

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 Princess Paper, 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 \$577,889 to Princess Paper, Inc. (Princess Paper). The request is more fully described under *Applicant Profile*.

Recommendation: Staff recommends approval of a RMDZ loan to Princess Paper in the amount of \$577,889.

Fund Source: RMDZ Loan Subaccount	Amount Available	Amount to Fund Item	Amount Remaining	Line Item
FY 2014/15	\$10,000,000*	\$577,889	\$9,422,111	Direct Loan

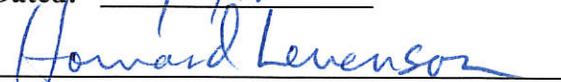
* The Available Amount is subject to authorization by the Director to add \$5,000,000 unspent from FY 2013/14 to the \$5,000,000 that is authorized for FY 2014/15.

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 a Recycling Market Development Zone loan to Princess Paper, Inc. for \$577,889.

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
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), 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 the 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 Los Angeles County RMDZ.
- The business is a secondary processor that further processes products made from waste materials (paper) generated in California.
- 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 projections 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 the postconsumer or postindustrial paper feedstock is currently landfilled or sold out of state and recycled. Staff reported that although California has no large paper recycling facilities that bleach or pulp paper, primary processors located out of state receive their feedstock from California.
- Loan Staff has conferred with the Statewide Technical and Analytical Resources Branch as to the reasonableness of the proposed equipment for the projects.

- Loan Staff has conferred with the Waste Permitting, Compliance and Mitigation Division concerning applicable Solid Waste Facility Permit. The staff has determined that a Solid Waste Facility Permit is not required for the project as the business receives source separated materials for use as feedstock in their manufacturing process. This project also does not fall within jurisdiction of a Solid Waste Facility Permit.
- 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 Princess Paper for \$577,889. The applicant has been informed and agreed with the recommended amount and conditions.

Applicant Profile

Princess Paper, Inc.

Use of Funds and Project Description: Located in Vernon, California, and within the Los Angeles County RMDZ, Princess Paper, Inc. proposes to use the \$577,889 RMDZ loan to purchase an automated, high speed plastic polyethylene packaging and wrapping equipment for their napkin production lines. The equipment is expected to improve productivity and at the same time reduce waste in the production process.

- Princess Paper is a secondary processor/paper converter producing a variety of tissue and towel products from postconsumer and postindustrial recycled paper.
- The Company, an S Corporation, has been operated by its current owner, Abraham Hakimi, since inception in 1998.
- Princess Paper cuts, converts and packages tissue and towel products from large paper rolls that are made from post-consumer and secondary waste materials.
- Princess Paper operates two divisions, the Retail Division and the Industrial Division.
- Products from the Retail Division include bathroom tissue, luncheon napkins and kitchen paper towels.
- The products are sold to large and medium size distributors and wholesalers, major supermarkets, dollar stores, drug store chains, etc.
- In early 2000, Princess Paper started its Industrial/Food Service Division, specifically to cater to janitorial, healthcare, private label and food service distribution businesses.
- Products from the Industrial/Food Service Division include jumbo bathroom tissue, hard-wound towels, folded napkin products, dinner napkin and dispenser napkin.
- Their sales territories are California, Arizona, Nevada, Texas, Colorado, New Mexico, Utah and Canada.

Loan/Grant History

This is the fifth RMDZ loan application submitted by Princess Paper. Other loans approved by CalRecycle are as follows:

- 1998 – The first RMDZ equipment loan of \$375,000 enabled the company to divert 900 tons of paper annually from California landfills. This loan was paid in full.

- 2000 – A second RMDZ equipment loan of \$700,000 allowed the company to increase the annual diversion to 1,000 tons. The loan was paid in full.
- 2006 – A third RMDZ loan of \$2,000,000 enabled the company to expand to a larger facility. The loan funds were used to purchase commercial real property, equipment and make site improvements. The company projected to increase annual diversion to 3,700 tons. The current outstanding balance is \$1,222,326.78 and the company is paying as agreed.
- 2010 – The fourth loan enabled the purchase of a paper napkin making equipment for its 3rd paper napkin production line. The current outstanding loan balance is \$114,676.46 and the company is paying as agreed.

Diversion and Jobs: As a result of the RMDZ loan, Princess Paper is projected to increase diversion from 6,284 to 6,900 tons of waste annually from California landfills. The company's payroll is projected to increase from the current 42 employees to 44 employees. Their waste generation volume, currently between six and seven percent, is expected to improve to approximately two to three percent after the installation of the proposed packaging and wrapping equipment.