

REQUEST FOR APPROVAL

To: Mark Leary
Deputy Director

From: Howard Levenson
Assistant Director

Request Date: August 12, 2010

Decision Subject: Approval of a Recycling Market Development Zone Loan for Wine Bottle Recycling, LLC (Recycling Market Development Revolving Loan Subaccount, Fiscal Year 2010/11)

Action By: August 23, 2010

Summary of Request:

This memo requests approval of a Recycling Market Development Zone (RMDZ) loan to Wine Bottle Recycling, LLC located in Stockton, California (San Joaquin County RMDZ). This loan project meets the required eligibility criteria established in September 2008 to receive loan funding. The loan application was approved by the Loan Committee on July 22, 2010 and is recommended for final approval. If approved by the Deputy Director, this loan will be funded from the Recycling Market Development Revolving Loan Subaccount, Fiscal Year 2010/11.

Recommendation:

Staff recommends approval of this RMDZ loan, subject to the conditions and directions specified below in "Deputy Director Action." This project is expected to further increase both local and regional diversion efforts, as well as increase employment and local revenues.

Deputy Director Action:

On the basis of the information and analysis in this Request for Approval and the findings set out herein, I hereby approve the following Recycling Market Development Zone loan in the original principal amount shown next to the Borrower's name, subject to all terms and conditions contained in the loan agreement to be prepared by loan program staff in accordance with applicable regulations, and on such other terms and conditions as duly authorized staff in their sole discretion deems necessary or advisable:

Wine Bottle Recycling, LLC\$870,000

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: _____

Mark Leary
Deputy Director

Background Information, Analysis, and Findings

(1) General Background

The purpose of the Recycling Market Development Zone Loan Program (Loan Program) is to provide low-interest loans to private businesses and not-for-profit organizations to increase diversion of non-hazardous solid waste from California landfills and to promote market demand for secondary and postconsumer materials. Funding for the Loan Program is authorized by Statute in Public Resources Code, Section 42023.1.

In accordance with established procedures, all loan applications are reviewed and evaluated to ensure that the project meets current eligibility and underwriting criteria and has obtained required permits as determined by other pertinent CalRecycle programs. The Loan Committee then considers the fiscal soundness of the proposed loan and approves or declines the loan structure, ability to repay and the collateral. Upon conclusion of this process and Loan Committee approval, a commitment to approve and fund a loan is made by CalRecycle senior management staff.

- **Project Eligibility Criteria** for the RMDZ Loan Program were approved in September 2008. Staff reviewed the application and determined it is consistent with the established criteria. The project proposed by Wine Bottle Recycling, LLC (WBR) qualifies as a *reuse project*. The owners have set up a reuse facility in Stockton, California to collect, wash and sterilize post commercial and post consumer wine bottles. The clean refillable wine bottles will be sold for reuse to wineries, wine bottlers and private wine clubs.
- **Interdivisional Reviews** were performed by the following:
 - The Budgets Office confirmed that there are sufficient monies allocated for Fiscal Year 2010/2011 to fully fund this loan.

Fund Source	Amount Available	Amount to Fund Item	Amount Remaining	Line Item
RMDZ Loan Sub Account, FY 2010/11	\$3,900,000*	\$870,000	\$3,030,000	Direct Loan

*Estimated

- Legal counsel for the RMDZ Loan Program was involved in staff discussions evaluating the merits and eligibility of the loan project prior to the Loan Committee meeting. Legal Counsel is not aware of any significant legal issues related to this loan.
- Staff from the Permitting and LEA Support Division has reviewed the project and has determined that the proposed project does not require a Solid Waste Facilities Permit in order to operate.
- Staff from the Local Assistance and Market Development Division has reviewed the project and has determined there is adequate feedstock of used wine bottles in the state. Whole bottles are currently broken into cullet and used as feedstock for manufacturing new glass or disposed of in landfills. Potential sources for wine bottles are wine tasting clubs, material recovery facilities, hotels, restaurants, haulers and recycling centers. Staff commented that there are over 2,900 wineries in California, a large market for the renewed wine bottles.
- Staff from Statewide Technical and Analytical Resources Division has reviewed the project and has determined that the equipment to be purchased with loan funds for the washing/sterilizing process is appropriate for this type of project.

The applicant, Wine Bottle Recycling, LLC (WBR), has provided copies of the business license and major permits for the Stockton facility site. These documents were issued by the Municipal Utilities Department, Regional Waste Water Control Authority, and the City of Stockton. In addition, WBR

provided a copy of a letter issued by the California Department of Public Health, Health and Human Services Agency, approving the use of the washing/sterilizing equipment that will be purchased for this bottle recycling project.

- The **Loan Committee** met and approved the loan on July 22, 2010.

(2) **Loan Description**

This is the first RMDZ loan application submitted by WBR. Currently, there is no other direct competition for WBR's proposed project in California.

