OF THEIR
17 AGREEMENT THAT WILL AMORTIZE A PRIVATE PARTY'S COST.
18 BECAUSE THAT'S -- SERVICE FEE IS THE PRIVATE PARTY'S
19 CREDIT SUPPORT FOR WHATEVER SOURCE OF FINANCING IT HAS.

20 SO A PUBLIC ENTITY MIGHT CONSIDER
21 NEGOTIATING A NOMINAL RELATIVELY LONG-TERM SERVICE
22 AGREEMENT AND PROVIDING OR NEGOTIATING. SAY. A
23 SHORTER-TERM ONE WITH OPTIONS TO RENEW AND ASSUME A
24 LONGER-TERM AMORTIZATION. AND THEN EITHER BUY THE PRIVATE
25 PARTY OUT AT FIVE OR TEN YEARS FOR THE REMAINING



1 UNAMORTIZED CAPITAL COST TO MAKE THEM WHOLE. BUT
2 MEANWHILE THEY GET THE PRESENT VALUE SAVINGS OF A LOWER
3 SERVICE FEE UP FRONT. SO YOU CAN PLAY WITH NOMINAL TERMS
4 AS WELL.

5 CHAIRMAN CHESBRO: MR. RELIS.

6 BOARD MEMBER RELIS: YES. CONSTANCE. ON THE
7 PROJECT CREDIT. NO. 3. YOU SAID THAT SERVICE FEES AND
8 SALE OF -- RATING AGENCIES WILL NOT ACKNOWLEDGE BASICALLY
9 A -- THE -- A SALE AS A VALUE TO ESTABLISH THE
10 INVESTMENT WORTHINESS OR WHATEVER.

11 I'M JUST TRYING TO THINK AHEAD TO THE TIME
12 IF WE'RE HOPEFULLY SUCCESSFUL IN LANDING SOME LARGE
13 INDUSTRIES INTO THIS STATE WHO WILL BE RELIABLE CONSUMERS
14 FOR A LONG PERIOD OF TIME. IS THIS A RESULT OF LACK OF
15 CONFIDENCE IN THIS?

16 MS. HORNIG: WELL. YOU MENTION A REALLY POSITIVE
17 DEVELOPMENT BECAUSE. IN GENERAL. IF WE START TO HAVE
18 LONG-TERM FEEDSTOCK -- WELL. RECOVERED MATERIALS SALES
19 CONTRACTS. THEY WILL BECOME VALUABLE TO THE CREDIT
20 ANALYSIS TO THE EXTENT THAT THEY ARE CO-TERMINUS WITH
21 YOUR BOND TERM: THAT IS. THE RATING AGENCY IS GOING TO GO
22 AND MAKE SURE THAT YOU CAN GET PAID AS LONG AS THOSE
23 BONDS ARE OUT.

24 IN THE WASTE-TO-ENERGY WORLD. OUR ENERGY
25 SALES -- OUR ENERGY PURCHASE CONTRACTS HAD TO BE AS LONG



1 AS THE BOND TERM. WE'VE NOT BEEN ABLE TO REALLY
2 DEMONSTRATE RECOVERED MATERIALS SALES CONTRACTS THAT
3 LONG. BUT MAYBE WE'RE MOVING THAT WAY AND THEN THEY CAN
4 BE TAKEN INTO ACCOUNT.

5 BOARD MEMBER HUFF: BUT THERE THEY DON'T HAVE TO
6 BELIEVE IN THE VALUE OF RECOVERED MATERIALS. ALL THEY
7 HAVE TO DO IS BELIEVE IN THE VALUE OF THE CONTRACT.

8 MS. HORNIG: EXACTLY. THAT'S RIGHT. THEY'RE
9 NOT LOOKING AT THE SPOT MARKET ANYMORE AT THAT POINT.

10 BOARD MEMBER HUFF: THEY BELIEVE IN CONTRACTS.
11 THEY DON'T BELIEVE IN ANYTHING ELSE.

12 MS. HORNIG: THAT'S RIGHT.

13 CHAIRMAN CHESBRO: I HAVE ONE ADDITIONAL
14 QUESTION THAT WAS SUBMITTED BY A MEMBER OF THE AUDIENCE.

15 THE FEDERAL GOVERNMENT HAS A LOAN GUARANTEE
16 PROGRAM VIA SMALL BUSINESS ADMINISTRATION. PLEASE
17 DISCUSS THE RAMIFICATIONS. PROBLEMS WITH FEDERAL
18 GOVERNMENT GUARANTEEING STATE VOTER BOND PROGRAMS VIA A
19 LETTER OF CREDIT FROM SBA.

20 MS. HORNIG: IN GENERAL. FEDERAL GUARANTEES
21 DESTROY TAX-EXEMPTION. PERIOD.

22 CHAIRMAN CHESBRO: THANK YOU. WE WILL NOW MOVE
23 TO -- THANK YOU VERY MUCH. CONSTANCE.

24 WE WILL NOW MOVE TO SCOTT RODDE. NATIONAL
25 DEVELOPMENT COUNCIL. WHO WILL DISCUSS SECONDARY MATERIALS



1 BUSINESS FINANCING NEEDS.

2 MR. RODDE: TO PICK UP ON CONSTANCE'S FIVE
3 SOURCES OF CREDIT. I NOTED THAT TWO OF THEM, THE
4 MUNICIPAL CREDIT AND THE SYSTEM-BASED CREDIT, WERE
5 ESSENTIALLY FOR PUBLIC FACILITIES. THE OTHER THREE, THE
6 CORPORATE CREDIT, THE REVENUE BONDS, AND THE CREDIT
7 SUPPORT, ARE ALL POTENTIALLY AVAILABLE TO PRIVATE
8 BUSINESSES.

9 . IN EACH OF THOSE SITUATIONS, THE
10 AVAILABILITY OF CREDIT AS OPPOSED TO ITS COST IS DIRECTLY
11 RELATED TO THE CREDIT CAPACITY OF THE CORPORATION ISSUING
12 THE GUARANTEE.

13 OVER THE LAST YEAR I'VE REVIEWED 50 TO 60
14 BUSINESS PLANS, SETS OF FINANCIAL STATEMENTS OF
15 BUSINESSES WHO ARE MANUFACTURING OR PROPOSE TO
16 MANUFACTURE USING SECONDARY MATERIALS AS THEIR FEEDSTOCK.

17 OF THOSE 50 OR 60 CASES, I FOUND ONE
18 COMPANY THAT WAS CURRENTLY ELIGIBLE FOR A BANK LETTER OF
19 CREDIT OR WOULD HAVE ACCESS TO A PUBLIC MARKET AND ONE
20 THAT HAD PREVIOUSLY USED BOND FINANCING.

21 MY CONCLUSION, AFTER REVIEWING 50 OR 60
22 SETS OF FINANCIAL STATEMENTS AND BUSINESS PLANS, IS THAT
23 THE RECYCLING INDUSTRY IN CALIFORNIA FACES A LONG-TERM
24 FINANCING GAP HAVING TO DO WITH AVAILABILITY OF CAPITAL,
25 NOT ITS COST.



1 THIS IS TRUE FOR HEALTHY AND FINANCIALLY
2 SUCCESSFUL SMALL COMPANIES BECAUSE THEY ARE NOT CREDIT
3 RATED AND DO NOT HAVE ACCESS TO LETTERS OF CREDIT AND
4 PUBLIC MARKETS.

5 I USE AS MY STANDARD FOR HEALTHY SUCCESSFUL
6 SMALL COMPANIES THE SMALL BUSINESS ADMINISTRATION'S
7 STANDARD. WHICH IS A COMPANY THAT HAS A NET WORTH OF LESS
8 THAN \$6 MILLION AND NET PROFITS AFTER TAXES OF LESS THAN
9 \$2 MILLION.

10 THE REASON FOR THAT STANDARD IS THAT AT
11 THAT LEVEL OF CAPITALIZATION AND AT THAT LEVEL OF
12 PROFITABILITY. PUBLIC UNDERWRITING IN BOTH DEBT AND
13 EQUITY MARKETS IS AVAILABLE. I MIGHT ALSO NOTE THAT AT
14 THAT LEVEL OF EQUITY AND PROFITABILITY, CREDIT SUPPORTS
15 ARE GENERALLY AVAILABLE TO COMPANIES.

16 THE PROBLEM AND THE CONCERN THAT I HAVE
17 WITH THE LONG-TERM FINANCING GAP THAT HEALTHY SUCCESSFUL
18 SMALL COMPANIES FACE IS THAT IT IS PRECISELY IN THESE
19 SMALL COMPANIES WHERE THE FLEXIBILITY EXISTS TO TACKLE
20 THE RECYCLING PROBLEM. AND HISTORICALLY THIS IS WHERE THE
21 GREATEST PUBLIC BENEFITS IN TERMS OF JOB CREATION HAVE
22 COME ABOUT.

23 WHY HAVE I FOUND SUCH A PROBLEM WITH SMALL
24 FINANCIALLY SUCCESSFUL COMPANIES. THAT IS. PROFITABLE
25 COMPANIES? THE REASONS THE COMPANIES RECITE TO ME COME



1 IN PRINCIPALLY FIVE AREAS.

2 THE FIRST REASON THEY CITE IS THAT THEIR
3 INDUSTRY IS A NEW INDUSTRY. WHEN THEY GO TO LENDERS,
4 THEY CANNOT SAY OR THEY CANNOT CITE HISTORICAL NORMS OF
5 WHAT OTHER BUSINESSES ARE DOING. OTHER BUSINESSES DON'T
6 EXIST.

7 THE BUSINESSES THEMSELVES TEND TO BE
8 RELATIVELY NEW. COMPOSTING, RECYCLED PAPER, PLASTIC, AND
9 GLASS ARE JUST NOT THE GARDEN VARIETY STAPLE OF THE
10 LENDING AND INVESTMENT COMMUNITY. THERE IS ALWAYS A
11 QUESTION THAT PRECEDES A CREDIT ANALYSIS. WHICH IS IS IT
12 TECHNOLOGICALLY FEASIBLE? CAN IT BE DONE?

13 AFTER WE OVERCOME THE "CAN IT BE DONE"
14 QUESTION RELATED TO A NEW BUSINESS, THE LENDERS LOOK
15 DIRECTLY TO WHAT THEY'RE FINANCING.

16 IN THE CASE OF EQUIPMENT OR IN REAL ESTATE,
17 THEY ASK THE SAME QUESTION: IF THIS BUSINESS DOES NOT
18 WORK, WHAT WILL I DO WITH THIS EQUIPMENT? WHAT WILL I DO
19 WITH THIS REAL ESTATE THAT HAS ALL THESE SPECIALIZED
20 IMPROVEMENTS ON IT?

21 AND SINCE THE ANSWER IS THAT IT'S NOT THE
22 KIND OF EQUIPMENT THAT, GENERALLY SPEAKING, IS COMMONLY
23 TRADED IN THE MARKET AND THE REAL ESTATE, ONCE IMPROVED
24 WITH THE TYPES OF SPECIALIZED IMPROVEMENTS THAT ARE
25 REQUIRED IN THE RECYCLING INDUSTRY, IS NOT COMMERCIALY



1 AVAILABLE WAREHOUSE SPACE. THE LENDERS BECOME CONCERNED
2 THAT IT IS SPECIAL PURPOSE EQUIPMENT AND SPECIAL PURPOSE
3 REAL ESTATE. WHICH WILL HAVE LITTLE ALTERNATIVE USES.

4 AND THE LAST QUESTION THAT THE LENDERS ASK
5 IS THE QUESTION OF NEW MARKETS. THE A PRIORI ASSUMPTION
6 IS THAT GARBAGE IS GARBAGE, AND THAT GARBAGE IS NOT A
7 CONSUMER GOOD. THE GUT REACTION IS THAT IT'S A NEAT
8 IDEA. BUT IT'S NOT FINANCIBLE EXCEPT WHEN THE BUSINESS
9 PARTY IS WILLING TO PUT THEIR OWN ASSETS FULLY AT RISK.

10 THE FIRST TIME I RAN INTO THIS PROBLEM WAS
11 LAST SPRING OF '91 WHEN A BUSINESS PERSON WHO WAS A
12 SUCCESSFUL MANUFACTURER IN ANOTHER INDUSTRY AND HAD A
13 PERSONAL NET WORTH OF A MEDIUM EIGHT-FIGURE LEVEL --
14 THAT'S USUALLY ASSUMED TO BE 30 MILLION AND UP -- AND A
15 CASH BALANCE OF A LOW EIGHT-FIGURE LEVEL CAME TO ME AND
16 SAID, "I'VE BEEN REJECTED BY SIX BANKS IN SOUTHERN
17 CALIFORNIA FOR FINANCING TO START UP A RECYCLING-BASED
18 BUSINESS. CAN YOU HELP ME?"

19 I SAID, "WELL. COME ON. I'M SURE YOU CAN
20 DO IT." HE SAID, "YES. I CAN. BUT THE BANKS WANT AS
21 SECURITY CASH. AND I'M NOT WILLING TO DO THAT. IT
22 DOESN'T MAKE SENSE TO ME."

23 WELL. AFTER SIX MONTHS OF HARD NEGOTIATION,
24 WE WERE ABLE TO FIND A BANK WHO WOULD USE AS SECURITY
25 TRUST DEEDS OWNED BY THIS PARTICULAR INDIVIDUAL. THE



1 BANK SAID. "WE WILL LEND YOU \$2 MILLION IF YOU GIVE US \$7
2 MILLION OF TRUST DEEDS AS SECURITY. ON THE OTHER HAND.
3 YOU CAN GIVE US \$2 MILLION OF CASH AS SECURITY. YOU PICK
4 IT."

5 THE NEED IN THE SMALL BUSINESS COMMUNITY.
6 THAT IS. BUSINESSES OF LESS THAN \$6 MILLION IN NET WORTH
7 AND LESS THAN \$2 MILLION IN PROFITS AFTER TAXES. IS FOR
8 LONG-TERM INVESTMENT CAPITAL. NO. 1.

9 NO. 2. THE INVESTMENT CAPITAL SHOULD MATCH
10 EQUITY CAPITAL. IT SHOULD BE SENIOR TO EQUITY. IT
11 SHOULD BE SUBORDINATE TO BANKS. IT SHOULD BE STRUCTURED
12 AS LOANS. WHICH CAN BE REASONABLY REPAID BASED ON
13 HISTORICAL CASH FLOWS AND CURRENT DEBT TO EQUITIES. AND.
14 FINALLY. IT NEEDS TO BE SECURED BY THE ASSETS AND THE
15 ENTITIES THAT ARE BEING FINANCED. NOT THE CASH ACCOUNT.
16 THE OWNER/INVESTORS OR SECOND TRUST DEEDS. ETC.

17 NOW. LET ME GIVE YOU A CONCRETE EXAMPLE AS
18 TO WHAT I THINK THE NEED IS. I'M JUST GOING TO TAKE A
19 GENERIC \$3 MILLION RECYCLING MANUFACTURING FACILITY.
20 SOME OF THESE PROJECTS ARE AS SMALL AS A MILLION DOLLARS.
21 SOME OF THEM ARE AS LARGE AS 20 AND \$30 MILLION. BUT I
22 SEE A CLUSTERING IN THE TWO TO \$4 MILLION RANGE FOR
23 PLANTS. EQUIPMENT. AND WORKING CAPITAL.

24 IF HALF OF THE AMOUNT COULD BE FINANCED BY
25 A PRIVATE LENDER. LIKE A BANK. THEN THE OTHER HALF COULD



1 COME FROM PUBLIC AND EQUITY OWNER SOURCES. TAKING THAT \$3
2 MILLION AND CUTTING THE PIE 50 PERCENT FROM A PRIVATE
3 LENDER. 25 PERCENT FROM A PUBLIC LENDER. AND 25 PERCENT
4 FROM EQUITY INVESTORS. THAT IS A REASONABLE STRATEGY TO
5 PURSUE IN FINANCING A MANUFACTURING EXPANSION.

6 I'LL GIVE YOU AT LEAST THREE PRECEDENTS.
7 SINCE 1958 THE UNITED STATES SMALL BUSINESS
8 ADMINISTRATION HAS BEEN FINANCING PLANTS AND EQUIPMENT
9 FOR GENERAL BUSINESS PURPOSES USING A 50/40/10 APPROACH:
10 50 PERCENT FROM THE BANKING COMMUNITY. 40 PERCENT FROM
11 THE SBA. PUBLIC SIDE, AND 10 PERCENT IN PRIVATE EQUITY.
12 THAT'S A \$1.2 BILLION A YEAR PROGRAM THAT'S BEEN RUNNING
13 SINCE 1958.

14 FROM 1979 TO 1989. THE U.S. DEPARTMENT OF
15 HOUSING AND URBAN DEVELOPMENT GRANT AND URBAN DEVELOPMENT
16 ACTION GRANT PROGRAM. WHICH FINANCED URBAN REAL ESTATE.
17 JUST TO MAKE IT HAPPEN. TURN OUR CITIES AROUND. THE
18 FORMULA THERE WAS 65 PERCENT PRIVATE BANK FINANCING. 25
19 PERCENT PUBLIC FINANCING. AND 10 PERCENT OWNER EQUITY
20 FINANCING. AND THAT WAS A \$2 BILLION A YEAR PROGRAM.

21 IN CALIFORNIA. TO STIMULATE LOW INCOME
22 HOUSING. THE DEPARTMENT OF HOUSING AND COMMUNITY
23 DEVELOPMENT HAS HAD SINCE 1990 THE RENTAL HOUSING
24 CONSTRUCTION LOAN PROGRAM. WHICH IS ESSENTIALLY A 25
25 PERCENT BANK. 25 PERCENT RACP PUBLIC SECTOR MATCH. 25



1 PERCENT LOCAL MATCH. AND 25 PERCENT TAX CREDIT MATCH.
2 AND THAT PROGRAM. SINCE ITS INCEPTION. HAS PROBABLY
3 GENERATED ABOUT \$1.6 BILLION IN LOW INCOME HOUSING IN THE
4 STATE OF CALIFORNIA.

5 A QUESTION THAT FREQUENTLY COMES UP IS WHY
6 NOT USE THE INVISIBLE HAND OF TAX POLICY TO ACCOMPLISH
7 THE INITIAL INVESTMENT SPARK. MY CONCERNS WITH THAT ARE
8 TWO.

9 NO. 1. THE BENEFITS WILL GO TO THOSE WHO DO
10 NOT NEED THEM. YOU WILL HAVE FREE RIDERS. CREDIT RATED
11 COMPANIES WHO ALREADY HAVE ACCESS TO FINANCING WILL
12 LARGELY BE THE BENEFICIARIES OF TAX CREDIT PROGRAMS.

13 SECONDLY. YOU HAVE A HIGHLY DEFINED TARGET.
14 MANUFACTURERS WHO ARE USING SECONDARY MATERIALS IN
15 SPECIFIC INDUSTRIES. THEY CAN BE IDENTIFIED AND SOUGHT
16 OUT. EFFICIENTLY TARGETED. FINANCED. AND DELIVERED THE
17 RESOURCES NEEDED TO HELP THEM EXPAND. AND MEASURABLE
18 RESULTS CAN BE OBTAINED IN TERMS OF DOLLARS OF FINANCING.
19 TONS OF RECYCLED MATERIALS. AND JOBS CREATED. THESE
20 COMPANIES ARE LARGELY GOING TO BE NONCREDIT RATED
21 COMPANIES THAT NEED AVAILABILITY HELP.

22 THE STATE CAN TAKE A LEADERSHIP POSITION IN
23 HELPING TO STIMULATE THE NEW INDUSTRY OVERCOME THE NEW
24 BUSINESS. NEW EQUIPMENT. SPECIAL PURPOSE REAL ESTATE. NEW
25 MARKET PROBLEMS. AND RISK PERCEPTIONS THAT EXIST.



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QUESTIONS?

CHAIRMAN CHESBRO: MR. RELIS.

BOARD MEMBER RELIS: SCOTT. I WAS INTERESTED IN THE RUNDOWN YOU GAVE ON THE VIEW OF HOW BUSINESSES AND THESE SMALLER BUSINESSES ARE PERCEIVED BY THE INVESTMENT COMMUNITY. MEANING THAT CAN THE PROJECTS WORK. I MEAN.

I WAS UP IN WASHINGTON. THE STATE OF WASHINGTON. LAST WEEK AND MET WITH REPRESENTATIVES OF WEYERHAEUSER. AND WEYERHAEUSER HAS SAID THAT BASICALLY ALL NEW FIBER CAPACITY THAT THEY'RE PLANNING ON FOR THE WEST COAST. AT LEAST, WILL BE SECONDARY. NOT VIRGIN CAPACITY.

AT WHAT POINT DOES THE CHANGING NATURE OF THE INDUSTRY. AS EXPRESSED BY A COMPANY LIKE WEYERHAEUSER. NO SMALL ENTITY, BEGIN TO PERMEATE THE INVESTMENT COMMUNITY SO THAT THEY'RE NOT ASKING SO MUCH THESE. WHAT I WOULD CALL. VERY BASIC QUESTIONS AT THIS POINT: WILL IT WORK? OR -- BECAUSE CLEARLY PATTERNS LIKE THAT SUGGEST A FUNDAMENTAL SHIFT IN ONE ASPECT OF THE PAPER INDUSTRY.

MR. RODDE: THE PROBLEM IS REALLY ONE OF WHO YOU ARE ASKING THE QUESTION OF. IF YOU ASK THE QUESTION OF THE PUBLIC MARKETS AND YOU HAVE WEYERHAEUSER ASKING THE QUESTION. THE ANSWER IS THAT THE PUBLIC MARKETS WILL SAY IT WORKS AS SOON AS WEYERHAEUSER IS UP AND RUNNING WITH



1 THEIR FIRST PLANT.

2 WHEN YOU GO TO EUREKA, CALIFORNIA, AND ASK
3 U.S. BANCORP, WHO IS FINANCING THE BUSINESSES IN EUREKA,
4 WHETHER OR NOT IT WORKS, THE ANSWER IS THEY DON'T WANT --
5 THEY WANT TO KNOW THAT WEYERHAEUSER IS DOING IT, BUT
6 THEY -- IT'S NOT A MATERIAL -- IT'S NOT MATERIAL TO THEIR
7 REAL DECISION. IT'S AN A PRIORI QUESTION THAT THEY WILL
8 ASK AND WILL CAUSE THEM CONCERN.

9 BOARD MEMBER RELIS: SO UNLESS THERE WAS A
10 CONNECTION IN THIS CASE TO A PUBLIC ENTITY LIKE
11 WEYERHAEUSER --

12 MR. RODDE: A GUARANTEE, IF YOU WILL.

13 BOARD MEMBER RELIS: -- THAT WOULD CREATE THE
14 LINKAGE AND THE PROSPECT FOR LOAN, BUT WITHOUT THAT --

15 MR. RODDE: WITHOUT THE WEYERHAEUSER GUARANTEE,
16 YOU STILL HAVE A PROBLEM.

17 CHAIRMAN CHESBRO: OKAY. ANY OTHER QUESTIONS?
18 THANK YOU VERY MUCH.

19 NEXT, WE'RE GOING TO MOVE TO OUR BUSINESS
20 PEOPLE, WHO ARE EITHER CURRENTLY IN OR PROSPECTIVELY IN
21 OR BOTH THE BUSINESS OF PRODUCING PRODUCTS OUT OF
22 SECONDARY MATERIALS. I'D SAY THE ADVANCE FORCES OF
23 CHANGE AND PEOPLE WHO SHOULD BE HEROES TO OUR EFFORTS TO
24 DIVERTING MATERIALS BECAUSE WHAT THEY'RE DOING IS WHAT
25 WE'RE ALL ABOUT AND WHY WE'RE HERE.



1 SO I'D LIKE TO BEGIN WITH MIKE KOPULSKY OF
2 ENVIROTHENE.

3 MR. KOPULSKY: GLAD TO BE HERE. I'LL APOLOGIZE
4 IN ADVANCE. I AM AT 11:15 GOING TO HAVE TO QUICKLY GET
5 TO A CUSTOMER. JUST A BIT OF BACKGROUND. ENVIROTHENE IS
6 A PLASTICS RECYCLER THAT TAKES ONLY POSTCONSUMER
7 MATERIAL. CURBSIDE COLLECTED, BUY-BACK CENTERS, ETC.

8 WE HAVE A FACILITY THAT WASHES 50 MILLION
9 POUNDS PER YEAR OF POLYETHYLENE, HIGH DENSITY
10 POLYETHYLENE BOTTLES. ALL NONREDEMPTION. SO WE'RE TAKING
11 STRICTLY BOTTLES THAT ARE COLLECTED ON A VOLUNTARY BASIS.

12 A BIT OF BACKGROUND ON THE INVESTORS IN THE
13 COMPANY. ALL FROM THE PLASTICS INDUSTRY. TRADITIONALLY
14 PIONEERS IN THE PLASTICS INDUSTRY. AN EXAMPLE OF THAT IN
15 THE UNITED STATES WOULD BE A COMPANY THAT WE STARTED IN
16 1979 CALLED HEIMLEY, WHICH BROUGHT TO THE UNITED STATES
17 THIN GAUGE TRASH BAGS. TRASH BAGS THAT COULD BE MADE IN.
18 FOR EXAMPLE .6 MIL WHEN THE UNITED STATES MARKETPLACE WAS
19 PRODUCING TRASH BAGS AT 3 MIL.

20 SO THERE WAS AN 80-PERCENT SOURCE REDUCTION
21 APPROACH THERE WITH THIS TRASH BAG COMPANY. STARTED WITH
22 ZERO SALES AND '79 BUILT TO 35 MILLION IN SALES AND IN
23 '88 WITH PLANTS IN CALIFORNIA, VERMONT, AND ILLINOIS. BUT
24 THE FIRST PLANT BEING IN CALIFORNIA. THAT COMPANY WAS
25 THEN SOLD TO FIRST BRANDS CORPORATION, WHO OWNED GLAD BAG



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Barristers'
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1 IN 1988.

2 SO OUR EXPERIENCES WITHIN THE PLASTICS
3 INDUSTRY AND WITHIN PIONEERING NEW TECHNOLOGIES IN THE
4 PLASTICS INDUSTRY FROM A CALIFORNIA BASE HAS BEEN QUITE
5 SUCCESSFUL.

6 AFTER THE SALE OF THE HEIMLEY TO FIRST
7 BRANDS. WE THEN STARTED TO LOOK AS TO WHAT WAS NEEDED IN
8 THE PLASTICS INDUSTRY IN THE WAY OF NEW PRODUCTS OR
9 PIONEERING. IT BECAME EVIDENT TO US. THROUGH THINGS WE
10 WERE SEEING IN EUROPE. THAT RECYCLING WAS DEFINITELY AN
11 ISSUE THAT THE PLASTICS INDUSTRY HAD TO DEAL WITH. THAT
12 THE BIG PLAYERS IN THE PLASTICS INDUSTRY WERE TALKING
13 ABOUT. BUT DOING VERY LITTLE.

14 WE THEN HAD TO TAKE THE APPROACH OF IS THIS
15 A BUSINESS AND WE WANT TO BE IN IT AS BUSINESS PEOPLE?
16 DID IT PAY? THE SOURCING PROBLEMS. WE KEPT HEARING
17 THINGS THAT THERE WERE NO SOURCE MATERIALS. WE FOUND IT
18 WAS A CATCH 22. IT WAS A MATTER OF THE WASTE COMPANIES
19 SAYING. "WE'RE NOT GOING TO COLLECT IT BECAUSE THERE'S NO
20 MARKET." AND THE LARGE PLAYERS IN THE PLASTICS INDUSTRY
21 SAYING. "WE'RE NOT GETTING INTO THE MARKET BECAUSE
22 THERE'S NO SUPPLY."

23 WE SAT DOWN WITH ALL THE INDIVIDUALS. GOT
24 THEIR SUPPORT. BASICALLY REACHED INTO OUR POCKET TO MAKE
25 THE INITIAL INVESTMENT WITH THE ASSUMPTION THAT WE WOULD



1 PROBABLY ONLY GET 50 PERCENT FINANCING ON OUR FIRST LINE.
2 MOVING TO 70 PERCENT FINANCING ON THE SECOND LINE.

3 WE MADE THE INVESTMENT. WHAT WE SOON FOUND
4 WAS THAT WE WOULD GET NO ASSISTANCE FROM BANKS. OUR
5 COMPANY CURRENTLY HAS \$4 MILLION OF INVESTMENT ALL OUT OF
6 THE POCKETS OF THE INVESTORS. THERE'S NO FEDERAL. STATE.
7 LOCAL. OR INDUSTRY DOLLARS CONTRIBUTED. NO FEDERAL.
8 STATE. LOCAL. OR INDUSTRY GUARANTEES. BASICALLY. A PAT
9 ON THE BACK AND YOU ARE DOING A GOOD JOB, AND ONCE IN A
10 WHILE A KICK IN THE TEETH.

11 AND WE ASKED OURSELVES -- WHERE PEOPLE HAVE
12 ASKED US ACTUALLY SINCE. "WELL. WHAT ABOUT RECYCLED
13 CONTENT LEGISLATION? WHAT ABOUT TAX CREDITS? WHAT ABOUT
14 BOND FINANCING?" IF YOU WANT -- I GUESS I HAVE NOTHING
15 TO LOSE BY BEING VERY BLUNT. SO I GUESS MY INITIAL GUT
16 KNEE JERK REACTION IS IT'S ALL WINDOW DRESSING. AND IT
17 REALLY ISN'T DEALING WITH THE DETAILS THAT NEED TO BE
18 ADDRESSED WITH. THAT OFTEN WE SEE VERY ATTRACTIVE TITLES
19 ON THINGS: BUT WHEN YOU GET DOWN TO THE FINE PRINT. IT
20 REALLY DOES VERY LITTLE.

21 AS BASICALLY A BUSINESSMAN WHO GIVES A DAMN
22 ABOUT THE ENVIRONMENT. I'M WILLING TO TAKE TREMENDOUS
23 RISKS. PERSONAL FINANCIAL RISKS. BUT WE'VE GOT TO LOOK AT
24 THE LOGIC OF IT.

25 WE WERE COMMITTED TO PUTTING IN THE FIRST



1 LINE NO MATTER WHAT. WE FELT SOMEONE HAD TO DO IT IN THE
2 PLASTICS INDUSTRY. AND WE WERE GOING TO DO IT. OUR
3 PREVIOUS EXPERIENCE WITH HEIMLEY WAS TO GROW A BUSINESS
4 OVER A TEN-YEAR PERIOD VERY SLOWLY.

5 RECYCLING IS AN INDUSTRY THAT IS BASICALLY
6 NEEDED NOW. IT'S NOT NEEDED OVER A SLOW TEN-YEAR PERIOD.
7 BUT WE NEED TO GET THE CAPACITY INTO RECYCLE BASICALLY TO
8 COMPLY AND HELP INDUSTRIES COMPLY WITH AB 939. AND THAT
9 ISN'T GOING TO HAPPEN WITHOUT SOME ACTION FROM GOVERNMENT
10 OR INDUSTRY.

