

REQUEST FOR APPROVAL

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

From: **Laurie Kikumoto**
Acting Branch Chief, Financial Resources Management Branch

Request Date: October 1, 2013

Decision Subject: Eligibility Criteria, Evaluation Process and Award Amounts for the Tire Incentive Program (Tire Recycling Management Fund, FYs 2013/14 and 2014/15)

Action By: October 15, 2013 (revised April 7, 2014)

Summary of Request: This Request for Approval seeks approval for the eligibility criteria, evaluation process, and award amounts for the Tire Incentive Program (TIP) for FYs 2013/14 and 2014/15. In July 2013, CalRecycle adopted the *Draft Five-Year Plan for Waste Tire Recycling Management Program – (7th Edition Covering Fiscal Years 2013/14-2017/18)* ([Draft Five Year Plan](#)), which allocates a combined amount of \$3,273,747 and \$4,123,747 for FYs 2013/14 and 2014/15, respectively, for both the Tire-Derived Product (TDP) Grant Program and the TIP. Of this, \$1,837,306 and approximately \$3,000,000 is available for the TIP for FY 2013/14 and FY 2014/15, respectively.

Recommendation: Staff recommends approval of the proposed eligibility criteria, evaluation process and award amounts for the TIP for FYs 2013/14 and 2014/15.

Deputy Director Action: On the basis of the information and analysis in this Request for Approval and the findings set out herein, I hereby approve the eligibility criteria, evaluation process and award amounts for the Tire Incentive Program for FYs 2013/14 and 2014/15.

Dated: 4/25/14


Howard Levenson
Deputy Director

Background and Analysis:

Statutory Authority

CalRecycle receives an annual appropriation from the California Tire Recycling Management Fund to administer the California Tire Recycling Act (Senate Bill 937, Vuich, Statutes of 1990, Chapter 35) (Public Resources Code (PRC) sections 42860 et seq.). PRC section 42872 authorizes CalRecycle to award grants, subsidies, rebates and loans to businesses or other enterprises involved in activities and applications that result in reduced landfill disposal of used whole tires. PRC section 42872(g) specifically authorizes "Development and implementation of a waste tire incentive payment program to promote increased demand for waste tires recycled in this state and to promote higher value products."

In July 2013, CalRecycle adopted the *Draft Five-Year Plan*, which allocates a combined amount of \$3,273,747 and \$4,123,747 for FYs 2013/14 and 2014/15, respectively, for both the TDP Grant Program and the TIP.

On May 20, 2013, [CalRecycle approved](#) using \$1,436,441 of the FY 2013/14 allocation to fund previously unfunded FY 2012/13 TDP grant applications, resulting in \$1,837,306 being available for the TIP for FY 2013/14. This may increase if the TDP grant applicants (awarded using FY 2013/14 allocations) withdraw or decline their award. CalRecycle staff proposes using approximately \$3,000,000 for FY 2014/15 TIP awards. Staff further proposes that the amount remaining after FY 2014/15 TIP awards, estimated at \$1,123,747, be used for FY 2014/15 TDP awards. Depending on results for the FYs 2013/14 and 2014/15 TIP solicitations, CalRecycle may annually adjust funding between the two grant programs.

Program Background

Over the years, CalRecycle has provided various market development programs for recycled waste tires. Some of the more notable programs have been: the TDP Grant (and its predecessors), which has helped develop the market for TDPs; the Rubberized Pavement Grant (and its predecessors), which has been successful in developing a strong market for rubberized asphalt concrete and rubberized chip seal; the Tire-Derived Aggregate (TDA) Grant, which provides assistance to encourage the use of TDA in civil engineering applications; the Tire Product Commercialization and Applied Technologies Grant, which assisted businesses to purchase necessary equipment to process waste tires and produce new TDPs; and the Tire Business Assistance Program (TBAP) Grant which provided technical assistance to businesses to build capacity and improve cost-efficiencies.

In 2010, CalRecycle contracted with SAIC Energy, Environment & Infrastructure, LLC, to evaluate the tire market development programs. SAIC's report suggested the potential use of incentive approaches. As a result, in 2011, CalRecycle requested that SAIC prepare a more in-depth [Evaluation of Tire Incentive and Extended Producer Responsibility Policies](#), which reviewed both tire incentive and extended producer responsibility policy approaches. Based in part on this report, CalRecycle then presented various incentive approaches to stakeholders at the August 28-29, 2012, [Tire Conference](#). In response to stakeholder feedback, CalRecycle staff presented a suggested incentive approach at the February 19, 2013, [CalRecycle meeting](#), and subsequently had numerous individual conversations with key stakeholders, prospective product manufacturers, and compounders. The TIP has also been discussed during the development of the *Draft Five-Year Plan*.

