

**REQUEST FOR APPROVAL**

**To:** Scott Smithline  
Director

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

**Request Date:** October 5, 2015

**Decision Subject:** Eligibility, Scoring Criteria, and Evaluation Process for the Greenhouse Gas Reduction Revolving Loan Program (Greenhouse Gas Reduction Revolving Loan Fund, FY 2015–16)

**Action By:** October 20, 2015

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**Summary of Request:**

This Request for Approval seeks approval of the proposed eligibility, scoring criteria, and evaluation process for the Greenhouse Gas Reduction Revolving Loan Program for Fiscal Year (FY) 2015–16, pursuant to California Public Resources Code (PRC) sections 42995–42998. Staff proposes to conduct the FY 2015–16 cycle using the same application/project eligibility and evaluation process as was used in the FY 2014–15 cycle, except as summarized below and described fully under the *Proposed Changes* section:

1. Funding - limit outstanding principal for a borrower and its related entities
2. Include additional requirements for preprocessing applicants
3. Include food waste prevention as an eligible component of an organics project
4. Evaluate applications on a first-come, first-served basis; allow submittal of both organics and recycled fiber, plastic, and glass projects at the same time, with no priority for organics projects
5. Eliminate two Scoring Criteria categories and adjust points in remaining categories

**Recommendation:**

Staff recommends approval of the proposed eligibility, scoring criteria, and evaluation process for the Greenhouse Gas Reduction Revolving Loan Program for FY 2015–16, as described below under *Proposed Eligibility and Process* and as shown in detail in Attachments 1–2.

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**Action:**

On the basis of the information and analysis in this Request for Approval and the findings set out herein, I hereby approve proposed eligibility, scoring criteria, and evaluation process for the Greenhouse Gas Reduction Revolving Loan Program for Fiscal Year 2015–16, as set forth below and in Attachments 1–2.

**Dated:** 15 Oct. 2015

  
Scott Smithline  
Director

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**Attachments**

1. Greenhouse Gas Reduction Loan Program (Organics) – Scoring Criteria
2. Greenhouse Gas Reduction Loan Program (Recycled Fiber, Plastic, and Glass) – Scoring Criteria

## **Background & Analysis:**

### **Statutory Authority**

PRC sections 42995–42998, added to statute by the enactment of SB 862 (Statutes of 2014, Chapter 36), authorize the California Department of Resources Recycling and Recovery (CalRecycle) to award loans under the Greenhouse Gas Reduction Revolving Loan Program (GHG Loan Program) to provide financial incentives for capital investments that expand waste management infrastructure resulting in greenhouse gas emission (GHG) reductions, with a priority in disadvantaged communities. PRC section 42996 appropriates \$5 million in funding for the GHG Loan Program for FY 2015–16 and also provides continuous appropriation authority, allowing unspent loan funds from FY 2014–15 to be added to available GHG Loan Program funding for FY 2015–16. (See the Funding section on page 3 for the total funding amount available in FY 2015–16.)

### **Program Background**

California has an estimated diversion rate of 65 percent (this rate includes materials being sent to landfills for alternative daily cover and other beneficial uses, and materials being sent to transformation facilities). Although impressive, about 30 million tons of materials are still going to landfills, which are a significant source of methane emissions. Of the material going to landfills, over 30 percent is organic material (grass, yard waste, food waste, lumber and wood waste), 17 percent is paper and paperboard, 10 percent is plastics, and 30 percent is inert construction and demolition debris.

Two important pieces of legislation, AB 32 and AB 341, provide the policy drivers to realize significant GHG emission reductions through increased diversion of materials from landfills via source reduction, recycling and composting.

- ***AB 32 and Climate Change Priorities***

The Air Resources Board's AB 32 Scoping Plan Update, adopted in 2014, identifies recycling and organics management issues as key priorities in the Waste Management Sector Plan and includes activities to foster increased diversion of organics and recyclables from landfills.

Organic materials management was also identified as a key priority in the Administration's April 2013 Cap-and-Trade Auction Proceeds Investment Fund and in the FY 2014–15 Budget.