11 MY BRIEF ONE-SENTENCE EDITORIAL ON RECYCLED
12 CONTENT LEGISLATION WAS BASICALLY THE LOOPHOLES PROVED TO
13 ELIMINATE THE MARKET DEVELOPMENT ASPECT OF RECYCLED
14 CONTENT. BASICALLY. INDUSTRY WAS MOVING TOWARDS SOURCE
15 REDUCTION. IN FACT. HEIMLEY. WHICH WAS THE COMPANY WE
16 FOUNDED. WAS MOVING THE INDUSTRY TOWARDS SOURCE
17 REDUCTION. BY PUTTING SOURCE REDUCTION LOOPHOLES IN
18 THERE. WHICH IS SOMETHING INDUSTRY WAS ALREADY DOING.
19 THEY BASICALLY SAID WE DON'T HAVE TO CHANGE ANYTHING.
20 OUR PLANS ARE ON COURSE AND NO NEED FOR RECYCLED CONTENT.

21 THE PROBLEM WITH THAT IS IT'S NOT GETTING
22 THE BULKY THINGS OUT OF THE LANDFILL. SO OFTEN A THIN
23 GAUGE PLASTIC BAG CAN BE A HOME FOR A BULKY MILK JUG. BUT
24 THAT'S AT THIS POINT BEING A BIT UNDERMINED.

25 TAX CREDITS. MY BLUNT OPINION ON THAT IS



1 YOU'VE GOT TO MAKE MONEY TO USE A TAX CREDIT. IF THERE'S
2 NO OTHER SUPPORT FOR INDUSTRIES LIKE OURS. WE WILL BE
3 CASH FLOW DRIVEN. WHEN YOU ARE CASH FLOW DRIVEN, YOU ARE
4 NOT TURNING A PROFIT. YOU'RE SENDING WORKERS HOME. IF
5 YOU CAN ONLY WORK FOUR DAYS, YOU'VE GOT ORDERS FOR FOUR
6 DAYS OF ORDERS. YOU WORK FOUR DAYS AND YOU SEND YOUR
7 WORKERS HOME.

8 WHAT MAKES THE MOST SENSE FROM A PROFIT AND
9 LOSS POINT OF VIEW IS YOU RUN SEVEN DAYS A WEEK, 24 HOURS
10 A DAY, AND YOU WILL TURN A PROFIT. BUT WHEN THE MONEY IS
11 COMING OUT OF YOUR POCKET, YOU DO WHAT CASH FLOW DICTATES
12 BECAUSE THAT'S THE REALITY OF IT. YOU'RE NOT ANSWERING
13 TO A BANK AND YOU'RE NOT ANSWERING TO ANYONE EXCEPT TO
14 YOURSELF AND YOUR FAMILY.

15 SO TAX CREDITS ARE GOOD IF THEY ARE PART OF
16 A PROGRAM WHICH INCENTIVIZES COMPANIES. TAX CREDITS
17 ALONE WILL NOT ENTICE. IN MY OPINION, BUSINESS PEOPLE TO
18 GET INTO A BUSINESS. IT'S EITHER GOT TO MAKE MONEY OR IT
19 DOESN'T.

20 AND THEN, REALLY, THE ISSUE OF TODAY BONDS,
21 AND WE WENT. IF YOU WILL, THROUGH THE WHOLE WRINGER. WE
22 WENT -- AFTER GOING TO THE BANKS AND SAYING, "WELL, THE
23 INDUSTRY IS TOO YOUNG. YOUR COMPANY THAT'S LESS THAN TWO
24 YEARS OLD. THE EQUIPMENT, WE DON'T KNOW WHETHER IT'S
25 STANDARD EQUIPMENT OR IT ISN'T STANDARD EQUIPMENT." WE



1 COULDN'T USE INVENTORY. AND PEOPLE LOOK AT BALED BOTTLES
2 AND THEY SAY. "WELL. THAT'S NOT WORTH ANYTHING FROM A
3 BANKING PERSPECTIVE." AND BASICALLY ENDED UP. THROUGH
4 THE SMALL BUSINESS ASSISTANCE FUND. AT THE CALIFORNIA
5 POLLUTION CONTROL FINANCING AUTHORITY.

6 WE WENT THROUGH THE VARIOUS DIFFERENT
7 THINGS. DEFINING WHETHER WE WERE A SOLID WASTE. WHETHER
8 IT SHOULD BE A SOLID WASTE ISSUE BOND. THE FACT THAT IF
9 A MATERIAL IS PUT AT CURBSIDE. IF A MILK JUG IS EVEN PUT
10 AT CURBSIDE. WHICH IS A NONREDEMPTION BOTTLE. THAT HAS A
11 VALUE. IN FACT. IN MANY CITIES YOU WILL FIND PEOPLE
12 COLLECTING THOSE AHEAD OF THE CITY COLLECTION TRUCKS.

13 IF IT'S ANYTHING THAT EVENTUALLY IS GOING
14 TO BE PAID FOR. IT'S GOT A VALUE. WE HAD THAT WHOLE
15 PROBLEM WITH HOW DO YOU DEFINE WASTE IN A VERY STRICT
16 DEFINITION OF WASTE.

17 SO THEN WE TRANSFERRED OVER TO THE SMALL
18 ISSUE APPROACH AND FIT INTO THE SMALL ISSUE APPROACH.
19 BUT IT REALLY CAME DOWN TO ONE BOTTOM-LINE ISSUE. AND
20 THAT WAS THE FACT THAT IN ALL THESE FINANCING CASES.
21 WHETHER IT BE A BANK OR THE BOND OR. I BELIEVE. EVEN IN
22 THE -- WHAT YOU DESCRIBED AS THE COPS OPTION. IT ASKS FOR
23 A LETTER OF CREDIT FOR THE FULL AMOUNT.

24 THEY'RE BASICALLY SAYING. "REACH INTO YOUR
25 POCKET. PUT THE MONEY IN THE BANK. AND WE'LL LEND IT BACK



1 TO YOU AT A REAL GOOD RATE. AND BY THE WAY, THE MONEY
2 YOU PUT IN THE BANK THAT WE'RE GOING TO LEND BACK TO YOU
3 AT A RATE, YOU CAN'T EARN INTEREST OVER THE AMOUNT OF THE
4 TAX-EXEMPT BECAUSE THAT WOULD BE ARBITRAGE.

5 YOU KNOW, IT REALLY IS A RIDICULOUS OPTION
6 FROM A BUSINESSMAN. THAT IS TO SAY, "WELL, IF THAT'S WHAT
7 YOU'RE ASKING US TO DO, WE MIGHT AS WELL JUST REACH IN
8 OUR POCKET AND PUT THE MONEY UP," WHICH IS WHAT WE'VE
9 DONE. WE'VE TO DATE PUT \$4 MILLION IN THE BUSINESS.

10 BUT WHEN YOU TALK ABOUT GROWING AN INDUSTRY
11 AND HELPING A STATE REACH ITS AB 939 GOALS, WE GET A BIT
12 LESS SYMPATHETIC TO THE STATE AND ITS GOALS WHEN WE DON'T
13 SEE REAL LIVE SOLUTIONS AS WAYS TO HELP US AS AN
14 INDUSTRY. AND HENCE, WE'LL MAKE OUR -- WE'LL TEND TO
15 MAKE OUR DECISIONS STRICTLY BASED AS BUSINESS DECISIONS,
16 WHICH MEANS THE INDUSTRY WILL GROW VERY SLOWLY, AND I
17 DON'T THINK THAT'S WHAT THE STATE WANTS.

18 WE CERTAINLY, IN GETTING INTO THIS
19 BUSINESS, DIDN'T SEE THE PUSH BY EVERYONE THAT THIS WOULD
20 BE SOMETHING THAT MIGHT HAPPEN IN THE YEAR 2010 OR 2020.
21 THAT THIS IS SOMETHING THAT THERE WAS A 25-PERCENT
22 DIVERSION RATE BY '95 AND 50 PERCENT BY THE YEAR 2000,
23 WHICH MEANS IT HAS TO HAPPEN NOW. AND THAT IS ONLY GOING
24 TO HAPPEN THROUGH SOME SOLUTIONS.

25 AND SO BASICALLY, AS I SEE IT, THE



1 SOLUTIONS ARE TWOFOLD. ONE. I SEE LOAN GUARANTEES
2 SECURED BY ASSETS. WE HAVE BANKS THAT WOULD BE WILLING
3 TO LEND TO US. BUT IT'S A MATTER OF PUT THE MONEY IN THE
4 BANK. IF THEY HAD A GUARANTEE, THAT MIGHT CHANGE THEIR
5 MIND. THE PROBLEM WITH THAT. ONCE AGAIN. IS HOW THE
6 STATE WILL LOOK AT IT.

7 BOTH PARTIES ARE CURRENTLY LOOKING TO US AS
8 THE PEOPLE WHO ALREADY PUT \$4 MILLION INTO THIS BUSINESS
9 TO ALSO BACK ANY LETTER OF CREDIT THROUGH FURTHER CASH
10 PUT IN AND ARE BASICALLY SAYING THE EQUIPMENT IS WORTH
11 NOTHING BECAUSE IT'S A NEW INDUSTRY.

12 AND HENCE. IF IT'S A NEW INDUSTRY. WE DON'T
13 KNOW. IT'S NOT AN INDUSTRY THAT'S BEEN AROUND FOR 20
14 YEARS AND THE EQUIPMENT COMMONLY IS SOLD AROUND.

15 SO IF SOMEHOW SOMETHING COULD BE SET UP IN
16 A LOW GUARANTEE SECURED BY ASSETS. AN EXAMPLE WOULD BE
17 THE FACT THAT WE HAVE RIGHT NOW AN UNENCUMBERED LINE.
18 WE'RE LOOKING AT A SECOND LINE. WE HAVE AN UNENCUMBERED
19 LINE. NO LOANS INTO US. BUT BASICALLY IT SITS THERE. AND
20 IT'S. ONCE AGAIN, THE PAT ON THE BACK. "GEE. YOU DID A
21 GOOD THING WITH LINE ONE. NOW WE NEED YOU TO DO IT WITH
22 LINE TWO."

23 THE SECOND IS BASICALLY AN OFFER OF
24 LONG-TERM CAPITAL FINANCING. WHICH WOULD BE SUBORDINATE
25 TO THE BANK AND BE SECURED BY ASSETS. ONCE AGAIN. THE



1 BANK IS ALWAYS CONCERNED ABOUT THAT THEY HAVE THE PRIMARY
2 SUBORDINATION.

3 ANOTHER INTERESTING NOTE. JUST AS WE'RE
4 GOING THROUGH THE BOND ISSUE. WHEN THEY WERE BRINGING UP
5 LETTER OF CREDITS. BANKS TODAY -- OUR EXPERIENCE IS THAT
6 BANKS TODAY REALLY AREN'T INTERESTED IN GIVING LETTERS OF
7 CREDIT. EARLY '80S THEY WERE INTERESTED BECAUSE IT WAS
8 OFF BALANCE SHEET. THESE DAYS EVERYONE -- IT'S A CREDIT
9 ENVIRONMENT. AND WHETHER IT'S A LETTER OF CREDIT OR A
10 LOAN. IT'S A CREDIT RISK ON THEIR PART. AND HENCE.
11 THEY'D MUCH PREFER TO LOAN THE MONEY THAN PUT UP A LETTER
12 OF CREDIT BECAUSE. AT LEAST. THEY CAN MAKE SOME MONEY OFF
13 OF IT.

14 I THINK THE EXAMPLE OF THIS SORT OF THING.
15 AS MUCH AS WHAT SCOTT USED AS AN EXAMPLE. THAT THE BANK
16 WOULD PUT A PERCENTAGE. A 50 TO 70 PERCENT STAKE. THE
17 STATE PUTS UP. LET'S SAY. A 30 PERCENT STAKE AND A
18 SHAREHOLDER A 20 PERCENT STAKE IS THE WAY I WOULD SEE IT.

19 THE BASIC PUSH. I GUESS. BEHIND RECYCLING.
20 AS I SEE IT AS WELL. IN TODAY'S POLITICAL ENVIRONMENT IS
21 THE FACT THAT WE ARE A JOB CREATING ENTITY WITHIN THE
22 STATE. AND OFTEN GET FRUSTRATED WHEN I WATCH THE SUNDAY
23 MORNING NEWS PROGRAMS AND I HEAR. "WELL. THE ENVIRONMENT
24 IS JUST A SIDE ISSUE. THE REAL ISSUE IS JOBS."

25 AND I GET VERY UPSET ABOUT THAT BECAUSE



1 WHAT PEOPLE DON'T REALIZE IS IT TAKES ONE PERSON TO DRIVE
2 A TRACTOR TO COVER UP A LANDFILL. IT TAKES A SMALL
3 NUMBER OF PEOPLE TO RUN AN INCINERATION PLANT. BUT WHEN
4 YOU'RE TALKING ABOUT RECYCLING, YOU'RE CREATING A HUGE
5 NUMBER OF LOCAL JOBS THAT REALLY SOLVE THE PROBLEM IN THE
6 SAME WAY ECONOMICALLY AND IS HELPING THE LOCAL ECONOMY.

7 WHAT OUR BUSINESS DOES IS IT TAKES THE ONE
8 JOB OF THE PERSON WHO'S COVERING UP THE LANDFILL WITH A
9 TRACTOR. AND IT TAKES THE FEW JOBS OF LARGE CHEMICAL
10 COMPANIES WHO ARE PULLING CRUDE OIL AND NATURAL GAS OUT
11 OF THE GROUND IN TEXAS. AND TURNS, LET'S SAY, THREE JOBS
12 INTO 16 JOBS. AND THOSE ARE 16 LOCAL JOBS. AND THAT'S
13 TAKING IT FROM THE PERSON WHO'S GOT TO COLLECT IT AT THE
14 CURBSIDE ALL THE WAY THROUGH THE PERSON WHO'S SELLING THE
15 DOWNSTREAM PRODUCT.

16 AND I GET VERY FRUSTRATED WHEN I HEAR THAT
17 THE ENVIRONMENT IS JUST A SIDE ISSUE BECAUSE IT REALLY
18 ISN'T. THE SMALL BUSINESS BACKED ENVIRONMENTAL BUSINESS
19 IN THE STATE OF CALIFORNIA, I BELIEVE, IS REALLY WHAT'S
20 GOING TO SAVE THIS STATE. I THINK BIG BUSINESSES ARE
21 CONTINUING TO MOVE AWAY FROM THE STATE.

22 MY OPINION OF THAT IS THEY REALLY WEREN'T.
23 FROM A GROWTH PERSPECTIVE, CREATING THAT MANY JOBS. I
24 THINK MOST PEOPLE WHO ARE FAMILIAR WITH THE STATE OF
25 CALIFORNIA. THE BULK OF THE JOBS WERE CREATED BY THE



1 SMALLER BUSINESSES. AND THIS IS A GROWTH INDUSTRY AND
2 COULD CREATE AN IMMENSE NUMBER OF JOBS.

3 IN FACT, THAT IS WHAT IS HAPPENING IN THE
4 ORIENT RIGHT NOW IS THAT JOBS ARE BEING CREATED. MUCH OF
5 CALIFORNIA'S MATERIAL GETS SHIPPED TO THE ORIENT, AND
6 THAT'S WHERE THE JOBS HAVE BEEN CREATED.

7 CHAIRMAN CHESBRO: YES, MR. RELIS.

8 BOARD MEMBER RELIS: FIRST, I WANT TO THANK YOU
9 FOR COMING. I THINK YOUR COMMENTS ARE EXTREMELY ON
10 TARGET FOR OUR CONCERNS. I GUESS I WOULD LIKE A LITTLE
11 MORE CLARIFICATION. YOU RAN THROUGH WHY THE CONTENT
12 DIDN'T WORK FOR YOU, AND I DIDN'T CATCH YOUR REASONING
13 THERE. COULD YOU JUST RUN THROUGH THAT AGAIN? IS THAT
14 THE WAY THE BILL WAS WRITTEN?

15 MR. KOPULSKY: YEAH. WHEN LEGISLATION WAS
16 WRITTEN AND IT WAS NEGOTIATED, IT HAD CERTAIN LOOPHOLES.
17 ONE OF THOSE BEING SOURCE REDUCTION. AND EVERYONE WAS SO
18 CAUGHT UP IN WE'RE PASSING A RECYCLED-CONTENT BILL, THAT
19 NO ONE BOTHERED TO LOOK AT THE WORDING.

20 WE, OF COURSE, AS THAT WAS BEING WRITTEN,
21 WE WERE SAYING, "WAIT A SECOND. THIS DOESN'T MAKE
22 SENSE." AN EXAMPLE WOULD BE YOU TAKE A DETERGENT BOTTLE.
23 OKAY. THERE'S SOMETHING IN THERE THAT SAYS IF YOU SOURCE
24 REDUCE A DETERGENT BOTTLE BY 10 PERCENT IN THICKNESS,
25 THAT YOU WILL THEN -- THIS IS SB 235 -- YOU WILL THEN



1 HAVE A WAY TO GET AROUND RECYCLED CONTENT.

2 IF YOU REDUCE THE WALL OF A DETERGENT
3 BOTTLE BY 10 PERCENT. IT DOESN'T CHANGE THE AMOUNT OF
4 SPACE THAT THAT BOTTLE TAKES IN THE LANDFILL ONE IOTA. I
5 MEAN IT'S THE WALL, BUT THE SPACE IS TAKEN BY THE OBJECT
6 AND THE AIR INSIDE THE OBJECT. I MEAN IT'S NOT THE WALL
7 THICKNESS OF THE BOTTLE. SO THEY CAN SOURCE REDUCE THE
8 WALL OF A BOTTLE. BUT IT'S NOT GOING TO CHANGE THE SPACE
9 THAT IT TAKES.

10 FURTHERMORE. SOURCE -- WE'VE SHOWN IN THE
11 FLEXIBLE INDUSTRY THAT SOURCE REDUCTION DOESN'T AFFECT
12 THE ABILITY TO PUT RECYCLED CONTENT IN AT ALL. THAT'S
13 WHERE I HAVE TO RUSH OFF TO RALEY'S SUPERMARKETS IN THE
14 SACRAMENTO AREA HAS SHOWN THAT THEY'VE GOT GROCERY SACKS
15 THAT ARE BASICALLY HALF MIL GROCERY SACKS WITH 30 PERCENT
16 CURBSIDE COLLECTED MATERIAL. AND THAT'S A VERY THIN
17 PRODUCT. MUCH THINNER THAN THE TRASH BAG REQUIREMENT,
18 WHICH IS NOT AS STRINGENT BECAUSE A TRASH BAG, WHILE IT
19 CARRIES MORE WEIGHT, IS MUCH BIGGER THAN A GROCERY SACK
20 THAT HAS PERHAPS A 20. 25 POUND DEMAND ON THE VERY SMALL
21 SACK.

22 BOARD MEMBER RELIS: ONE OTHER BRIEF QUESTION.
23 BECAUSE I KNOW YOU HAVE TO GO. WAS REGARDING THE DEMAND.
24 YOU HAVE SUFFICIENT DEMAND FOR WHAT YOU'RE PRODUCING NOW?
25 IS THAT A BIG CONCERN FOR YOU?



1 MR. KOPULSKY: IT CONTINUES TO BE A CONCERN.
2 MARKETS CONTINUE TO BE A BIG CONCERN BECAUSE WE KNOW
3 COLLECTION IS RAMPING UP. AND WE'RE -- KEEP IN MIND THE
4 ONLY THING WE HAVE TO ANSWER TO AT THIS POINT IS
5 OURSELVES IN TERMS OF FINANCING, ETC.. SO. YOU KNOW,
6 WE'RE TAKING THE APPROACH OF WE'LL TAKE IN WHAT WE CAN
7 SELL, BUT RECYCLING DOESN'T END UNTIL YOU SELL THAT
8 DOWNSTREAM PRODUCT. IF WE CAN'T SELL DOWNSTREAM
9 PRODUCTS, WE'RE NOT GOING TO GROW.

10 WE HAVE DEMAND. DEMAND THAT WE'VE GONE OUT
11 AND CREATED. NOT THROUGH LEGISLATION, BUT DEMAND THROUGH
12 COMPANIES THAT WANT TO BE VIEWED AS PROGRESSIVE IN THE
13 ENVIRONMENTAL AREA. AND WE'VE WORKED WITH THEM TO --

14 BOARD MEMBER RELIS: BUT WHAT YOU'RE SAYING IS
15 YOU HAVE ENOUGH -- THAT DEMAND IS SELF-GENERATED. BUT
16 IT'S NOT. IT SOUNDS LIKE. VERY ELASTIC AT THIS POINT.
17 YOU'RE NOT CREATING A GIANT MARKET.

18 MR. KOPULSKY: IT CHANGES MONTH TO MONTH. WE
19 HAD A HUGE PIECE -- YOU KNOW, I'LL GIVE YOU AN EXAMPLE.
20 SB 235. THE RIGID CONTAINER BILL PASSED. AND BEFORE THAT
21 PASSED. I WAS WARNING ALL THE LEGISLATORS. I SAID. "YOU
22 WATCH. WITHIN TWO MONTHS AFTER THIS BILL IS PASSED.
23 THEY'RE GOING TO STOP USING RECYCLED CONTENT BECAUSE
24 THEY'VE PUT IT OFF TILL '95." YOU KNOW. WE DON'T HAVE TO
25 WORRY ABOUT IT TOMORROW; IT'S A FEW YEARS OFF.



1 WHAT HAPPENED. NOT TWO MONTHS. BUT TWO
2 WEEKS AFTER SB 235 PASSED. THE BOTTLE MARKET WENT AWAY.

3 NOW. THERE COULD BE ALL SORTS OF REASONS
4 WHY THAT BOTTLE MARKET WENT AWAY. BUT THE FACT OF THE
5 MATTER IS THAT BOTTLE MARKET TURNED OFF OVERNIGHT AND
6 CAUSED OTHER RECYCLERS LIKE US IN OTHER PARTS OF THE
7 COUNTRY TO GO UNDER.

8 AND WE SURVIVED IT BECAUSE WE WERE ALREADY
9 WORKING ON OTHER MARKETPLACES OTHER THAN THE BOTTLE
10 MARKET. WE WERE WORKING ON BLOWN FILM MARKETPLACES FOR
11 BAGS. ETC. BUT THOSE PEOPLE WHO WERE DEPENDENT ON US. ON
12 THE LARGE BOTTLE COMPANIES. TO USE RECYCLED CONTENT GOT
13 HURT VERY BADLY.

14 THAT'S NOW -- ONCE AGAIN. THAT'S NOW COME
15 AROUND. THEY'RE NOW BACK UP USING HIGH RECYCLED CONTENT.
16 SO A LOT OF THAT IS THE YELLING AND THE SCREAMING OF.
17 HEY. YOU NEGOTIATED A DEAL BASED ON BEST FAITH EFFORTS TO
18 USE THE RECYCLED MATERIAL. AND WE HAD TO KIND OF POINT
19 OUT WHAT WAS GOING ON. AND IT'S BEING USED NOW.

20 BUT THERE'S AN EVER GROWING CONCERN. OUR
21 BIGGEST CONCERN. WHEN WE TALK WITH CITIES. IS WHEN THEY
22 CALL US. WE GET CALLS FROM SEATTLE. PORTLAND. THEY'RE
23 CALLING US SAYING. "WELL. YOU SEEM TO BE THE STABLE
24 MARKET. WE WANT TO SELL YOU MATERIAL." AND OUR FIRST
25 RESPONSE BACK TO THEM IS WHAT ARE YOU BUYING THAT'S



1 RECYCLED. AND WE GET NOTHING.

2 YOU KNOW, CITIES AREN'T BUYING TRASH BAGS
3 WITH RECYCLED CONTENT IN THEM. THEY'RE NOT BUYING
4 RECYCLED CURBSIDE COLLECTED CONTAINERS. MOST OF THOSE
5 CONTAINERS ARE MADE WITH WHAT I CALL POSTINDUSTRIAL OR
6 POSTCOMMERCIAL. NOT CURBSIDE COLLECTED MATERIAL. AND WE
7 COME ACROSS VERY MUCH AS PURISTS IN THIS. BUT IT SHOULD
8 BE POSTCONSUMER MATERIAL IF IT'S MAKING THAT CURBSIDE
9 BIN.

10 AND THAT'S. YOU KNOW. JUST A VERY PURIST
11 APPROACH ON OUR PART. EVEN MORE SO MANY TIMES THAN A LOT
12 OF THESE ENVIRONMENTAL GROUPS AND A LOT OF PEOPLE IN
13 INDUSTRY. BUT WE JUST FEEL THAT THAT'S REALLY WHAT IT'S
14 ALL ABOUT IS DIVERTING WHAT THE CONSUMER WOULD NORMALLY
15 SEND TO THE LANDFILL.

16 AND, YOU KNOW, WE CAN GET INTO THE WHOLE
17 WHAT IS RECYCLED AND DEFINITIONS AND THE ATTORNEY
18 GENERALS AND ALL OF THAT. BUT, YOU KNOW, WE'RE OUT THERE
19 TRYING TO GET PEOPLE TO BUY LEGITIMATE POSTCONSUMER
20 RECYCLED CONTENT. AND IT'S TOUGH WHEN WE'RE BATTLING
21 PEOPLE WHO ARE SELLING PLANT SCRAP AND OTHER THINGS AND
22 LABELING IT AS RECYCLED.

23 CHAIRMAN CHESBRO: OKAY. WELL, I'D LIKE TO
24 THANK YOU. IT'S PAST 11:15 HERE. SO I ASSUME YOU ARE ON
25 THE ROAD HERE. VERY USEFUL PRESENTATION. WE APPRECIATE



1 IT.

2 MR. RODDE HAD A COMMENT OR A QUESTION. IF
3 IT WAS A QUESTION. MAYBE YOU CAN GET IT OUT QUICKLY.

4 MR. RODDE: I'LL JUST -- NO. IT'S TWO COMMENTS.
5 FIRST. WITH REGARD TO THE SECOND PLANT THAT MIKE'S TRYING
6 TO FINANCE. I FELT A PERSONAL FRUSTRATION IN TRYING TO
7 BRING IN A LOCAL REVOLVING LOAN FUND ONLY TO HAVE A
8 PUBLIC LENDER COMPLAIN THAT THE FIRST LINE THAT WAS
9 AVAILABLE WAS INADEQUATE SECURITY FOR THE SECOND LINE.
10 THAT WAS A PUBLIC LOCAL LENDER MAKING THAT COMMENT.

11 SECONDLY. I POINT OUT THAT THE JOBS ARE
12 CLEARLY GOING TO TAIWAN BECAUSE THE FINANCING IS
13 AVAILABLE IN TAIWAN. IT'S VERY EASY TO FINANCE THE
14 ACQUISITION OF SECONDARY MATERIALS EXPORT FROM THE U.S.
15 BEING DONE ON EXPORT LETTERS OF CREDIT FROM TAIWANESE AND
16 KOREAN BANKS. AND THE BANKS IN TAIWAN, KOREA, AND
17 INDONESIA LOOK AT OUR POSTCONSUMER MATERIALS AS FEEDSTOCK
18 WHICH THEY ARE MORE THAN WILLING TO FINANCE. OUR
19 DOMESTIC LENDERS LOOK AT IT TOTALLY DIFFERENTLY.

20 BOARD MEMBER HUFF: DO ANY OF THOSE BANKS HAVE
21 BRANCHES HERE IN CALIFORNIA?

22 MR. RODDE: WE'RE WORKING ON IT.

23 CHAIRMAN CHESBRO: THANK YOU AGAIN.

24 I'D LIKE TO NOW ASK JIM SCIARONI OF CASCADE
25 FOREST PRODUCTS TO ADDRESS HIS SITUATION AND MAKE ANY



1 SUGGESTIONS.

2 MR. SCIARONI: OUR SITUATION IS A LITTLE
3 DIFFERENT THAN MIKE'S. WE'VE BEEN IN BUSINESS 14 YEARS
4 NOW IN ARCATA, CALIFORNIA. WE MANUFACTURE SOIL PRODUCTS
5 AND PRIMARILY PACKAGE IN SECONDARILY BULK FORMS. MEANING
6 IF YOU GO TO A NURSERY AND BUY A BAG OF POTTING SOIL,
7 SOIL CONDITIONER, DECORATIVE BARK, ORGANIC COMPOST,
8 THINGS OF THAT SORT.

9 IT'S NOT A LARGE INDUSTRY, BUT IT'S A MORE
10 TRADITIONAL INDUSTRY. WE'RE NOT CUTTING NEW GROUND. AT
11 LEAST, IN THE TRADITIONAL MARKETS THAT WE'RE IN RIGHT NOW
12 LIKE MIKE'S COMPANY IS.

13 WHERE WE'RE HEADED NOW, WHAT WE WANT TO
14 EXPAND INTO IS THE COMPOST MARKET IN THE STATE, WHICH IS
15 GOING TO BE A MAJOR COMPONENT OF 939. I THINK, BETWEEN
16 WOOD AND THE YARD WASTE. ON AN AVERAGE IN THE STATE,
17 IT'S BETWEEN 20 AND 25 PERCENT OF THE WASTESTREAM, SO
18 IT'S LITERALLY VIRTUALLY IMPOSSIBLE TO MEET THE AB 939
19 GUIDELINES WITHOUT CYCLING OUT THE BULK OF THE GREEN AND
20 WOODWASTE.

21 WE ARE BANKABLE. WE'VE BEEN IN BUSINESS
22 FOR 14 YEARS AND WORKED FOR A NUMBER OF YEARS. SO I COULD
23 HAD TO GO TO PRIVATE GUARANTEE SOURCES AND THINGS OF THAT
24 SORT. THE LAST NUMBER OF YEARS WE HAVE BEEN BANKABLE AND
25 WE CONTINUE TO BE, AND HAVE BEEN EXPANDING OUR CREDIT



1 EACH YEAR.

2 BUT TO ENTER THE RECYCLING MARKETS AND THE
3 KINDS OF DOLLARS THAT SOME OF THOSE PROJECTS WILL
4 REQUIRE. BASED ON WHERE WE ARE CURRENTLY WITH OUR EQUITY,
5 ETC., WHICH IS A NICE CHUNK. BUT IT'S NOT SUFFICIENT TO
6 DO THE KIND OF PROJECTS THAT WE WANT TO DO. THERE NEEDS
7 TO BE ANOTHER MARKET AVAILABLE. WHEN YOU LOOK AT THE
8 BANKS AND THEY WANT TO KNOW WHAT YOUR INCOME STREAM IS
9 GOING TO BE. UNLESS THE SPECIFIC CITY OR COUNTY WAS TO
10 GIVE US A GUARANTEE THAT WE WOULD HAVE X AMOUNT OF
11 REVENUE IN THE WASTESTREAM. THEY'RE GOING TO BE
12 RELUCTANT.

13 ALSO. THEY'RE GOING TO ASK US THE FIRST
14 QUESTION: WHAT ABOUT YOUR MARKETS, ETC. THERE'RE NOT
15 CURRENTLY WELL-ESTABLISHED MARKETS FOR GREEN WASTE. IT'S
16 RECYCLED FROM BINS OUT OF PEOPLE'S BACKYARDS.

