

**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:** **November 2, 2012**

**Decision Subject:** Recycling Market Development Zone Loan for American Pavement Systems, Inc. (Recycling Market Development Revolving Loan Subaccount, FY 2012/13)

**Action By:** **November 19, 2012**

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**Summary of Request:** Staff requests approval of a Recycling Market Development Zone (RMDZ) loan in the amount of \$550,000 to American Pavement Systems, Inc. The request is more fully described under *Applicant Profile*.

**Recommendation:** Staff recommends approval of a RMDZ loan to American Pavement Systems, Inc., for \$550,000.

<b>Fund Source: RMDZ Loan Subaccount</b>	<b>Amount Available</b>	<b>Amount to Fund Item</b>	<b>Amount Remaining</b>	<b>Line Item</b>
FY 2012/13	\$4,550,000	\$550,000	\$4,000,000	Direct Loan

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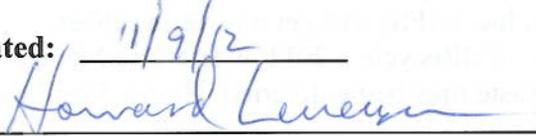
**Deputy Director Action:** On the basis of the information and analysis in this Request for Approval and the findings set out herein, I hereby conditionally approve a Recycling Market Development Zone loan to American Pavement Systems, Inc., for \$550,000.

This approval is subject to:

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. All terms and conditions contained in the Loan Agreement and other loan documents 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.

I further direct staff to conduct all acts necessary to fund this loan, including but not limited to the preparation and execution of the Loan Agreement and other loan documents.

**Dated:** 11/9/12

  
**Howard Levenson**  
Deputy Director

## **Background and Findings**

### Statutory Authority

The Recycling Market Development Zone (RMDZ) Program was established by Senate Bill 1322 (Bergeson, Statutes of 1989, Chapter 1096) and codified in Public Resources Code sections 42010-42024. Program regulations are found in Title 14 of California Code of Regulations, sections 17901-17939.5. Public Resources Code (PRC) Section 42023.1 (f) authorizes the Department of Resources Recycling and Recovery (CalRecycle) to approve RMDZ loans to eligible businesses and not-for-profit organizations located in designated zones.

### Program Background

CalRecycle administers the RMDZ Revolving Loan Program to encourage California-based recycling businesses located within designated zones to site new manufacturing facilities, expand existing operations and processing capabilities, and create additional markets for recycled-content products. This program provides direct, low-interest loans for the purchase of equipment and other related business costs. Since 1993, CalRecycle has approved and funded 175 loans totaling approximately \$124 million.

### Process

General: The General Loan Criteria for the RMDZ Loan Program was approved by the former California Integrated Waste Management Board in September 2008, and the Project Eligibility Criteria was approved by CalRecycle in March 2012.

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. The Loan Committee considers the financial soundness of the applicant and the terms of the proposed loan and recommends to CalRecycle that the loan request be either approved or declined. Upon conclusion of this process and Loan Committee's approval recommendation, CalRecycle senior management staff reviews the loan request and determines whether to make a commitment to approve and fund the loan.

Application Review: The application was reviewed for completeness and evaluated consistent with approved General and Project Eligibility Criteria and commercial loan industry practices, to determine an appropriate loan amount and structure that is being recommended for the loan:

- The project is located within the boundaries of an RMDZ.
- The waste materials to be recycled are generated within California.
- The waste materials are normally disposed of in California landfills.
- The business has demonstrated the ability to repay and collateralize the loan.
- The local RMDZ Administrator supports the project, attested to the reasonableness of the employment and diversion projection of the project and has certified that the requested loan is compatible with their RMDZ's Action Plan and Objectives.
- Loan Staff has conferred with the Local Assistance and Market Development Branch and determined that American Pavement Systems, Inc. (APS) will get its crumb rubber feedstock from local tire recycling companies. CalRecycle's 2011 Waste Tire Market Report shows that even with almost 91% of waste tires being diverted, almost 5 million PTEs are still landfilled.

- Loan Staff has conferred with the Statewide Technical and Analytical Resources Branch as to the reasonableness of the proposed equipment for the projects. Staff's opinion is that APS will be using equipment that is used routinely for rubber chip seal application.
- Loan Staff has conferred with the Waste Permitting, Compliance and Mitigation Division concerning applicable Solid Waste Facility or Waste Tire Facility Permits. A Waste Tire Facility Permit is not required because the company does not process waste tires.
- Legal Counsel for the RMDZ Loan Program was involved in staff discussions evaluating the merits and eligibility of the project prior to the Loan Committee meeting. Legal Counsel is not aware of any significant legal issues related to the loans.
- The Budget Office has confirmed that sufficient monies are allocated for FY 2012/13.
- The Loan Committee met on September 13, 2012, and recommends approval of the loan.

Based on the above factors, and in consultation with the applicant, staff recommends approval of the loan to American Pavement Systems, Inc., for \$550,000. The applicant agreed with the recommended amount and conditions.

### **Applicant Profile**

#### American Pavement Systems, Inc.

Use of Funds and Project Description: Located in Modesto, California, Stanislaus County RMDZ, American Pavement Systems, Inc. (APS) proposes to use the \$550,000 RMDZ loan to finance two Asphalt Rubber blending plants. APS is a new company which will specialize in blending and applying asphalt rubber binder for chip seal work. They will utilize California ground recycled waste tires (crumb rubber) which will be purchased from various tire recyclers.

APS was formed in January 2010, and is owned by Gregory Reed, President (60%) and Marc Bertsch, Vice President (40%). Both owners are industry veterans, each with twenty years of experience in the industry. APS plans to start bidding on projects in December 2012, with operations commencing in early 2013.

Diversification and Jobs: As a result of the RMDZ loan, APS is projected to divert 2,272 tons of crumb rubber annually for the first year of operations, which equates to 455,000 scrap tires. The business is projected to create ten new jobs.