As a result of these public discussions and in response to stakeholder input, CalRecycle staff has made some proposed changes to what was discussed at the February 19, 2013, CalRecycle meeting. CalRecycle staff believes that these changes will make the pilot program more attractive to an increased number of potential applicants and result in a greater impact. Specifically, these changes are:

- Increasing the maximum grant amount to \$500,000 from \$250,000.
- Increasing the target crumb rubber content for feedstock conversion to 20 percent from 7 percent (not all products will be able to achieve a 20 percent threshold). The change was in response to discussions with prospective applicants who believed that, depending on the performance specifications, a higher percentage of crumb rubber was possible in many products.
- Increasing the reimbursement rates to 10 cents per pound from 2 cents per pound for existing TDPs and to 20 cents per pound from 10 cents per pound for feedstock conversion and finer (5060 mesh) material. The change was in response to discussions with stakeholders and prospective applicants who believed that a greater reimbursement was necessary to: 1) more effectively compete against TDPs produced with imported, subsidized crumb rubber or 2) incentivize prospective applicants to use and optimize an unfamiliar material (crumb rubber versus virgin rubber).

To implement the TIP and further develop a sustainable and diversified market for recycled waste tires, CalRecycle staff recommends a coordinated approach involving three components:

1. At the core of the effort is the TIP, which is an incentive reimbursed to eligible and approved businesses (described below) to reduce the cost of crumb rubber. This will enable the business to more effectively market its existing TDPs due to benefiting from a lower cost of production and passing on that lower cost to purchasers. A different (greater) incentive will be paid to encourage feedstock conversion (substituting crumb rubber for virgin rubber). An additional incentive will be paid to encourage the use of finer (5060 mesh material and/or for rubber co-extruded/injected with plastic or other materials.
2. To encourage and support higher value-added feedstock conversion and higher volume users of crumb rubber, CalRecycle will also issue one or more research contracts. The Scope of Work for the contract(s) will be presented separately in the next few months. The Scope of Work may include working with individual manufacturers to perform feedstock conversion research and testing to resolve (perceived and actual) barriers to potential high volume and/or high value uses of crumb rubber (examples may include, construction and roofing products, paints, sealants, coatings, playground tile and pour-in-place playgrounds, rubber co-extruded/injected with plastic or other materials, etc.).
3. The final component is to work synergistically with CalRecycle staff and SAIC (now referred to as Leidos Holdings, Inc., also known as Leidos) in implementing the new Tire Outreach and Market Analysis ([TOMA](#)) contract. The TOMA contract covers several complementary activities including, but not limited to, technical outreach and education to promote TDPs and identification of TDP manufacturers and prospects for feedstock conversion.

Proposed Process and Eligibility

The TIP is a competitive, pilot incentive grant program that proposes to expand commercial (business) demand for different and higher value-added TDPs by providing financial incentives to eligible manufacturers to more competitively price and market their TDPs, thereby increasing sales and market share.

Eligible applicants are:

- Manufacturers that produce an eligible product;
- Waste tire processors that also manufacture an eligible product;
- Rubber compounders;
- Manufacturers which produce calendered rubber sheet products; and
- Manufacturers that produce products on a contract basis for other companies provided they have that other company's permission to produce an eligible product and receive the incentive.

To be eligible, an applicant must have been fully operational for at least three years and profitable in the most recent tax year. Start-up business or individuals (without an otherwise eligible manufacturing business) with an idea for a new or improved TDP are not eligible.

Staff proposes that awards be subject to a \$50,000 minimum and a \$500,000 maximum. To ensure that the TIP is not overly concentrated in one business, staff recommends that no more than 30 percent of TIP initial awards will be made to a single applicant. Except for the FY 2013/14 award, a grantee may not have more than one TIP grant outstanding at any time. Because of solicitation timing, the grant term for FY 2013/14 funding is approximately two years (ending April 1, 2016). The estimated grant term for FY 2014/15 funding is anticipated to be over two and one half years (ending April 1, 2017).