17 SOMEBODY GOES AND BUYS REDWOOD SOIL
18 CONDITIONER. THEY WANT TO BUY REDWOOD SOIL CONDITIONER.
19 THEY'RE USED TO BUYING THAT. THEY BUY DECORATIVE FIR
20 BARK. THAT'S A PRODUCT THEY'RE USED TO BUYING. THEY
21 DON'T KNOW WHAT THIS NEW RECYCLED MUNICIPAL WASTE
22 PRODUCTS ARE.

23 SO WHAT I SEE IS TRADITIONALLY IN THE WASTE
24 BUSINESS. AND I DON'T CONSIDER MYSELF AN EXPERT IN WASTE
25 BUSINESS AS FAR AS GARBAGE IS CONCERNED. YOU HAVE THE



1 LARGE PLAYERS IN THE INDUSTRY. AND THEY'RE TRADITIONALLY
2 PLAYERS WHO. THEY'RE GOOD AT COLLECTING MATERIALS AND
3 STICKING THEM IN THE LANDFILL. AND NOW THEY'RE GETTING
4 BETTER AT COLLECTING THEM. SEPARATING TO SOME DEGREE. AND
5 THEN DISPERSING THOSE COMMODITIES. SUCH AS PAPER AND
6 CARDBOARD. INTO THE LARGE COMMODITY MARKETS.

7 WHAT WE'RE TALKING ABOUT NOW. FOR INSTANCE.
8 I'M JUST GOING TO SPEAK MORE SPECIFICALLY ABOUT THE
9 MARKET THAT I'M LOOKING AT. THE COMPOST MARKET. IT'S A
10 VERY SPECIALIZED MARKET. AS ARE SOME OF THE PLASTICS
11 MANUFACTURERS AND OTHER THINGS LIKE THAT. THEY'RE
12 MARKETS THAT THE LARGE PLAYERS. LIKE THE WASTE
13 MANAGEMENTS AND BFI'S OF THE WORLD. AREN'T INTEGRATED
14 INTO CURRENTLY AND MAY NOT BECOME INTEGRATED INTO IN THE
15 LONG RUN.

16 THEY'RE VERY SPECIALIZED MARKETS THAT TAKE
17 SPECIALIZED MARKETING SKILLS. PEOPLE LIKE MYSELF. AND
18 THERE'S A NUMBER OF PEOPLE LIKE MYSELF IN THE STATE.
19 ALREADY HAVE ESTABLISHED MARKETS FOR PRODUCTS. WE'RE IN
20 A POSITION WHERE WE CAN CONVERT OVER UNKNOWN MATERIALS
21 CURRENTLY IN THE MARKETPLACE INTO THOSE PRODUCTS. I'M
22 WILLING TO TAKE THOSE RISKS.

23 WE CAN DO IT CHEAPER. FOR INSTANCE. IN MY
24 COUNTY OF HUMBOLDT. I'M CLEAR THAT BETWEEN THE ADDITIONAL
25 FEES THAT THE GARBAGE COMPANY. THE HAULER. WOULD HAVE TO



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1 CHARGE TO HAVE SOURCE SEPARATION OR SHOULD SAY
2 SEPARATION. SAY. FOR INSTANCE. SEPARATE 60-GALLON
3 CONTAINERS PICKED UP AT CURBSIDE FROM PEOPLE THAT HAVE
4 JUST GREEN WASTE.

5 BETWEEN THE FEE THEY WOULD HAVE TO CHARGE
6 FOR THAT ADDITIONALLY AND WHAT I WOULD PROBABLY CHARGE TO
7 DO THE COMPOSTING, MARKETING, ETC., ETC., I BELIEVE WE
8 CAN DO THAT WITHIN THE CURRENT RATE STRUCTURE. THAT'S A
9 WHOLE POINT THAT HASN'T BEEN BROUGHT UP HERE YET IS THAT
10 I KNOW, AS A TAXPAYER, AM JUST ABOUT ON THE EDGE OF TAX
11 REVOLT, AND PROBABLY MOST OF US IN THE ROOM ARE, AND I'M
12 TIRED OF MY TAXES GOING UP.

13 AND AB 939, NOW, IS GOING TO CAUSE SOME
14 PRETTY SUBSTANTIAL RATE INCREASES IN CERTAIN RESPECTS.
15 I'M ASSUMING. ANYWHERE THAT WE CAN CREATE A STRUCTURE
16 VIA USING ESTABLISHED MARKETING STRUCTURES AND COMPANIES
17 THAT ARE IN THOSE INDUSTRIES ALREADY AND KEEP THOSE COSTS
18 DOWN, VIS-A-VIS, MAYBE A MAJOR HAULER GOING TO BID ON THE
19 SAME PROJECT, IF HE'S THE ONLY PLAYER THAT HAS THE
20 FINANCING, HE'S GOING TO CHARGE TWO OR THREE TIMES THAT
21 RATE BECAUSE HE'S NOT CERTAIN ABOUT THE MARKET. HE'S NOT
22 CERTAIN ABOUT THE TECHNOLOGY, THE PROCESSING, HE HASN'T
23 DONE IT BEFORE. HIS LABOR COSTS ARE HIGHER AND THINGS OF
24 THAT SORT.

25 I THINK THAT THE COSTS THAT ARE GOING TO BE



1 PASSED ON TO THE TAXPAYER. IF THERE'S NOT SUFFICIENT
2 FINANCING FOR SECONDARY PLAYERS LIKE MYSELF, WHO DON'T
3 HAVE THE BILLIONS OF DOLLARS OF CAPITAL BEHIND THEM, IS
4 GOING TO COST THE RATEPAYERS A SUBSTANTIAL AMOUNT OF
5 MONEY.

6 MARKETS AREN'T GOING TO BE DEVELOPED AS
7 QUICKLY. THERE MAY NOT BE SUFFICIENT MARKETS DEVELOPED.
8 AND A LOT OF MATERIAL AFTER IT'S COMPOSTED WILL END UP
9 GOING BACK TO THE LANDFILL BECAUSE WE'RE TALKING ABOUT
10 MILLIONS OF TONS OF MATERIALS NOW COMING TO THE MARKET.
11 AND THERE'S GOING TO BE NEEDED SOME VERY CREATIVE
12 MARKETING.

13 SO -- ALSO, FOR THE PEOPLE LIKE MYSELF,
14 THERE'S LOTS OF CONCERNS THAT ARE COMING ON BOARD NOW.
15 THE HEALTH DEPARTMENT, HOW AND WHERE WE CAN DO THIS.
16 DOES IT HAVE TO BE INSIDE A BUILDING WHICH BRINGS
17 ADDITIONAL COSTS, AND ARE THE MATERIALS SEPARATED
18 CORRECTLY WHERE THEY'RE NOT GOING TO BE CONTAMINATED TO
19 BEGIN WITH AND THINGS OF THAT SORT.

20 SO I THINK IT'S CRITICAL THAT YOU GET
21 PLAYERS LIKE MYSELF, AND I DON'T GUESS THERE'S MANY OF
22 US, INTO THIS MARKET. AND IF WE ARE NOT FINANCED
23 APPROPRIATELY, THERE'S NO WAY WE CAN ENTER IT, AND YOU'RE
24 BASICALLY LEFT WITH ALMOST NO ONE OR MAJOR GARBAGE
25 PLAYERS WHO DON'T HAVE A CLUE ABOUT HOW TO MARKET



1 COMPOSTING THINGS OF THAT SORT.

2 SO WITHOUT SOME SORT OF FINANCING
3 ASSISTANCE. I DON'T SEE HOW WE CAN PLAY IN THAT ARENA.
4 OR IF THERE ARE PLAYERS TO PLAY IN IT. THEY'RE NOT GOING
5 TO BE PLAYERS. MOST LIKELY, WHO HAVE HAD THE BACKGROUND
6 AND EXPERIENCE TO BE ABLE TO DO IT EFFECTIVELY AND
7 EFFICIENTLY.

8 AND THEN THE MORE PLAYERS YOU HAVE AT THE
9 SAME TIME. THEN YOU KEEP YOUR COST OF RATEPAYERS'
10 OUT-OF-POCKET EXPENSE DOWN TOO. I THINK THAT'S GOING TO
11 BECOME A CRITICAL MEASURE.

12 RIGHT NOW IN HUMBOLDT COUNTY THERE'S BEEN
13 SOME MANDATED RATE INCREASES FROM THE WASTE BOARD PASSED
14 ON TO THE GARBAGE COMPANY. AND THE SUPERVISORS HAVE
15 DENIED THEM THAT RATE INCREASE JUST BECAUSE THEY'RE
16 THROWING THEIR HANDS UP AND SAYING. "I DON'T THINK THE
17 RATEPAYERS WANT TO PAY IT ANYMORE." SO I THINK IT'S
18 GOING TO BE REALLY CRITICAL.

19 AND THE MORE THAT WE DEVELOP MARKETS FOR
20 THESE PRODUCTS. WE MAY ACTUALLY GET TO THE POINT WHERE
21 RATES CAN COME DOWN IN TEN YEARS BECAUSE PLASTIC GETS TO
22 BE VALUABLE ENOUGH. PAPER GETS TO BE VALUABLE ENOUGH. AND
23 WE'RE PROCESSING IN OUR OWN STATE.

24 I STRONGLY AGREE WITH MIKE AS FAR AS THE
25 JOB CREATION. I KNOW WE'VE GOT ABOUT 35 EMPLOYEES. AND



1 THERE COULD BE MANY, MANY ENTITIES LIKE I HAVE ALL OVER
2 THE STATE, TENS AND HUNDREDS OF THEM CREATING JOBS IN
3 THIS STATE INSTEAD OF SENDING MATERIALS OVERSEAS.

4 CHAIRMAN CHESBRO: THANK YOU. I HAVE A QUESTION
5 FOR YOU THAT RELATES TO THE CONCERNS THAT SCOTT AND MIKE
6 HAVE BROUGHT UP RELATIVE TO THE PROBLEM OF THE
7 INDUSTRY -- SOME OTHER INDUSTRIES BESIDES COMPOSTING, THE
8 EQUIPMENT -- THE BANKS VIEWING THE EQUIPMENT AS SINGLE
9 PURPOSE AND THE PROPERTY, IF IT'S IMPROVED FOR THAT
10 PARTICULAR INDUSTRY, NOT HAVING A BROAD ENOUGH
11 APPLICATION TO MAKE THE BANKS SATISFIED THAT IT'S
12 ADEQUATE SECURITY FOR -- IF THE BUSINESS DOESN'T SUCCEED,
13 THAT THEY COULD GET THEIR MONEY BACK.

14 YOUR BUSINESS IS A LITTLE BIT MORE LIKE
15 OTHER TYPES OF SOIL AMENDMENT INDUSTRIES THAT YOU'VE
16 ALREADY BEEN IN THE BUSINESS OF BEFORE YOU STARTED
17 GETTING INTERESTED IN YARD WASTE RECYCLING AND
18 COMPOSTING.

19 DOES COMPOSTING FACE THE SAME PROBLEM, OR
20 IS IT MORE SIMILAR TO EXISTING INDUSTRIES SO THAT THE
21 BANKS WOULD BE LESS FEARFUL?

22 MR. SCIARONI: AT THE MOMENT FOR WHAT WE DO
23 CURRENTLY, WE USE FRONT-END LOADERS AND FORKLIFTS. NOW
24 WE'RE GETTING INTO MORE SPECIALIZED EQUIPMENT LIKE
25 AUTOMATIC PALLETIZING MACHINES AND THINGS LIKE THAT WHERE



1 THERE'S NOT LARGE MARKETS FOR. BUT THERE ARE MARKETS FOR
2 THEM. SO CONVEYORS. FEED BINS. GRINDING EQUIPMENT.
3 THINGS OF THAT SORT.

4 SO UP TO THIS POINT THIS EQUIPMENT WE'VE
5 BEEN UTILIZING IS MORE TRADITIONAL. AND THE BANKS WILL
6 USE IT AS COLLATERAL OR WILL TAKE IT AS COLLATERAL.

7 WHEN YOU START GETTING INTO COMPOSTING.
8 TURNERS. AND THINGS OF THAT SORT. NOW IT'S STARTING TO
9 GET INTO THE MORE SPECIALIZED EQUIPMENT. AND I BELIEVE
10 IN THIS CASE THAT THERE WILL BE SOME FINANCING AVAILABLE
11 FOR THAT STUFF. BUT AT THE SAME TIME THEY'RE NOT GOING TO
12 FINANCE YOU WITH EQUIPMENT THAT THEY THINK THEY'RE GOING
13 TO HAVE TO TAKE BACK IF THEY'RE NOT WELL CONVINCED THAT
14 YOU'RE GOING TO BE ABLE TO MAKE IT FLY AND HAVE THE CASH
15 FLOW TO PAY EVERYTHING OFF. THEY DON'T WANT THAT.

16 CHAIRMAN CHESBRO: SO IT'S A POTENTIAL PROBLEM.
17 BUT YOU'RE SAYING THAT IT'S NOT AS GREAT A PROBLEM IN --

18 MR. SCIARONI: I DON'T THINK IT'S AS GREAT A
19 PROBLEM AS MIKE'S. AND I CAN FINANCE THE EQUIPMENT I USE
20 NOW. AND MOST OF WHAT I USE NOW WILL BE SIMILAR TO WHAT
21 I'LL USE LATER.

22 THEN. AGAIN. WE TALKED ABOUT -- STARTING TO
23 TALK ABOUT LAND IMPROVEMENTS. SUCH AS CONTAINERIZATION
24 AND CONCRETE WALLS BECAUSE OF HEALTH STANDARD
25 CONSIDERATIONS AND THINGS OF THAT SORT. THAT'S A WHOLE



1 DIFFERENT BALL GAME. WHO CARES IF THEY GET A PROPERTY
2 WITH 50 ACRES WITH A BUNCH OF CONCRETE WALLS ON IT? HOW
3 MANY PEOPLE CAN USE THAT? SO IN THAT RESPECT, YOU'RE
4 RIGHT.

5 CHAIRMAN CHESBRO: SCOTT HAS A QUESTION.

6 MR. RODDE: JIM, IN YOUR EQUIPMENT FINANCING,
7 WOULD THAT BE THREE- TO FIVE-YEAR FINANCING OR WOULD THAT
8 BE --

9 MR. SCIARONI: FIVE-YEAR CURRENTLY. SO LONGER
10 FINANCING WOULD BE GREAT TOO BECAUSE THAT -- YOU KNOW.
11 RIGHT NOW I'M -- I ALWAYS SEEM TO BE FACED WITH A
12 SITUATION, REGARDLESS OF WHAT I MAKE. I SPEND AT LEAST
13 THAT MUCH. LAST YEAR I SPENT MORE THAN I MADE. AND I'M
14 ALWAYS TRYING TO GROW AND EXPAND. SO EVERY DOLLAR THAT
15 I'M NOT PAYING OUT TO THE BANK BECAUSE I'VE GOT A SHORTER
16 PAYOFF IS MORE MONEY THAT I HAVE TO REINVEST IN MORE
17 EQUIPMENT AND EXPAND MY EMPLOYEE BASE. ETC., ETC.

18 I'M SEEING THAT RIGHT NOW JUST IN MY
19 TRADITIONAL BUSINESS TOO.

20 CHAIRMAN CHESBRO: ANY QUESTIONS FROM COMMITTEE
21 MEMBERS? THANK YOU FOR YOUR PARTICIPATION TODAY.

22 NEXT, WE'RE GOING TO HEAR FROM JOHN
23 RICHARDSON OF REPROCELL, WHO, AS I MENTIONED EARLIER, I
24 DID HAVE THE OPPORTUNITY, ALONG WITH MY FELLOW BOARD
25 MEMBER, MR. RELIS, TO SEE WHAT THEY'RE DOING DOWN IN LOS



1 ANGELES. AND WE WERE QUITE EXCITED ABOUT THE PROSPECTS
2 OF WHAT COULD BE DONE. AND WE ARE PLEASED TO HAVE MR.
3 RICHARDSON WITH US TODAY.

4 MR. RICHARDSON: THANK YOU. I'D LIKE TO START
5 OFF GIVING YOU A BRIEF HISTORY OF THREE ENTITIES THAT
6 REALLY CAME TO BE AN ORGANIZATION THAT IS GEARED IN
7 RECYCLING.

8 THE THREE OPERATING ENTITIES COMPRISE THE
9 COMPOSITE OPERATION OF WASTE COLLECTION AND PROCESSING
10 AND SALE AND DISPOSAL.

11 OUR CROWN DISPOSAL COMPANY. OUR RUBBISH
12 COLLECTION AND DISPOSAL. COMMUNITY RECYCLING AND RESOURCE
13 RECOVERY, WHICH IS THE TRANSFER STATION. WASTE PROCESSING
14 AND RECYCLING CENTER. AS WELL AS COMMUNITY RECYCLING
15 PROGRAMS AND SALE OF RECYCLED PRODUCTS.

16 AND, THIRDLY. THE REPROCELL. WHICH WAS THE
17 ORIGINAL DIVISION OF COMMUNITY. AND NOW REPROCELL PULP
18 AND PAPER IS THE MANUFACTURER OF VARIOUS PAPER AND MARKET
19 PULP PRODUCTS.

20 CROWN DISPOSAL WAS FOUNDED IN 1960. ONE
21 TRUCK. OWNER-OPERATOR BUSINESS. IT HAS GROWN TO BECOME
22 THE LARGEST PRIVATELY HELD REFUSE HANDLING FIRM IN THE
23 SAN FERNANDO VALLEY.

24 WE ARE CONTINUING PROGRAMS OF ROUTE
25 EXPANSION: AND THROUGH ACQUISITIONS. CROWN HAS ENJOYED A



1 REMARKABLE INCREASE IN SALES YEAR AFTER YEAR. CROWN
2 CURRENTLY OPERATES OVER 50 ROUTE TRUCKS FROM ITS SUN
3 VALLEY FACILITY.

4 CROWN DISPOSAL, BECAUSE OF THE EQUIPMENT IT
5 MAINLY USES, IS TYPICAL TRUCKS AND TRAILERS AND VARIOUS
6 PIECES OF COMPACTION EQUIPMENT THAT ARE STANDARD IN THE
7 INDUSTRY. CAN AND HAS USED TYPICAL EQUIPMENT FINANCING
8 PROGRAMS VERY SIMILAR TO JIM.

9 DURING THE EARLY YEARS, COST OF DISPOSAL,
10 THAT WAS A MINOR FACTOR IN OVERALL COST OF OPERATION;
11 HOWEVER, IT BECAME EVIDENT THAT THE CLOSE-IN LANDFILL
12 DUMPS WOULD EVENTUALLY FILL UP, REQUIRING LONGER TRIPS TO
13 OUTLYING DUMP SITES, AND THAT THE DISPOSAL BURDEN WOULD
14 GROW ON THE OUTLYING DUMP SITES UNDER INCREASING PRESSURE
15 TO ACCEPT GROWING VOLUMES OF METROPOLITAN AREA RUBBISH.

16 THE PROSPECT OF THIS ADDED TRANSPORTATION
17 AND INCREASED DUMP FEES LED US TO EMBARK ON CONSTRUCTION
18 OF A TRANSFER STATION BACK IN 1973. THAT BECAME
19 COMMUNITY RECYCLING AND RESOURCE RECOVERY INCORPORATED.
20 ORIGINALLY IT WAS KNOWN AS DEGARMO STREET DUMP INC.

21 AS WAS ONE OF THE EARLIEST SUCH FACILITIES.
22 TRANSFER STATION. I GUESS, CRRR PROVIDED THE MEANS FOR
23 CONSOLIDATION OF COLLECTION TRUCKLOADS INTO HIGH VOLUME
24 TRANSFER TRAILERS FOR TRANSPORTING RUBBISH TO OUTLYING
25 LANDFILLS. IT ALSO SERVES AS A PUBLIC COMMUNITY DUMP



1 SITE AND RECYCLING CENTER. CRRR BECAME THEIR EARLY
2 PROVING GROUND FOR A NUMBER OF RECYCLING EFFORTS. THE
3 SCRAP VALUES AS THE MOTIVATION. VARIOUS MANUAL AND
4 SEMIMECHANIZED ATTEMPTS WERE UNDERTAKEN TO LINE THE
5 WASTESTREAM.

6 AS MARKET PRICES SOFTENED, RECYCLING
7 EFFORTS WANED. WHEN PRICES WERE HIGH, THE EFFORTS WERE
8 GIVEN ATTENTION. THAT, BY IN LARGE, DESCRIBES RECYCLING
9 ACTIVITIES GENERALLY IN THIS COUNTRY UP UNTIL THE LAST
10 FEW YEARS.

11 IT BECAME OBVIOUS TO US IN THE LATE 1970S
12 THAT THE SMALL INDEPENDENT OPERATIONS WERE GOING TO BE
13 FACED WITH INCREASING OPERATING PRESSURES. TO SURVIVE
14 REQUIRED TAKING POSITIVE STEPS TO EXPAND. TO IMPLEMENT
15 SOME COMPETITIVE ADVANTAGE. AND TO FIND SOME WAYS TO
16 MINIMIZE DISPOSAL COSTS.

17 IN 1980, CRRR EMBARKED ON AN EXTENSIVE AND
18 UNIQUE MECHANIZED SORTING SYSTEM PROJECT. IT WAS TWO
19 YEARS IN CONSTRUCTION AND SHAKEDOWN. THIS
20 SEVEN-AND-A-HALF-MILLION-DOLLAR SYSTEM, ORIGINALLY
21 DESIGNED TO PROCESS 600 TONS PER DAY, HAS BEEN PROCESSING
22 UP TO 1400 TONS PER DAY OF TRASH, RECOVERING ALUMINUM
23 CANS, VARIOUS METALS, OCC OR CORRUGATED CONTAINERS,
24 NEWSPAPER, PLASTIC BOTTLES, AND LARGE VOLUMES OF MIXED
25 PAPER.



1 THE SYSTEM HAS NOW BEEN OPERATING
2 CONTINUOUSLY FOR TEN YEARS AND HAS PROCESSED OVER A
3 MILLION AND A HALF TONS OF REFUSE AND RECOVERED IN EXCESS
4 OF 200,000 TONS OF RECYCLED COMMODITIES.

5 THIS FACILITY WAS ORIGINALLY FINANCED USING
6 A CBCFA BOND ISSUE, WHICH WAS GUARANTEED UNDER THE SBA
7 PROGRAM. WE INITIALLY TRIED TO FINANCE IT THROUGH THE
8 NORMAL -- INITIALLY THROUGH TYPICAL BANK FINANCING, AND
9 DUE TO ITS NEW TECHNOLOGY, NEW AND UNCERTAIN TECHNOLOGY,
10 DUE TO THE UNSTABILITY OF THE MARKETPLACE WHERE WE'RE
11 SELLING THE PRODUCTS TO, IT JUST WAS NOT FINANCIBLE
12 THROUGH NORMAL BANK MEANS.

13 WE THEN APPROACHED -- HEARD ABOUT AND
14 APPROACHED THE CBCFA, AND THEY DISCUSSED THEIR BANK
15 GUARANTEE OR LETTER OF CREDIT PROGRAM. UNFORTUNATELY,
16 THE BANKS LOOKED AT THAT AS AN OBLIGATION TO THEM, AND
17 THAT THEY WERE, IN EFFECT, IT WAS GOING TO BE A FULLY
18 GUARANTEED BY THEM.

19 SO ONCE AGAIN, THEY SAID, "WELL, IF WE
20 WON'T FINANCE IT, WE WON'T MAKE YOU A LOAN, THEN WE'RE
21 NOT GOING TO GIVE YOU A LETTER OF CREDIT FOR IT."

22 IT WAS ONLY THROUGH THE SBA GUARANTEE
23 PROGRAM THAT WE WERE ABLE TO QUALIFY FOR THIS PROGRAM,
24 AND THAT ENABLED US TO RECOVER -- TO PROCESS AND THEN
25 RECOVER THE LEVELS OF WASTE THAT WE HAVE TO DATE.



1 MR. RODDE: JOHN. DOES THAT PROGRAM STILL EXIST?

2 MR. RICHARDSON: NO. IT DOESN'T. AT THIS POINT
3 IN TIME. WE NO LONGER WOULD QUALIFY. WE'RE JUST OUTSIDE
4 THE AREA.

5 OF COURSE. IN EFFECT. A RECYCLING PLAN
6 INCLUDES A CUSTOMER BASE PROPERLY MATCHED TO RECOVERY
7 RATES. UNFORTUNATELY. IN THE SWINGS OF MARKET DYNAMICS.
8 THE VALUE OF SOME AS-RECOVERED COMMODITIES OCCASIONALLY
9 DROP TO NEGATIVE. AS WE'RE SEEING WITH SOME OF THE MIXED
10 PAPER AND NEWSPAPER ON THE EAST COAST.

11 WITHOUT FURTHER PROFITING FOR MARKET
12 ACCEPTABILITY. MIXED WASTEPAPER. FOR INSTANCE. OFTEN
13 FOUND NO MARKET. MIXED WASTEPAPER PORTION OF RECOVERED
14 WASTE AMOUNTED TO 20 PERCENT OF THE TOTAL WEIGHT BEING
15 PROCESSED AND RECOGNIZED AS A SIGNIFICANT NEW OPPORTUNITY
16 IF IT COULD BE FURTHER PROCESSED TO REMOVE CONTAMINANTS.
17 WHICH RENDER IT UNPROCESSABLE BY EXISTING RECYCLED PAPER
18 MILLS.

19 IN A QUEST TO PERFORM THIS LEVEL OF WASTE
20 RECOVERY AND THEREBY BECOME A PRODUCER OF A HIGHLY
21 REFINED MARKET COMMODITY. A NEW LEVEL OF INTENSITY IN
22 PAPER STOCK PREPARATION WAS DEVELOPED IN A NEW PLANT. A
23 FIBER REFINERY WAS BUILT. THIS WAS THE REPROCELL
24 FACILITY. WE EMBARKED UPON THAT IN 1986.

25 ONCE AGAIN. IT WAS NEW TECHNOLOGY. IT WAS



1 UTILIZING A FEEDSTOCK THAT HAD NO VALUE. IT WAS
2 PRODUCING A NEW PRODUCT THAT REALLY WAS UNKNOWN IN
3 TYPICAL PAPER MILL OPERATIONS. BUT WE WERE ABLE TO SECURE
4 SOME CONTRACTS WITH SEVERAL PAPER MILLS IN THE AREA. AND
5 THAT ALLOWED US TO GET SOME BANK FINANCING OR EQUIPMENT
6 FINANCING TO. AT LEAST. FINANCE UP TO 50 PERCENT OF THE
7 COST OF THIS VENTURE THROUGH EQUIPMENT FINANCE LINES.
8 THE OTHER 50 PERCENT ENDED UP FINANCING THROUGH INTERNAL
9 FUNDS.

10 THIS FACILITY. WHICH WAS APPROXIMATELY A \$6
11 MILLION INVESTMENT WE STARTED ON IN 1986. HAS BEEN
12 UPGRADED IN CAPACITY. QUALITY. AND EFFICIENCY ON AN
13 ONGOING BASIS. IN OTHER WORDS. WE'VE MORE MONEY BACK
14 INTO IT. ONCE AGAIN. FROM INTERNAL FUNDS. WE'VE PUT AN
15 ADDITIONAL -- APPROXIMATELY \$2 MILLION UPGRADES INTO THE
16 FACILITY.

17 IT IS NOW CAPABLE OF PRODUCING AT THE RATE
18 OF 12 TONS PER HOUR. AND IT PRODUCES A MARKET PULP WHICH
19 IS UTILIZED IN PRODUCING DIFFERENT OR VARIOUS PAPER
20 GRADES. MOST OF THOSE ARE USED IN PACKAGING PRODUCTS.
21 I.E.. A CORRUGATING MEDIUM OR LINER BOARD. GYPSUM PAPER
22 FOR WALLBOARD. CHIPBOARD. AND BOX BOARD GRADES. HOWEVER.
23 THE PAPER MILLS UTILIZING OUR PULP PRODUCTS WOULD NOT OR
24 COULD NOT CONSUME THE AMOUNT OF PULP CAPABLE OF BEING
25 PRODUCED IN OUR LOCAL AREA.



1 BEING PRUDENT BUSINESS -- THE PAPER MILLS.
2 THAT IS, BEING PRUDENT BUSINESS PEOPLE, DID NOT WANT TO
3 TIE UP A TREMENDOUS AMOUNT OF THEIR INCOMING STREAM OF
4 MATERIAL INTO JUST ONE SUPPLIER. THEY PROPOSED THEY
5 WOULD RATHER HAVE NUMEROUS SUPPLIERS BRINGING THE
6 MATERIAL IN. THAT WAY THEY WOULDN'T BE DEPENDENT ON ANY
7 ONE INDIVIDUAL.

8 HOWEVER, THAT DIDN'T SERVE OUR GOAL. WE
9 HAD ADDITIONAL AMOUNTS OF MATERIAL THAT WE NEEDED TO --
10 THAT WE FELT WE WERE MANDATED TO RECYCLE AND RECOVER.
11 AND THIS NECESSITATED THE EXPANSION OF THIS THIRD ENTITY,
12 OF THE REPROCELL, TO BECOME REPROCELL PULP AND PAPER
13 INCORPORATED.

14 THE CIRCUMSTANCES WHICH OCCURRED DURING
15 1990 AND '91, DUE TO THE BUILDING INDUSTRY DECLINE AND
16 GENERAL ECONOMIC CONDITIONS, PRODUCED UNIQUE
17 OPPORTUNITIES FOR THE INTEGRATION OF A PAPER MILL INTO
18 THE ORGANIZATIONAL SCHEME.

19 IN MID-1991, ONE OF OUR CUSTOMERS CLOSED A
20 PAPER MILL LOCATED IN VERNON, CALIFORNIA. THIS MILL HAD
21 MOST RECENTLY PRODUCED ONLY GYPSUM WALLBOARD GRADES, BUT
22 THE PAPER MACHINE ITSELF WAS CAPABLE OF PRODUCING VARIOUS
23 PACKAGING GRADES AND HAD PREVIOUSLY PRODUCED THEM.

24 THE DOWNSIDE OF THIS ONE IS IT IS A SINGLE
25 MACHINE. IT'S AN OLDER TECHNOLOGY, AND IT CAN REALLY



1 ONLY UTILIZE AND PRODUCE ABOUT 150 TO MAYBE. AS WE EXPAND
2 IT. UP TO 200 TONS PER DAY OF PAPER PRODUCTS.

3 HOWEVER. THE 13-ACRE FACILITY AT ONE TIME
4 SUPPORTED THREE PAPER MACHINES AND STILL HAS THE
5 ENVIRONMENTAL PERMITS AND SUPPORT SYSTEMS IN PLACE. THIS
6 APPROXIMATE \$15 MILLION ACQUISITION. WHICH WAS FINANCED
7 THROUGH INTERNAL FUNDS AND THROUGH THE SELLERS TAKING A
8 NOTE BACK. WILL REQUIRE AN ADDITIONAL \$6 MILLION IN
9 FACILITY UPGRADES OVER THE NEXT TWO YEARS TO MAINTAIN ITS
10 ECONOMIC VIABILITY AND TO EXPAND ITS MARKETABLE PRODUCTS.