A core managing member of WBR applied for an RMDZ loan in July 1997 for a similar wine bottle reuse operation. That loan to Evergreen Glass, Inc. was approved by the then California Integrated Waste Management Board; however, the owner, Chris Ronson, subsequently withdrew the application. The loan was never funded. If this loan is approved by CalRecycle, this project will be an opportunity for the state's wine industry to incorporate more eco-friendly practices and further reduce their individual carbon footprint.

The owners have established the wine bottle reuse facility in Stockton, California to collect, sort, de-label, wash, sterilize and repackage wine bottles for resale to commercial wineries, distributors and wine bottlers. The proposed RMDZ financing will enable WBR to produce clean, refillable wine bottles for reuse. RMDZ loan will finance equipment such as a bottle washer, bottle sorters and rejecters, bottle palletizer, collection bins and accessories; and also purchase used bottle and packaging inventory. The RMDZ loan fund represents 31% of the total project cost, estimated to be approximately \$2,791,929. WBR owners and investors have provided the required matching funds to complete the project.

WBR intends to start production in August 2010. The owners have leased approximately 84,830 square feet for the recycling plant that also has approximately one acre of storage area in the City of Stockton. The company is managed through WBR Management Company, a separate limited liability company. The core management team consists of the following members:

Bruce Stephens, CEO, has more than 25 years experience as a specialist in the import/export business and setting up production facilities in China, Taiwan, the United Kingdom and the U.S. Mr. Stephens' personal interest in wine drew him to take several classes at Napa Valley College in all aspects of viticulture, winemaking and winery management. He was also a two-term past President of VOMDES, a local Sonoma Valley amateur home winemakers' organization. Mr. Stephens has a degree in Business Administration from Chico State University.

William Dodd, President, started his career in the family business, Diversified Water Systems. He stayed with that company for 20 years until the business was bought out by U.S. Filter Corp in 1998. Mr. Dodd has served three terms as Napa County Supervisor, most recently as Chairman. He has also served as Chairman of the Metropolitan Transportation Commission, Napa County Transportation Planning Agency Napa County League of Governments, and the Napa County Flood Control and Conservation District. He was a founding director and Executive Committee Member of Napa Community Bank. He has a degree in Business Management from Chico State University.

Chris Ronson, Operations Manager, was the founding member and past President/CEO of Evergreen Glass, Inc., a rewasher and distributor of wine bottles. Evergreen installed the first state of the art wine bottle washing system in California in 1995. Mr. Ronson sold this business in 2000.

Bill Angeloni, Accounting Manager, is an entrepreneur. Mr. Angeloni has a Bachelor degree in Aerospace Engineering from the United States Naval Academy and an MBA from the J. L. Kellogg School of Management at Northwestern University.

Mike Monzingo, Plant Manager, has over 15 years experience in designing wine bottling lines and production equipment. He formerly was employed by an engineering and metal fabricating company which designed and installed custom wine bottle lines to all of the major wine companies.

Other investors and supporters of WBR include: Jackson Family Farms, Sutter Home Winery, BLT Enterprises (Fremont and Sacramento), and B&K Napa Waste, LLC.

WBR estimates that California wineries produce approximately 250 million cases of wine annually. At an average cost of \$6-20 per case, wineries are spending at least \$1.5 billion on new, virgin bottles per year. WBR anticipates selling their product at a competitive price to enter into this market. WBR is forecasting that their reuse and refillable wine bottle operation will target approximately 1% of new bottle sales or approximately 2,500,000 cases over a five year period. WBR’s proposed reuse project is expected to assist wineries to reduce their operational costs (buying recycled bottles versus virgin glass bottles) as well as help them implement more sustainable reuse practices. WBR has the ability to process on receipt of orders from buyers thereby avoiding the problem of “bottle bloom” that can occur when product sits in a warehouse. Bottle bloom is a haze of film that can accumulate over time when any silica based glass is exposed to air. Bottle bloom is bad for aesthetic reasons and can alter wine characteristics.

As a result of the proposed loan, WBR plans to divert an additional 23,000 tons of glass bottles annually from California landfills and create up to 20 new jobs in the Stockton/San Joaquin County region.

Diversion Volumes	Current	Projected Increase	Total
Tons per Year	0	23,000	23,000
Jobs Created	8	20	28

(3) Summary

This project will assist in the implementation of CalRecycle’s Strategic Directive 6 by providing an RMDZ loan to assist in the development of viable, sustainable markets to divert materials from landfills.

This loan will also result in residual benefits to stakeholders and the State:

- The Zone Administrator for the San Joaquin County RMDZ supports this project as it has the potential to increase local landfill diversion and create more jobs in the region.
- As this loan project contributes to the diversion of waste from the local waste stream, it will be assisting the local jurisdictions’ compliance with the 50% disposal reduction mandate under the Integrated Waste Management Act, Assembly Bill 939.
- WBR’s key to success are its knowledgeable management team and industry knowledge, solid working relationships with feedstock suppliers, and its solution for addressing the “bottle bloom” problem now faced by the wine bottle industry.
- WBR’s washing and sterilization process will extend the useful life of wine bottles. The project will also help those involved in California’s wine industry reduce their overall carbon footprint and incorporate more sustainable reuse practices.