

# Tire Incentive Program

## Discussion Document CalRecycle Public Meeting February 19, 2013

**Summary:** CalRecycle proposes to implement a pilot Tire Incentive Program (TIP) within the Tire-Derived Product (TDP) Grant Program starting with FY 2013/14. This incentive is aimed at expanding commercial (business) demand for higher value-added TDPs. Previous and existing programs provided assistance to public entities, such as local governments and state agencies. The TIP would provide financial assistance to participating manufacturers to increase sales to businesses.

Simply stated, this would enable participating manufacturers to increase TDP sales and market share by more competitively pricing and marketing their products.

In order to further diversify, expand and strengthen the marketplace, TIP emphasis would be on higher value-added products and/or encourage the use of recycled rubber in conventional rubber products (i.e., feedstock conversion). A long-standing barrier to production of higher-valued products is the limited availability of finer mesh rubber. This is because few processors have the necessary equipment to produce a consistent, quality, finished product. The use of an incentive to stimulate the market for finer mesh rubber is intended to encourage sufficient demand such that processors may invest in the necessary production equipment.

Another barrier to widespread use of recycled rubber in conventional rubber products is the incorrect belief that a product must contain a large percentage of recycled material and that containing recycled material may adversely affect the performance characteristics of the product. In this case the incentive would be intended to encourage the use of recycled rubber, in relatively small percentages (3% – 7%), in conventional rubber products (feedstock conversion). The TIP would be structured and marketed to address both of these barriers and diversify the market.

CalRecycle expects this to result in increased sales and hence increased additional usage of crumb rubber and diversion of waste tires from landfills, thereby fulfilling one of CalRecycle's goals. The participating manufacturers would be expected to pass on all or a portion of the incentive (as a price discount) to the end purchaser of the product. The incentive could also be used for a myriad of TDP production or selling expenses, such as: product development, testing and certification, marketing and selling costs. The incentive would not be used to increase officer/owner compensation. Local governments and school districts would be considered a "business" for the purpose of this incentive.

**Tire-Derived Aggregate Incentive:** In the next two or three years, CalRecycle may also consider an incentive to facilitate efficient movement of Tire-Derived Aggregate (TDA) through the supply chain. Such an incentive may be targeted at the processor, purchaser or a combination of the two. In the meantime, CalRecycle will continue to work with stakeholders regarding appropriate storage of TDA and its impact on applicable projects. Additionally, CalRecycle will continue to evaluate the effectiveness of the TDA Grant Program and make appropriate adjustments.

**Product Examples:** The TIP would be intended to target products which do not benefit from the traditional TDP Grant Program. Targeted products would include: products using recycled rubber as a substitute for virgin rubber or other materials (i.e., feedstock conversion) and innovative products which hold significant potential to further diversify the TDP marketplace.

Examples of possible TIP eligible products would include, but not be limited to: flooring underlayment, rubberized flooring, conveyer belts, calendered rubber, agricultural harvesting devices, various landscaping and garden products, various building products, traffic cones, delineators, spacers, tire stops, barricades, fencing, asphalt roofing shingles, paintings, coatings, etc. Pour-in-place playgrounds which use shredded or chunk rubber from California-generated passenger (not truck) tires for the cushion course would be eligible.

Specifically excluded from this incentive would be: crumb rubber (as an intermediate product), tire-derived aggregate, mulch, rubberized sidewalks and tree wells, loose-fill or pour-in-place playgrounds (except as noted above), tiled recreational surfacing, floor and agricultural mats, sports tracks, all weather turf infill and similar type products which have enjoyed significant benefit from the TDP Grant Program and its predecessors.

**TDP Awareness and Advertising:** In addition to providing an incentive, up to 10% of the available funding might also be used for one or more contracts to increase awareness and marketing of TDPs. This may include: development of common messaging or display ad, testing the message and/or ad through various methods (including target audience focus groups) and placement of ads in targeted trade publications. An alternative would be for additional monies to be added to individual TIP grants to allow participating manufacturers to place ads or otherwise target their marketing effort. CalRecycle monies would be combined with participating manufacturers' matching money to market TIP approved products.

To avoid any perception of an endorsement or recommendation, CalRecycle would not be directly responsible for ad placement or promotion of a specific product. Regardless of the awareness/marketing approach, CalRecycle would write and submit articles supporting the use of recycled rubber to various trade publications.