11 ONCE AGAIN. IT'S STILL ONLY GOING TO
12 CONSUME ABOUT 200 TONS PER DAY OF EITHER MIXED PAPER OR
13 OCC OR VARIOUS OTHER RECYCLABLE OR SECONDARY COMMODITIES.

14 TO INCREASE THE LEVEL OF MIXED PAPER
15 RECYCLED WILL REQUIRE THE INSTALLATION OF A SECOND PAPER
16 MACHINE CAPABLE OF PRODUCING UP TO 400 TONS PER DAY OF
17 100 PERCENT RECYCLED PAPER. THIS APPROXIMATE 12 TO \$15
18 MILLION EXPANSION IS NOT FINANCIBLE THROUGH NORMAL
19 EXISTING PROGRAMS.

20 THE SINGLE PURPOSE NATURE OF THE FACILITY.
21 COMBINED WITH THE CYCLICAL NATURE OF THE PAPER INDUSTRY
22 AND THE UNCERTAINTY OF THE RECYCLING INDUSTRY. FRIGHTEN
23 MOST CONVENTIONAL LENDERS.

24 WE HAVE HAD DISCUSSIONS WITH THEM IN
25 VARIOUS DEPTHS DEPENDING ON WHO WE WERE TALKING TO. THEY



1 ARE WILLING TO FINANCE UP TO MAYBE 50 OR 60 PERCENT OF
2 COST OF A FACILITY OF THIS NATURE. BUT AS WE MOVE OFF
3 INTO THESE LARGER AND LARGER FACILITIES, OUR COMPANY IS
4 JUST NOT CAPABLE OF COMING UP WITH THE INTERNAL FUNDS IT
5 WOULD REQUIRE TO EMBARK ON THESE VENTURES.

6 WHEN YOU START TALKING ABOUT 15 AND \$20
7 MILLION EXPANSIONS, THAT NECESSITATES SOME TYPE OF A NEW
8 VEHICLE THAT WOULD BE LOOKED AT, SAY, A PROJECT
9 FINANCING. UNFORTUNATELY, OUR BUSINESS OR OUR COMPANY
10 ISN'T OF THE SIZE THAT WE COULD ADEQUATELY FUND A PROJECT
11 FINANCING TYPE OF A LOAN.

12 WE BELIEVE WE'RE A VERY STRONG, VERY
13 AGGRESSIVE COMPANY. WE REINVEST VERY HEAVILY IN THE
14 INDUSTRY WE'RE IN. WE BELIEVE IN OURSELVES AND WHAT WE
15 CAN ACCOMPLISH. WE TAKE PRIDE IN OUR RECORD OF WHAT
16 WE'VE ACCOMPLISHED SO FAR.

17 AND WE WOULD LIKE THE OPPORTUNITY TO BE
18 ABLE TO EXPAND FURTHER: BUT WITHOUT SOME TYPE OF A NEW
19 FINANCING PROGRAM OR A DIFFERENT PROGRAM THAT WOULD
20 ENABLE US TO EITHER SECURE PROJECT FINANCING GUARANTEED
21 THROUGH SOME SBA PROGRAM OR CBCFA PROGRAM OR INTEGRATED
22 WASTE MANAGEMENT PROGRAM. WE DON'T THINK WE'RE GOING TO
23 BE ABLE TO GO ANY FURTHER.

24 CHAIRMAN CHESBRO: OKAY. THANK YOU VERY MUCH.

25 ARE THERE QUESTIONS OF MR. RICHARDSON.



1 COMMITTEE MEMBERS?

2 BOARD MEMBER RELIS: I'D JUST LIKE TO SAY THAT
3 FROM THE FOUR PRESENTATIONS, I THINK WE'VE HAD FOUR
4 OUTSTANDING PRESENTERS WHO REPRESENT THE BEST OF THE
5 TYPES OF PROGRAMS I'VE SEEN OUT THERE, AND THEY'RE ALL
6 SPEAKING TO THE SAME PROBLEM.

7 AND I THINK IT'S VERY IMPORTANT FOR US TO
8 HEAR IT FROM YOU. WE'VE HEARD INDIVIDUALLY, GONE AROUND
9 THE STATE, BUT TO GET YOU ALL HERE IN THIS ROOM TOGETHER
10 TODAY AND TO SEE THE URGENT NEED THAT EXISTS HERE, I
11 THINK IT'S VERY WORTHWHILE.

12 MR. SCIARONI: ONE OTHER POINT I'D LIKE TO MAKE.
13 WESLEY WAS ASKING IS THE TYPE OF EQUIPMENT THAT I HAVE
14 FINANCIBLE. AND REGARDLESS OF WHETHER I HAVE MORE
15 TRADITIONAL EQUIPMENT, LET'S SAY IT'S A FRONT-END LOADER
16 OR A FORKLIFT, NO BANK IS GOING TO LEND TO ME UNLESS I
17 CAN SHOW HIM THAT I HAVE A VIABLE CONCERN.

18 THE REASON I FINALLY BECAME BANKABLE WAS
19 THAT I HAD A CONSISTENT GOOD CASH FLOW STREAM OF
20 PROFITABILITY FOR A NUMBER OF YEARS.

21 IF I WANT TO GO OUT AND SET UP A
22 MILLION-AND-A-HALF-DOLLAR RECYCLING PROJECT FOR
23 COMPOSTABLE MATERIALS, AND I GO OUT AND BUY A BUNCH OF
24 LOADER OPERATOR, LOADERS, AND THINGS OF THAT SORT, AND
25 PUTTING ASIDE THE PROPERTY CONCERNS WITH CONCRETE AND



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1 THINGS OF THAT SORT. I'M STILL NOT GOING TO BE ABLE TO
2 GET A LOAN UNLESS I CAN PROVE TO THEM THAT I'VE GOT A
3 VIABLE CONCERN.

4 WHEN ANY ONE OF YOU IN THE ROOM HERE GO OUT
5 AND BUY A HOUSE. AND YOU PUT DOWN YOUR 20 PERCENT. THAT'S
6 GREAT. THEY'RE NOT GOING TO LEND YOU A NICKEL UNTIL YOU
7 SHOW THEM YOU HAVE A CASH FLOW STREAM TO PAY OFF THAT
8 LOAN.

9 SO IT'S NOT JUST A MATTER OF WHETHER YOUR
10 EQUIPMENT IS FINANCIBLE OR NOT. IT'S WHETHER THE BANK
11 HAS ENOUGH COMFORT IN THE INDUSTRY AND WHAT'S GOING ON TO
12 FINANCE IT.

13 AND I KNOW FOR THE THREE OF US SITTING HERE
14 THAT SPOKE TODAY. WE'RE ALL PUTTING OUR REAR ENDS ON THE
15 LINE BECAUSE WE'RE NOT ASKING FOR A FREEBIE. WE'RE
16 SAYING, YOU KNOW, WE'RE WILLING TO PUT OUR EQUITY ON THE
17 LINE AND GO FOR THIS BECAUSE WE BELIEVE IN OURSELVES AND
18 WE BELIEVE IN WHAT'S HAPPENING HERE. BUT WE NEED SOME
19 BRIDGE FINANCING TO HELP US GET THERE TO THE POINT WHERE
20 THE BANKS WILL SAY, "GREAT. NOW YOU'VE GOT THE CASH FLOW
21 STREAM. NOW WE'RE WORKING. LET'S GO."

22 IN THE MEANTIME WE'RE KIND OF STUCK. AND
23 AB 939 IS KIND OF STUCK. AS FAR AS I'M CONCERNED, TO
24 REALLY GET IMPLEMENTED UNTIL SOME OTHER FINANCING BECOMES
25 AVAILABLE.



1 CHAIRMAN CHESBRO: WELL, THE WAY I SEE IT, FROM
2 THE PRESENTERS FROM THE PRIVATE SECTOR, WE'VE HAD SORT OF
3 GOOD NEWS AND BAD NEWS.

4 THE GOOD NEWS IS THAT CLEARLY THERE ARE
5 INDIVIDUALS WITH THE CAPABILITY, THE IDEAS, AND THE
6 CONFIDENCE ABOUT SUPPLY AND DEMAND TO MOVE OUT FRONT ON
7 THIS THING AND TAKE RISKS AND MAKE THE THING WORK.

8 ON THE OTHER HAND, IT'S VERY CLEAR THAT A
9 SIGNIFICANT FINANCING GAP HAS BEEN IDENTIFIED THAT NEEDS
10 TO BE FILLED BY PROBABLY A VARIETY OF MECHANISMS THAT --
11 AND BOTTOM LINE WITH CASH, WITH MONEY, CAPITAL TO BRIDGE
12 THIS THING AND TURN THESE CONCERNS INTO PERMANENT
13 CONTRIBUTORS TO OUR MARKET DEVELOPMENT CAPACITY PROBLEM.

14 SO WE VERY MUCH APPRECIATE ALL OF THE
15 PRESENTATIONS FROM THE PRIVATE SECTOR.

16 NEXT, WE'RE GOING TO TURN TO JEANNE WIRKA,
17 THE DIRECTOR OF RECYCLING ECONOMIC DEVELOPMENT PROJECT TO
18 TALK ABOUT CALIFORNIANS AGAINST WASTE FOUNDATION'S BOND
19 PROPOSAL.

20 MS. WIRKA: LET ME JUST QUICKLY GO THROUGH THE
21 TWO REASONS WHY WE DEVELOPED THIS PROPOSAL TO PUT A \$7
22 MILLION BOND ON THE JUNE OR NOVEMBER BALLOT OF THIS YEAR.
23 THE TWO REASONS ARE ESSENTIALLY THAT CALIFORNIA IS IN
24 DESPERATE NEED TO BUILD AN INFRASTRUCTURE TO TAKE CARE OF
25 THE COLLECTION, PROCESSING, AND REMANUFACTURING OF THE



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1 MATERIALS THAT AB 939 IS BRINGING ON-LINE.

2 A PRELIMINARY ANALYSIS OF THE AMOUNT OF
3 WASTE WE'RE DISPOSING. THE CURRENT MANUFACTURING
4 INFRASTRUCTURE AND PLANT CAPACITY. THE NEEDED
5 MANUFACTURING CAPACITY. AND THE CAPITAL INVESTMENT NEEDED
6 TO BUILD THESE PLANTS YIELDED AN ESTIMATE OF THE NEED FOR
7 \$2.3 BILLION WORTH OF INVESTMENT FOR COLLECTION.
8 MANUFACTURING. AND DISTRIBUTION BUSINESSES.

9 THE SECOND RATIONALE IS NOT ENVIRONMENTAL.
10 BUT SIMPLY THE NEED TO CREATE JOBS IN CALIFORNIA AND TO
11 FOSTER LOCAL ECONOMIC DEVELOPMENT IN OUR CITIES.

12 THIS PROPOSAL. THE RATIONALE FOR THIS
13 PROPOSAL LIES IN THE INTERSECTION OF THOSE TWO GOALS.
14 AND, IN FACT. THAT'S THE RATIONALE FOR CALIFORNIANS
15 AGAINST WASTE ENTIRE PROGRAM IN RECYCLING ECONOMIC
16 DEVELOPMENT.

17 SO WE STARTED TALKING LAST FALL ABOUT THE
18 NEED TO LINK JOB CREATION AND ENVIRONMENTAL GOALS
19 SPECIFICALLY. AND THE NEED TO PUT AN INDUSTRIAL -- WHAT
20 WE CALL THE RECYCLING INDUSTRIAL DEVELOPMENT AND JOB
21 CREATION BOND PROPOSAL ON EITHER THE JUNE OR NOVEMBER
22 BALLOTS.

23 FOR THOSE OF YOU WHO VOTED IN JUNE. YOU
24 WILL KNOW THAT IT WASN'T ON YOUR BALLOT. AND IT WON'T BE
25 ON THE BALLOT IN NOVEMBER. AND I'LL EXPLAIN WHY IN A



1 MINUTE WHEN I GET DONE EXPLAINING WHAT OUR PROPOSAL IS.

2 BASICALLY. THIS PROPOSAL IS A TWO-PART BOND
3 MEASURE THAT ESSENTIALLY COVERS BOTH THE END USE
4 MANUFACTURING PART OF THE RECYCLING INDUSTRY AND THE
5 COLLECTION AND PROCESSING MUNICIPAL INFRASTRUCTURE PART
6 OF THE INDUSTRY.

7 THE PART THAT WE CALL THE PRIVATE DEMAND
8 DEVELOPMENT BUSINESS LOAN PROGRAM WOULD INCLUDE BUSINESS
9 LOANS FOR BUSINESSES THAT USE RECYCLED MATERIALS AS
10 FEEDSTOCK TO ADDRESS THE TYPES OF PROBLEMS, FINANCING
11 PROBLEMS. THAT SCOTT WAS MENTIONING EARLIER ABOUT THAT --
12 THAT ESPECIALLY SMALL BUSINESSES FACE IN THE RECYCLING
13 INDUSTRY. THE CAPITAL INTENSIVE NATURE OF THE -- THEIR
14 BUSINESSES. THE UNPROVEN NATURE OF THE RECYCLING
15 VENTURES. THE SPECIAL NATURE -- THE SPECIALTY NATURE OF
16 THEIR ASSETS. THE EQUIPMENT AND SO FORTH.

17 THE SECOND PART OF THE PROPOSAL IS WHAT WE
18 CALL THE INFRASTRUCTURE INVESTMENT ACTION PROGRAM. WHICH
19 WOULD PROVIDE GAP FINANCING TO LOCAL GOVERNMENTS AND
20 THEIR AFFILIATES TO FOSTER PUBLIC/PRIVATE PARTNERSHIPS
21 FOR COLLECTION AND PROCESSING.

22 AND THIS PART OF THE PROPOSAL IS DESIGNED
23 TO ADDRESS MANY OF THE PROBLEMS THAT CONSTANCE WAS LAYING
24 OUT EARLIER IN THE PUBLIC FINANCING OF THE RECYCLING
25 INDUSTRY.



1 NOW. I BROUGHT WITH ME SOME HANDOUTS THAT
2 EXPLAINS IN BOND SPEAK. FOR THOSE OF YOU WHO UNDERSTAND
3 IT, WHAT EXACTLY IS THE STRUCTURE OF EACH OF THESE
4 PROPOSALS. THE ESTIMATED MARKET DEMAND. SOME OF THE OTHER
5 MODELS THAT THEY REFLECT. AND I'LL LEAVE THESE UP HERE
6 IF PEOPLE WANT TO COME UP AND GET COPIES AFTERWARDS.

7 I WON'T GO -- BECAUSE WE'RE RUNNING SHORT
8 ON TIME. I WON'T GO INTO ALL THE SPECIFICS OF EACH OF
9 THESE PROGRAMS. BUT LET ME JUST SUMMARIZE THE BASIC
10 STRUCTURE.

11 FOR THE BUSINESS LOAN PROGRAM, WE WERE
12 PROPOSING A PUBLIC SHARE OF \$355 MILLION. FOR THE
13 PUBLIC/PRIVATE PARTNERSHIPS \$345 MILLION. FOR A TOTAL,
14 AGAIN, OF \$700 MILLION WORTH OF BONDS. WHICH WOULD HAVE
15 RESULTED IN \$2.3 BILLION OF TOTAL INVESTMENT IN BOTH
16 INFRASTRUCTURE DEVELOPMENT AND NEW BUSINESS LOANS.

17 THAT WOULD HAVE RESULTED IN APPROXIMATELY
18 20,000 NEW JOBS IN CALIFORNIA. JOBS THAT WOULD MOSTLY
19 BENEFIT LOW AND MODERATE INCOME HOUSEHOLDS.

20 NOW, LET ME JUST -- THAT'S ESSENTIALLY THE
21 BASIC OUTLINE OF THE PROPOSAL. LET ME JUST EXPLAIN SORT
22 OF FROM A POLITICAL PERSPECTIVE WHAT HAPPENED. IT SOUNDS
23 LIKE A GREAT IDEA. AND THERE WAS HUGE AMOUNT OF INTEREST
24 IN IT, A LOT OF INTEREST IN THE LEADERSHIP OF THE
25 ASSEMBLY BEHIND THIS IDEA OF THIS PARTICULAR BOND ACT.



1 SPECIFICALLY. BUT ALSO THE WHOLE LARGER ISSUE OF LINKING
2 JOB CREATION AND ENVIRONMENTAL GOALS IN THE STATE.

3 UNFORTUNATELY. THE GOVERNOR HAD PLACED A
4 CAP OF \$6 BILLION ON NEW -- ON WHAT HE FELT CALIFORNIA
5 WAS ABLE TO INCUR IN NEW BOND INDEBTEDNESS. AND AHEAD OF
6 US IN LINE FOR THOSE \$6 BILLION WORTH WERE A LOT OF
7 PROGRAMS THAT GOT THERE FIRST. AND ESSENTIALLY THE
8 ADMINISTRATION WAS NOT IN SUPPORT OF PUTTING THIS ON THE
9 BALLOT.

10 HOWEVER. THIS PROPOSAL IS VERY MUCH ALIVE.
11 CALIFORNIANS AGAINST WASTE IS COMMITTED TO GETTING A
12 BALLOT BOND MEASURE ON THE '94 BALLOT. AND BETWEEN NOW
13 AND THEN. OUR GOAL IS TO BUILD MORE POLITICAL MOMENTUM
14 BEHIND THIS PROPOSAL OR MODIFICATIONS OF THIS PROPOSAL SO
15 THAT WE'RE MORE SUCCESSFUL NEXT TIME AROUND.

16 THE -- FROM A POLITICAL PERSPECTIVE. I'D
17 LIKE TO CLOSE AND THEN ANSWER ANY QUESTIONS THAT PEOPLE
18 HAVE BY SAYING THAT IT'S NOT JUST THE IMPORTANCE OF THIS
19 PROPOSAL FROM OUR VIEW. IT'S NOT JUST THE NEED TO
20 ADDRESS THE FINANCING QUESTIONS. PROBLEMS OF THE NEW
21 RECYCLING INDUSTRY IN THE STATE. BUT BUILD POLITICAL
22 MOMENTUM BEHIND A POSITIVE JOB CREATION PROPOSAL SO THAT
23 WE STOP SOME OF THE BACKLASH AGAINST THE ENVIRONMENTAL
24 GOALS THAT THE STATE HAS ACHIEVED BECAUSE OF THE. AS MIKE
25 WAS POINTING OUT. THE MISCHARACTERIZATION THAT



1 ENVIRONMENTAL GOALS AND ECONOMIC GOALS ARE IN CONFLICT
2 WITH EACH OTHER.

3 SO THAT'S ESSENTIALLY OUR PROPOSAL. AND,
4 AGAIN, WE'RE VERY MUCH -- THIS IS STILL VERY MUCH ALIVE
5 AND STILL VERY MUCH A PRIORITY FOR US. WE'RE WILLING TO
6 WORK WITH THE BOARD AND OTHERS ON REFINING THIS PROPOSAL.
7 CHANGING IT, MAKING IT DIFFERENT, STRONGER, WHATEVER.
8 SO --

9 CHAIRMAN CHESBRO: OKAY. THANK YOU VERY MUCH
10 FOR YOUR PRESENTATION.

11 AND ARE THERE ANY QUESTIONS FOR MS. WIRKA
12 AT THIS POINT?

13 I'M GOING TO NOW OPEN IT UP. WE DID HAVE
14 ONE REQUEST, SPECIFIC REQUEST TO SPEAK. THERE ARE
15 SPEAKER FORMS IF THERE'S ANYONE WHO WANTS TO CONTRIBUTE
16 TO THIS DISCUSSION FURTHER TODAY, BUT I DID HAVE REQUESTS
17 FROM GARY LISS, REPRESENTING THE CALIFORNIA RESOURCE
18 RECOVERY ASSOCIATION. SO, GARY, WOULD YOU LIKE TO --

19 MR. LISS: GOOD AFTERNOON. LOOKS LIKE, ALMOST.
20 MY NAME IS GARY LISS. I'M TESTIFYING TODAY ON BEHALF OF
21 THE CALIFORNIA RESOURCE RECOVERY ASSOCIATION. I'M
22 CURRENTLY EMPLOYED PART TIME AS EXECUTIVE DIRECTOR FOR
23 THAT ASSOCIATION.

24 ONE OF THE THINGS THAT I WANTED TO
25 HIGHLIGHT WAS OUR ASSOCIATION REPRESENTS 700 MEMBERS FROM



1 GOVERNMENT. INDUSTRY. AND ENVIRONMENTAL GROUPS THAT ARE
2 ACTIVELY WORKING TO PROMOTE THE ETHIC OF REDUCE. REUSE.
3 AND RECYCLE.

4 SINCE 1974. WHEN WE WERE CREATED. MARKET
5 DEVELOPMENT HAS BEEN A PRIMARY GOAL OF OUR ASSOCIATION.
6 IN FACT. IN 1974 WE WERE CREATED BECAUSE OF THE MARKET
7 GLUT AT THAT TIME. AND THE FIRST TIME THAT
8 ENVIRONMENTALISTS WHO SET UP RECYCLING CENTERS IN THE
9 EARLY '70S. IN THE HEYDAY OF. SAY. 1970 EXPERIENCED THE
10 NORMAL CYCLICAL NATURE OF THE MARKETPLACE AND BANDED
11 TOGETHER TO TRY AND FIGURE OUT HOW TO DEAL WITH MARKETS
12 ON A COLLECTIVE BASIS STATEWIDE.

13 1987. 1988. WE EMBARKED UPON A MAJOR EFFORT
14 TO DEVELOP A STATE RECYCLING POLICY. AND IN THAT
15 DOCUMENT. WE'VE CALLED FOR NUMEROUS EFFORTS BY THE STATE.
16 PARTICULARLY IN THE REALM OF MARKET DEVELOPMENT. FOCUSED
17 ON TAX INCENTIVES AND THINGS OF THAT NATURE. BUT ALSO DID
18 MENTION THE NEED FOR OTHER FINANCING TOOLS TO BE
19 DEVELOPED. AND WE'VE PROVIDED OUR STATE RECYCLING POLICY
20 TO THE BOARD BEFORE.

21 IN 1989- '90. WE DEVELOPED A COMPREHENSIVE
22 AGENDA FOR THE 1990S. WHICH WAS ADOPTED LAST YEAR IN
23 AUGUST OF 1991 AT OUR SACRAMENTO CONFERENCE. WHICH.
24 AGAIN. CALLED FOR A FOCUS ON MARKET DEVELOPMENT. STATE
25 AND LOCAL BOND ISSUES AS ONE OF THE FINANCING TOOLS TO BE



1 IMPLEMENTED IN ORDER TO FUND THE NEW EXPANDING INDUSTRIES
2 THAT LIES BEFORE US.

3 CRA ALSO HAS RECENTLY ORGANIZED CHAPTERS
4 AND ARE BEGINNING TO ORGANIZE TECHNICAL COUNCILS. SO
5 WE'RE DEVELOPING A NETWORK THROUGHOUT THE STATE THAT WILL
6 BE BEHIND THE DEVELOPMENT OF THESE TYPE OF VENTURES ON A
7 STATEWIDE BASIS.

8 WE'VE GOT A TECHNICAL COUNCIL ON
9 COMPOSTING. THE CALIFORNIA ORGANICS RECYCLING COUNCIL.
10 THAT WAS LAUNCHED EARLIER THIS YEAR. WHICH WILL ADDRESS
11 SOME OF THE COMPOSTING ISSUES THAT JIM TALKED ABOUT
12 EARLIER.

13 AND WE HOPE TO LAUNCH A MARKET DEVELOPMENT
14 COUNCIL COMING OUT OF THIS MEETING. IN FACT. IF ANYONE
15 IS INTERESTED. WHO'S ATTENDING THIS MEETING. WE HAVE AN
16 OPEN INVITATION TO SEE ME AFTERWARDS. SIGN UP FOR MAILING
17 LIST TO START A NEW CRRA MARKET DEVELOPMENT COUNCIL THAT
18 CAN WORK COLLABORATIVELY OUT OF THIS MEETING TOGETHER.
19 PUBLIC AND PRIVATE GOING FORWARD. TO SEE THIS TYPE OF
20 INITIATIVE AS PROPOSED HERE TODAY. THE BOND FINANCING AND
21 OTHER TYPES OF THINGS THAT WE CAN WORK ON COLLABORATIVELY
22 TOGETHER.

23 IN FEBRUARY. CRA. WAS ONE OF THE FIRST IN
24 THE STATE TO ENDORSE IN CONCEPT THE CAW PROPOSED BOND
25 ISSUE. AND WE LAUNCHED AN EFFORT TO REVIEW THAT PROPOSAL.



1 AND WITH TODAY'S MEETING, WHICH WE ENCOURAGED THE WASTE
2 BOARD TO CONVENE, WE ARE PLEASED TO SEE GOOD SUPPORT,
3 BOTH IN THE TESTIMONY PROVIDED HERE TODAY AND IN THE
4 ATTENDANCE REPRESENTED IN THE AUDIENCE, THAT MARKET
5 DEVELOPMENT HAS FINALLY COME OF AGE.

6 FOR YEARS WE'VE BEEN TALKING ABOUT THIS.
7 NOW WE NEED TO START ACTING ABOUT IT.

8 IN LEGISLATION, SB 1955 TRIES TO PUT A NEW
9 FOCUS ON MARKET DEVELOPMENT BY THE STATE. IN EXPLAINING
10 THE BILL'S PURPOSE, THE BILL AUTHOR AND PROPONENTS OF THE
11 BILL CITE THAT WE NEED TO HAVE THIS STATE -- HAVE A STAKE
12 IN MARKET DEVELOPMENT MUCH MORE THAN THEY HAVE TODAY.

13 AND, IN FACT, ALTHOUGH CRA OPPOSES SB 1955
14 BECAUSE THE APPROACH THEY TAKE IN THAT BILL, WE DO
15 BELIEVE IF THAT IS WHAT THEY ARE SAYING IS TRUE AS FAR AS
16 WHAT THEY'RE TRYING TO APPROACH, WE CONCUR THAT WE NEED A
17 STRONGER STATE STAKE IN MARKET DEVELOPMENT. WE NEED TO
18 HAVE THE STATE STEP FORWARD AND HELP ALL THE LOCALS IN A
19 TRUE STATE AND LOCAL PARTNERSHIP AS WAS ENVISIONED IN THE
20 ADOPTION OF AB 939.

21 MANY PEOPLE DON'T REMEMBER THAT WHEN AB 939
22 WAS ADOPTED, IT WAS NOT ADOPTED ALONE. IT WAS ADOPTED
23 WITH SB 1322. IT WAS ADOPTED WITH AB 4. IT WAS ADOPTED
24 WITH AB 1305. A WHOLE STRING OF MARKET DEVELOPMENT BILLS
25 WAS PASSED SIMULTANEOUSLY THAT WERE AT ONE POINT



1 ENVISIONED TO BE PART OF THE TOTAL PACKAGE. JUST
2 COINCIDENTALLY THROUGH THE LEGISLATIVE PROCESS WERE
3 SEGMENTED INTO SEPARATE BILLS. BUT THEY WERE PASSED
4 TOGETHER BECAUSE MARKET DEVELOPMENT AT THAT TIME WAS
5 RECOGNIZED TO BE A CRITICAL ELEMENT OF US MEETING THE
6 GOALS THAT ARE OUTLINED IN AB 939.

7 ECONOMICS OF RECYCLING TODAY ARE COMING
8 UNDER FIRE. THROUGHOUT THE STATE OF CALIFORNIA, THE
9 COSTS OF IMPLEMENTING SRRE'S, THE SOURCE REDUCTION AND
10 RECYCLING ELEMENTS, ARE JUST BEGINNING TO SURFACE. WE'RE
11 SEEING RATEPAYER REVOLT. WE'RE SEEING THE REASON
12 FOUNDATION. WE'RE SEEING OTHERS QUESTIONING WHY INVEST
13 IN RECYCLING? WHY NOT SHIP IT TO UTAH? THE SUPREME
14 COURT JUST SAID THIS WEEK. "IT'S A GREAT IDEA. WE DON'T
15 WANT TO STOP ANYONE SHIPPING WASTE OUT OF STATE."

16 THIS IS GOING TO AFFECT THE ECONOMICS OF
17 RECYCLING THROUGHOUT THE STATE. WE NEED TO STEP FORWARD,
18 MEET THE MARKET DEMAND IN ORDER TO RETAIN THE VALUE FOR
19 THE RECYCLING MATERIALS THAT WE'RE DEVELOPING.

20 I'D LIKE TO SUGGEST A COUPLE OF EMPHASES
21 THAT I DIDN'T HEAR SPECIFICALLY MENTIONED IN THE
22 TESTIMONY SO FAR THIS MORNING BASED UPON COMMENTS IN OUR
23 STATE RECYCLING POLICY AND THE AGENDA FOR THE 1990S.

24 ONE IS THE INCREMENTAL COST OF DOING
25 BUSINESS IN CALIFORNIA. ONE OF THE BIG THINGS THAT WE



1 HEARD IN THE MANY YEARS OF DEVELOPING STATEWIDE POLICY
2 WAS THE FACT THAT TO DO BUSINESS IN CALIFORNIA REQUIRED
3 AN EXTRA EFFORT. REQUIRED EXTRA INVESTMENT IN
4 ENVIRONMENTAL CONTROL EQUIPMENT THAT THEY WOULDN'T HAVE
5 TO PUT IN IN OTHER STATES.

6 OUR RESPONSE WAS DON'T LOWER THE
7 ENVIRONMENTAL STANDARDS. BUT PUT STATE MONEY AND LOCAL
8 MONEY BEHIND THOSE VENTURES TO MEET THE INCREMENTAL COST
9 OF DOING BUSINESS IN CALIFORNIA.

10 SO WHEN YOU TALK ABOUT STATE FINANCING. WE
11 MAY NOT NEED TO FINANCE THE ENTIRE PROJECT. WE ONLY MAY
12 NEED TO FINANCE THE INCREMENTAL COST OF DOING BUSINESS IN
13 CALIFORNIA TO MEET OUR ENVIRONMENTAL GOALS.

14 SECONDLY. IT WAS ALLUDED TO IN CONSTANCE
15 HORNING'S COMMENTS ABOUT THE PUBLIC/PRIVATE
16 RELATIONSHIPS. ONE OF THE THINGS THAT WE'RE VERY
17 CONCERNED IS WE DON'T NEED TO SEE ALL PUBLICLY FINANCED
18 FACILITIES. AND LOCAL COMMUNITIES NEED HELP FROM THE
19 STATE IN BOTH FINANCING TOOLS. SUCH AS HAS BEEN DISCUSSED
20 HERE TODAY. AND STRUCTURING FINANCING PROJECTS. HOW TO
21 PUT THESE PROJECTS TOGETHER USING OWNERSHIP RELATIONSHIPS
22 AND DEFINITIONAL RELATIONSHIPS THAT WERE ADDRESSED IN
23 CONSTANCE'S COMMENTS THIS MORNING. THE PUBLIC/PRIVATE
24 PARTNERSHIP NEEDS LEADERSHIP. AND WE CALL UPON THIS STATE
25 TO PROVIDE THAT.