- ***AB 341 and Statewide Goal of 75 Percent***

AB 341 established a new statewide goal of reducing, recycling, or composting 75 percent of the state's waste by 2020. There is a direct relationship between waste diversion from landfills and GHG emission reductions. CalRecycle estimates that about 20 to 25 million more tons of material will need to be reduced, recycled, or composted by 2020 to reach this goal. This would dramatically reduce methane emissions from landfills and GHG emissions associated with manufacturing processes, by approximately 20 to 30 million metric tons of GHG emission reductions, as well as result in creating up to 100,000 new local jobs, to the extent that these organic and recyclable materials can be used in California.

The GHG Loan Program provides funds to support expansion of the waste management infrastructure that meets both AB 32 and AB 341 policies; investment is needed for new or expanded organics infrastructure, such as composting and anaerobic digestion facilities, as well as for facilities that manufacture recycled materials into beneficial products. This investment will result in reduced methane emissions from landfills and further GHG reductions in upstream resource management and manufacturing processes; benefit disadvantaged communities by upgrading existing facilities and, where warranted, establishing new facilities that reduce GHG emissions; provide for greater compliance with water and air quality standards; and create jobs.

## Funding

The GHG Loan Program is administered by the Financial Resources Management Branch, with assistance from the Statewide Technical and Analytical Services Branch to score the project components, and from the Permitting and Assistance Branch for permit compliance. The total appropriation for the GHG Loan Program for FY 2015–16 is \$5,000,000. Approximately \$4,536,000 will be available to fund loans, with \$464,000 allocated for staffing costs for FY 2015–16. Unspent loan funds from FY 2014–15 of \$2,922,000 will also be available, using the FY 2015–16 eligibility and scoring criteria. Accordingly, the total amount available to fund loans in FY 2015–16 will be approximately \$7,458,000.

Staff proposes the following:

- 1) The maximum loan amount is \$2,000,000 or 75 percent of total project cost, whichever is less;
- 2) The matching fund requirement is 25 percent of the total project cost;
- 3) A borrower and its related entities may receive more than one loan, but may not have more than \$5,000,000 in total principal outstanding on all CalRecycle loans at any one time;
- 4) Loan proceeds cannot be used to pay for expenses that were funded by other GHG programs.

A loan project is defined as the activity for which the loan proceeds will be disbursed for (i.e. purchase equipment, equipment installation, etc.).

## Schedule of Fees and Costs

- Loan Application Fee: \$300
- Loan Closing Points: 0.50 percent
- Loan Interest Rate: 4.00 percent

## Proposed Eligibility and Process

Attachments 1 & 2 are the proposed Scoring Criteria for organics projects and for recycled fiber, plastic, and glass projects, respectively, under the GHG Loan Program.

Staff will conduct an initial review of all applications to confirm applicant eligibility and application completeness. Project-related application documents will then be evaluated and scored by a review panel of CalRecycle technical staff, based on the attached Scoring Criteria for each type of loan project. Applications that score 30 or more points, out of 60 total possible, will be evaluated by loan staff for financial soundness: the applicant must have repayment ability, adequate collateral to secure the loan, and satisfactory experience of its management. Applications that meet all financial and other eligibility criteria will be submitted to the CalRecycle Loan Committee for its review.

Eligible applicants include:

- Local and regional governments:
  - Cities, counties, and cities and counties.
  - Regional or local sanitation agencies, waste agencies, or joint powers authorities.
- Private, for-profit entities. For purposes of this program, a “private, for-profit entity” is defined as a business intended to operate at a profit and return a profit to its owners. The business must be qualified to do business in California and be in good standing with all applicable California state agencies, including, but not limited to, the Secretary of State and the Franchise Tax Board.
- Nonprofit organizations (except private schools) registered with the federal government under 501(c)3, (c)4, (c)6 or (c)10 of the Internal Revenue Code.

Project requirements are as follows:

- Projects must be located in California and result in permanent, annual, and measurable reductions in greenhouse gas (GHG) emissions from the landfilling of California-generated green or food materials, or, fiber, plastic, or glass materials; and
- Projects must increase the quantity (tons) of:
  - 1) For organics projects: California-generated green or food materials, or alternative daily cover (ADC) newly diverted from landfills and composted or digested; or
  - 2) For recycled fiber, plastic, and glass projects: California-generated fiber, plastic, or glass materials newly diverted from landfills.

