Loan Program Eligibility Issues
Board Staff Questions and Responses

The Board annually determines objectives and lending procedures for the loan program. The current program eligibility and objectives are discussed in Attachment 1. The Market Development Committee is scheduled to discuss the loan program objectives and lending procedures at its May 7, 1997 meeting. The Board is scheduled to make a final determination at its May 28, 1997 meeting. In an effort to ensure input from a large number of interested parties, Board staff has prepared this document to serve as a stimulus for discussion via teleconference to be held in early April. This document is not intended to cover all possible issues, please feel free to discuss other items which relate to loan program eligibility in the teleconference or your written comments.

Please review this survey and respond to the requests for comments. If you are interested in participating in a teleconference please call Phillip Bielz by April 8 at (916) 255-2465 and leave your name, zone, phone number and e-mail address (if available). If you want to submit additional written comments please include the comments along with this survey and return them by April 14 (if possible) to:

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POSSIBLE CHANGES:

Proposed changes to program regulations and participation in the California Capital Access Program (CalCAP), could expand eligibility.

Regulations

The Board is currently involved in the formal rulemaking process to make certain changes to program regulations. These proposed changes would expand eligibility by adding source reduction and clarify the definition of other categories. This would result in the following types of projects being eligible for funding:

- Source reduction
- Reuse (contained as part of the value added definition)
- Producing a value added product from postconsumer or secondary waste material
- Transformation

The following is a discussion of the above areas and other areas and raises some questions for which staff is requesting input:

Source Reduction

As defined in the Public Resource Code Section 40196[5], source reduction provides a very wide range of possibly eligible projects. Conceivably, eligible projects could range from thinning the walls of plastic bottles to reduce the use of virgin plastic, redesigning packaging to use less material, reducing the amount of waste generated in the production process, to using mulching mowers or planting slow growing grass in order to reduce the amount of yard waste generated. Because of the broad nature of the statutory definition, several aspects must be explored in order to define a workable program eligibility criteria.

An important factor concerning source reduction projects is determining the amount of diversion impact a source reduction project may have. How does the program identify or quantify the impact on the state or local waste streams or the impact on achieving AB 939 diversion goals? If the products are being sold outside of California is there any effect on California's waste stream?

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[5] Public Resource Code 40196 "Source reduction" means any action which causes a net reduction in the generation of solid waste. "Source reduction" includes, but is not limited to, reducing the use of nonrecyclable materials, replacing disposable materials and products with reusable materials and products, reducing packaging, reducing the amount of yard wastes generated, establishing garbage rate structures with incentives to reduce the amount of wastes that generators produce, and increasing the efficiency of the use of paper, cardboard, glass, metal, plastic, and other materials. "Source reduction" does not include steps taken after the material becomes solid waste or actions which would impact air or water resources in lieu of land, including, but not limited to, transformation.

What types of projects should be eligible. Possibilities include:

* Reducing the use of nonrecyclable materials by either using less nonrecyclable material or by substituting recyclable material
* Replacing disposable materials and products with reusable materials and products
* Reducing the amount of yard waste generated
* Increasing the efficiency of the use of various materials by generating less waste in the production process

Comments:

Commentor P-1, expressed concern that source reduction does not create markets for materials collected. If a milk jug is source reduced, the overall cost of recycling increases as less plastic is available to recoup costs. Commentor P-2 is supportive of the inclusion of source reduction as an eligible activity. The commentor states that some industries, such as the furniture industry, can make use of increased efficiency to reduce waste.

Reuse

Not previously defined in regulations, reuse is now included in the definition for "value added." To be value added a reuse project would typically take a product which has served its useful life, and provide some reconditioning, reprocessing, or other process to make it usable again. Previous reuse projects which have either applied or received loan approval included; the washing and reconditioning of large industrial bags, reclaiming of foundry sand, and bottle washing. Other than food banks and thrift shops which are discussed in Specific Eligibility Issues question #2, staff is not aware of any substantive issues regarding eligibility of reuse projects.

Comments:

Commentors P-1 and P-2 are very supportive of reuse as an eligible activity. Commentor P-2 also asks whether retail discards (due to damaged packaging), laundry and diaper services (which increase the use of durable products) would also be included.

Producing a Value Added Product from Postconsumer or Secondary Waste Material

The program objectives approved by the Board at its meeting on February 27, 1996, include the language, "normally disposed in solid waste landfills, as of 1990." Using the "normally disposed of" eligibility criteria keeps the focus of the program on the defined AB 939 waste stream. However, a strict interpretation also would not consider changes to

the local waste stream, effectively eliminating projects which deal with post 1990 problem materials from funding consideration. Legislative or regulatory changes (such as elimination of the burning of rice straw), may cause materials to now, or in the future, be landfilled. How should the program address these issues?

Comments:

Commentor P-1 felt that the program remain flexible to accommodate new materials being generated and differences in the waste stream of various communities.

Another issue to be addressed is at what point does the "collecting and baling" cease and the "value added" processing begin? Does the value adding point differ by material? Generally, the program considers value added processing as projects which actually increase the value of a material, not just the sorting or baling of material for convenience or for easy of transportation. Undecided is whether it is value added processing to sort, via special equipment, carpet, glass, plastic, or other material into recyclable and non-recyclable portions? Also, is it value added processing to cut certain materials (such as tires) or densify material (such as polystyrene) in order to make transportation and recycling of these materials economically viable?