1 SMALL BUSINESSES IS ANOTHER KEY AREA OF
2 QUESTION. CRA IS VERY CONCERNED THAT WE MAINTAIN
3 DIVERSITY AND COMPETITION WITHIN THE RECYCLING AND SOLID
4 WASTE FIELD. AND ONLY THROUGH MAINTAINING ACCESS TO
5 CAPITAL WILL WE BE ABLE TO DO THAT.

6 WE HEARD DISCUSSIONS DIFFERENTIATING
7 BETWEEN CREDIT RATED COMPANIES AND NONCREDIT RATED
8 COMPANIES. AND THE WAY I INTERPRET THAT. HOPEFULLY
9 CORRECTLY. IS THE POINT THAT SMALL BUSINESSES IN THE
10 STATE OF CALIFORNIA ARE THE ONES THAT WE NEED TO BE
11 TARGETING OUR RESOURCES TO. WE NEED TO MAINTAIN AS MANY
12 PLAYERS IN THE FIELD TO PROVIDE THE DIVERSITY AND
13 INNOVATION THAT THAT ONLY CAN PROVIDE.

14 WE HEARD JOHN SPEAK TO THE ISSUE OF EVEN
15 THE PAPER MILLS WANT DIVERSITY. THEY DON'T WANT TO RELY
16 ON ONE SINGLE SUPPLIER. WE SHOULD NOT RELY ON ONE SINGLE
17 HAULER FOR ALL OF OUR NEEDS. WE SHOULD TRY TO MAINTAIN
18 DIVERSITY IN COLLECTION SYSTEMS. IN PROCESSING SYSTEMS.
19 AND, MOST IMPORTANTLY. IN MANUFACTURING ARENA.

20 ANOTHER CAPITAL NEED THAT WASN'T ADDRESSED
21 WAS PERMANENT WORKING CAPITAL. ONE OF THE THINGS THAT I
22 WANT TO THANK THE WASTE BOARD ALREADY FOR THEIR
23 LEADERSHIP WAS THEIR TRAINING PROVIDED BY THE NATIONAL
24 DEVELOPMENT COUNCIL FOR CITY OFFICIALS THROUGHOUT THE
25 STATE.



1 AND IN MY FORMER CAPACITY AS SOLID WASTE
2 MANAGER OF SAN JOSE. I WAS FORTUNATE ENOUGH TO TAKE TWO
3 WEEKS OF TRAINING. PAID FOR BY THE STATE. FROM THE
4 NATIONAL DEVELOPMENT COUNCIL.

5 AND ONE MESSAGE I LEARNED THAT WASN'T
6 ADDRESSED HERE TODAY WAS PERMANENT WORKING CAPITAL IS
7 NEEDED. PARTICULARLY FOR SMALL BUSINESSES. PARTICULARLY
8 TO AVOID THE FAST GROWTH SYNDROME. WHICH WE WILL ALL BE
9 EXPERIENCING INEVITABLY IN THIS FIELD OF 939 BECAUSE OF
10 THE NATURE OF A QUANTUM LEAP FROM THE PAST PRACTICES OF
11 SOLID WASTE MANAGEMENT TO THE GOALS OF 939. SHIFTING
12 THREE TO \$5 BILLION A YEAR IN CASH FLOWING THROUGH THE
13 GARBAGE COLLECTION AND RECYCLING SYSTEMS TO A NEW
14 DIRECTION OF THAT CAPITAL TO OTHER TYPES OF RESOURCES.

15 SO WE'LL HAVE PEOPLE GROWING RAPIDLY AS
16 OTHERS DECLINE RAPIDLY. AND THAT FAST GROWTH SYNDROME
17 CAN ONLY BE BOLSTERED THROUGH THE PROVISION OF A
18 PERMANENT WORKING CAPITAL.

19 ONE OF THE THINGS I WANTED TO URGE IS
20 CONSIDERATION OF LOCAL AND STATE COLLABORATION ON BOND
21 ISSUES. I HEARD JEANNE REFER TO THE 1994 AS THE GOAL
22 YEAR NOW FOR THE BOND. GIVEN WE'VE MISSED THE DEADLINES
23 THIS YEAR. UNFORTUNATELY.

24 I WANTED TO STRESS THAT THAT DOESN'T MEAN
25 THAT WE HAVE TO STOP AND WAIT UNTIL 1994. WE SHOULD BE



1 WORKING TOGETHER. IT WILL TAKE US A YEAR OR TWO TO
2 FORMULATE THE DETAILS OF WHAT WE NEED TO DO AT THE STATE
3 LEVEL. AND IN DOING SO. THERE MAY BE SOME THINGS AT THE
4 LOCAL LEVEL THAT WE CAN STRUCTURE SIMILARLY WITH STATE
5 ASSISTANCE IF THE STATE HELPS US FIGURE OUT WHAT WE CAN
6 DO.

7 IN THE CITY OF SAN JOSE, MY FORMER JOB,
8 THERE'S THE DEVELOPMENT OF A GREEN INDUSTRY FUND OF
9 \$800,000 TO A MILLION DOLLARS BEING PROPOSED THIS YEAR
10 DESPITE DIFFICULT BUDGET TIMES.

11 IN ORDER TO FACILITATE THAT. ENTERPRISE
12 FUNDS NEED TO BE ENCOURAGED AT THE LOCAL LEVEL TO SUPPORT
13 RATE-BASED FINANCING. THE GARBAGE RATES ARE INCREDIBLY
14 POWERFUL TOOLS TO SUPPORT SYSTEM FINANCING. AS CONSTANCE
15 HIGHLIGHTED. BUT WE DON'T HAVE THE SOPHISTICATION AT THE
16 LOCAL LEVEL TO UNDERSTAND HOW TO DO RATE-BASED SYSTEM
17 FINANCING FOR PROJECTS ON A MULTILATERAL NATURE OF PUBLIC
18 AND PRIVATE PARTICIPATION.

19 A CAUTION ON WASTE FLOW CONTROL. CONSTANCE
20 TALKED TO THE ISSUE OF WASTE FLOW CONTROL FOR -- AS A
21 PREREQUISITE FOR FINANCING IN CERTAIN CIRCUMSTANCES. WE
22 NEED TO BE VERY CAREFUL AS TO WHAT THOSE CIRCUMSTANCES
23 ARE AND HOW THAT TERM IS USED.

24 WASTE FLOW CONTROL OF WASTE GOING TO A
25 PROCESSING FACILITY IN IS ONE ISSUE. WASTE FLOW OR



1 MATERIALS DIRECTION OUT OF THAT FACILITY IS ANOTHER
2 QUESTION. AND THEY HAVE BEEN CHARACTERIZED WITH THE SAME
3 TERMS. SO YOU HAVE TO BE CAREFUL WHAT YOU'RE TALKING
4 ABOUT THERE.

5 BUT THE KEY IN BOTH CASES IS SIZING AND
6 DIVERSITY. SIZING OF THE FACILITY IS SO THAT YOU DON'T
7 LOOK TO ONE FACILITY TO SOLVE ALL THE PROBLEMS IN A LOCAL
8 AREA. THAT'S AN ISSUE THAT WE FOUND IN WASTE-TO-ENERGY
9 IN THE 1970S AND 1980S. LET'S LEARN FROM THE MISTAKES.
10 THE MANY ERRORS MADE IN OVERSIZING WASTE-TO-ENERGY
11 FACILITIES. LET'S NOT DO IT AGAIN WITH MRF'S. LET'S NOT
12 DO IT AGAIN WITH SINGLE SOLUTIONS OR ATTEMPTS AT SINGLE
13 SOLUTIONS TO PROBLEMS.

14 WE NEED TO HAVE A FOCUS ON MANUFACTURING.
15 NOT JUST COLLECTING. AND WE NEED TO KEEP IN MIND THE
16 OVERALL STATE FISCAL HEALTH AND OTHER BOND NEEDS. WHICH
17 MEANS THAT WE NEED TO BE WORKING SMARTER. NOT WITH MORE
18 MONEY. WE NEED TO FIGURE OUT WHERE THE AVOIDED
19 COLLECTION COSTS AND THE AVOIDED DISPOSAL COSTS ARE
20 ACCRUING TO. WHO GETS THE BENEFIT OF THAT. AND HOW DO WE
21 STRUCTURE THOSE BENEFITS INTO THE OVERALL FINANCING OF
22 THE SYSTEM?

23 ON WASTE FLOW CONTROL. WE WANT TO ALSO
24 HIGHLIGHT THAT THIS IS AN ISSUE THAT WE'RE ADDRESSING IN
25 WORKSHOPS JUNE 19TH AND JUNE 25TH IN SAN JOSE AND LONG



1 BEACH. ANYONE WHO'S INTERESTED IN THOSE ISSUES, BE HAPPY
2 TO TALK WITH THEM FURTHER.

3 THOSE ARE MY COMMENTS IN BRIEF. I APPRECIATE
4 THE OPPORTUNITY TO SPEAK BEFORE YOU TODAY. CRRA STANDS
5 READY TO WORK WITH YOU. WE HOPE THAT PEOPLE IN THE
6 AUDIENCE HERE TODAY, PERHAPS SOME OF THE PRESENTERS WILL
7 JOIN WITH US IN OUR MARKET DEVELOPMENT COUNCIL TO WORK
8 TOGETHER FROM THIS POINT FORWARD TO HELP DEVELOP THE NEW
9 FINANCING FOR THE MARKET DEVELOPMENT FUTURE THAT WE NEED
10 IN CALIFORNIA. THANK YOU.

11 CHAIRMAN CHESBRO: THANK YOU VERY MUCH, MR.
12 LISS. ANY COMMENTS OR QUESTIONS? APPRECIATE YOUR
13 CONTRIBUTION.

14 WE ALSO HAVE A REQUEST FROM PAT MILLER
15 REPRESENTING THE COUNTY OF SANTA CRUZ.

16 MS. MILLER: CAN YOU HEAR ME? MY NAME IS PAT
17 MILLER. I'M HERE TODAY REPRESENTING THE COUNTY OF SANTA
18 CRUZ. AND FOR THE RECORD, I'D LIKE TO SAY WE ARE THE
19 SMALLEST COUNTY IN CALIFORNIA.

20 WE HAVE WHOLEHEARTEDLY EMBRACED THE GOALS
21 OF 939. IN FACT, OUR DESIRE IS TO GO BEYOND THE
22 50-PERCENT RECYCLING. WE ARE A VERY ENVIRONMENTALLY
23 ORIENTED COUNTY. AND HAVING SAID THAT, I'D ALSO LIKE TO
24 MAKE A NOTE THAT WE ARE GEOGRAPHICALLY DISADVANTAGED
25 MARKETWISE.



1 SO WE ARE ACUTELY AWARE OF THE FACT THAT WE
2 WILL BE DOING MASSIVE COLLECTION PROGRAMS AND FEEL THAT
3 IT'S OUR OWN RESPONSIBILITY TO MAKE SURE THAT ALL THOSE
4 MATERIALS GET MARKETED. AND FOR OUR PARTICULAR
5 SITUATION. JUST BY THE NATURE OF IT, WE WILL BE SENDING
6 MOST OF IT OUT OF OUR COUNTY TO BE REMANUFACTURED.

7 HOWEVER. THERE ARE A NUMBER OF THINGS THAT
8 WE'D LIKE TO RECYCLE THAT ARE RECYCLABLE. BUT WE NEED TO
9 DO THAT KIND OF MARKET DEVELOPMENT LOCALLY IF IT'S GOING
10 TO HAPPEN FOR US.

11 SO WHAT WE'VE DONE IS WE'VE TARGETED THE
12 MORE DIFFICULT TO RECYCLE MATERIALS. AND FOR US THAT
13 INCLUDES COMPOST. PLASTIC. GLASS. AND TIRES.

14 SADLY ENOUGH. THOUGH. WE ARE FACING THE
15 SAME BUDGET CUTS EVERYONE ELSE IS FACING. AND WE KNOW.
16 AS OF LAST WEEK. THAT OUR FIRST IMPLEMENTATION PLANS FOR
17 939 HAVE BEEN POSTPONED ALREADY AT LEAST BY A YEAR. SO
18 FOR THIS COMING BUDGET YEAR. WE'LL BE DOING NOTHING ON
19 ANY OF OUR PLANS.

20 WHAT WE HAVE DONE ON MARKET DEVELOPMENT IS
21 WE'VE WORKED WITH A NUMBER OF LOCAL COMPANIES WHO ARE
22 SMALL. THEY ALREADY EXIST IN OUR COUNTY. AND WE HAVE
23 FOUND THAT THEY HAVE TAKEN IT ON THEMSELVES OVER THE
24 YEARS TO DEVELOP SOME RECYCLED MATERIALS AND SOUGHT OUT
25 THEIR OWN SOURCES TO PRODUCE THE PRODUCTS THAT THEY'RE



1 MAKING.

2 AT THIS POINT WE HAVE WHAT WE CALL A HOT
3 PROSPECTS LIST FOR MARKET DEVELOPMENT. THERE'S ABOUT
4 FOUR COMPANIES ON THAT LIST. AND SOME OF THEM HAVE
5 DROPPED OUT ALREADY FOR VARIOUS REASONS. WE HAVE
6 TARGETED -- AND THOSE FOUR DEAL BASICALLY WITH COMPOST
7 AND PLASTICS.

8 ON OUR LUKEWARM PROSPECTS LIST IS FOUR OR
9 FIVE COMPANIES. AND THEY DEAL WITH TIRES, GLASS, AND
10 POSSIBLY PALLET REPAIR. WHAT WE FOUND IN TALKING WITH
11 THEM AND TALKING ABOUT FINANCING IS EXACTLY WHAT SCOTT
12 TOLD YOU WE WOULD FIND. AND THAT IS THAT THEY HAVE BEEN
13 IN BUSINESS A RELATIVELY SHORT PERIOD. ANYWHERE -- IN OUR
14 CASE, ANYWHERE FROM ZERO TO SEVEN YEARS.

15 WHAT THEY'RE ASKING FOR FINANCING IS
16 RELATIVELY SPECIALIZED EQUIPMENT. AND OUR LOCAL LENDERS
17 ARE ASKING EXACTLY THE QUESTIONS THAT SCOTT BROUGHT UP:
18 WELL, IN CASE THE WORST HAPPENS, WHERE CAN WE USE THIS
19 SHREDDER, MOLDER, WASHER, WHATEVER. THEY'RE NOT FAMILIAR
20 WITH THE EQUIPMENT.

21 WE'RE TELLING THEM, OH, YEAH, RECYCLING IS
22 THE THING. WE'RE GOING TO HAVE THIS EQUIPMENT ALL OVER,
23 AND ANYBODY COULD USE IT. ANYBODY IN RECYCLING.

24 THEY ARE ALSO FACING -- YEAH, THE LENDERS
25 ARE ALSO FACING A RECESSION. THE COMMUNITY CREDIT UNION



1 IN OUR CITY -- IN OUR COUNTY IS ONE OF A HUNDRED
2 THROUGHOUT THE NATION WHO SPECIALIZES IN COMMUNITY
3 DEVELOPMENT AND SOCIAL ISSUES. AND THEIR BOTTOM LINE IS
4 IT STILL HAS TO BE A GOOD LOAN.

5 ONE OF OUR COMPANIES, WHO WE ARE VERY
6 DESIROUS OF DEALING WITH, ALL THE PLASTIC AG FILM IN OUR
7 COUNTY HAS AN OFFER FROM A FOREIGN BANK. AND THAT BANK
8 WILL GIVE THEM THE LOAN THEY'RE ASKING FOR AND ALLOW THEM
9 TO PUT UP THEIR EQUIPMENT AND THEIR INVENTORY AS
10 COLLATERAL. THEY'RE NOT ASKING FOR THE INDIVIDUAL'S HOME
11 TO BE PUT UP AS COLLATERAL.

12 THIS IS VERY ATTRACTIVE TO THIS PERSON.
13 AND I DON'T HAVE A LOT MORE THAT I CAN SAY TO HIM AS FAR
14 AS WHY HE SHOULD STAY AND FIGHT IN OUR COUNTY. BESIDES
15 THE FACT THAT HE LIVES THERE, HE LOVES WHERE HE LIVES AND
16 WANTS TO DO BUSINESS THERE, BUT THE ECONOMIC BOTTOM LINE
17 IS GOING TO BE WHERE HIS INVESTORS MAKE THIS DECISION.

18 CHAIRMAN CHESBRO: WHAT IS THE PRODUCT?

19 MS. MILLER: HIS FEEDSTOCK IS USED PLASTIC AG
20 FILM SPREAD ON STRAWBERRY FIELDS. WE HAVE ABOUT 800 --
21 I'M SORRY -- EIGHT MILLION POUNDS A YEAR.

22 CHAIRMAN CHESBRO: THAT'S USED IN LIEU OF MULCH?

23 MS. MILLER: IT'S USED FOR TWO REASONS, ONE IN
24 LIEU OF MULCH AND ONE TO HOLD FUMIGANT IN.

25 AND SO THERE'S BASICALLY TWO TYPES OF FILM



1 THAT'S USED TWICE. ONE STAYS ON JUST A FEW DAYS: ONE
2 STAYS ON FOR THE SEASON. AND HIS PRODUCT WOULD BE NEW
3 PLASTIC AG FILM. SO IT WOULD BE A COMPLETE CYCLE FOR US.
4 CRADLE TO GRAVE. SO TO SPEAK.

5 CHAIRMAN CHESBRO: IT CURRENTLY IS THROWN AWAY.
6 DISPOSED OF IN THE LANDFILL?

7 MS. MILLER: RIGHT. BY THE BALE.

8 SO WE HAVE HIM LOOKING AT THIS FOREIGN
9 BANK. TRYING TO STAY IN TOWN. BUT IT'S REAL ATTRACTIVE TO
10 HIM TO GO AWAY.

11 WE HAVE ONE COMPANY TALKING ABOUT
12 SPECIALIZED EQUIPMENT. WE HAVE ONE COMPANY WHO BUILT
13 THEIR OWN SPECIALIZED EQUIPMENT BECAUSE THEY NEEDED IT
14 RIGHT AWAY AND DIDN'T HAVE TIME TO WAIT TO SEE WHETHER
15 THEIR LOAN WOULD HAPPEN OR NOT HAPPEN. SO THEY NOW HAVE
16 THIS INNOVATIVE PIECE OF EQUIPMENT THAT THEY JUST
17 CONSTRUCTED ON-SITE.

18 ONE OF OUR DEALS HAS ALREADY BEEN CANCELED.
19 ONE OF OUR COMPANIES SEES A WINDOW OF OPPORTUNITY. HAS
20 BEEN IN BUSINESS SEVEN YEARS. HE SEES A WINDOW OF
21 OPPORTUNITY HIMSELF BEFORE ALL THE MATERIAL GETS
22 COMMITTED OVERSEAS.

23 AND IF WE -- WE'VE HAD SCOTT COME DOWN AND
24 WORK WITH A NUMBER OF THE COMPANIES. THIS IS ONE HE'S
25 WORKING WITH. IF THIS DOESN'T HAPPEN WITHIN THE NEXT



1 THREE MONTHS FOR HIM. THEN HE PROBABLY WON'T SURVIVE AT
2 ALL.

3 SO I GUESS I'M HERE TO SAY WE NEED THE
4 MONEY. AND AS FAR AS BUYING RECYCLED PRODUCTS. THIS IS
5 ANOTHER MESSAGE I HEAR FROM EVERY BUSINESS PERSON I TALK
6 TO. AND I'D LIKE TO VERY PROUDLY SAY WE HAVE BOUGHT
7 RECYCLED CARPET FOR THE COUNTY BUILDING. A NEIGHBORING
8 COUNTY. SANTA CLARA COUNTY. IS BUYING RECYCLED PLASTIC
9 BAGS FOR THEIR NEW CURBSIDE EXPANSION.

10 AND I THINK THAT WE'RE GETTING THAT MESSAGE
11 OUT, THAT WE NEED TO SUPPORT -- THIS IS LITERALLY A CASE
12 WHERE WE NEED TO PUT OUR MONEY WHERE OUR MOUTH IS.
13 BASICALLY. AND I'D LIKE TO STEAL A LINE. IF I COULD. AND
14 A PERSON HERE WILL RECOGNIZE IT IMMEDIATELY. AND THAT IS.
15 IF 939 IS THE PUSH FOR RECYCLING COLLECTION. THIS BOND
16 ISSUE HAS GOT TO BE THE PULL FOR RECYCLING MANUFACTURING.

17 THANK YOU. ANY QUESTIONS?

18 CHAIRMAN CHESBRO: ANY QUESTIONS?

19 THANK YOU VERY MUCH FOR YOUR COMMENTS.
20 WE'RE GOING TO -- MY MICROPHONE IS SENSITIVE OR
21 SOMETHING.

22 BOARD MEMBER HUFF: IT'S YOUR DYNAMIC
23 PERSONALITY.

24 CHAIRMAN CHESBRO: WE'RE GOING TO WIND UP HERE.
25 I THINK. IN CLOSING. LET ME SAY THAT THE BOND MEASURE IS



1 CLEARLY SOMETHING THAT WE SHOULD PURSUE. IT'S -- I
2 WASN'T AWARE THAT WE WERE -- I KNEW IT WAS BLEAK. I
3 DIDN'T KNOW THAT WE WERE TO THE POINT YET THAT THE
4 DETERMINATION HAD BEEN MADE THAT THE BOND ISSUE FOR
5 NOVEMBER WAS OUT OF THE QUESTION. ASSUMING THAT IT IS.
6 WE'RE GOING TO NEED TO PUSH FORWARD WITH THIS IDEA AND
7 FURTHER DEVELOP IT FOR 1994.

8 BUT SOMEONE SAID. I'M NOT SURE WHO. MR.
9 LISS. PERHAPS. THAT WE CAN'T AFFORD TO WAIT UNTIL 1994.
10 SO THE FOCUS OF OUR FAST TRACK STRATEGY. WHICH THE STAFF
11 IS DEVELOPING. NEEDS TO INCLUDE FINANCIAL MECHANISMS TO
12 ASSIST THE KINDS OF BUSINESSES THAT WE'VE HEARD FROM
13 TODAY.

14 THEY'RE NOT GOING TO WAIT. THEY CAN'T SIT
15 AROUND AND WAIT TO SEE IF MONEY IS GOING TO BECOME
16 AVAILABLE. PASSES IN 1994. LET'S SEE. IT WILL BECOME
17 AVAILABLE WHEN? NO. WE CAN'T BE JUST WAITING FOR THAT.

18 CLEARLY. IT IS VERY RELEVANT. THOUGH.
19 BECAUSE WE'VE GOT TO LOOK BEYOND 1995. WE'VE GOT TO LOOK
20 TO MUCH. MUCH MORE OF WHAT'S BEEN DISCUSSED HERE ON A
21 MUCH BROADER SCALE IF 50-PERCENT DIVERSION IS GOING TO
22 TAKE PLACE BY THE YEAR 2000.

23 SO IT IS RELEVANT. BUT WE HAVE AN IMMEDIATE
24 PROBLEM FOR 1995 THAT NEEDS TO BE FOCUSED ON A VARIETY OF
25 FRONTS. AND I THINK THIS COMMITTEE. THROUGH ITS FAST



1 TRACT STRATEGY AND WORK WITH OUR STAFF AND THE
2 CONSULTANTS. LIKE NATIONAL DEVELOPMENT COUNCIL. WILL BE
3 FOCUSING ON WHAT TOOLS AND MECHANISMS CAN BE DEVELOPED TO
4 SOLVE THE IMMEDIATE PROBLEMS OF BUSINESSES THAT WANT TO
5 GET INTO THIS FIELD AND THIS AREA.

6 WITH THAT. I'LL JUST SAY I FAILED EARLIER
7 TO THANK THE AIR BOARD FOR MAKING THIS -- AIR RESOURCES
8 BOARD FOR MAKING THIS ROOM AVAILABLE AND ALSO TO EXPLAIN
9 WHY IT IS THAT WE'RE MEETING HERE.

10 THE BOARDROOM WAS COMMITTED SOMETIME PRIOR
11 TO -- OUR BOARDROOM AT THE CAL CENTER WAS COMMITTED AT A
12 POINT PRIOR TO THIS WORKSHOP BEING SCHEDULED FOR THE
13 BLOOD DRIVE. WHICH IS VERY IMPORTANT TO OUR STAFF IN
14 TERMS OF THEIR ONGOING PARTICIPATION AND COMMITMENT TO
15 THAT PROGRAM. AND SO WE DIDN'T WANT TO BOOT THEM OUT.
16 AND IT WAS DIFFICULT TO RESCHEDULE. SO WE SCHEDULED IT
17 DOWN HERE.

18 I WANT TO THANK ALL OF YOU FOR THE
19 FORBEARANCE IN TRYING TO FIND A PLACE TO PARK AND DEAL
20 WITH THE OTHER PROBLEMS ASSOCIATED WITH HOLDING A MEETING
21 HERE.

22 BUT I THINK. ALL IN ALL. IT'S BEEN A VERY
23 PRODUCTIVE DAY. I APPRECIATE ALL OF YOU FOR
24 PARTICIPATING. AND I HOPE WE WILL HAVE CLOSE ONGOING
25 WORKING RELATIONSHIPS IN GETTING THESE ENTERPRISES OFF



1 THE GROUND. IF WE CAN BE PARTNERS IN ASSISTING, WE
2 CERTAINLY INTEND TO BE.

3 WE'LL BE RECONVENING -- RECESSING UNTIL --
4 WE WILL RECONVENE AT 1:45 IN ORDER TO ALLOW -- WE'LL JUST
5 TAKE CARE OF LUNCHTIME BUSINESS FOR THE REGULAR MEETING
6 OF THE MARKET DEVELOPMENT COMMITTEE.

7
8 (THE WORKSHOP WAS THEN CONCLUDED.)
9
10
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Reporter's Certificate

* * * * *

I, BETH C. DRAIN hereby certify:

that on the 9th of
JUNE 1992, I did report in
shorthand the testimony and proceedings of the
foregoing hearing;

that at the conclusion of the above entitled
matter, I did transcribe my shorthand notes into
typewriting;

that the foregoing transcript is a true and correct
copy of my shorthand notes thereof.

Beth C. Drain

Certified Shorthand Reporter

Certificate No. 7152



**CERTIFIED
COPY**

BEFORE THE
CALIFORNIA INTEGRATED WASTE MANAGEMENT BOARD

IN THE MATTER OF THE:)
)
MARKET DEVELOPMENT)
COMMITTEE MEETING)
JUNE 8, 1992)
_____)

DATE AND TIME: TUESDAY, JUNE 9, 1992, 1:30 P.M.

PLACE: AIR RESOURCES BOARD
2020 L STREET
LOWER LEVEL CONFERENCE ROOM
SACRAMENTO, CALIFORNIA

REPORTER: BETH C. DRAIN, RPR, CSR
CERTIFICATE NO. 7152

BRS FILE NO.: 11890B

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(S)(S)
(S)(S)
(S)

APPEARANCES

MR. WESLEY CHESBRO, CHAIRMAN
MR. JESSE HUFF
MR. PAUL RELIS

STAFF PRESENT

COUNSEL MS. MAUREEN CARR MORRISON, ASSISTANT GENERAL
MR. TOM RIETZ

ADVISORS

SUE SIMS
BOBBI LUNGREN
MARTHA VALDES
HOWARD LEVENSON
BYRON FITZGERALD
ROB SAROYAN



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1 CALIFORNIA INTEGRATED WASTE MANAGEMENT BOARD
2 MARKET DEVELOPMENT COMMITTEE
3 TUESDAY, JUNE 9, 1992. 2:00 P.M.
4

5 CHAIRMAN CHESBRO: OKAY. WE WILL BEGIN THE
6 REGULARLY SCHEDULED MEETING OF THE MARKET DEVELOPMENT
7 COMMITTEE.

8 AND I'LL BEGIN BY ASKING THAT THE ROLL BE
9 CALLED. PLEASE.

10 COMMITTEE SECRETARY: BOARD MEMBER HUFF?

11 BOARD MEMBER HUFF: HERE.

12 COMMITTEE SECRETARY: RELIS?

13 BOARD MEMBER RELIS: (NO RESPONSE.)

14 COMMITTEE SECRETARY: CHAIRMAN CHESBRO?

15 CHAIRMAN CHESBRO: HERE.

16 MR. RELIS DID HAVE A MEETING AT THE CAPITOL
17 AND. I'M SURE. WILL BE JOINING US SHORTLY.

18 THE FIRST ITEM ON THE AGENDA IS
19 CONSIDERATION OF CONTRACTS AND INTERAGENCY AGREEMENTS. I
20 THINK WE HAVE A COUPLE OF THOSE TO CONSIDER. OKAY.

21 MR. MEYERS: OKAY. GOOD AFTERNOON. COMMITTEE
22 MEMBERS. WE'RE HERE TO PROPOSE THE AWARD OF TWO
23 CONTRACTS. ONE OF WHICH IS OUR LAST COMPETITIVELY BID
24 CONTRACT. RELEASED AN RFP IN FEBRUARY OF THIS YEAR.

25 THIS CONTRACT WAS ADVERTISED IN FEBRUARY OF



1 THIS YEAR. AND THE BIDS WERE SUBMITTED IN APRIL. AND
2 STAFF HAS EVALUATED THE PROPOSALS. AND WE ACTUALLY HAVE
3 ONE. THE FIRST CONTRACT. THE MARKET DEVELOPMENT TECHNICAL
4 ASSISTANCE CONTRACT. WHICH WAS A COMPETITIVELY BID
5 CONTRACT.

6 AND THE SECOND CONTRACT FOR BOND FINANCE
7 ASSISTANCE IS BEING AWARDED UNDER DIFFERENT PROCEDURES.
8 BUT WE CAN DEAL FIRST WITH THE MARKET DEVELOPMENT
9 TECHNICAL ASSISTANCE CONTRACT. WHICH IS A CONTRACT
10 DEVELOPED BY THE STAFF OF THE MARKET DEVELOPMENT BRANCH
11 TO PROVIDE A RANGE OF SERVICES THAT THE STAFF AND
12 COMMITTEE CAN SPECIFY OVER THE NEXT YEAR TO BE CARRIED
13 OUT BY A TEAM OF CONSULTANTS.

14 THE CONTRACT IS AWARDED ON AN AS-NEEDED
15 BASIS FOR AWARDING IT. ASKING YOU TO AWARD THE CONTRACT
16 FOR \$100,000. WHICH WAS THE AMOUNT AUTHORIZED BY THE
17 BOARD IN JANUARY. AND THIS WILL REALLY PLACE AT THE
18 BOARD'S DISPOSAL \$100,000 WORTH OF CONSULTANT SERVICES
19 FOR VARIOUS MARKET DEVELOPMENT ACTIVITIES.