Eligible projects include:

- Construction, renovation, or expansion of facilities to increase in-state infrastructure for:
  - 1) The digestion or composting of organics into compost, soil amendments, biofuels, or bioenergy; or
  - 2) The manufacturing of value-added finished products using California derived recycled content fiber, plastic, or glass.
- Construction, renovation, or expansion of facilities to increase in-state infrastructure for:
  - 1) The preprocessing of organics when providing preprocessed materials to an in-state digestion or composting facility that is using the waste to make compost, soil amendments, biofuels, or bioenergy; or
  - 2) The preprocessing of fiber, plastic or glass waste when providing preprocessed materials to an in-state manufacturing facility that is using the waste to make finished products.
- Expansion of projects that have previously received Greenhouse Gas Reduction Fund money or GHG Loan Program loans are eligible provided the project meets the loan criteria and the previously funded project is progressing in a manner satisfactory to CalRecycle.
- A compost or digestion project may include a food waste prevention component if it results in measurable food waste reduction. Food waste prevention projects are projects that prevent edible food from becoming waste normally destined for landfills and result in rescued food being distributed to people, with any food waste residuals from the project being sent to composting or digestion when available within their service area.

Eligible costs include:

- Purchase of equipment and machinery.
- Real estate improvements associated with the installation of the equipment and machinery. The land owner may need to provide a deed of trust to ensure that the loan has adequate collateral.
- Purchase of real estate that is directly associated with the project's material processing, where the real estate includes a building or other real estate improvements used solely for that processing or manufacturing.

Permit requirements are as follows:

- Applicants must obtain all significant applicable federal, state, and local permits prior to review by the Loan Committee. Significant permits may include: Air Quality Management District, Wastewater Discharge, Fire, Solid Waste Facility, and Conditional Use. Any required CEQA review must also be completed. CalRecycle will determine which applicable permits are significant.

## Proposed Changes

### 1) *Funding*

- Limit the amount a borrower and its related entities may receive. A borrower and its related entities may receive more than one loan, but may not have more than \$5,000,000 in principal outstanding on all CalRecycle loans.

### 2) *Preprocessing Eligibility*

- Project must result in new diversion from landfills, i.e., beyond that which the preprocessor was already diverting.
- Preprocessor must provide proof of binding agreement with a California facility that is receiving the preprocessed feedstock to make compost, soil amendments, biofuels, bioenergy, or recycled content finished products.
- If the composting, digestion or manufacturing facility that receives materials from a preprocessing applicant also submits an application, the applicant must demonstrate how each project will result in discrete increases in tons of material diverted from landfills and GHG reductions.

### 3) *Food Waste Prevention Projects*

- Allow food waste prevention projects that are a component of an organics project to be eligible.

### 4) *Application Process*

- Evaluate applications on a first-come, first-served basis.
- Allow submittal of both organics projects and recycled fiber, plastic, and glass projects at the same time. No priority will be given to organics projects.

### 5) *Scoring Criteria and Points*

- Eliminate two scoring criteria categories: 1) Project Readiness and Permits, and 2) Air and Water Quality Benefits; adjust the points in the remaining categories to match grant scoring. Applicants must score a minimum of 30 out of 60 points to be eligible for funding.

## Tentative Timeline for FY 2015–16

As shown in the table below, staff will post a Notice of Funds Available (NOFA) on CalRecycle's website informing potential applicants of the funding, eligibility requirements, deadlines, and other important information. Notice will also be distributed through various Listserves, outreach presentations, and newsletters. The NOFA will be sent to current and past grant and loan recipients and shared with CalRecycle's Local Assistance and Market Development staff, Statewide Technical and Analytical Research staff, and Permitting and Assistance Branch staff to inform their stakeholders.

<b>Target Date</b>	<b>Activity</b>
October 2015	Application release
First-come, first-served	Loan applications submitted
90-120 days after a complete application is received	Loan awards

