

## REQUEST FOR APPROVAL

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

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

**Request Date:** April 28, 2011

**Decision Subject:** Tire Equipment Loan for reRubber LLC  
(Tire Recycling Management Fund, Fiscal Year 2010/11)

**Action By:** May 17, 2011

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**Summary of Request:** Public Resources Code (PRC) Section 42872 authorizes the Department of Resources Recycling and Recovery (CalRecycle) to approve loans to private businesses in activities and applications that result in reduced landfill disposal of used whole tires.

Staff requests approval of a tire equipment loan in the amount of \$1,350,000 to reRubber LLC, which is located in the City of Ontario (San Bernardino County). The applicant recycles waste truck tires and produces crumb rubber. This crumb rubber is then sold to other manufacturers who produce a variety of finished, molded tire-derived products. This loan project meets the required eligibility criteria established in September 2008 to receive loan funding.

The loan application was considered and recommended for approval by the Loan Committee on April 14, 2011. If approved, this loan will be funded from the Tire Recycling Management Fund, Fiscal Year (FY) 2010/11. The management team is very familiar with the waste tire industry and has a relatively strong equity investment in the proposed loan project. There is satisfactory collateral to support the loan request.

**Recommendation:** Staff recommends approval of a FY 2010/11 loan from the Tire Equipment Loan Program to reRubber LLC in the amount of \$1,350,000.

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**Deputy Director Action:**

On the basis of the information and analysis in this Request for Approval and the findings set out herein, I hereby conditionally approve a FY 2010/11 Tire Equipment Loan Program loan to reRubber, LLC in the amount of \$1,350,000.

The proposed loan is conditioned upon:

1. The return by the proposed Borrower of a signed loan Commitment Letter within thirty (30) days of the date of the Commitment Letter.

2. The return by the proposed Borrower of the signed Loan Agreement and all other required loan documents prior to the expiration of the loan commitment period. The loan commitment is in effect for ninety (90) days from the date of this loan approval. The loan commitment may be extended, for cause, for an additional ninety (90) days. Extension of the loan commitment beyond the second ninety (90) day period may occur only if agreed to by both CalRecycle and the proposed Borrower.
3. All terms and conditions contained in the Loan Agreement to be prepared by loan program staff in accordance with applicable regulations, and such other terms and conditions as duly authorized staff in their sole discretion deem necessary or advisable.

Dated: 5/17/11



**Howard Levenson**

Deputy Director, Materials Management and Local Assistance Division

### **Background and Findings**

#### Statutory Authority:

Public Resources Code (PRC) Section 42872 authorizes the Department of Resources Recycling and Recovery (CalRecycle) to approve loans to private businesses for activities and applications that result in reduced landfill disposal of used whole tires. Funding levels for the Tire Equipment Loan Program are identified in the Five-Year Tire Plan.

#### Program Background:

The Tire Equipment Loan Program provides direct loans to California manufacturers who produce tire-derived, recycled content products. Loan funds can only be used to purchase equipment that will be used to reprocess waste tire feedstock and/or manufacture a finished tire-derived product.

#### Criteria and Process:

The General and Project Eligibility Criteria for the Tire Equipment Loan Program are based on the criteria used in the Recycling Market Development Revolving Loan Program (RMDZ) that were approved by the California Integrated Waste Management Board in September 2008. Staff reviewed the application and determined it is consistent with the established criteria.

All loan applications are reviewed and evaluated in accordance with established procedures to ensure that the project meets current eligibility and underwriting criteria and that required permits have been obtained, as determined by CalRecycle permit staff. The Loan Committee then considers the financial soundness and terms of the proposed loan and recommends that the loan request be either approved or declined. Upon conclusion of this process and Loan Committee approval recommendation, CalRecycle senior management staff reviews the loan request and determines whether to make a commitment to approve and fund the loan.