20 CHAIRMAN CHESBRO: NOW. WE'VE BOUGHT THAT MUCH
21 TIME AND WE'LL PAY FOR IT REGARDLESS OF HOW MUCH WE USE.
22 OR IS IT A DEAL WHERE IT GETS DRAWN ON AS A RESULT OF --

23 MR. MEYERS: RIGHT. IT GETS DRAWN ON. WE ONLY
24 PAY FOR WHAT WE ASK FOR.

25 CHAIRMAN HUFF: UP TO A HUNDRED THOUSAND.



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1 MR. MEYERS: UP TO A HUNDRED THOUSAND. CORRECT.
2 FOR THE CONTRACT WE RECEIVED EIGHT
3 PROPOSALS. FOUR OF WHICH WERE DISQUALIFIED STRICTLY
4 BECAUSE OF FAILURE TO MEET MINIMUM QUALIFYING SCORES THAT
5 WERE AWARDED BY THE EVALUATION COMMITTEE. THIS COMMITTEE
6 CONSISTS OF FOUR STAFF PEOPLE FROM THE -- TWO FROM THE
7 PLANNING AND ASSISTANCE DIVISION AND TWO FROM THE OFFICE
8 OF STRATEGIC PLANNING.

9 PROPOSERS HAD TO MEET A MINIMUM SCORE OF 60
10 POINTS. AND WE ENDED UP WITH FOUR CONSULTANT FIRMS
11 MEETING THAT MINIMUM CRITERIA.

12 THE COST PROPOSAL FOR THOSE FOUR FIRMS WAS
13 OPENED. AND THE FIRM OF CALIFORNIA FUTURES INCORPORATED
14 WAS THE LOWEST QUALIFIED PROPOSAL THAT WE RECEIVED FOR
15 THIS CONTRACT.

16 CHAIRMAN CHESBRO: THANK YOU, MR. MEYERS. ANY
17 QUESTIONS ON THIS CONTRACT FROM COMMITTEE MEMBERS? WE'RE
18 DEALING WITH, MR. RELIS, WITH THE PROPOSED CONTRACT FOR
19 MARKET DEVELOPMENT TECHNICAL ASSISTANCE. IT HAS BEEN
20 RECOMMENDED BY STAFF THAT IT BE AWARDED CALIFORNIA
21 FUTURES INCORPORATED BASED ON THEIR BEING DETERMINED TO
22 BE THE LOWEST QUALIFIED BIDDER.

23 BOARD MEMBER RELIS: I'M JUST GOING TO SAY I'M
24 GOING TO RECUSE MYSELF FROM VOTING BECAUSE I NOTICE THE
25 FORMER ORGANIZATION I USED TO DIRECT IS ON THIS LIST. AND



1 EVEN THOUGH I HAVE NO TIES WITH THEM ANY LONGER. I THINK
2 I SHOULD DO THAT.

3 CHAIRMAN CHESBRO: OKAY. ANY QUESTIONS. MR.
4 HUFF?

5 BOARD MEMBER HUFF: NONE.

6 CHAIRMAN CHESBRO: I'LL ENTERTAIN A MOTION TO --

7 BOARD MEMBER HUFF: MOVE IT.

8 CHAIRMAN CHESBRO: I'LL SECOND IT.

9 CALL THE ROLL, PLEASE.

10 COMMITTEE SECRETARY: BOARD MEMBER HUFF?

11 BOARD MEMBER HUFF: AYE.

12 COMMITTEE SECRETARY: RELIS?

13 BOARD MEMBER RELIS: I'M NOT VOTING.

14 COMMITTEE SECRETARY: CHAIRMAN CHESBRO?

15 CHAIRMAN CHESBRO: AYE.

16 THE NEXT ONE. MR. MEYERS. IS BOND FINANCE
17 ASSISTANCE.

18 MR. MEYERS: YES. THIS CONTRACT IS ESSENTIALLY
19 TO HIRE LEGAL REPRESENTATION FOR THE BOARD. AND WE
20 PROVIDED A BRIEF DESCRIPTION OF THE PROCESS THAT WE USE
21 TO -- OR WERE ALLOWED TO USE TO HIRE LEGAL SERVICES. AND
22 THIS PROCESS WAS CARRIED OUT BY THE BOARD'S LEGAL OFFICE.
23 AND THEY GOT PERMISSION FROM THE ATTORNEY GENERAL'S
24 OFFICE TO CONTRACT WITH A PRIVATE COUNSEL TO PROVIDE
25 VARIOUS SERVICES RELATED TO MARKET DEVELOPMENT AND BOND



1 ANALYSIS. AND THE FIRM THEY SELECTED. DUE TO THEIR PAST
2 WORK IN THIS FIELD. IS CONSTANCE HORNIG. ESQUIRE. AND
3 THEY'LL BE --

4 CHAIRMAN CHESBRO: FAMILIAR TO THE MEMBERS OF
5 THIS COMMITTEE.

6 MR. MEYERS: YEAH. AND, AGAIN. IT'S AN
7 AS-NEEDED TYPE CONTRACT. AS WE DEVELOP NEED FOR
8 CONSULTATION. WE'LL BE BILLED ACCORDINGLY. AND THE
9 MAXIMUM AMOUNT FOR THIS CONTRACT WILL BE \$100,000. AND
10 YOUR ITEM LISTS SEVERAL TYPES OF TASKS THAT SHE COULD BE
11 CALLED ON TO CARRY OUT FOR US. TYPES OF THINGS, I THINK.
12 THE MARKET DEVELOPMENT BRANCH HAS IDENTIFIED AS NEEDED IN
13 REGARDS TO LOAN AWARDS AND OTHER FINANCIAL ASSISTANCE
14 ACTIVITIES IN REGARDS TO MARKET DEVELOPMENT.

15 BOARD MEMBER HUFF: MOVE IT.

16 CHAIRMAN CHESBRO: OKAY. IT'S BEEN MOVED.

17 IS THERE A SECOND?

18 BOARD MEMBER RELIS: SECOND.

19 CHAIRMAN CHESBRO: LET ME ASK ONE QUESTION
20 BEFORE I CALL FOR THE VOTE.

21 I'M ASSUMING THAT THIS IS A LIST OF
22 TYPICAL -- THIS LIST WILL INCLUDE -- THIS IS THE TYPICAL
23 TASKS THAT ARE INCLUDED. BUT AM I CORRECT IN MY
24 IMPRESSION THAT THE CONTRACTOR WOULD ALSO BE AVAILABLE TO
25 ANALYZE AND GIVE STAFF SUPPORT IN RELATION TO SPECIFIC



1 MARKET DEVELOPMENT PROJECTS AND FINANCING ARRANGEMENTS
2 AND THAT SORT OF THING?

3 MR. MEYERS: YEAH. THESE ARE THE TYPICAL TASKS.
4 IT'S NOT EXCLUSIVE LIST.

5 CHAIRMAN CHESBRO: AS WELL AS THE ZONES.

6 MR. MEYERS: YEAH.

7 BOARD MEMBER RELIS: MR. CHAIRMAN. JUST ALSO
8 POINT OF INFORMATION. ARE WE GOING TO HAVE A MECHANISM
9 TO GET THIS INFORMATION OUT TO THE PARTIES. LOCAL
10 GOVERNMENTS. ETC.? IS THAT BUILT INTO THIS?

11 MR. MEYERS: WHICH INFORMATION?

12 BOARD MEMBER RELIS: ON THE BOND FINANCE
13 ASSISTANCE. WHATEVER.

14 CHAIRMAN CHESBRO: FOR EXAMPLE, THE MODEL
15 DOCUMENT. QUESTION OF DISTRIBUTION. I THINK. OF THE
16 PRODUCT TO THE POTENTIAL BENEFICIARIES OF THE PEOPLE WHO
17 COULD USE THE INFORMATION.

18 BOARD MEMBER RELIS: YEAH. THAT'S ALL I'M
19 GETTING AT.

20 CHAIRMAN CHESBRO: I SEE MR. MALDONADO NODDING.
21 AND IS THAT CONFORMATION THAT THERE -- THAT IS BUILT IN?

22 BOARD MEMBER HUFF: THAT ISN'T PART OF THIS
23 CONTRACT AMOUNT. IS IT?

24 MR. MEYERS: NO. THIS PROVIDES US THE ADVICE
25 AND EXPERTISE.



1 BOARD MEMBER RELIS: BUT WE'LL GET IT OUT.

2 BOARD MEMBER HUFF: WE GET A PIECE OF PAPER AND
3 THEN WE USE OUR XEROX MACHINE.

4 CHAIRMAN CHESBRO: CORRECT. ANY OTHER
5 QUESTIONS? IF NOT, CALL THE ROLL. PLEASE.

6 COMMITTEE SECRETARY: BOARD MEMBER HUFF?

7 BOARD MEMBER HUFF: AYE.

8 COMMITTEE SECRETARY: RELIS?

9 BOARD MEMBER RELIS: AYE.

10 COMMITTEE SECRETARY: CHAIRMAN CHESBRO?

11 CHAIRMAN CHESBRO: AYE.

12 THANK YOU, MR. MEYERS. OKAY.

13 THE NEXT ITEM, ONE THAT WE'VE ALL BEEN
14 WAITING FOR, I KNOW, IS CONSIDERATION OF ADOPTION OF
15 RECYCLING MARKET DEVELOPMENT ZONE DESIGNATIONS FOR 1992.

16 MR. RIETZ, DO YOU WANT TO INTRODUCE YOUR
17 STAFF AND THE ITEM?

18 MR. RIETZ: MARTHA DIAZ WILL BE PRESENTING ON
19 THIS WITH JERRY HENDERSON.

20 CHAIRMAN CHESBRO: INCIDENTALLY, FOR THOSE OF
21 YOU ON STAFF AND OTHERS WHO WILL BE USING THIS MICROPHONE
22 UP HERE, I UNDERSTAND IT'S NOT AS STRONG AS THE ONES IN
23 FRONT OF US, SO YOU NEED TO SPEAK CLOSE TO IT OR SPEAK
24 UP. THE OTHER OPTION, IF IT DOESN'T WORK, WOULD BE TO
25 HOLD IT, TO GET IT UP CLOSER.



1 MS. DIAZ: WELL, HERE WE GO. GOOD AFTERNOON.
2 MR. CHAIRMAN AND MEMBERS OF THE MARKET DEVELOPMENT
3 COMMITTEE. MY NAME IS MARTHA DIAZ, AND THIS IS MY
4 PARTNER AND AUDIO/VIDEO SPECIALIST FOR THE DAY, JERRY
5 HENDERSON.

6 WE'RE HERE REPRESENTING THE MARKET
7 DEVELOPMENT BRANCH.

8 CHAIRMAN CHESBRO: LET ME ASK IS THAT -- CAN YOU
9 HEAR IT OUT THERE? TRY HOLDING IT.

10 MS. DIAZ: ONCE AGAIN, GOOD AFTERNOON, MR.
11 CHAIRMAN AND MEMBERS OF THE MARKET DEVELOPMENT COMMITTEE.
12 MY NAME IS MARTHA DIAZ AND THIS IS MY PARTNER, JERRY
13 HENDERSON, OF THE MARKET DEVELOPMENT BRANCH.

14 THE ITEM BEFORE YOU REGARDS THE
15 CONSIDERATION OF ADOPTION OF THE FIRST EIGHT RECYCLING
16 MARKET DEVELOPMENT ZONES FOR DESIGNATION CYCLE 1991-1992.

17 I'D LIKE TO BEGIN MY PRESENTATION WITH A
18 BRIEF BACKGROUND OF THE KEY MILESTONE DATES WHICH HAVE
19 PRECEDED THIS ITEM. MAKE SOME GENERAL COMMENTS ABOUT THE
20 APPLICATIONS RECEIVED. BRIEFLY DESCRIBE THE PROCEDURES
21 FOR REVIEW, EVALUATION, AND SCORING OF THE ZONE
22 APPLICATIONS, AND, FINALLY, TO PRESENT OUR
23 RECOMMENDATIONS ON THE EIGHT RECYCLING MARKET DEVELOPMENT
24 ZONE DESIGNATIONS.

25 ON OCTOBER 7, 1991, MARKET DEVELOPMENT



1 COMMITTEE ADOPTED STAFF'S RECOMMENDATIONS ON THE --
2 EXCUSE ME -- ON STATEWIDE OBJECTIVES AND SCORING TO BE
3 UTILIZED IN THE REVIEW, EVALUATION, AND SCORING OF ZONE
4 APPLICATIONS.

5 THE COMMITTEE ALSO DETERMINED THAT EIGHT
6 ZONES WERE TO BE DESIGNATED IN THIS FIRST CYCLE AND
7 APPROVE THE OFFICIAL START DATE OF DECEMBER 1ST FOR THIS
8 FIRST CYCLE.

9 ON OCTOBER 30TH, THE BOARD CONCURRED WITH
10 THE MARKET DEVELOPMENT COMMITTEE'S ACTION AND, AGAIN,
11 ADOPTED THE STATEWIDE RECOMMENDATIONS, DETERMINED THAT
12 EIGHT ZONES WILL BE DESIGNATED, AND APPROVED OUR OFFICIAL
13 START DATE OF DECEMBER 1ST.

14 ON DECEMBER 1ST, WE DISTRIBUTED THE NOTICE
15 OF COMMENCEMENT FOR THE FIRST ZONE DESIGNATION CYCLE, ON
16 DECEMBER 3RD IN LOS ANGELES AND DECEMBER 5TH IN
17 SACRAMENTO, STAFF CONDUCTED PREAPPLICATION WORKSHOPS TO
18 ASSIST PROSPECTIVE APPLICANTS IN THE PREPARATION OF THEIR
19 ZONE APPLICATIONS.

20 FROM DECEMBER 31ST TO MARCH 27TH OF THIS
21 YEAR, STAFF WERE OUT IN THE FIELD PROVIDING DIRECT
22 TECHNICAL ASSISTANCE TO PROSPECTIVE ZONE APPLICANTS.
23 THIS INCLUDED MAKING PRESENTATIONS TO ELECTED OFFICIALS,
24 BUSINESSES, AND NONPROFIT ORGANIZATIONS, TEAM BUILDING AT
25 THE LOCAL LEVEL, DISSEMINATING INFORMATION TO ZONE



1 APPLICANTS. PARTICIPATION AT BRAINSTORMING SESSIONS ON
2 THE CREATIVE ELEMENTS OF THE APPLICATION. ATTENDING AND
3 PARTICIPATING IN CONFERENCES ON ECONOMIC DEVELOPMENT AND
4 RECYCLING. CONSULTING JURISDICTIONS ON THE CALIFORNIA
5 ENVIRONMENTAL QUALITY ACT COMPLIANCE FOR ZONE
6 APPLICATIONS. AND. FINALLY. TOURING PROSPECTIVE ZONE
7 AREAS.

8 ON MARCH 29, 1992. THE OFFICIAL DEADLINE
9 FOR SUBMITTING ZONE APPLICATIONS TOOK PLACE. WE RECEIVED
10 17 APPLICATIONS FOR THE FIRST EIGHT DESIGNATIONS
11 AVAILABLE IN THIS CYCLE. AND AS YOU ALREADY SEE. 17
12 APPLICANTS ARE BEFORE YOU.

13 MARCH 31ST THROUGH MAY 12TH. WE CONDUCTED A
14 REUSE ORIENTED EVALUATION OF 17 APPLICATIONS. THIS
15 REVIEW PROCESS. I'LL DESCRIBE IT AFTER I GO OVER SOME
16 GENERAL COMMENTS.

17 OF THE 17 ZONE APPLICATIONS RECEIVED. THEY
18 REPRESENT THE FIRST EFFORTS BY JURISDICTIONS THROUGHOUT
19 THE STATE OF CALIFORNIA TO ESTABLISH RECYCLING MARKET
20 DEVELOPMENT ZONES FOR THE PURPOSES OF LOCAL ECONOMIC
21 DEVELOPMENT OF SECONDARY MATERIAL BUSINESS ENTERPRISES.

22 I'D LIKE TO JUST SAY THAT ALL THE
23 APPLICANTS DID PREPARE WONDERFUL GREAT PLANS. AND WE'RE
24 VERY PLEASED TO BE WORKING WITH THE COMMUNITIES.

25 AGAIN. SOME MORE GENERAL INFORMATION THAT



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1 THE PLANS THAT THE COMMUNITIES HAVE DEVELOPED ARE
2 DETAILED, CREATIVE, AND LOGICAL PLANS THAT HAVE
3 DEMONSTRATED TO STAFF THAT ZONES CAN BE IMPLEMENTED AND
4 WILL SUCCEED. THESE STRATEGIC PLANS WILL GUIDE THE LOCAL
5 DEVELOPMENT EFFORTS.

6 THESE ECONOMIC DEVELOPMENT EFFORTS WERE
7 ALSO INTEGRATED INTO THE OVERALL INTEGRATED WASTE
8 MANAGEMENT PROCESSES SUCH AS INCLUSION IN THE SOURCE
9 REDUCTION AND RECYCLING ELEMENTS AND COUNTYWIDE
10 INTEGRATED WASTE MANAGEMENT PLANS AND WERE COORDINATED
11 WITH LOCAL TASK FORCE MEMBERS AS WELL AS SOLID WASTE
12 MANAGEMENT AUTHORITIES.

13 THE STRATEGIC PLANS ALSO REPRESENT
14 EXCELLENT PLANNING MODELS WHICH RANGE FROM GROWTH
15 MANAGEMENT AND GENERAL PLANNING CONSIDERATIONS AND
16 ESTABLISHING ZONES TO INDUSTRIAL SHORELINE AND PORT
17 LOCATION MODELS, TO INDUSTRIAL PARK AND REDEVELOPMENT
18 AREA EFFORTS, TO INTERNATIONAL EFFORTS ALONG BORDER
19 AREAS.

20 THE FORMATION OF MULTIDISCIPLINARY TEAMS TO
21 FOSTER THE PARTICIPATION AND COMMUNICATION AMONGST THESE
22 KEY PLAYERS HAS PROVEN INVALUABLE. COMMUNITIES HAVE
23 NETWORKED AND COORDINATED THEIR EFFORTS WITH URBAN AND
24 REGIONAL PLANNERS, ECONOMIC DEVELOPMENT SPECIALISTS, AND
25 SOLID WASTE PROFESSIONALS.



1 APPLICANTS.

2 ZONE STAFF CONDUCTED THE INITIAL REVIEW OF
3 WHAT WE'RE CALLING THE COMPLETENESS CHECK OF APPLICATIONS
4 TO IDENTIFY ANY DEFICIENCIES REGARDING THE FACILITY FOR
5 PARTICIPATION IN THE PROGRAM OR IDENTIFYING ANY
6 INFORMATION THAT HAD BEEN MISSING FROM THE ZONE
7 APPLICATIONS.

8 EACH APPLICANT WAS GRANTED 14 CALENDAR DAYS
9 TO CORRECT THESE DEFICIENCIES. AND CHANGES WERE SUBMITTED
10 TO STAFF ON TIME.

11 THE SECOND WAS OUR PASS/FAIL. WHICH IS THE
12 TECHNICAL REVIEW PORTION OF THE EVALUATION PROCESS. EACH
13 APPLICATION WAS EVALUATED TO DETERMINE WHETHER THE PLAN
14 COULD BE IMPLEMENTED AND HAD THE ABILITY TO SUCCEED. THE
15 APPLICATIONS WERE EVALUATED AGAIN ON A PASS/FAIL BASIS.
16 AND THE FOLLOWING FACTORS WERE CONSIDERED IN THIS PHASE
17 OF THE EVALUATION PROCESS.

18 FIRST. ANALYSIS OF HOW THE ZONE WILL BE
19 SUPPLIED WITH THE NECESSARY FEEDSTOCK TO SUPPORT THE
20 NUMBER AND TYPES OF BUSINESSES PLANNED FOR DEVELOPMENT
21 WITHIN THE ZONE.

22 SECONDLY. MARKETING PLAN THAT DESCRIBES HOW
23 THE ZONE WILL ATTRACT NEW AND STABILIZE AND EXPAND
24 EXISTING BUSINESSES.

25 THIRD. A DESCRIPTION OF THE FUNDING AND



1 ORGANIZATIONAL STRUCTURE OF THE ZONE.

2 FOURTH. A DESCRIPTION OF THE FINANCIAL
3 SUPPORT THAT WILL BE AVAILABLE TO BUSINESSES IN THE ZONE.

4 AND I'D JUST LIKE TO SAY THAT THESE MIGHT
5 BE EXISTING PROGRAMS SUCH AS, YOU KNOW, BLOCK GRANTS OR
6 REDEVELOPMENT AGENCY FUNDING.

7 NEXT. A DESCRIPTION OF ANY REAL PROPERTY
8 AND BUILDINGS THAT ARE AVAILABLE IN THE ZONE FOR MARKET
9 DEVELOPMENT PURPOSES.

10 AND, FINALLY, AN ANALYSIS OF HOW THE -- ANY
11 EXISTING OR PLANNED INFRASTRUCTURE WILL BE ABLE TO
12 SUPPORT THE ZONE.

13 NOW, FINAL PHASE WAS A SCORING OF THE PLAN
14 AGAINST THE STATEWIDE OBJECTIVES, WHICH, AS I INDICATED,
15 WERE APPROVED BY BOTH THE MARKET DEVELOPMENT COMMITTEE
16 AND THE BOARD. THEY'RE BEFORE YOU, SO I DON'T THINK THAT
17 I NEED TO GO OVER THEM UNLESS YOU'D LIKE ME TO.

18 BUT THIS PARTICULAR PHASE WAS IMPORTANT IN
19 THAT WE EMPLOYED SIX REVIEWERS AND ASSIGNED TWO REVIEWERS
20 FOR EACH OBJECTIVE. THIS WOULD INSURE AN APPLES TO
21 APPLES COMPARISON.

22 INDEPENDENT SCORES WERE COMPUTED AND
23 AVERAGED FOR EACH OBJECTIVE. THEN STAFF CONDUCTED OUR
24 FINAL EVALUATION. WE CONDUCTED A COMPARATIVE ANALYSIS,
25 AND THESE PROCEDURES, AGAIN, WERE EMPLOYED BY STAFF ON



1 CONSISTENCE WITH THE PUBLIC RESOURCES CODE SECTION 42150.
2 WHICH PROVIDES US WITH AN OPPORTUNITY TO FURTHER EVALUATE
3 APPLICATIONS IN THE EVENT THAT THE NUMBER OF APPLICANTS
4 RECEIVED ARE MORE THAN THE DESIGNATIONS AVAILABLE.

5 FOLLOWING FACTORS WERE CONSIDERED BY STAFF
6 IN THIS FINAL PHASE: CLARITY AND ADHERENCE TO THE
7 PRINCIPALS OF GOOD PLANNING AS DEMONSTRATED BY CLEARLY
8 STATED GOALS AND OBJECTIVES.

9 SECONDLY, AN EFFECTIVE, INNOVATIVE, AND
10 COMPREHENSIVE STRATEGY FOR ATTAINING MARKET GOALS AND
11 OBJECTIVES.

12 FINALLY, THE RECENT CATASTROPHIC EVENTS
13 EXPERIENCED BY SOME COMMUNITIES AND THE ASSOCIATED
14 SOCIAL, PHYSICAL, AND ECONOMIC IMPACTS THAT HAVE
15 RESULTED.

16 JERRY, IF YOU WOULD LIKE, AGAIN, IN OUR
17 STAFF COMMENTS I'D LIKE TO SAY THAT THE PURPOSE OF THIS
18 ITEM IS THREEFOLD: TO PRESENT TO THE MARKET DEVELOPMENT
19 COMMITTEE STAFF'S RECOMMENDATIONS FOR THE EIGHT RECYCLING
20 MARKET DEVELOPMENT ZONES, TO SEEK APPROVAL FROM THE
21 MARKET DEVELOPMENT COMMITTEE ON THE STAFF'S
22 RECOMMENDATIONS ON THE EIGHT DESIGNATIONS, AND, FINALLY,
23 TO FORWARD THESE EIGHT RECOMMENDATIONS TO THE BOARD FOR
24 THEIR OFFICIAL ZONE DESIGNATION AT JUNE 24TH.

25 THE MAP IN FRONT OF YOU JUST SHOWS THE NINE



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1 ECONOMIC REGIONS AND THE ZONE LOCATIONS. THE PROPOSAL
2 WOULD BE -- EXCUSE ME -- RECOMMENDATIONS, JUST TO GIVE
3 YOU AN INDICATION OF THE GEOGRAPHIC DISTRIBUTION. AND
4 WE'RE READY NOW.

5 IT IS WITH GREAT PLEASURE THAT WE PRESENT
6 STAFF'S RECOMMENDATIONS FOR THE EIGHT RECYCLING MARKET
7 DEVELOPMENT ZONES.

8 FIRST, WE HAVE THE COUNTY OF CONTRA COSTA:
9 SECOND, THE CITY OF LONG BEACH; THIRD, THE COUNTY OF
10 VENTURA AND CITIES THAT HAVE JOINED WITH THEM: THE CITIES
11 OF OAKLAND AND BERKELEY, WHO WERE COAPPLICANTS: THE
12 COUNTIES OF SAN BERNARDINO AND RIVERSIDE, AGAIN, WHO WERE
13 COAPPLICANTS: GRAND COUNTY: CITY AND COUNTY OF
14 SACRAMENTO: AND CITY OF LOS ANGELES.

15 THAT CONCLUDES MY PRESENTATION. AND IF
16 THERE ARE ANY QUESTIONS.

17 CHAIRMAN CHESBRO: ANY QUESTIONS?

18 I WOULD LIKE TO MAKE A COMMENT, NOT ABOUT
19 THE SPECIFIC RECOMMENDATIONS, BUT, RATHER, THAT THE
20 PROCESS OF HELPING LOCAL GOVERNMENT, AND ACTUALLY ALL OF
21 US, I MEAN, IT'S NOT JUST TRUE OF LOCAL GOVERNMENT, TO
22 UNDERSTAND WHAT WE MEAN BY RECYCLING ECONOMIC
23 DEVELOPMENT, WHICH IS OUR NEWEST SPIN ON MARKET
24 DEVELOPMENT, ADVANCING OUR LANGUAGE, HAS BEEN A LONG
25 PROCESS BECAUSE BOTH IN PRIVATE SECTOR AND IN GOVERNMENT



1 IT'S TAKEN US A WHILE TO UNDERSTAND THAT WE'RE NOT JUST
2 TALKING ABOUT ANOTHER GOVERNMENT PROGRAM.

3 AND THESE COMMUNITIES. NOT JUST THE ONES
4 SELECTED. BUT THE ONES WHO HAVE SUBMITTED APPLICATIONS
5 ARE THE ONES WHO ARE THE QUICKEST TO GRASP IT AND REALIZE
6 THAT WE WEREN'T JUST TALKING ABOUT SOME SORT OF AN ADD-ON
7 TO COLLECTION PROGRAMS. BUT THAT THIS WAS A VERY CENTRAL
8 THEMATIC APPROACH THAT RECOGNIZES THIS IS ECONOMIC
9 DEVELOPMENT.

10 SO I WANT TO CONGRATULATE ALL THE
11 APPLICANTS FOR BEING AHEAD OF THE CURVE. AND I PRESUME
12 THAT THOSE THAT ARE NOT PROPOSED HERE FOR SELECTION THIS
13 YEAR WILL BE BACK AND ALREADY ARE BACK ON THE LIST FOR
14 CONSIDERATION IN THE UPCOMING CYCLE. WHICH IS GOING TO
15 HAPPEN VERY SHORTLY.

16 WE NEED ALL OF YOU TO BE ON OUR LIST. TO BE
17 LEADERS IN MARKET DEVELOPMENT. AND I THINK THE MAJOR
18 STEP HAS BEEN TAKEN.

19 IF YOU LOOK AT THE MAP TO GET THE
20 GEOGRAPHIC DISTRIBUTION WE NEED. BUT THERE'S STILL SOME
21 GAPS THERE. AND SO WE'RE. I THINK. GOING TO BE
22 PROCEEDING WITH FURTHER DESIGNATIONS VERY SHORTLY. AND
23 PRESUMABLY ALL OF THE ONES WHO ARE NOT RECOGNIZED FOR
24 THIS YEAR HAVE A VERY GOOD CHANCE FOR DESIGNATION NEXT
25 YEAR.



1 ANY OTHER COMMENTS?

2 BOARD MEMBER RELIS: I JUST HOPE THAT WHEN THIS
3 IS FULLY PROCESSED AND WE TAKE THESE BEFORE THE FULL
4 BOARD TO ACT ON IT. THAT WE'LL GET OUR PUBLIC INFORMATION
5 OFFICE HEAVILY INVOLVED. AND THAT THE BOARD MEMBERS
6 THEMSELVES, BASED ON OUR REACH, OUR GEOGRAPHIC REACH,
7 ETC., CAN GET OUT THERE AND WORK WITH THE ZONES AND BE
8 THERE WHEN -- AT ANNOUNCEMENT TIME.

9 CHAIRMAN CHESBRO: WELL, IT'S VERY EXCITING. I
10 THINK, FOR THE BOARD MEMBERS BECAUSE, LIKE ALL OF YOU WHO
11 HAVE COME TO HEAR THIS, WE'VE BEEN WAITING A LONG TIME
12 FOR SOMETHING TO BEGIN TO MANIFEST ITSELF BY WAY OF
13 PROGRAM.

14 WE'VE HAD A LOT OF HEARINGS AND A LOT OF
15 REGULATIONS ADOPTED AND A LOT OF DISCUSSION. BUT IT'S
16 TIME TO GET TO WORK. AND I THINK THE ZONE DESIGNATION IS
17 A MAJOR STEP, A CONCRETE STEP. NOW THAT WE'RE MOVING
18 FORWARD WITH THE ACTUAL PROGRAMS.

19 BOARD MEMBER RELIS: WELL DONE.

20 MS. DIAZ: THANK YOU.

21 CHAIRMAN CHESBRO: DEFINITELY. THE STAFF
22 INVOLVED A TREMENDOUS AMOUNT OF ANALYSIS AND WORK HAS
23 GONE INTO THIS SELECTION PROCESS.

24 AND ADVISING AND EDUCATING THE APPLICANTS.
25 NOT JUST DIRECTLY FROM STAFF. BUT WITH THE NATIONAL



1 DEVELOPMENT COUNCIL AND OTHERS TRYING TO FURTHER THE
2 PROCESS OF HELPING THE APPLICANTS UNDERSTAND WHAT
3 RECYCLING AND ECONOMIC DEVELOPMENT IS AND WHAT THE
4 POTENTIAL IS.