Eligible products and reimbursement categories are (see paragraphs below for examples and exclusions):

1. An existing TDP which has not benefited from the TDP Grant Program (Reimbursement category – Existing TDP); *
2. An existing or new/improved product currently manufactured with virgin rubber which may be produced with a minimum of five percent crumb rubber (Reimbursement category – Feedstock conversion); and*
3. An existing or new/improved product currently manufactured with virgin rubber (or plastic or other material) which may be produced with a minimum of five percent crumb rubber which is:
 - a. Fine~~r~~ (<50~~60~~) mesh crumb rubber; or
 - b. Co-extruded, injected, calendered or otherwise combined with plastic or other materials (Reimbursement category – Fine~~r~~ mesh or combined with other material)

*TDPs which received minimal benefit (grantee awards for the TDP totaling less than \$1,000,000 since fiscal year 2005/06) or that are reconfigured to serve a different purpose/market are eligible.

*Products which were developed or where crumb rubber was substituted for virgin rubber through the previous Tire Business Assistance Program are eligible.

Possible examples include, but are not limited to: flooring underlayment, rubberized flooring, conveyer belts, calendered rubber, agricultural harvesting devices, various landscaping and garden products, various building products, traffic cones, delineators, spacers, tire stops, barricades, fencing, asphalt roofing shingles, paints, sealants, coatings, etc. Pour-in-place playgrounds which use shredded or chunk rubber from California-generated passenger tires (not truck tires or buffings) for the cushion course also would be eligible.

Specifically excluded from this program would be: crumb rubber (as an intermediate product), tire-derived aggregate, rubber mulch/bark, rubberized sidewalks and tree wells, loose-fill or pour-in-place playgrounds (except as noted above), tiled recreational surfacing, floor and agricultural mats, sports tracks, all weather turf infill and similar type products which have enjoyed significant benefit from the TDP Grant Program and its predecessors.

Applicants will submit an application using CalRecycle’s online grant application and management system, GMSWeb. Several products may be included in the application, including products and/or materials produced for other companies (with the appropriate authorization of the applicable companies). Application information will include, but is not limited to: contact and business information, the most recent business Federal tax return and appropriate business and product information. Tax return and other proprietary information appropriately labeled will be considered a “trade secret” consistent with PRC section 40062. CalRecycle staff will review appropriate information to make a recommendation regarding eligibility and total incentive amount.

As shown in the table directly below, the TIP will be reimbursed (as an incentive payment) quarterly for completed sales of eligible TDPs. Available funds will be allocated in approximately equal amounts per category. For new feedstock conversion, the use of finer (<60) mesh material, or for rubber combined with plastic or other materials, the total amount of crumb rubber used will be eligible. For existing TDPs, incentives will only be paid on the incremental increase in sales over previous levels. Grantees may pass on all or a portion of the incentive (as a price discount) to the end purchaser of the product. The incentive may also be used for a myriad of TDP production or selling expenses, such as product development, testing and certification, and marketing and selling costs. TIP funds cannot be used to increase management and/or officer compensation.

Reimbursement categories and amounts are:

Category	Reimbursement per pound
1. Existing TDPs	10 cents for incremental increase in crumb rubber used
2. Feedstock conversion	20 cents for total crumb rubber used
3. Finer (<50 60) mesh or combined with other materials *	20 cents for total crumb rubber used

* May be combined with feedstock conversion reimbursement amount for a total of 40 cents per pound

If there are more requests than available funds (i.e., the program is oversubscribed), available monies will be allocated in approximately equal amounts for each of the three categories. Eligible applications will be ranked within each of three categories (see Table of reimbursement amounts below, which lists the categories) according to the greatest amount of crumb rubber projected to be used. If an application has products in more than one category, the amount of crumb rubber for the higher numbered category will be considered for ranking purposes. Appeals of staff’s recommendation may be made to the Deputy Director.

Application and reimbursement documentation is subject to review and/or audit by CalRecycle, the Department of Finance, the Bureau of State Audits, and designated representatives of these agencies. Grantees will provide periodic Progress Reports, a Final Report, and Progress Updates

for three years after the TIP term end. Grantees are required to use only California crumb rubber during the TIP grant term and for three years after the end of TIP grant term.

Grantees may participate in both the anticipated research contract (for feedstock conversion or addressing barriers for large volume and/or high value uses; i.e., the second component in the overall approach described above) and utilize the TIP to further reduce the cost of producing the product. Because of the research contract timing, this is probably not an option for grantees receiving FY 2013/14 funding.

Crumb rubber must be from California-generated waste tires processed in California. Because of fluid market conditions and waste tire imports, CalRecycle considers crumb rubber from a California processor eligible for reimbursement if 95 percent of the waste tires were California-generated. Crumb rubber from waste tires processed outside of California is not eligible for the TIP. Because of its suitability for feedstock conversion and processor operational challenges, especially for the finer mesh material, crumb rubber from truck tire buffings is eligible for reimbursement (except for pour-in-place playgrounds, as mentioned above).

