

REQUEST FOR APPROVAL

To: **Scott Smithline**
Director

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

Request Date: November 8, 2016

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

Action By: November 15, 2016

Summary of Request

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

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

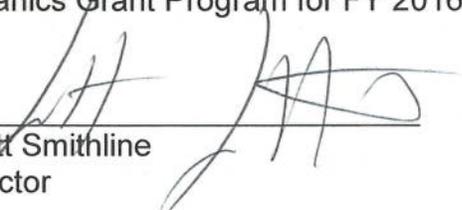
1. Include new performance-based payment methodology.
2. Include additional preprocessing requirements.
3. Modify points in scoring criteria compared to previous cycle.
4. Include new Rural Program.
5. Include additional food waste prevention expenses.

Recommendation

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

Director Action

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



Scott Smithline
Director

11/18/16

Dated

Attachments

Attachment 1 – Organics Grant Program Scoring Criteria

Background and Analysis

Statutory Authority

Public Resources Code section 42995 et seq., added to statute by the enactment of SB 862 (Statutes of 2014, Chapter 36) and revised by SB 859 (Statutes of 2016, Chapter 386), authorizes the California Department of Resources Recycling and Recovery (CalRecycle) to award grants and loans to provide financial incentives for capital investments that expand waste management infrastructure resulting in greenhouse gas (GHG) emission reductions, with a priority in disadvantaged communities. The total funding available for these programs in the Governor's budget for FY 2016–17, as amended by AB 1613 (Statutes of 2016, Chapter 370), is \$40,000,000. This allocation will fund the previously established Organics Grant Program, the Recycled Fiber, Plastic and Glass Grant Program, and the new Food Waste Prevention and Rescue Grant Program.

Program Background

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

Three important pieces of legislation, AB 32, AB 341 and SB 1383, provide the policy drivers to realize significant GHG emission reductions through increased diversion of materials from landfills via source reduction, recycling and composting.

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

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

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

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

- **SB 1383 and Statewide Goal of 75 Percent Reduction in Organics Disposal**
SB 1383 establishes a target of 50 percent reduction in the statewide disposal of organic waste from 2014 levels by 2020 and a 75 percent reduction by 2025, as well as a target of recovering at least 20 percent of edible food currently disposed of by 2025. It requires CalRecycle to adopt regulations to achieve these targets. The regulations would not go into effect until January 1, 2022.

The Organics Grant Program provides funds to support expansion of the waste management infrastructure that meets both AB 32, AB 341, and SB 1383 policies, particularly for new or expanded organics infrastructure such as composting and anaerobic digestion facilities. This investment will result in reduced methane emissions from landfills; benefit disadvantaged communities by upgrading existing facilities and, where warranted, establish new facilities; result in air and water quality benefits in addition to GHG emission reductions; and feed people in need, and create jobs.

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

Funding

The Organics Grant Program will be administered by both the Financial Resources Management Branch and the Statewide Technical and Analytical Services Branch. The total appropriation in the Governor’s Budget from the Greenhouse Gas Reduction Fund (GGRF) is \$40,000,000. Staff proposes to allocate \$24,000,000 which will be distributed as follows:

- Compost Projects: \$12,000,000 allocation for compost projects with a maximum grant award of \$3,000,000 per application.
 - \$3,000,000 from the compost projects allocation is available for Rural Program applications. The maximum grant award is \$3,000,000 per application.
- Digestion Projects: \$12,000,000 allocation for digestion project with a maximum award of \$4,000,000 per application.

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

Project Requirements

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

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

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

Proposed Process and Eligibility

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

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

Eligible applicants include:

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

CalRecycle requires that any application that includes a charter city (either as the sole applicant, as a participant in a regional application, or as a member of an applicant Joint Powers Authority) include a certification by the applicant that all charter cities included in the application are eligible to receive grant funds for the project described in the application. If it

is later found that grant funds were received in violation of Labor Code section 1782, the grant will be terminated and the grantee will be required to return any grant funds.

Eligible projects include:

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

Rural Program Project Requirements

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

The Rural Program has a maximum award amount of \$3,000,000 per applicant, with a proposed total of \$3,000,000 being set aside for this program. Rural Program applications will be scored separately from the standard applications. The project requirements, eligible projects, ineligible costs, required application documents, scoring criteria, and minimum score requirements are the same for the Rural Program as the standard Organics Grant Program.