5 I'LL ENTERTAIN A MOTION TO MAKE A
6 RECOMMENDATION TO THE FULL BOARD.

7 BOARD MEMBER RELIS: MOVE TO ACT ON STAFF
8 RECOMMENDATION.

9 BOARD MEMBER HUFF: I'LL SECOND IT SINCE YOU
10 REQUIRE SECONDS IN THIS COMMITTEE.

11 CHAIRMAN CHESBRO: SECONDED. ANY FURTHER
12 COMMENTS? IF NOT, I WILL ASK FOR THE ROLL TO BE CALLED.

13 COMMITTEE SECRETARY: BOARD MEMBER HUFF?

14 BOARD MEMBER HUFF: AYE.

15 COMMITTEE SECRETARY: RELIS?

16 BOARD MEMBER RELIS: AYE.

17 COMMITTEE SECRETARY: CHAIRMAN CHESBRO?

18 CHAIRMAN CHESBRO: AYE.

19 BOARD MEMBER HUFF: MR. CHAIRMAN.

20 CHAIRMAN CHESBRO: YES. MR. HUFF.

21 BOARD MEMBER HUFF: WERE YOU DESIROUS OF PUTTING
22 THIS ON CONSENT. OR DID YOU WANT TO ALLOW ALL THE BOARD
23 MEMBERS TO MAKE THEIR SPEECHES?

24 CHAIRMAN CHESBRO: I THINK WE SHOULD ALL HAVE AN
25 OPPORTUNITY TO MAKE A FEW COMMENTS. SO I THINK IT SHOULD



1 BE PLACED ON THE REGULAR AGENDA.

2 HOWEVER. YOU RAISED THE QUESTION. AND I
3 HADN'T ASKED. WITH REGARDS TO THE TWO CONTRACTS WHICH
4 WERE LET EARLIER. AND I WOULD RECOMMEND AND. WITH
5 CONCURRENCE FROM THE OTHER MEMBERS OF THE COMMITTEE.
6 PLACE THOSE TWO ON CONSENT. THOSE TWO CONTRACTS.

7 BOARD MEMBER HUFF: NOTWITHSTANDING THE ONE
8 ABSTENTION.

9 CHAIRMAN CHESBRO: YES. WE MIGHT WANT TO TAKE A
10 SEPARATE VOTE ON THAT. SO YOU'D BE ABLE TO ABSTAIN
11 WITHOUT ABSTAINING THE WHOLE CONSENT CALENDAR.

12 BOARD MEMBER HUFF: CONSTANCE'S GETS CONSENT AND
13 THE FIRST ONE DOESN'T.

14 CHAIRMAN CHESBRO: YEAH. BOND FINANCING
15 ASSISTANCE WILL GO ON CONSENT. MARKET DEVELOPMENT
16 TECHNICAL ASSISTANCE WOULD NOT. OKAY.

17 BOARD MEMBER HUFF: ALSO. I WOULD NOT WANT TO
18 LET THIS OCCASION PASS WITHOUT MAKING COMMENT ABOUT THE
19 ADVANCED EQUIPMENT THAT WE HAVE AVAILABLE TO US AND OUR
20 BOARD MEMBERS AS CONTRASTED TO THIS ARCHAIC DEVICE HERE.

21 CHAIRMAN CHESBRO: MOVING ON TO ITEM 4. ONCE
22 AGAIN. THANK YOU TO ALL THE STAFF INVOLVED. THE
23 PRESENTERS HERE TODAY AND TO THE STAFF INVOLVED IN THE
24 MEETINGS.

25 ITEM 4. IS DISCUSSION OF PROPOSED RECYCLING



1 MARKET DEVELOPMENT ZONE REVOLVING LOAN FUND PROGRAM
2 REGULATIONS. EVEN THOUGH I WOULD LOVE TO ADOPT THESE
3 TODAY. IT'S MY UNDERSTANDING THAT WE'RE NOT ADOPTING
4 TODAY. THAT WE ARE, ONCE AGAIN, FURTHER REFINING, GIVING
5 STAFF FEEDBACK FOR, I HOPE, ADOPTION IN THE VERY NEAR
6 FUTURE BECAUSE WE WANT TO GET THE LOAN PROGRAM IN PLACE
7 TO SUPPORT THE ZONES THAT WE JUST RECOMMENDED TO THE
8 BOARD.

9 MR. MALDONADO: IF IT'S ALL RIGHT, THERE'S THREE
10 MIKES HERE.

11 GOOD AFTERNOON. AS YOU MENTIONED, WE'RE
12 HERE TODAY TO DISCUSS THE RECYCLING MARKET DEVELOPMENT
13 ZONE LOW-INTEREST LOAN PROGRAM. LET ME -- MY NAME IS
14 MARK MALDONADO. LET ME INTRODUCE THE STAFF THAT ARE WITH
15 ME.

16 THIS IS NADINE FORD ON MY LEFT AND JILL
17 LARNER ON MY RIGHT. THEY'RE EXTREMELY ACTIVE AND WILL
18 CORRECT ME THIS AFTERNOON WHEN I MAKE MISTAKES. AND I'M
19 SURE I'LL MAKE SOME ALONG THE WAY.

20 SENATE BILL 2310 AMENDED SECTION 42145 OF
21 THE PUBLIC RESOURCES CODE. THIS BILL IS THE BERGESON
22 BILL THAT AUTHORIZED THE BOARD TO MAKE LOW-INTEREST LOANS
23 TO BUSINESSES AND LOCAL GOVERNMENT AGENCIES LOCATED
24 WITHIN DESIGNATED RECYCLING MARKET DEVELOPMENT ZONES.
25 AND AS YOU JUST ACTED, THOSE ZONES WERE ABOUT TO COME



1 INTO BEING IN THE VERY NEAR FUTURE.

2 FOLLOWING THE MARKET DEVELOPMENT
3 COMMITTEE'S APPROVAL ON JANUARY 7, 1992, PROPOSED
4 REGULATIONS FOR THE RECYCLING MARKET DEVELOPMENT ZONE
5 REVOLVING LOAN PROGRAM WERE NOTICED IN THE CALIFORNIA
6 REGISTER ON JANUARY 14, 1992. THIS BEGAN THE FORMAL
7 45-DAY PUBLIC COMMENT PERIOD, WHICH ENDED MARCH 10TH.

8 HOWEVER, BASED ON REQUEST OF COMMITTEE AND
9 THE LEGAL STAFF, COMMENT PERIOD EXTENDED UNTIL MARCH 31,
10 1992.

11 YOU HAD PRESENTED TO YOU EARLIER ON THE
12 MOST RECENT VERSION OF THE REGULATIONS BASED ON PUBLIC
13 COMMENT AND LEGAL COMMENT AND COMMITTEE'S COMMENT, AND
14 YOU WILL NOTICE THAT THE CHANGES MADE ARE DONE SO IN THE
15 FORM OF BOLD AND STRIKEOUT TO MAKE THEM MORE CLEAR.

16 THE PURPOSE OF THIS ITEM IS TO REVIEW THE
17 PROCESS OF THE LOAN PROGRAM AND THE REGULATIONS. GO OVER
18 ANY CHANGES, AND RESPOND TO QUESTIONS OR TAKE FURTHER
19 COMMENT.

20 I THINK IT MIGHT BE MOST APPROPRIATE TO
21 WALK THROUGH THE PROCESS OF THE LOANS. LET ME LAY OUT
22 SPECIFICALLY WHAT THEY ARE DESIGNED TO DO AND WHAT THE
23 PROCESS IS. AND THEN IF YOU WOULD LIKE, AT YOUR
24 DIRECTION, WE CAN GO PAGE BY PAGE AND LINE BY OR LINE, OR
25 WE CAN RESPOND DIRECTLY TO SPECIFIC QUESTIONS.



1 CHAIRMAN CHESBRO: WELL, I WOULD BE ORIENTED
2 TOWARDS FOCUSING ON THE QUESTIONS THAT COMMITTEE MEMBERS
3 HAVE, BUT WHAT'S THE PLEASURE OF THE COMMITTEE MEMBERS?
4 WOULD YOU LIKE THEM TO GO THROUGH PAGE BY PAGE AND WALK
5 US THROUGH IT, OR ARE YOU PREPARED TO JUST ANSWER
6 QUESTIONS?

7 BOARD MEMBER HUFF: NO. I DON'T.

8 CHAIRMAN CHESBRO: WE WILL, THEN, DO OUR
9 QUESTIONS AND HAVE THAT BE THE FOCUS. OF COURSE, IF
10 THERE'S ANY SIGNIFICANT ISSUES THAT STAFF PERCEIVES THAT
11 THEY WANT TO MAKE SURE WE DISCUSS IN ADDITION TO OUR
12 QUESTIONS --

13 MR. MALDONADO: WE'LL MAKE SURE TO DO THAT.

14 THE PURPOSE OF THE PROGRAM, AGAIN, IS TO
15 MAKE LOANS TO BUSINESSES AND LOCAL GOVERNMENTAL ENTITIES
16 WITHIN THE ZONES THAT WILL RESULT IN USE OF SECONDARY
17 MATERIALS BY BUSINESS ENTITIES AND THE CREATION OF
18 MARKETS.

19 THE LOAN PROGRAM IS A \$5 MILLION ANNUAL
20 LOAN FUND. THE MAXIMUM LOAN AMOUNT IS 50 PERCENT OF COST
21 OF ANY PROJECT UP TO A MAXIMUM OF A MILLION DOLLARS.
22 THOSE FUNDS CAN BE USED FOR EQUIPMENT PURCHASES, REAL
23 PROPERTY PURCHASES, WORKING CAPITAL, AND WITH FINANCING
24 OF ONEROUS DEBT FOR BUSINESSES. AND IT CAN BE LOANS TO
25 LOCAL GOVERNMENT AGENCIES FOR PURPOSES OF DEVELOPING



1 INFRASTRUCTURE WHICH WOULD DIRECTLY SUPPORT SECONDARY
2 MATERIAL BUSINESS ENTERPRISES.

3 INTEREST RATES WILL BE SET BY THE STATE
4 POOLED MONEY INVESTMENT ACCOUNT RATE, WHICH RIGHT NOW IS
5 HOVERING AT SIX AND THREE-QUARTER PERCENT RANGE. THE
6 TERM OF THE LOAN IS NOT TO EXCEED TEN YEARS. AND THE
7 BOARD WILL BE TAKING SECURITY ON THOSE LOANS SUFFICIENT
8 TO COVER THE OUTSTANDING AMOUNT OF THE LOANS.

9 THERE WILL BE FEES ATTACHED TO THE LOAN
10 APPLICATION PROCESS OF \$500 AND THREE POINTS. WHICH
11 RAISES THE EFFECTIVE RATE APPROXIMATELY A HALF TO
12 TWO-THIRDS OF A POINT ON THE OVERALL INTEREST RATE.

13 IN THE REGULATIONS THE BOARD RESERVES THE
14 RIGHT TO PERIODICALLY ADJUST THOSE APPLICATION AND LOAN
15 ORIGINATION FEES. THOSE FEES, ALSO NOT TO BE SEEN AS A
16 BARRIER FOR PARTICIPATION, CAN BE FUNDED BY THE LOAN
17 PROGRAM ITSELF.

18 NOW, AS I'M SURE YOU ALL ARE VERY
19 INTERESTED IN IS THE ACTUAL LOAN PROCESS, WHICH IN YOUR
20 REGULATIONS BEGINS IN 17935.1, PAGE 7 AND CONTINUES
21 FORWARD.

22 THE LOAN APPLICATIONS WILL BE RECEIVED IN
23 INTAKE BY STAFF ON A QUARTERLY BASIS, AND THERE WILL BE A
24 PRELIMINARY REVIEW FOR BASIC ELIGIBILITY AND
25 COMPLETENESS. FOLLOWING THAT PRELIMINARY REVIEW BY



1 STAFF. COMMUNICATION WILL BE MADE TO THE APPLICANTS
2 REGARDING THE ELIGIBILITY AND COMPLETENESS.

3 THEN A FULL STAFF REVIEW WILL OCCUR OF
4 ELIGIBLE APPLICATIONS. THAT STAFF REVIEW WILL INCLUDE
5 UNDERWRITING OF THE LOANS FOR THE PURPOSES OF DETERMINING
6 THE FINANCIAL VIABILITY OF THE BUSINESS APPLYING AND THE
7 APPROPRIATENESS OF THE STRUCTURE OF THE FINANCING AND THE
8 ABILITY TO REPAY AND COLLATERALIZE.

9 THE DEALS THAT -- OR THE APPLICATIONS THAT
10 ARE CONSIDERED TO BE FINANCIBLE -- AND I KEEP WANTING TO
11 US DOABLE. WHICH IS NOT A TECHNICAL TERM -- BUT THAT CAN
12 BE --

13 CHAIRMAN CHESBRO: WE'LL ACCEPT DOABLE. LAWYER
14 MAY NOT IN THE REGULATIONS. BUT WE'LL ACCEPT FOR PURPOSES
15 OF THIS DISCUSSION.

16 MR. MALDONADO: THOSE FOUND TO BE ABLE TO BE
17 FINANCED WILL BE PRIORITIZED BASED ON PRC 42145. WHICH IS
18 THE STATUTORY REQUIREMENT. AND IT INDICATES WHERE FOR
19 PROJECTS ON MATERIAL. AND THAT WE TAKE TO BELIEVE THAT
20 THE BUSINESS IS BOTH ABLE TO SECURE EXISTENT SUPPLIES
21 MATERIAL FROM WITHIN THE ZONE. AND THAT THOSE MATERIALS
22 NEED TO BE DIVERTED FROM WITHIN THE ZONES.

23 ALSO. THE ABILITY TO LEVERAGE OTHER FUNDS
24 IN THE PROJECT VIS-A-VIS BANK OR OTHER PUBLIC SOURCES OR
25 PRIVATE EQUITY SO THAT WE ARE INVESTING THE SMALLEST



1 AMOUNT POSSIBLE TO CAUSE THE DEAL TO ACTUALLY OCCUR.
2 THIS IS NOT A PROGRAM WHERE, EVEN THOUGH THAT THERE'S 50
3 PERCENT, WE CAN GO UP. OUR PREFERENCE IS NOT TO GO UP TO
4 50 PERCENT WHEREVER POSSIBLE.

5 THESE PROJECTS ALSO HAVE TO POINT OUT A
6 STAFF COMMENT ON THE PRIORITY SECTION, WHICH IS UNDER
7 17933, BOTTOM OF PAGE 5, TOP OF PAGE 6. ITEM B, IT
8 CURRENTLY SAYS, "BEGINNING IN 1993, BY MARCH 31ST OF EACH
9 YEAR, THE BOARD SHALL DETERMINE ADDITIONAL STATEWIDE
10 PROJECT PRIORITIES FOR FUNDING."

11 AT A SECOND LOOK AT THAT, WE REALIZE THAT
12 THAT MEANT THAT YOU WOULD NOT HAVE THE ABILITY TO SET
13 PRIORITIES RIGHT NOW FOR THE FIRST AMOUNT OF FUNDS PRIOR
14 TO MARCH 31ST OF 1993.

15 SO WE WOULD RECOMMEND TAKING OUT THE
16 BEGINNING OF THAT SENTENCE, BEGINNING IN 1993, AND JUST
17 SAY, "BY MARCH 31ST OF EACH YEAR THE BOARD SHALL
18 DETERMINE ADDITIONAL STATEWIDE PROJECT PRIORITIES," WHICH
19 WOULD GIVE YOU THE ABILITY TO SET PRIORITIES AT THE TIME
20 THE REGULATIONS ARE ADOPTED SO THAT THE FIRST LOANS WOULD
21 BE UNDER A PRIORITIZATION SYSTEM.

22 CHAIRMAN CHESBRO: SO THAT STILL ASSUMES THAT IN
23 THE CURRENT FIRST CYCLE THAT THE CRITERIA WOULD BE AS
24 PRESENTED HERE?

25 MR. MALDONADO: WELL, IT ASSUMES THAT THE BOARD



1 MAY, IF IT SO CHOOSES. CREATE ADDITIONAL PRIORITIES FOR
2 THE BEGINNING OF THE PROGRAM. BY SAYING PRIOR OR BY
3 MARCH 31ST. THAT IS ANYTIME BEFORE MARCH 31ST. WHICH WE
4 WOULD CONSIDER TO BE -- NOW WOULD BE SOMETIME BEFORE
5 MARCH 31ST.

6 CHAIRMAN CHESBRO: WELL. THAT'S IMPORTANT IN
7 LINE OF OUR OF OUR FAST TRACK STRATEGY BECAUSE WE WILL BE
8 ADOPTING SOME PRIORITIES. NOT JUST FOR THIS LOAN FUND.
9 BUT FOR ALL OF OUR TOOLS IN THE TOOLBOX BY MATERIAL.

10 AND SO ONE THING WE MAY WANT TO OVERLAY ON
11 THIS IS TO ESTABLISH THAT. IF ALL THINGS ARE EQUAL AND
12 THERE'S A FIXED AMOUNT OF MONEY AVAILABLE AND YOU CHOOSE
13 BETWEEN A PRIORITY MATERIAL AND A LOWER PRIORITY
14 MATERIAL. THEN YOU CHOOSE THAT PRIORITY MATERIAL.

15 SO I THINK WE WANT TO CONSIDER APPLYING
16 THOSE. THAT THOSE TARGETS IN THE FAST TRACKS PLAN TO THE
17 LOAN PROGRAM.

18 MR. MALDONADO: IN A FINAL READ LATE LAST
19 EVENING. WE DISCOVERED BY SAYING BY MARCH OF 1993. THAT
20 MEANT WE COULDN'T DO ANYTHING TILL MARCH OF 1993. WE
21 WANTED TO REMOVE THAT.

22 CHAIRMAN CHESBRO: JUST -- CAN YOU HOLD ON JUST
23 A MOMENT. COUNSEL HAS A COMMENT ON THAT.

24 MS. MORRISON: YES. I WOULD ADVISE THAT IF
25 YOU'RE GOING TO REMOVE "BEGINNING IN 1993." THAT IN ORDER



1 TO ACCOMMODATE THIS YEAR. YOU ADD WORDING, WHICH WE CAN
2 DEVELOP. THAT SAYS FOR THE FIRST CYCLE THE BOARD WILL
3 ESTABLISH ADDITIONAL PRIORITIES UPON ADOPTION OF THE
4 REGULATIONS OR UPON THE EFFECTIVE DATE OF THE REGULATIONS
5 OR WHATEVER AND IN SUBSEQUENT YEARS BY MARCH 31ST.

6 CHAIRMAN CHESBRO: NOW, ARE WE ASSUMING THAT WE
7 WILL HAVE THE, MR. RIETZ, THE FAST TRACK IN HAND AT THE
8 TIME OF ADOPTION OF THE REGULATIONS, SO WE CAN ADOPT
9 THOSE -- ANY ADDITIONAL PRIORITIES AT THE SAME TIME?

10 WHAT IF THE STRATEGY, FAST TRACK STRATEGY,
11 COMES IN AFTER THE REGULATIONS HAVE BEEN ADOPTED?

12 MR. RIETZ: MR. CHAIRMAN, WE'RE DEFINITELY
13 HOPING THAT THE FAST TRACK PROCESS WILL BE AVAILABLE AND
14 INFORMATION BE AVAILABLE TO YOU PRIOR TO INITIATION OF
15 THE PRIORITY LIST FOR THE LOAN PROCESS.

16 WE ARE PRETTY MUCH FINALIZED WITH THE FIRST
17 PART OF THE FAST TRACK, AND THE REMAINDER OF THAT IS IN
18 PROCESS AT THIS POINT IN TIME.

19 CHAIRMAN CHESBRO: OKAY. WELL, THAT ANSWERS MY
20 QUESTION WITH REGARDS TO THE SCHEDULING. I WANT TO MAKE
21 SURE THE LANGUAGE: HOWEVER, MAYBE I WASN'T FOLLOWING THE
22 CONVERSATION EARLY, BUT I WANT TO MAKE SURE THAT WHATEVER
23 LANGUAGE WE PUT IN THERE ALLOWS US TO DO THAT THIS YEAR.

24 MR. RIETZ: WE'LL PROVIDE THE FLEXIBILITY.

25 MR. MALDONADO: TO GO ON IN THE PROCESS. AFTER



1 DOING THE UNDERWRITING AND REVIEWING THE FUNDABLE
2 PROJECTS BASED ON THE PRIORITIES, STAFF WILL DEVELOP A
3 PRIORITY LIST OF FUNDABLE PROJECTS ON A QUARTERLY BASIS.

4 THOSE PROJECTS WILL THEN BE PRESENTED TO
5 THE LOAN COMMITTEE THAT IS IDENTIFIED IN THE REGULATION.
6 THERE WILL BE A LOAN COMMITTEE EVALUATION, AND THAT WILL
7 BE A QUARTERLY ACTIVITY AS WELL.

8 THOSE -- THAT LOAN COMMITTEE WILL EVALUATE
9 ONLY THOSE PROJECTS RECOMMENDED BY STAFF. THEY WILL LOOK
10 AT THEM FOR THE QUALITY OF THE UNDERWRITING AND FOR
11 CONCURRENCE IN THE UNDERWRITING DECISION-MAKING PROCESS.
12 AND THEY WILL EITHER CONCUR OR OBJECT TO THE STAFF'S
13 RECOMMENDATIONS AND LISTING OF THOSE PROJECTS.

14 THE LOAN COMMITTEE -- AND I WILL COME BACK
15 AND HAVE SOME DISCUSSION WITH FORMATION OF THE LOAN
16 COMMITTEE -- BUT THE LOAN COMMITTEE THEN, IN TURN, WILL
17 RECOMMEND TO THE MARKET DEVELOPMENT COMMITTEE THE
18 PROJECTS THEY SEE FIT UNDER BOTH THE UNDERWRITING
19 CRITERIA AND THE RANKING CRITERIA.

20 AND THE MARKET DEVELOPMENT COMMITTEE WILL
21 THEN MOVE THOSE PROJECTS, IF THEY SEE FIT, TO THE BOARD
22 FOR FINAL APPROVAL.

23 BOARD MEMBER RELIS: OKAY. JUST HAVE A POINT OF
24 CLARIFICATION ON PAGE 16. ON THE LOAN COMMITTEE REVIEW.
25 IN THAT PARAGRAPH B. THERE'S A REFERENCE TO LOAN



1 APPLICATIONS RECOMMENDED BY THE COMMITTEE SHALL BE
2 RANKED. I THOUGHT THEY WOULD JUST BE PASSED ON. THE
3 IMPLICATION HERE IS THAT THEY'LL SOMEHOW BE NUMERICALLY
4 RANKED.

5 AND WOULDN'T THEY JUST -- WOULDN'T IT WANT
6 TO READ MORE LIKE A LOAN APPLICATION FOR APPROVAL BY THE
7 LOAN COMMITTEE SHALL BE CONSIDERED BY THE APPROPRIATE
8 BOARD COMMITTEE FOR FINAL RECOMMENDATION OF THE BOARD?

9 MR. MALDONADO: MR. RELIS, I THINK THERE ARE TWO
10 QUESTIONS IN THAT. THE PREVIOUS SECTION REQUIRES THE
11 STAFF TO RANK THE APPLICATIONS, ONES THEY FIND FUNDABLE.

12 IF THE LOAN COMMITTEE DETERMINES THAT STAFF
13 HAS ERRED AND WOULD NOT LIKE TO SEE ONE FUNDED BASED ON
14 UNDERWRITING CONSIDERATIONS. THEN A REORDERING WOULD HAVE
15 TO OCCUR. AND YOU WOULD HAVE A RERANKING AT THAT POINT IN
16 TIME.

17 THE MORE SUBSTANTIVE QUESTION THAT RAISES
18 IS WHETHER OR NOT THE LOAN COMMITTEE SHOULD, IN FACT,
19 ALSO REVIEW THE PRIORITIZATION DECISIONS OF
20 RECOMMENDATIONS THAT THE STAFF MADE PREVIOUSLY.

21 THERE ARE TWO WAYS TO DO THAT. ONE, IS TO
22 JUST PASS THOSE ON THROUGH AND ONLY HAVE LOAN COMMITTEE
23 LOOK AT THE UNDERWRITING ISSUES OR TO CONSIDER ANY
24 CHANGES IN RANKING MADE BY THE -- THAT THE LOAN COMMITTEE
25 MIGHT MAKE.



1 I THINK IT IS IMPORTANT THAT THE MARKET
2 DEVELOPMENT COMMITTEE RECEIVE A RANKED ORDERING AT THE
3 TIME THAT THEY ACT. AND THE MAJOR REASON FOR THAT IS
4 THAT, GIVEN WE HAVE A FIXED AMOUNT OF MONEY, AT SOME
5 POINT IN TIME THERE'S GOING TO CUTOFF POINT. AND, ALSO,
6 GIVEN THE NATURE OF THESE TYPE OF PROJECTS, I WOULD
7 EXPECT A NUMBER OF THEM, OVER A PERIOD OF TIME, TO FALL
8 OUT OR BECOME NONDOABLE. AND THEN THE COMMITTEE WOULD
9 HAVE A BASIS TO LOOK AT OTHER PROJECTS IN SOME FORM OR
10 SOME ORDER.

11 CHAIRMAN CHESBRO: IS THAT CLEAR?

12 BOARD MEMBER RELIS: YEAH. IT WAS JUST MY
13 UNDERSTANDING THAT THE LOAN COMMITTEE WOULD BE ADDRESSING
14 THE SOUNDNESS. THAT'S WHAT WE'RE LOOKING FOR THEM.
15 WE'RE NOT LOOKING TO THEM TO MAKE AN EVALUATION BEYOND
16 THAT. ARE WE?

17 MR. MALDONADO: THEN I WOULD RECOMMEND, IF
18 THAT'S THE CLEAR DIRECTION, THAT THE SECTION B AND C MAY
19 NEED TO BE COMBINED TO TAKE OUT THE BASED ON CRITERIA
20 PROVIDED IN 17935.4.

21 BOARD MEMBER RELIS: I THOUGHT THE WHOLE VALUE
22 OF THE LOAN COMMITTEE IS TO BE A CHECK AND BALANCE AND TO
23 MAKE SURE THAT THE STAFF WORK COMES OUT IS BY THE BANKER
24 TYPES AND SO FORTH. THEY PUT THEIR BLESSING ON THAT. OR
25 THEY PULL. BUT THEY DON'T GET INVOLVED IN ALL THE



1 CRITERIA THAT WE WOULD OTHERWISE BE INVOLVED IN.

2 MR. MALDONADO: THE FIRST IS DEFINITELY THE
3 THRUST. THE SECOND IS, I THINK, A DECISION OF THE
4 COMMITTEE AND THE BOARD.

5 BOARD MEMBER HUFF: QUESTION. DOES THE LOAN
6 COMMITTEE THEN SEE APPLICATIONS THAT TOTAL UP TO THE
7 EXACT TOTAL AS THE POT AVAILABLE?

8 MR. MALDONADO: NO. THEY SEE ALL THE FUNDABLE
9 ONES RECEIVED REGARDLESS OF THE AMOUNT OF MONEY.

10 BOARD MEMBER HUFF: SO YOU SEE, THEY DO HAVE TO
11 RANK THEM. THE LOAN COMMITTEE SEES A NUMBER OF
12 APPLICATIONS. THE TOTAL OF WHICH EXCEEDS THE POT OF MONEY
13 AVAILABLE.

14 BOARD MEMBER RELIS: THEY COME RANKED. THOUGH.
15 TO THE LOAN COMMITTEE. THE LOAN COMMITTEE SAYS, OKAY, IS
16 THIS SOUND OR NOT? IF THEY DING ONE, WOULDN'T THAT JUST
17 ADJUST IN THE RANKING THAT YOU'VE ALREADY RECEIVED?

18 BOARD MEMBER HUFF: IT STILL MAY NOT BE
19 REACHABLE. FOR EXAMPLE, IF YOU HAVE 20 ON THE LIST AND
20 THE 20TH ONE IS REALLY VERY ECONOMICALLY VIABLE, AND YOU
21 ONLY HAVE ENOUGH MONEY FOR THE FIRST TEN -- OKAY -- IF
22 THEY KNOCK OUT NO. 9, 20 STILL IS UNREACHABLE AND IT
23 MIGHT BE MORE ECONOMICALLY VIABLE THAN THE ONES ABOVE IT.

24 MR. MALDONADO: THE QUESTION WOULD BE IS THE
25 DRIVING FORCE OF PRIORITIZATION THE PRIORITIES LISTED IN



1 THE STATUTE AND THE REGULATION, OR IS THE DRIVING FORCE
2 THE PRIVATIZATION IN THE ECONOMIC VIABILITY.

3 REPEATING ECONOMIC VIABILITY IS A THRESHOLD
4 TO PARTICIPATE. SO ALL OF THOSE 20 THAT GET PAST THE
5 LOAN COMMITTEE WOULD BE CONSIDERED TO BE ECONOMICALLY
6 VIABLE, AND THEN THE RANKINGS THAT STAFF MADE OR
7 RECOMMENDATIONS WOULD STAY IN PLACE WITH THE EXCEPTION OF
8 IF YOU BUMP ONE OUT, THEN EVERYBODY ELSE MOVES UP ONE.

9 CHAIRMAN CHESBRO: I THINK MR. RELIS' COMMENT
10 THAT WHAT WE'RE AFTER, AS FAR AS ROLE OF THE LOAN
11 COMMITTEE, IS SPECIFIC TO THEIR FINANCIAL AND BUSINESS
12 SOUNDNESS.

13 MR. MALDONADO: I'M LOOKING FOR THAT DIRECTION.
14 THAT'S A VERY EASY CHANGE TO MAKE.

15 BOARD MEMBER HUFF: I'M WONDERING IF WE DON'T
16 WANT FROM THE LOAN COMMITTEE WHICH PROPOSALS ARE THE MOST
17 ECONOMICALLY VIABLE.

18 MR. MALDONADO: I WOULD SUSPECT THAT THAT WOULD
19 BE AN EXTRAORDINARILY DIFFICULT TASK TO MAKE THOSE
20 PARTICULAR JUDGMENTS BECAUSE I THINK THE PROBLEM IS THAT
21 AT THE TIME WE BEGIN SAYING SOME ARE LESS VIABLE THAN
22 OTHERS, WE BEGIN TO QUESTION WHETHER OR NOT WE SHOULD BE
23 MAKING THAT DECISION AT ALL.

24 CHAIRMAN CHESBRO: THE POINT I WOULD MAKE, I
25 THINK I HEARD, MR. MALDONADO, YOU SUGGESTED ON B COULD BE



1 JUST DROPPED. AND I THINK IT SHOULD PROBABLY SAY -- STILL
2 SAY THE LOAN COMMITTEE --

3 MR. MALDONADO: MAYBE I CAN READ TO YOU WHAT I
4 THINK WE CAN DO HERE. WE CAN SAY THE LOAN APPLICATION
5 RECOMMENDED FOR APPROVAL BY THE LOAN COMMITTEE SHALL BE
6 SUBMITTED BY THE LOAN COMMITTEE ON A QUARTERLY BASIS TO
7 THE APPROPRIATE BOARD COMMITTEE FOR FINAL RECOMMENDATION
8 OF THE FULL BOARD.

