

REQUEST FOR APPROVAL

To: **Caroll Mortensen**
Director

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

Request Date: **March 18, 2014**

Decision Subject: Eligibility Criteria and Evaluation Process for the Greenhouse Gas Reduction Programs: Organics Grant Program; Recycled Fiber, Plastic, and Glass Grant Program; and Greenhouse Gas Reduction Revolving Loan Program (Greenhouse Gas Reduction Fund and Greenhouse Gas Reduction Revolving Loan Fund, FY 2014/15)

Action By: **March 18, 2014 (revised August 14, 2014)**

Summary of Request:

This Request for Approval seeks approval of the proposed eligibility criteria and evaluation process for the Greenhouse Gas Reduction Grant and Loan Programs for Fiscal Year (FY) 2014/15, pursuant to ~~proposed~~ California Public Resources Code (PRC) sections 42995 - et seq. ~~upon passage and the adoption of the Fiscal Year 2014/15 state budget Governor's Proposed Budget, signed into law by the Governor on June 20, 2014 and accompanying Trailer Bill.~~ This includes the following:

- Organics Grant Program
- Recycled Fiber, Plastic, and Glass Grant Program
- Greenhouse Gas Reduction Revolving Loan Program

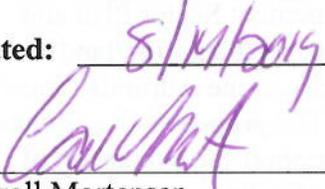
Recommendation:

Staff recommends approval of the proposed eligibility criteria and evaluation process for the Greenhouse Gas Reduction Grant and Loan Programs for FY 2014/15, as described below under *Proposed Eligibility and Process* and as shown in detail in Attachments 1 through 56.

Action:

On the basis of the information and analysis in this Request for Approval and the findings set out herein, I hereby approve the application process, applicant eligibility, project eligibility criteria, and evaluation process for the Greenhouse Gas Reduction Grant and Loan Programs for Fiscal Year 2014/15, as set forth below and in Attachments 1 through 56, ~~contingent upon: 1) enactment of the Fiscal Year 2014/15 state budget with funding included for the programs and 2) enactment of the accompanying trailer bill (proposed Public Resources Code (PRC) sections 42995 et seq.) with appropriate authorizing language for the programs.~~

Dated: 8/14/2014


Caroll Mortensen
Director

Attachments

1. Organics Grant Program – Overview
 2. Organics Grant Program – Scoring Criteria
 3. Recycled Fiber, Plastic, and Glass Grant Program – Overview
 4. Recycled Fiber, Plastic, and Glass Grant Program – Scoring Criteria
 5. Greenhouse Gas Reduction Revolving Loan Program – Overview and Criteria (revised August 2014)
 6. Greenhouse Gas Reduction Revolving Loan Program – Organics Loan Scoring Criteria (new August 2014)
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Background:

Statutory Authority

~~Proposed~~ PRC section 42995 et seq., added to statute by the June 20, 2014 enactment of SB 862, authorizes the California Department of Resources Recycling and Recovery (CalRecycle) to award grants and loans to provide financial incentives for capital investments that expand waste management infrastructure, with a priority in disadvantaged communities, ~~and the accompanying proposed trailer bill (PRC sections 42995 et seq.) authorizes grant and loan programs for that purpose.~~ The total ~~proposed~~ funding for these programs for FY 2014/15 is \$~~25~~ 30 million. 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 in the waste management and recycling infrastructure is necessary to reduce greenhouse gas (GHG) emissions and divert more materials from landfills in support of the State's 75 percent solid waste recycling goal.

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 draft AB 32 Scoping Plan Update 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. The ~~proposed~~ Greenhouse Gas Reduction Grant and Loan Programs will provide funds to support the expansion of existing and establishment of new organic materials management facilities and recycled commodities manufacturing facilities. This will result in reduced methane emissions from landfills and further GHG reductions in upstream resource management and manufacturing

processes. These funds will 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. This funding will result in increased recycled-content product manufacturing and bioenergy/biofuel production within California.

- ***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. This will require major investments in new infrastructure for handling these materials. CalRecycle's interim report (October 2013) on AB 341 delineates priorities for achieving the 75 percent goal and includes two that are directly relevant: "Moving Organics Out of Landfills" and "Expanding the Recycling/Manufacturing Infrastructure." These priorities are consistent with the priorities established by the Air Resources Board in the ~~draft~~ Scoping Plan Update adopted by the Air Resources Board in May 2014.

The ~~proposed~~ Greenhouse Gas Reduction Grant and Loan Programs ~~will~~ provide funds to support expansion of the waste management infrastructure that meets both AB 32 and AB 341 policies. Staff held a workshop on February 6, 2014, to discuss draft program overview and scoring criteria documents for the proposed grant and loan programs. The workshop, stakeholder comments, and subsequent revisions to program documents are included in the Analysis Section below.