**Funding:** Incentives would be provided via individual grant awards ranging from \$75,000 - \$250,000 depending on qualifying factors (maximum amount may be \$175,000 - \$250,000 subject to management's decision). A typical grant term would be approximately two and one-half years. Initial incentive funding would be proposed to be \$2,000,000 per year (for FY 2013/14 and 2014/15), including up to \$200,000 each year to increase TDP awareness and/or assist marketing efforts.

CalRecycle is proposing that the pilot TIP continue for five years. It would be continuously evaluated for effectiveness and efficiency with CalRecycle making adjustments, as appropriate. Incentive funding would receive priority over the traditional TDP Grant Program. Total proposed TDP Grant Program funding (including the incentive component) for FY 2013/14 is \$2.9 million and for FY 2014/15 - 2017/18 is almost \$3.8 million. The amount not allocated for the TIP would be provided for traditional TDP grants. In addition, unused incentive monies would be available for funding traditional TDP grants through the reallocation process (in the same fiscal year).

**How the Incentive Would Work:** Participating manufacturers (initially limited to 15, most likely 8 - 12) would be selected through a competitive process. The Grant Agreement would contain standard Terms and Conditions, which include disclaimer and indemnity language.

The specifics regarding manufacturer participation, submission/review of proprietary (trade secret) financial and product-specific information, cooperative advertising, competitive selection criteria and process, eligibility of specific tire-derived products, tire-derived product requirements (such as minimum recycled rubber content and rubber mesh size), and amount of incentive would be determined by CalRecycle, using input from stakeholders and affected parties.

The incentive would be implemented through quarterly reimbursements from CalRecycle to the participating manufacturer. The participating manufacturer would submit a reimbursement request with appropriate supporting documentation of product sales and marketing expense. Reimbursement would be based on an agreed upon rate determined by the amount of pounds of rubber used in sold products (rubber used in products manufactured but unsold would not be eligible), the mesh size of the rubber used (reimbursement for finer mesh material would be greater due to higher value-adding) and other factors.

Although subject to revision, staff's initial thinking is that the number of products covered by the incentive would be determined by available funding. A participating manufacturer might have one or more participating products. As examples for discussion purposes only (and not using actual amounts or finalized figures):

- A company may produce paints, coatings and sealants which use 60 mesh (or finer) rubber all of which may be covered by the TIP. Another company, while producing rubber mulch, floor and agricultural mats (not eligible for the TIP) may also produce a commercial flooring product which would be eligible for the TIP.
- Flooring underlayment, using commonly available 10-16 mesh rubber, may receive a 2 cent per pound incentive; whereas a paints or coating product, using a higher value-added 60 mesh (or finer) rubber, may receive 10 cents per pound. Also affecting the incentive would be the fact that the underlayment will be comprised largely of rubber, whereas the painting or coating product may contain a relatively small amount of rubber.

Invoices would be subjected to desk audit (at a very high review rate) by Program staff and, as appropriate, by CalRecycle audit staff. Each participating manufacturer would provide Annual Progress Reports and a Final Report.

Tire Business Assistance Program (TBAP) staff will provide a listing of TBAP and Waste Tire Interested Parties contacts as a prospect list for the TIP. Additionally, TIP staff will access Reference USA database for prospects. Loan staff will review proprietary financial and product information to ensure business viability along with reasonableness of projected sales. Proprietary and trade secret information will be properly secured with limited access.

## **2013 Tentative Timeline:**

February – Present proposed TIP to stakeholders as part of CalRecycle’s public meeting.

March/April – Work with stakeholders (internal and external) re: TIP issues, eligibility, selection criteria and structure. Work with OPA, Legal and Contracts Unit re: awareness and advertising contract(s). Provide revised Five-Year Plan verbiage for TIP and TDA incentive in time for March Plan adoption.

May/June – Request for Approval of proposed TIP at the monthly meeting.

June/July – Issue the TIP Notice of Funding Available (NOFA) solicitation.

Aug/Sept – Solicitation/application period ends. There would not be a “secondary due date.”

Oct/Nov – TIP awards.

Nov/Dec – Grant Agreements or contracts executed (term would extend through April 1, 2016).