9 CHAIRMAN CHESBRO: WELL, BUT IT SHOULD PROBABLY
10 STATE THAT THE ANALYSIS WOULD BE BASED ON THE FINANCIAL
11 AND BUSINESS SOUNDNESS OF THE PROJECT. THAT THAT'S THE
12 MISSION OF THE COMMITTEE. THAT'S WHAT WE'RE ASKING THEM
13 TO DO IS FOCUS ON. I DON'T WANT TO JUST BE FINANCIAL
14 EITHER. WE TALKED ABOUT FINANCIAL. AND THAT'S JUST LIKE
15 A BOTTOM LINE KIND OF THING. AND YOU WANT AN ANALYSIS OF
16 IT FROM A BUSINESS PLAN STANDPOINT. IS IT VIABLE? IS
17 IT, BY THE WAY. BANK. THEY WAY THE LOOK AT IT.

18 MR. MALDONADO: THAT WOULD BE WHAT I WOULD
19 CONSIDER TO BE A FINANCIAL ANALYSIS, ALL OF THE BUSINESS
20 ANALYSIS.

21 CHAIRMAN CHESBRO: I JUST DON'T WANT TO BE TOO
22 NARROW. I THINK. WITHIN THE CONTEXT OF BUSINESS PLAN, WE
23 WANT THEIR RECOMMENDATION ON ITS SOUNDNESS AS A PROPOSAL.

24 MR. MALDONADO: I THINK THAT'S A RELATIVELY EASY
25 CHANGE.



1 CHAIRMAN CHESBRO: OKAY. DOES THAT ANSWER?

2 BOARD MEMBER RELIS: THAT'S ALL I HAVE.

3 MR. MALDONADO: ONE OTHER QUESTION THAT COMES UP
4 IN THAT RELATIVE SECTION IS THAT WE INDICATE THAT THE
5 LOAN COMMITTEE RECOMMENDATION PASS TO THE APPROPRIATE
6 BOARD COMMITTEE. THE QUESTION IS IS IT THE DESIRE OF
7 THIS COMMITTEE THAT IT SPECIFY THE MARKET DEVELOPMENT
8 COMMITTEE?

9 CHAIRMAN CHESBRO: YES. IN FACT. I WAS WAITING
10 UNTIL YOU FINISH YOUR PRESENTATION. THERE ARE VARIOUS
11 PLACES IN THIS WHERE MARKET DEVELOPMENT COMMITTEE -- I
12 MEAN THE APPROPRIATE BOARD COMMITTEE IS MADE REFERENCE
13 TO, AND I THINK IT SHOULD REFERENCE THE --

14 MR. MALDONADO: WE KNOW WHAT THE APPROPRIATE
15 BOARD COMMITTEE IS.

16 CHAIRMAN CHESBRO: ANY -- IF THE BOARD CHOOSES
17 TO RESTRUCTURE ITS COMMITTEE STRUCTURE. WE CAN AMEND THE
18 REGULATIONS. BUT I THINK IT SHOULD BE CLEAR.

19 BOARD MEMBER HUFF: IN OTHER REGULATIONS, DO WE
20 ACTUALLY NAME BOARD COMMITTEES?

21 CHAIRMAN CHESBRO: NO.

22 BOARD MEMBER HUFF: COUNSEL.

23 MS. MORRISON: I DIDN'T HEAR THE FIRST PART OF
24 THE DISCUSSION.

25 BOARD MEMBER HUFF: IN REGULATIONS THAT WE'VE



1 ADOPTED TO DATE. DO WE ACTUALLY REFERENCE BY NAME VARIOUS
2 BOARD COMMITTEES?

3 MS. MORRISON: I DON'T KNOW THAT WE HAVE. I
4 CAN'T ANSWER THAT STRAIGHT OUT. I'D HAVE TO LOOK. BUT I
5 CAN'T THINK OF ANY THAT COME TO MIND IMMEDIATELY.

6 BOARD MEMBER HUFF: IT'S NOT A BIG DEAL. BUT I
7 DON'T KNOW WHY. YOU KNOW. WE WANT TO GO THROUGH THE
8 REGULATION PROCESS EVERY TIME WE RENAME A COMMITTEE OR
9 CHANGE STRUCTURE.

10 CHAIRMAN CHESBRO: WELL, I THINK. IN THE ABSENCE
11 OF A -- I THINK YOU SHOULD CALL A SPADE A SPADE. YOU
12 KNOW. I THINK IN THE ABSENCE OF -- CALL IT WHAT IT IS.
13 YOU KNOW. JUST THAT WE'VE SET UP A COMMITTEE STRUCTURE
14 AND GIVEN MARKET DEVELOPMENT COMMITTEE RESPONSIBILITY.
15 CALL IT -- YOU KNOW. I THINK IT SHOULD BE NAMED IN THE
16 REGULATIONS. AND WE DO TECHNICAL AMENDMENTS TO
17 REGULATIONS. YOU KNOW. QUITE FREQUENTLY. AND I DON'T
18 THINK IT'S ANY PROBLEM TO --

19 BOARD MEMBER HUFF: YOU GOT TO GO THROUGH OAL.

20 BOARD MEMBER RELIS: WHAT IF WE CAME UP WITH A
21 GENERIC TERM --

22 MS. MORRISON: IF YOU WANTED TO CHANGE A
23 COMMITTEE NAME. I DON'T THINK YOU WOULD HAVE TO GO
24 THROUGH A FULL REG PROCESS TO HAVE WHAT'S CALLED A
25 SECTION 100 AND YOU JUST WRITE THEM A LETTER AND SAY.



1 CHANGE IT TO THIS.

2 CHAIRMAN CHESBRO: CHANGE IT TO THIS. NOT A
3 SUBSTANTIVE CHANGE.

4 MS. MORRISON: YEAH. THAT WOULD NOT BE
5 SOMETHING THAT WOULD NEED TO BE COMMENTED UPON BY THE
6 PUBLIC IF IT WAS A CHANGE IN BOARD PROCEDURE.

7 MR. MALDONADO: UPON THE REVIEW AND
8 RECOMMENDATIONS OF THE LOAN COMMITTEE, THE MARKET
9 DEVELOPMENT COMMITTEE WOULD LOOK AT THOSE PROJECTS AND
10 THE RANKINGS AND CHOOSE TO EITHER ACCEPT THEM AND PASS
11 THEM TO THE BOARD FOR A DECISION OR TO MAKE ALTERATIONS.

12 TO BE FRANK AND CLEAR, I THINK AT THAT
13 POINT IN TIME YOU WILL HAVE RECEIVED ALL FUNDABLE
14 PROJECTS. SO THAT AT THAT POINT IN TIME THE MARKET
15 DEVELOPMENT COMMITTEE WILL BE ABLE TO MAKE A DECISION OR
16 DETERMINATION AS TO WHETHER OR NOT THEY CONCUR WITH
17 STAFF'S RECOMMENDATIONS REGARDING PRIORITIZATION BASED ON
18 THE ITEMS THAT ARE LISTED IN THE ANNUAL ADDITIONAL
19 PRIORITIES. AND THAT WOULD BE THE MAJOR FUNCTION OF THE
20 MARKET DEVELOPMENT COMMITTEE AND ITS PROCESS. AND THOSE
21 LOANS WOULD BE THEN SENT TO THE BOARD FOR APPROVAL.

22 THAT ESSENTIALLY OUTLINES THE PROCESS. I
23 THINK WE CAN GO BACK AND TALK FOR A MINUTE ABOUT THE LOAN
24 COMMITTEE AND MAKEUP OF THE LOAN COMMITTEE IN THAT
25 PROCESS. IF YOU WOULD LIKE, AND THEN TAKE VERY SPECIFIC



1 QUESTIONS.

2 CHAIRMAN CHESBRO: OKAY. YOU'VE BEEN
3 ANTICIPATING EACH OF MY QUESTIONS AND BEATING ME TO THE
4 PUNCH.

5 THE ONE -- ACTUALLY THE ONE REMAINING POINT
6 I DID HAVE OR QUESTION I DID HAVE RELATED TO -- ACTUALLY
7 WASN'T A POINT OR A QUESTION. IT WAS A SUGGESTION TO THE
8 COMMITTEE THAT I THINK WE NEED TO INCORPORATE.

9 ON PAGE 11. THE HANDWRITTEN NUMBERS DOWN IN
10 THE CORNER, WHICH IS THE FIRST PAGE OF THE REGS, ITEM C
11 IS REFERRING TO THE APPOINTMENT OF THE LOAN COMMITTEE.
12 AND I THINK IT NEEDS TO BE ADDED -- NEEDS TO READ AS
13 FOLLOWS: "THE LOAN COMMITTEE MEANS A COMMITTEE NOT TO
14 EXCEED SEVEN INDIVIDUALS APPOINTED BY THE CALIFORNIA
15 INTEGRATED WASTE MANAGEMENT BOARD UPON RECOMMENDATION OF
16 THE MARKET DEVELOPMENT COMMITTEE."

17 I THINK IT SHOULD HAVE THAT PHRASE. THAT
18 THE COMMITTEE WOULD RECOMMEND -- THIS COMMITTEE WOULD
19 RECOMMEND THE MEMBERSHIP ON THE LOAN COMMITTEE AND THE
20 BOARD.

21 BOARD MEMBER HUFF: DOES THAT MEAN THAT THE
22 BOARD COULDN'T CONSIDER ANYONE ELSE?

23 CHAIRMAN CHESBRO: NO. THE BOARD CAN DO
24 WHATEVER IT WANTS BY WAY OF APPOINTMENT OR ANY DECISION.

25 BOARD MEMBER RELIS: THIS IS THE PROCESS.



1 CHAIRMAN CHESBRO: YES. IT'S A QUESTION OF IT
2 NEEDS TO COME BEFORE THIS COMMITTEE FOR RECOMMENDATION
3 FIRST. THAT'S MY SUGGESTION.

4 BOARD MEMBER HUFF: WHATEVER YOU WISH, MR.
5 CHAIRMAN.

6 CHAIRMAN CHESBRO: I THINK, AS A MATTER OF OUR
7 PROCEDURES, THAT WOULD BE WHAT WOULD HAPPEN, BUT I THINK
8 IT SHOULD BE --

9 BOARD MEMBER HUFF: SPELLING OUR PROCEDURES OUT
10 NOW IN REGULATION RATHER THAN KEEPING THEM AS BOARD
11 PROCEDURES.

12 CHAIRMAN CHESBRO: OKAY.

13 MR. MALDONADO.

14 MR. MALDONADO: THE -- IN A DISCUSSION REGARDING
15 THE LOAN COMMITTEE, FIRST OF ALL, THERE ARE NUMEROUS
16 EXAMPLES OF LOAN COMMITTEES EXISTENT IN STATE AGENCIES
17 DEALING WITH THESE KINDS OF PROGRAMS. AS EXAMPLES, THE
18 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT HAS A
19 SERIES OF LOAN COMMITTEES, ONE FOR ITS DISSEMINATION OF
20 HOUSING TAX CREDITS, ONE FOR LOW INCOME HOUSING PROJECTS,
21 ANOTHER FOR ITS ECONOMIC DEVELOPMENT PROJECTS IN THE
22 COMMUNITY BLOCK GRANT PROGRAM.

23 DEPARTMENT OF COMMERCE ALSO HAS A NUMBER OF
24 LOAN COMMITTEES FOR WHAT USED TO BE KNOWN AS RURAL
25 ECONOMICAL DEVELOPMENT INFRASTRUCTURE PROGRAM. ALSO SMALL



1 BUSINESS ASSISTANCE LENDING.

2 SO THERE IS DEFINITELY PRECEDENT, AND STAFF
3 WOULD FEEL MUCH MORE COMFORTABLE ABOUT MAKING LOANS TO --
4 OR MAKING RECOMMENDATIONS TO THE COMMITTEE WITH SOME FORM
5 OF INPUT FROM EXPERTS IN THE FIELD.

6 AND WHEN WE TALK ABOUT EXPERTS IN THE
7 FIELD, I CAN GIVE YOU AN IDEA OF SOME OF THE TYPES
8 INDIVIDUALS THAT SIT ON THOSE COMMITTEES, AND THE
9 ANTICIPATION WOULD BE, UPON APPROVAL OF THE REGULATIONS,
10 THIS COMMITTEE WOULD DIRECT STAFF TO RECRUIT AND BRING
11 POTENTIAL NAMES TO THE COMMITTEE FOR THEIR REVIEW.

12 THE TYPES OF PEOPLE THAT TEND TO SIT ON
13 THESE COMMITTEES IS YOU TEND TO HAVE A MIX OF BOTH STATE
14 OFFICIALS, LOCAL GOVERNMENT OFFICIALS SPECIFICALLY
15 INVOLVED IN THE FIELD OF ECONOMIC DEVELOPMENT, AND
16 BANKING AND INVESTMENT INDIVIDUALS.

17 AS AN EXAMPLE, THE LOAN COMMITTEE THAT I
18 MOST RECENTLY PRESENTED TO WAS MADE UP OF AN INDIVIDUAL
19 WHO OPERATED AN SBA DEVELOPMENT CORPORATION, WAS ACTIVELY
20 MAKING LENDING. ANOTHER INDIVIDUAL WHO REPRESENTED A
21 NUMBER OF SMALL CITIES IN THEIR ECONOMIC DEVELOPMENT AND
22 FINANCE PROGRAMS. A BANKER FROM A MAJOR BANK, WHO ALSO
23 HAPPENED TO BE THE COMMUNITY REINVESTMENT ACT OFFICER FOR
24 THAT BANK.

25 AND THE REASON FOR THAT WAS THAT THAT



1 PERSON HAD A SENSITIVITY TO HOW PUBLIC/PRIVATE
2 PARTNERSHIPS ARE STRUCTURED AND UNDERSTOOD SOME OF THE
3 COMPLEXITIES OF NONSTANDARD LOANS. I THINK JUST HAVING
4 BANKING EXPERTISE DOESN'T GET IT. THERE HAS TO BE SOME
5 DEGREE OF KNOWLEDGE OF THESE TYPES OF SETTINGS.

6 ALSO. THERE WAS AN INDIVIDUAL FROM THE
7 DEPARTMENT OF COMMERCE. WHO WAS A HIGH RANKING INDIVIDUAL
8 IN THE SMALL BUSINESS SECTION. AND THEN. I BELIEVE. IN
9 THIS CASE. THERE WAS AN INDIVIDUAL FROM THE GOVERNOR'S
10 OFFICE AS WELL.

11 AND THOSE TYPES OF SETTINGS AND SPREADS
12 SEEM TO BE THE TYPICAL MAKEUP OF THESE TYPES OF LOAN
13 COMMITTEES.

14 CHAIRMAN CHESBRO: HOW DO YOU AVOID QUESTIONS OF
15 CONFLICT OR APPEARANCE OF CONFLICT. NOT JUST DIRECT
16 CONFLICT BUT. FOR EXAMPLE. SOMEONE WHO'S IN BANKING OR IN
17 INDUSTRY BE PRIVY TO FINANCIAL INFORMATION FROM ANOTHER
18 FIRM THAT MIGHT BE SOMEHOW IN SOME WAY EITHER A
19 COMPETITOR OR A CLIENT OF A COMPETITOR OR ANY NUMBER OF
20 OTHER. YOU KNOW. APPEARANCES THAT MIGHT BOTHER SOMEBODY
21 WHO IS BRINGING AN APPLICATION BEFORE US TO THINK THAT
22 SOMEBODY ELSE IN THE PRIVATE SECTOR WHO HAS SOME
23 POTENTIAL FINANCIAL INTEREST MIGHT BE LOOKING AT THEIR
24 BOOKS.

25 MR. MALDONADO: WELL. THERE'S A COUPLE OF ISSUES



1 THERE. MY PAST EXPERIENCE. WHAT HAS BEEN DONE IS WHEN
2 STAFF REPORTS ARE BROUGHT TO THE LOAN COMMITTEE. A
3 CONSOLIDATION OF INFORMATION IS DONE SUCH THAT IT IS VERY
4 DIFFICULT TO PICK OUT VERY EXACT FIGURES. FOR EXAMPLE. OF
5 EXACTLY WHAT A MARGIN IS ON A PARTICULAR LINE. WHAT THE
6 RELATIONSHIP BETWEEN THE SALES AND THE DEBT IS EXACTLY.

7 AND THERE'S THE ABILITY TO SEND THAT
8 INFORMATION DIRECT WITH CONFIDENTIALITY TO THE MEMBERS OF
9 THE COMMITTEE. BUT THOSE EXACT NUMBERS ARE NOT -- I'M
10 SURE YOU'RE WELL AWARE FROM A PAST EXPERIENCE. THERE IS
11 JUST PLAIN DIFFICULTY. AND PEOPLE HAVE TO KNOW WHEN THEY
12 BECOME INVOLVED IN BORROWING FROM THE PUBLIC SECTOR,
13 THERE IS INFORMATION THAT WILL COME TO LIGHT.

14 NOW, IN TERMS OF THE ACTUAL COMMITTEE
15 MEMBERS, I WOULD EXPECT WE WOULD REQUIRE SOME CONFLICT OF
16 INTEREST STATEMENTS BE MADE WHERE THERE'S ANY POSSIBLE
17 PERCEIVED CONFLICT AND/OR POTENTIAL INTERESTS.

18 I WOULD SAY THAT IN PAST EXPERIENCE THERE
19 HAVE BEEN CONFLICTS THAT REQUIRED PEOPLE NOT TO
20 PARTICIPATE. THERE ALSO HAVE JUST DISCLOSURES FOR THE
21 PURPOSES OF MAKING IT VERY CLEAR THAT THERE MAY BE
22 RELATED INTEREST. BUT THEY'RE, IN FACT, NOT A CONFLICT.

23 I WOULD EXPECT THAT OUR STAFF AND LEGAL
24 STAFF WOULD WORK CLOSELY TOGETHER TO COME UP WITH THE
25 SPECIFIC CONFLICT OF INTEREST POLICY.



1 BOARD MEMBER HUFF: WOULD THESE PEOPLE
2 AUTOMATICALLY BE COVERED BY OUR DEPARTMENT'S CONFLICT OF
3 INTEREST CODE OR WOULD WE HAVE TO AMEND IT?

4 MS. MORRISON: I CAN'T ANSWER THAT QUESTION
5 RIGHT NOW. I'D HAVE TO REVIEW IT AND CHECK ON THAT.

6 THERE ARE REQUIREMENTS FOR PEOPLE WHO SERVE
7 ON COMMITTEES. WHO ARE CONSULTANTS FOR THE BOARD. THEY
8 ALL COME UNDER THE CONFLICT OF INTEREST REQUIREMENTS OF
9 THE STATE.

10 SO THERE ARE PROVISIONS. WE JUST HAVE TO
11 FIGURE OUT WHICH ONES APPLY AND WHICH TYPES OF
12 DISCLOSURES THEY WOULD HAVE TO MAKE OR WHAT THEIR
13 INTEREST WOULD BE.

14 BOARD MEMBER RELIS: THEY'RE THE SAME WITH THE
15 BOARD MEMBERS. THAT WE WON'T HAVE TOO BIG A COMMITTEE.

16 MR. MALDONADO: THE HOUSING AND COMMUNITY
17 DEVELOPMENT ONES. THE AGENCY'S CONFLICT OF INTEREST
18 POLICY DID COVER THE PARTICIPANTS.

19 CHAIRMAN CHESBRO: WELL, I THINK THAT'S
20 IMPORTANT. AND I'D LIKE TO MAKE SURE COUNSEL LOOKS INTO
21 IT. AND IT'S NOT JUST A QUESTION OF MATERIAL -- DIRECT
22 MATERIAL INTEREST; BUT, FOR EXAMPLE, IF I WORKED FOR A
23 LARGE BANK AND I'M ON THIS COMMITTEE. AND THE BANK HAS
24 BUSINESS WITH RELATED BUSINESSES OR COMPETITORS OR
25 WHATEVER. THEN I THINK QUESTIONS COULD BE RAISED ABOUT



1 WHETHER OR NOT THE ANALYSIS IS OBJECTIVE OR NOT.

2 MR. MALDONADO: THIS IS NOT IN ANY WAY INTENT TO
3 BE A FLIPPANT RESPONSE. I WOULD SAY, THOUGH, HOWEVER,
4 GIVEN THE SIZE AND THE AMOUNT OF THE LOANS THAT WE'RE
5 TALKING ABOUT, I WOULD THINK IT WOULD BE EXTRAORDINARILY
6 POOR JUDGMENT FOR ANYBODY IN A LARGE BANKING INSTITUTION
7 TO DO ANYTHING THAT WOULD APPEAR AS CONFLICT OF INTEREST
8 OVER A FOUR OR \$500,000 LOAN.

9 CHAIRMAN CHESBRO: WELL, THAT'S A POINT WELL
10 TAKEN, BUT I THINK AT THE SAME TIME IT -- THEY NEED TO BE
11 PUT ON NOTICE IF THEY SERVE ON A COMMITTEE, WHAT THE
12 RULES ARE. AND WE SHOULD HAVE SOME KIND OF RULES IF
13 WE'RE GOING TO HAVE PRIVATE SECTOR REPRESENTATION ON A --
14 SUCH A COMMITTEE.

15 AND IF THIS THING WORKS AS WE'D LIKE IT TO,
16 THERE MAY BE PROJECTS THAT ARE MUCH LARGER THAN THAT, BUT
17 THAT WE'RE JUST PROVIDING SOME KIND OF BRIDGE OR GAP WITH
18 THAT FOUR OR \$500,000 TOO.

19 BUT MEANWHILE, ACCESS HAS BEEN PROVIDED TO
20 A WIDER ARRAY OF INFORMATION. JUST DON'T WANT TO BE
21 SCARING OFF ANY POTENTIAL GOOD PROJECTS BASED ON THAT
22 PROBLEM. I WANT TO BE ABLE FOR YOU TO BE ABLE AND OUR
23 LEGAL STAFF BE ABLE TO ASSURE AN APPLICANT THAT THEY'RE
24 NOT PUTTING THEMSELVES IN A DISADVANTAGEOUS POSITION BY
25 APPLYING.



1 BOARD MEMBER HUFF: A QUESTION OCCURS. TO WHAT
2 DEGREE ARE LOAN APPLICATIONS SUBJECT TO THE PUBLIC
3 RECORDS ACT?

4 MS. MORRISON: I'LL HAVE TO RESEARCH THAT AS
5 WELL. BUT WE DO HAVE TRADE SECRET PROVISIONS THAT WE --
6 PEOPLE CAN REQUEST CONFIDENTIALITY OF RECORDS. REPORTS
7 SUBMITTED TO THE BOARD. AND WE ACTUALLY HAVE LEGISLATION
8 THAT'S MOVING THROUGH CURRENTLY TO ENHANCE OUR PARTICULAR
9 TRADE SECRET PROVISIONS SO THAT WE CAN PROVIDE A GREATER
10 CONFIDENTIALITY FOR PEOPLE IN OUR MARKET DEVELOPMENT
11 PROGRAMS.

12 MR. MALDONADO: AT THIS POINT WE'RE READY TO
13 TAKE VERY SPECIFIC LINE BY LINE QUESTIONS OR OTHER
14 CLARIFICATIONS.

15 CHAIRMAN CHESBRO: WELL. FROM MY STANDPOINT
16 YOU -- YOU CAUGHT THE ONES THAT I HAD MARKED AS A
17 CRITICAL NATURE. AND I UNDERSTAND MR. RELIS THE SAME
18 THING. YOU HAVE ANYTHING. MR. HUFF?

19 BOARD MEMBER HUFF: NO. IT'S BEEN A LONG TIME
20 SINCE WE LAST VISITED THE SUBJECT. MEMORY FADES. BUT AT
21 THAT TIME. WE DID HAVE A LARGE NUMBER OF COMMENTS FROM A
22 VARIETY OF PEOPLE. AND RATHER THAN TRY TO GO OVER ALL OF
23 THEM. AS I KNOW WE HAVE. HAS THE SUBSTANCE BEEN
24 INCORPORATED WHERE PEOPLE BROUGHT FORTH CHANGES?

25 MR. MALDONADO: YES. IT HAS.



1 BOARD MEMBER HUFF: HAVE WE LEFT ANYTHING OUT?

2 MR. MALDONADO: IN TERMS OF COMMENTS, HAVE WE
3 LEFT ANYTHING OR HAVE WE JUST LEFT ANYTHING OUT IN
4 GENERAL?

5 BOARD MEMBER HUFF: UNADDRESSED IN TERMS OF THE
6 REGULATIONS.

7 MR. MALDONADO: THERE WERE A NUMBER OF COMMENTS
8 THAT WE DID NOT DIRECTLY INCORPORATE BECAUSE THEY WERE
9 RELATED TO -- TRY TO PUT THIS IN GENTLE TERMS -- TO LACK
10 OF FAMILIARITY WITH TERMS THAT ARE GENERALLY USED IN THE
11 FIELD OF FINANCE AND ECONOMIC DEVELOPMENT. AND IN THOSE
12 CASES WE RESPONDED TO THE COMMENTERS, LETTING THEM KNOW
13 THAT AND GIVING THEM A DEFINITION OF WHAT THOSE TERMS
14 MEANT.

15 BOARD MEMBER HUFF: WELL, THAT'S FAIR. OKAY.

16 CHAIRMAN CHESBRO: WE'RE NOT REQUIRED OR, I
17 THINK, REALLY ABLE TO ACT ON THIS TODAY, BUT MAY I ASK
18 WHEN WE WILL BE ABLE TO ACT ON IT? IS THERE A DATE WE
19 CAN EXPECT TO HAVE THIS BEFORE THE COMMITTEE?

20 MS. MORRISON: MY FEELING IS AT THIS TIME THAT,
21 AND I HAVE REQUESTED FROM MR. CONHEIM, THAT WE ENGAGE THE
22 SERVICES OF AN ATTORNEY WITH EXPERTISE IN THE LENDING
23 AREA TO REVIEW THESE ONE MORE TIME BEFORE OUR LEGAL
24 OFFICE SIGNS OFF AND FEELS THAT WE HAVE ADDRESSED ALL THE
25 AREAS THAT NEED TO BE ADDRESSED.



1 AND SO WE'RE IN THE PROCESS OF DOING THAT.
2 WE'RE AIMING TO HAVE IT DONE BEFORE THE JULY 1ST
3 COMMITTEE MEETING. AND SO WHETHER THAT HAPPENS, I DON'T
4 KNOW. BUT THAT'S WHAT WE'RE AIMING FOR.

5 CHAIRMAN CHESBRO: WITH THE HOPES OF BOARD
6 ADOPTION IN JULY?

7 MS. MORRISON: CORRECT.

8 BOARD MEMBER RELIS: AND IF WE ADOPT IT, WHEN
9 WOULD WE LOOK FOR -- REFRESH MY MEMORY HERE -- WHEN WILL
10 WE BE LOOKING TO MAKE OUR FIRST -- HOW LONG WILL IT TAKE
11 TO RUN THE PROCESS?

12 MR. MALDONADO: WELL, WE HAVE THE MAJORITY OF
13 ALL THE APPLICATION PROCESS PROCEDURES ALL DONE. AND I
14 THINK THAT, YOU KNOW, WE WILL BE ABLE TO GO THROUGH THE
15 PROCESS OF ANNOUNCING THE PROGRAM AND SETTING THE
16 INTEREST RATE AND SELECTING THE COMMITTEE.

17 BUT ONCE THOSE ITEMS ARE COMPLETE, IT'S MY
18 EXPECTATION THAT WE'LL BE ABLE TO SET A QUARTERLY DATE
19 IMMEDIATELY AND BEGIN TO MOVE FORWARD.

20 BOARD MEMBER HUFF: BUT WE'RE STILL IN THE
21 PUBLIC COMMENT PERIOD RIGHT NOW, AREN'T WE?

22 MS. MORRISON: WE ARE IN THE PUBLIC COMMENT
23 PERIOD. AND I'M RECOMMENDING TO STAFF THAT, AFTER MAKING
24 THE CHANGES REQUESTED BY THE COMMITTEE MEMBERS TODAY,
25 THAT THEY SEND THESE OUT FOR 15-DAY COMMENT PERIOD SO



1 THAT THAT WILL BE ACCOMPLISHED PRIOR TO THE JULY 1ST
2 COMMITTEE MEETING AND SEE WHETHER THERE ARE ADDITIONAL
3 COMMENTS.

4 BOARD MEMBER HUFF: SO THE PUBLIC COMMENT PERIOD
5 POTENTIALLY CLOSES BEFORE JULY 1ST?

6 MS. MORRISON: CORRECT.

7 MR. MALDONADO: I'M NOT SURE WHETHER OR NOT WE
8 NEED DIRECTION FROM THE COMMITTEE TODAY TO SEND OUT
9 15-DAY LANGUAGE.

10 BOARD MEMBER HUFF: YOU'VE SENT OUT CHANGES
11 BEFORE. HAVEN'T YOU?

12 MS. MORRISON: YEAH. IF THE COMMITTEE WISHES TO
13 DIRECT, THEY CAN, OR YOU CAN GO AHEAD AND DO IT.

14 CHAIRMAN CHESBRO: WELL --

15 BOARD MEMBER HUFF: I HAVE SOME RESERVATIONS
16 ABOUT SOME OF THE CHANGES AS I HAVE VOICED. BUT THAT'S
17 OKAY.

18 CHAIRMAN CHESBRO: OKAY. WE HAVE, I THINK,
19 DIRECTION FROM THE COMMITTEE TO BEGIN ITS COMMENTS, AND
20 WE'LL JUST EXPECT THAT STAFF WILL HAVE A REVISED VERSION
21 BEFORE THE COMMITTEE IN JULY. AND THAT THE QUESTIONS
22 DIRECTED TO COUNSEL'S OFFICE WILL BE RESEARCHED AND
23 RECORDED ON -- OR RECOMMENDED ON TO THE COMMITTEE IN
24 JULY.

25 AND WITH THAT, I THINK WE'LL MOVE ON. ALL



1 THAT'S LEFT ON THE AGENDA IS OPEN DISCUSSION AND
2 ADJOURNMENT. SO IS THERE ANY?

3 BOARD MEMBER HUFF: MOVE WE ADJOURN.

4 BOARD MEMBER RELIS: SECOND.

5 CHAIRMAN CHESBRO: I DON'T THINK WE NEED A
6 MOTION OR A SECOND.

7 OH, DO WE HAVE ANY COMMENTS ON -- ALMOST
8 EVERYBODY LEFT IS STAFF. BUT STAFF CAN COMMENT ALL THEY
9 WANT. BUT ANYBODY WHO WANTED TO ADDRESS THE COMMITTEE.
10 IF NOT, WE'LL ADJOURN.

11
12 (END OF PROCEEDINGS AT 2:55 P.M.)
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Reporter's Certificate

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I, BETH C. DRAIN hereby certify:

that on the 9th of
JUNE 1992, I did report in
shorthand the testimony and proceedings of the
foregoing hearing;

that at the conclusion of the above entitled
matter, I did transcribe my shorthand notes into
typewriting;

that the foregoing transcript is a true and correct
copy of my shorthand notes thereof.

Beth C. Drain
Certified Shorthand Reporter
Certificate No. 7152