Analysis:

Grant Programs

The Organics Grant Program and the Recycled Fiber, Plastic, and Glass Grant Program will be administered by both the Financial Resources Management Branch and the Statewide Technical and Analytical Services Branch. Approximately \$19,521,000 will be available for both of the grant programs with \$479,000 allocated for staffing costs for FY 2014/15. \$14,521,000 is allocated to the Organics Grant Program and \$5,000,000 for the Recycled Fiber, Plastic, and Glass Grant Program. The maximum grant award that eligible applicants may request and be awarded is \$3,000,000 per award. If one grant program is oversubscribed and the other grant program undersubscribed, CalRecycle may move funds from one program to the other in order to fund eligible applications.

Loan Program

The Greenhouse Gas Reduction Revolving Loan Program will be administered by the Financial Resources Management Branch, with assistance from the Statewide Technical and Analytical Services Branch and Local Assistance Market Development Branch, as necessary.

Approximately \$49,662,000 will be available for the Greenhouse Gas Reduction Revolving Loan Program with \$338,000 allocated for staffing costs for FY 2014/15. The maximum loan amount is \$52,000,000 or 75 percent of total project cost, whichever is less. The matching fund requirement is 25 percent of the total project cost. 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.

Proposed Eligibility and Process

Attachments 1-56 include detailed information on eligibility, project requirements, ineligible costs, and scoring criteria. These attachments have been revised in light of stakeholder comments, which are summarized in *Stakeholder Comments and CalRecycle Responses* below.

Staff will conduct an initial review of all applications to confirm applicant eligibility and application completeness. Applications will then be evaluated and scored by a review panel of CalRecycle staff based on the attached Scoring Criteria for each program.

Tentative Timeline for FY 2014/15

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. Notices will also be distributed through the Grants Management System database, various listservs, outreach presentations and newsletters. NOFAs will be sent to current and past grant recipients and shared with CalRecycle’s Local Assistance and Market Development staff to inform their local jurisdictions.

Grant Programs

Target Date	Activity
April 2014	Post Notice of Funds Available, Application, and related instructions and documents on the web site
July 2014	Applications due
July – August 2014	Conduct application evaluation/review process; determine funding for eligible applicants
September October/November 2014	Awards presented at CalRecycle Public Meeting
September November/December 2014	Agreements distributed and executed: term ends April 2019

Loan Program

Target Date	Activity
July-August 2014	Application release
November 3, 2014 – Organics projects After January 15, 2015 December 1, 2014 – All projects	Applications due
November 4, 2014 – Organics projects January 15, 2015 December 2, 2014 – All projects	Begin application evaluation/review process; determine loan eligibility
March & April 2015	Awards presented at CalRecycle Public Meetings

Stakeholder Comments and CalRecycle Responses

On February 6, 2014, CalRecycle held a workshop to discuss draft grant and loan program overviews and scoring criteria. Staff received stakeholder input at the workshop as well as additional comments submitted in writing. Information prepared for the workshop and

stakeholder comments submitted in writing have been posted on the CalRecycle website and can be accessed at www.calrecycle.ca.gov/Climate/GrantsLoans/.

Staff has reviewed all stakeholder comments and revised the grant and loan program overviews and scoring criteria to incorporate stakeholder input as appropriate (see Attachments 1–5). Staff made numerous clarifying changes to these documents. In addition to these, there were several common, higher-level themes among the stakeholder comments received that can be organized into the following four categories:

- 1) Funding
- 2) Scope of Eligible Projects
- 3) Relative Scoring Criteria
- 4) Future Program Alternative Approaches

The following section summarizes the major stakeholder comments in these four categories and staff recommendations for proposed revisions to the program overview and scoring criteria documents.

- 1) **Funding:** Some stakeholders suggested that all funding be dedicated to organics, while others advocated for funding increases for traditional recyclables. Other stakeholders indicated that grant funds should be allocated equitably throughout California. One stakeholder suggested that the programs, as currently proposed, would give preference to small, less cost-effective proposals and that instead CalRecycle should consider removing the limitation of funding amounts and focus more on throughput/dollar and overall cost-effectiveness. Other stakeholders opined to the contrary and felt that the criteria are weighted against smaller projects.

Staff Recommendation: No change recommended. Organics is a primary policy objective under the AB 32 Scoping Plan and the AB 341 75% Report, and significant investment in organics infrastructure is needed. At the same time, additional investment is needed in traditional recyclables infrastructure in order to achieve GHG emission reductions, strengthen domestic markets, and provide job creation in the state. With respect to geographic distribution of funds, CalRecycle is obligated to fund meritorious projects that demonstrate high GHG emission reductions and disposal reductions. With respect to removing the funding limitation, a limited amount of funding is available to CalRecycle; retaining the fund limit per applicant ensures that a significant number of infrastructure projects can be funded.

- 2) **Scope of Eligible Projects:** There were many suggestions to expand the scope of the proposed program to include additional materials, technologies, and other types of projects.
 - a) **Materials:** Some stakeholders felt that projects diverting materials that are currently being used as Alternative Daily Cover (ADC) and beneficial reuse at landfills should be eligible under the grant program, and conversely, projects that produced products that are used as ADC at landfills should not be eligible.

Staff Recommendation: Change recommended and clarified in documents. CalRecycle considers projects that move material away from landfills, including ADC and beneficial reuse, to be eligible for funding but does not consider funding appropriate for producing ADC and beneficial reuse for landfills.