Comments:

Collecting and baling is not manufacturing and these activities will develop as part of the natural economic cycle (assuming manufacturing uses). Collecting and baling projects should be on the lowest point of funding, if at all.

Other - Minimum Tonnage Requirement

Should the program have minimum tonnage requirements, perhaps differing by material type? Typically intermediate processors produce a much greater tonnage of recycled material than a end-user of that material. Should the program have a different standard for intermediate processors versus producers of a final product?

Comments:

Commentor P-1 expressed opposition to establishing any minimum tonnage requirement. The commentor believes that new technologies often do not use large amounts of recycled material.

SPECIFIC ELIGIBILITY ISSUES:

Staff has received inquiries involving the following potential projects. What are your thoughts regarding eligibility of these types of projects?

1. Should products made from aluminum, steel, or other metal products which contain recycled material as part of the normal production process be eligible?

The normal production process of steel and aluminum involves the use of scrap and postconsumer material. Extending eligibility to companies which use steel, aluminum, or similar material would significantly expand the number of companies eligible for the program. Conceivably, manufacturers of cars, trucks, trailers, pickup boxes, equipment, and other products would be eligible.

Comments:

Commentor P-1 is adamantly opposed to lending for metals projects. Comment P-2 recommends including only those projects for new product lines or specific source reduction (new process to use less metal, recycling of oil filters, etc.).

2. Should food banks and thrift shops be eligible for loans under the direct loan program?

While projects of this type are "reuse" projects in the strictest sense, there is minimal tonnage associated with these projects.

Comments:

Both commentors were against funding these projects. Commentor P-1 believes that the program remain focused on manufacturing. Commentor P-2 would only consider projects which demonstrate a large impact on diversion and served an unmet need, like a large salvage operation.

3. Should projects which involve mulching of greenwaste for the sole purpose of being applied to land be eligible? What should the guidelines be for these land reclamation/improvement projects?

Concern has been expressed that mulchers that intend to land apply greenwaste material may do so at concentrations/depths greater than agronomic rates. Should such projects be limited to land reclamation where the application rate is tied directly to proven agronomic rates?

Comments:

Commentor P-1 is not supportive of financing greenwaste mulching projects unless there is some type of beneficial use associated with land application.

4. Should the Board increase market demand for recycled content and/or reusable products by financing the procurement (purchasing) of certain items?

Staff has been approached by two groups of businesses. The first group represents printers which produce a product which may be printed on paper of varying levels of recycled-content, dependent upon the customer's specifications. The Board had previously decided that printers are not eligible because they procure (buy) the recycled-content paper and because printing is not considered manufacturing.

The second group of businesses seek to substitute a disposable supply item (such as wooden pallets) for an item which can be reused many times (such as plastic or rubber pallets or plastic shipping containers) which may or may not contain recycled material. These items are expendable supplies and are not a recycled-content product produced by a company. However, in some cases, the ability to substitute a reusable supply for a disposable supply may have a significant impact on disposal avoidance and developing markets for certain supply items. It may also be considered as a source reduction project.

Comments:

Neither Commentor P-1 or P-2 are supportive of financing procurement. Commentor P-2 suggested that tax incentives and minimum recycled content laws are preferred over program financing.

CALIFORNIA CAPITAL ACCESS PROGRAM:
The California Capital Access Program (CalCAP) is a very successful guarantee program which provide access to capital for "near bankable" small business in California. Administered by the California Pollution Control Financing Authority (CPCFA), CalCAP establishes a specific loss reserve for loans made by lenders under the program. Any losses on loans made under the program can be fully offset against the loss reserve (up to the amount in the reserve). In contrast, the Small Business Administration guarantees individual loans up to a specific percentage (typically 80%-90%).

Consistent with the desire of the Administration and the Legislature not to duplicate existing state programs, the Board's participation in Cal CAP could be an efficient and effective tool to provide access to capital for small and start-up recycling-related businesses. After only 2 1/2 years, the 37 participating banks have made 1,340 loans totaling $184 million affecting

nearly 6,700 jobs, representing a 23.4:1 leverage of Cal CAP contributions. Staff estimates that if the Board were to participate in Cal CAP, a $500,000 investment would result in over $12 million in capital for recycling-related businesses which otherwise might not have access to such financing.

The Market Development Committee has directed staff to work with the CPCFA to develop the MOU and IAA (if an IAA is necessary) for the Board's participation in the program. Approval of participation, eligibility criteria, and the internal approval process will be detailed in a Board agenda item in the next few months (the program already exists in CPCFA regulations). If approved by the Board, participation could occur by late summer 1997. Due to the streamlined process of Cal CAP, impact on staff resources should be minimal.

Eligibility for CalCAP need not be the same as for the direct loan program. It has been suggested that eligibility for the direct loan program be expanded for creditworthy companies for whom the cost of capital is the primary issue. CalCAP can be used with significantly expanded eligibility, perhaps also including collection activities, for those companies where access to capital is the primary concern. What are your thoughts regarding eligibility for the Board's participation under CalCAP?