Examples of eligible and ineligible scenarios:

1. ABC Manufacturing has been in business for ten years and has demonstrated profitability producing ten different rubber flooring and underlayment products which have not previously benefited from the TDP Grant Program. ABC Manufacturing currently uses 3 million pounds of crumb rubber per year and anticipates increasing sales and using an additional 1 million pounds per year during the two year TIP term (for FY 2013/14 funding). The TIP award would be: (1 million pounds X two years X 10 cents) for a total of \$200,000.
2. XYZ Manufacturing is a fifteen year old company, with demonstrated profitability, which produces rubber products for itself and other companies on a contract basis. XYZ Manufacturing has participated in the TBAP and has been successful in feedstock conversion efforts for three existing products which are anticipated to use a combined amount of 200,000 pounds of crumb rubber per year. Since the feedstock conversion products are not yet fully integrated into production, the full 200,000 pounds of crumb rubber is considered an incremental increase over previous levels. Because of its success, XYZ wants to use crumb rubber in several other products (both its own products and those which are produced on a contract basis). Based on the proposed products and previous feedstock conversion history, XYZ believes that it will take an average of nine months to determine the optimum level (estimated at 15 percent) of crumb rubber in the products and begin producing the recycled content products. Crumb rubber usage for the newly converted products is estimated at 350,000 pounds per year. XYZ may apply for TIP for both the existing TDP category and the feedstock conversion category. The TIP award would be: (200,000 pounds X two years X 10 cents) plus (350,000 pounds X 1.25 years [two year term minus nine month development time] X 20 cents) or \$40,000 plus \$87,500 for a total of \$127,500.
3. Renew Manufacturing is a twenty year old manufacturer that is profitable. It produces a variety of products, including a floor coating, a waterproof roofing membrane and an existing product currently using 10 percent crumb rubber that they believe can increase to 17 percent. Renew believes that it will take an average of six months to determine the

optimum level of crumb rubber for the products. It anticipates using: a total of 150,000 pounds per year of ~~5060~~ mesh or finer material for the coating and roofing membrane products; 200,000 pounds per year (incremental increase over previous sales levels) for the existing feedstock conversion product coupled with an additional (new) increase of 140,000 for the higher percentage of crumb rubber.

The TIP award for the existing product and anticipated increase in crumb rubber percentage would be: (200,000 pounds per year X 2 years X 10 cents per pound) plus (140,000 pounds per year X 1.5 years [two year term minus six month development time] X 20 cents per pound) or \$40,000 plus \$42,000 for a total of \$82,000. Additionally, because it will be substituting finer mesh crumb rubber in its coating and roofing membrane feedstock conversion products, Renew is eligible for both the feedstock conversion and finer mesh material incentives. Accordingly, the TIP award for coating and roofing membrane products would be: (150,000 pounds per year X 1.5 years [two year term minus six month development time] X 40 cents per pound (20 cents for feedstock conversion and 20 cents for finer mesh material) or \$90,000. The total TIP award would be \$172,000.

4. An individual, who is not an eligible applicant, has an idea for a new product which they believe will consume a significant amount of crumb rubber. The individual is not eligible.

Tentative Timeline for FYs 2013/14 and 2014/15

As shown in the table below, staff will post a Notice of Funds Available (NOFA) on CalRecycle’s website informing potential applicants of the funding, eligibility requirements, deadlines and other important information. The NOFA will be sent to TBAP recipients and shared with CalRecycle’s Local Assistance and Market Development staff to inform their local jurisdictions and businesses.

Tentative Dates		Activity
FY 2013/14	FY 2014/15	
April 2014 November 2013	October April 2014	Post NOFA, Application and related instructions and documents on the web site
April January 2014	November May 2014	Applications due
May Jan/Feb 2014	December/January 2015 June/July 2014	Conduct application evaluation/review process; determine funding for eligible applicants
June March 2014	March 2015 July/August 2014	Grant awards presented at CalRecycle Public Meeting
June April 2014*	April/May 2015 August/Sept 2014	Grant Agreements distributed and executed: grant term ends April 1, 2016, and April 1, 2017, for FYs 2013/14 and 2014/15, respectively

* Grant Agreements for this cycle must be returned to CalRecycle by June 27, 2014, for execution and encumbrance.

