.REQUEST FOR APPROVAL

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

From: **Michelle Martin**
Branch Chief, Financial Resources Management Branch

Request Date: September 3, 2014

Decision Subject: Recycling Market Development Zone Loan for American Pavement Systems, Inc. (Recycling Market Development Revolving Loan Subaccount, FY 2014/15)

Action By: September 16, 2014

Summary of Request: Staff requests approval of a Recycling Market Development Zone (RMDZ) loan in the amount of $1,411,500 to American Pavement Systems, Inc. (APS). The request is more fully described under *Applicant Profile*.

Recommendation: Staff recommends approval of a RMDZ loan to American Pavement Systems, Inc. in the amount of $1,411,500.

Fund Source: RMDZ Loan Subaccount	Amount Available	Amount to Fund Item	Amount Remaining	Line Item
FY 2014/15	$9,422,111*	$1,411,500	$8,010,611	Direct Loan

* The Available Amount is subject to authorization by the Director to add $5,000,000 unspent from FY 2013/14 to the $5,000,000 that is authorized for FY 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 conditionally approve the Recycling Market Development Zone loan to American Pavement Systems, Inc. for $1,411,500.

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: 9/11/14

Howard Levenson

Howard Levenson
Deputy Director

Background and Findings

Statutory Authority
The Recycling Market Development Zone (RMDZ) Program was established by Senate Bill 1322 (Bergeson, Statues of 1989, Chapter 1096), 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.

Process
General: The General Loan Criteria for the RMDZ Loan Program were approved by the former California Integrated Waste Management Board in September 2008, and the Project Eligibility Criteria were 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 the Stanislaus County RMDZ.
- The waste materials to be recycled are generated within California.
- The business has demonstrated the ability to repay and collateralize the loans.
- 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.
- Staff from the Local Assistance and Market Development Division has reviewed the project and determined that American Pavement Systems, Inc. (APS) will get its crumb rubber feedstock from California tire recycling companies, which would otherwise landfill the tires.
- Loan Staff has conferred with the Statewide Technical and Analytical Resources (STAR) Branch as to the reasonableness of the proposed equipment for the projects. STAR 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 and Waste Tire Facility Permits. As crumb rubber does not meet the definition of a waste tire per 30 PRC Section 42806.5, it is not subject to a Waste Tire Facility Permit. This project also does not fall within jurisdiction of a Solid Waste Facility Permit.
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- The borrower has certified that they have obtained all applicable permits to operate the business and equipment to be financed by the proposed loan.
- 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 2014/15.
- The Loan Committee met on August 14, 2014, 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 $1,411,500. The applicant has been informed and agreed with the recommended amount and conditions.

Applicant Profile

American Pavement Systems, Inc.
Use of Funds and Project Description: Located in Modesto, California, and within the Stanislaus County RMDZ, American Pavement Systems, Inc. (APS) proposes to use the $1,411,500 RMDZ loan to finance the purchase of one (1) new asphalt rubber blender, one (1) new asphalt rubber reaction vessel, one (1) used asphalt rubber blender and one (1) used asphalt rubber reaction vessel. The additional blending equipment will be used to expand their operations and enable the company to bid on additional contracts.

- APS commenced operations in January 2013. The company blends and applies asphalt rubber binder for chip seal work, utilizing tire crumb rubber.
- APS is owned by Gregory Reed, President and Marc Bertsch, Vice President, both former executives in the chip seal industry who have worked together in the industry since 1993.
- APS have very experienced staff and management.
- All of the company's contracts are advertised bid work. The company bids both as subcontractor and as prime contractor on jobs and is certified as a Small Business Enterprise (SBE) for Caltrans projects. Chip seal work is bid to State, County and City agencies, located in both Northern and Southern California.

Loan/Grant History
This is the second RMDZ loan request from APS. The first loan in the amount of $550,000 with a fifteen-year term was approved on November 9, 2012, and funded a chip spreader, four asphalt rubber distributors and six asphalt rubber transports. The current outstanding balance is $531,425 and APS is paying as agreed.

Diversion and Jobs: As a result of the RMDZ loan, APS is projected to increase diversion from 938 tons to 1,900 tons of crumb rubber annually which equates to 515,968 scrap tires. The company's payroll is projected to increase from the current 17 employees to 21 employees.