Proposed Changes

1. Include new Performance-Based Payment Methodology

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

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

- An applicant for a compost project can request up to \$3,000,000. An applicant for a digestion project can request up to \$4,000,000. Payment of requested funds will be divided between infrastructure and performance payments. The infrastructure portion of the grant will be paid on a reimbursement basis. An applicant can request up to, \$2,400,000 for compost projects and \$3,200,000 for digestion projects for capital expenses and other eligible expenses for the infrastructure portion of the project (as described in the eligible projects section). An amount up to twenty-five (25) percent of the amount requested for those expenses can then be requested as performance payments. In contrast, performance payments will be made for each ton of California-generated green waste, food materials, or ADC diverted from landfills and composted or digested during the term of the grant. The payments will be made quarterly on a per ton basis with the dollar amount being determined by dividing the amount requested for performance payments by the total number of tons diverted under the project during the grant term, as stated in the application.
 - *Example 1:* Applicant may request \$3,200,000 for the construction of a new anaerobic digestion facility that will divert 24,000 tons of previously landfilled organic material during the grant term (8,000 tons per year for the three-year term of the grant). This applicant may request \$800,000 (25 percent of \$3,200,000) in performance payments for a maximum grant request of \$4,000,000. These payments would be at a rate of approximately \$33/ton (\$800,000 divided by 24,000 tons).
 - *Example 2:* Applicant may request \$2,400,000 for composting facility expansion. The project will allow the facility to compost an additional 30,000 tons of organic waste during the grant term (10,000 tons per year for the three-year grant term). The applicant may request up to \$600,000 (25 percent of \$2,400,000) in performance payments for a maximum grant request of \$3,000,000. These payments would be at a rate of \$20/ton (\$600,000 divided by 30,000 tons).

- An applicant in the Rural Program can request up to \$3,000,000. Payment of funds is divided between infrastructure and performance payments as described above for standard projects.

2. Include Additional Preprocessing Requirements

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

- Project must result in new diversion from landfills (i.e., beyond that which the preprocessor was already diverting).
- Preprocessor must provide proof of binding agreement with a California facility that is receiving the preprocessed feedstock to make compost, soil amendments, biofuels, or bioenergy.
- If the composting or digestion facility that receives materials from a preprocessing applicant also submits an application, the applicant must demonstrate how each project will result in discrete increases in tons of material diverted from landfills and reductions in GHG emissions.

3. Modify Points and Criteria in Scoring Criteria Compared to Previous Cycle

- Disadvantaged Communities: Increase points for Disadvantaged Communities from 10 to 15 points and include additional factors related to analysis of impacts and outreach to community, and reduce Air and Water Quality Benefits from 10 to 5 points.
 - To recognize issues raised by stakeholders, add in Disadvantaged Communities scoring criterion a requirement for applicants to identify adverse impacts and explain how those will be mitigated, and a requirement to discuss how they will engage the community throughout the life of the project even after the grant closes. In addition, add additional questions into the Narrative Proposal regarding impacts in Disadvantaged Communities, specifically:
 - Describe important community need(s) that the community will meaningfully address and how the community was or will be involved in the local planning and environmental review processes for this project, including how neighbors were contacted, public meetings and dates, demographic issues considered, and whether translation was or will be needed. Summarize the results of this outreach; identify community's concerns, questions, or comments and how they will be addressed.
 - Describe what, if any, mitigations were included in the project as a result of these processes, including but not limited to mitigating potential impacts such as aesthetics, air quality, cultural resources, dust, odor, hazards and hazardous materials, water quality, land use, noise, housing, public services, recreation, and transportation/traffic. For example, a project may describe how they are mitigating aesthetic impacts by planting trees or transportation/traffic impacts by limiting hours of operation.

- **Fiscal Soundness:** To recognize the importance a project's fiscal viability, increased points from 5 to 15. Also, included specific documentation needed to verify financial feasibility of the organization, the project, as well as feedstock and product markets.
- **Application Completeness:** Points for this section are not needed because an application must be complete in order to be scored. Eliminate the Application Completeness category (5 points) and add it to Tons of Organic Material Composted, Digested, or Food Waste Prevented for a total of 20 points.

4. Include New Rural Program

Reserve \$3,000,000 for Rural Program projects, with a maximum of \$3,000,000 per application.

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

5. Include Additional Food Waste Prevention Expenses

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

Tentative Timeline for FY 2016–17

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

Table 1. Tentative Timeline

FY 2016–17	Activity
December 2016 or January 2017	Post Notice of Funds Available, application, and related instructions and documents on the website
February 2017	<p>Alternative GHG Methodology Request – due date for request is approximately three weeks before application due date</p> <ul style="list-style-type: none"> • An applicant can request the right to submit an alternative methodology, i.e., applicant does not think the quantification methodology characterizes the project <p><i>Note: actual methodology and calculations are to be submitted by the applicant on application due date.</i></p> <ul style="list-style-type: none"> • CalRecycle confers with ARB on whether applicant should be allowed to submit alternative methodology and provides response to Applicant via email no later than two weeks prior to the application due date.
February 2017	Question and Answer Period – due date for question submittal is approximately three weeks after the release of the application
March 2017	Applications due
March – July 2017	Conduct application evaluation/review process and determine funding for eligible applicants
July or August 2017	Grant Awards
August – September 2017	Grant Agreements distributed and executed
April 1, 2020	Grant term ends

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