#### Proposed Loan Project:

reRubber LLC is requesting a loan of \$1,350,000 from the Tire Equipment Loan Program. The proposed loan request will finance the purchase of equipment to establish a second production line at their 43,793 square foot facility in the Ontario. Setting up a second production line will enable the business to expand production to meet increasing sales demand. The equipment includes shredders, steel separators, granulators

and classifiers to shred and grind waste truck tires into crumb rubber into various mesh gradations (6 to 10 mesh, 30 to 50 mesh, 50 to 80 mesh, minus 80 mesh, and 120 mesh) that are in demand by manufacturers of finished, molded tire-derived products.

The company currently employs 25 people. As a result of this proposed expansion project, about 16 new jobs will be created and current production capacity will increase by 11,000 tons (see table below).

<b>Diversion Volumes</b>	<b>Current</b>	<b>Projected Increase</b>	<b>Total</b>
Tons per Year	11,000	11,000	22,000
PTE equivalent	1,000,000	1,000,000	2,000,000
Jobs Created	25	16	41

This project has the potential to process 22,000 tons per year of waste tires and will contribute to the diversion of that material from the waste stream, thereby assisting the local jurisdiction's compliance with the 50% disposal reduction mandate under the Integrated Waste Management Act, Assembly Bill 939.

Interdivisional Reviews:

Interdivisional Reviews were performed by various entities within CalRecycle. Their findings are indicated below:

- The Budgets Office confirmed there are sufficient monies allocated for Fiscal Year 2010/11 to fully fund this loan.

<b>Fund Source</b>	<b>Amount Available</b>	<b>Amount to Fund Item</b>	<b>Amount Remaining</b>	<b>Line Item</b>
Tire Recycling Management Fund, FY 2010/11	\$3,360,000	\$1,350,000	\$2,010,000	Direct Loan

- Legal Counsel for the Tire Equipment Loan Program was involved in staff discussions evaluating the merits and eligibility of the loan project prior to the Loan Committee meeting. Legal Counsel is not aware of any significant legal issues related to this loan.
- Staff from the Permitting and Certification Division has reviewed the project and has reported that reRubber operates under a minor Waste Tire Facilities Permit issued in March 2010. There are no known permit violations.
- Staff from the Local Assistance and Market Development Branch has reviewed the project and has reported that discarded waste truck tires are readily available within the City of Ontario and its surrounding areas that will be used in feedstock for this project are normally disposed of in landfills. There are two large commercial truck stop service facilities located within the City of Ontario. These two transportation service facilities are heavily utilized by long distance truck drivers to get their vehicles serviced. In 2010, each of these facilities collected approximately 120 cubic yards of tires per month or approximately 2,880 cubic yards of tires per year.
- Staff from the Statewide Technical and Analytical Resources Branch has reviewed the project and according to staff, reRubber's ability to produce a finer crumb rubber material will provide them the opportunity to access additional markets and customers.
- The applicant has certified that the project complies with all local, state and federal laws, regulations, requirements and rules, including the California Environmental Quality Act.

Loan Committee:

The Loan Committee met on April 14, 2011 and has recommended this loan be approved for funding.

Applicant Profile:

reRubber LLC (<http://www.rerubber.com>) was formed in November 2007 as a Nevada limited liability company. reRubber is managed by Enertech Solutions, LLC that was formed in 2005 as a management company. While Enertech has majority controlling interest in reRubber, there are over 25 individual investors in reRubber. Jiun D “JD” Wang, President, has a B.S. in Managerial Economics from University of California, Davis and an MBA from Shanghai International, China. Kuang Chia Tarn, Chief Operating Officer, has over 10 years experience in the tire recycling process technology after working in the recycling industry in Taiwan.

The management team is very familiar with the waste tire industry and has a relatively strong equity investment in the proposed loan project. There is satisfactory collateral to support the loan request. The company now operates with an “ISO 14001” environmental certification from International Organization for Standards and is in the process of applying for the “ISO 9001” quality certification.

The company sells its crumb rubber to manufacturers who produce finished products such as flooring products, playground surfaces, running tracks, road base, roof patch, asphalt sealant, and landscaping mulch. The proposed project will also use new equipment to recover and separate the steel and fiber from waste tires. If approved, this will be the first loan to reRubber LLC funded by CalRecycle.

Prior Loan Experience

None

Project Name	Amount	Start Date	End Date	Status