- b) **Technologies:** A number of comments were received advocating for and against the inclusion of thermal technologies in the programs. Other stakeholders felt that the programs should be technology neutral.

Staff Recommendation: No change recommended. Both engineered municipal solid waste¹ (EMSW) and biomass are not eligible at this time because EMSW is considered disposal and biomass conversion is outside CalRecycle's regulatory purview and is more appropriately funded by other agencies.

- c) **Additional Project Types:** Several stakeholders suggested funding for small, community-based food source reduction programs, vermiculture, and small-scale on-site composting. A related comment was to allow increased public education and outreach costs exceeding 5 percent of the total grant funds, since small-scale projects can depend more heavily on education and outreach.

Staff Recommendation: No change recommended. The focus of the budget proposal is on infrastructure development. If funding is increased in the future, CalRecycle could consider funding for projects that do not entail large infrastructure investments, including stand-alone food waste reduction projects. For this cycle, CalRecycle is encouraging primary organics grant applicants to partner with food waste reduction projects.

- d) **Border County Projects:** Some stakeholders felt funding of projects in border counties should be program eligible when feedstock material comes from California-generated waste but is historically disposed at out-of-state landfills.

Staff Recommendation: Change recommended and clarified in program documents. CalRecycle recognizes that some border counties may have meritorious projects for materials that are now being sent to out-of-state landfills. Material must be generated in California and used in projects within California. Conversely, out-of-state generated materials are not eligible in these programs.

- e) **Feedstock Processing:** Some stakeholders felt that preference should be given to projects resulting in clean, source-separated feedstocks while others felt that the value-added processing step would be included in the manufacturing of a beneficial product.

Staff Recommendation: Change recommended and clarified in program documents. CalRecycle is focused on projects that result in increased production of beneficial products in California. Feedstock quality issues can be addressed by encouraging product manufacturers, as primary applicants, to partner with feedstock processors. CalRecycle does not have sufficient funding in this proposal to address collection and processing of materials.

- f) **Rural, Small Projects, and Underserved Areas:** Several stakeholders felt that rural, small, and underserved area projects will not be able to compete based on the relative size of the potential projects and providing set-aside funding or change in scoring criteria to tons per dollar spent and GHG reduction per dollar spent may help.

¹ AB 1126 defines engineered municipal solid waste conversion.

Staff Recommendation: Change recommended and clarified in program documents. The scoring criteria now allows additional metrics of tons per dollar spent and GHG per dollar spent, although primary consideration still will be given to absolute amounts of GHG reductions. Although no set-aside funding is planned for this first round as the program is focused on major infrastructure expansion, it could be considered in potential future cycles.

- g) Dehydrators and Liquefiers:** Several stakeholders requested additional clarification on the circumstances under which dehydrators and liquefiers might be eligible in the Organics Grant Program.

Staff Recommendation: Change made and clarified in program documents. Projects with dehydrators and/or liquefiers must be accompanied by increased tons of California-generated materials diverted from landfill disposal which also must be composted or digested. For example, this would allow for existing capacity at Publically Owned Treatment Works digesters as long as the project results in increased organics diversion from landfills.

- h) Cap-and-Trade Compliance:** Several stakeholders asked if parties that have a compliance obligation under the GHG Cap-and-Trade or Low Carbon Fuel Standard (LCFS) programs would be able to access these funds for purposes of compliance.

Staff Recommendation: No change recommended. CalRecycle is working with ARB on these types of questions but funding should not be used for Cap-and-Trade compliance. Staff does not understand the reference to LCFS in this context.

- i) Glass GHG Reductions:** One stakeholder stated that GHG reductions associated with glass recycling are not large and wondered if there was a disconnect between the GHG goals of the program and the need to produce high quality glass to maintain its recyclability.

Staff Recommendation: No change recommended. CalRecycle does not see this as a disconnect as recycling glass results in 0.21 MTCO₂e/ton reductions, which is not dramatically different from some low grades of paper that result in reductions of 0.3 MTCO₂e/ton of material.

- j) Additional Scope Suggestions:** A number of other suggestions were offered regarding the scope of the programs. These include providing funding for on-site projects (e.g., college campuses, large businesses or industrial parks); projects that focus on difficult to recycle materials; projects that fund information technology infrastructure for start-up companies preventing food waste; projects that allow early innovators or start-up companies to better compete; and allocation of funds for local governments to implement organics bans.

Staff Recommendation: No changes recommended. Pursuant to the proposed budget direction, CalRecycle priorities are GHG emissions coupled with AB 341 75 percent priorities, such as organics. On-site projects are eligible and can compete in these programs. Some difficult-to-recycle materials are in fact eligible (e.g., carpets under fibers category). CalRecycle does not have sufficient funding available to fund research

and development projects, and the budget proposal focuses on infrastructure development, not implementation of an organics ban.

- 3) **Relative Scoring Criteria:** Some stakeholders felt that the Project Readiness criterion points should be higher and the GHG Reduction criterion points should be lower while others felt the GHG Reduction criterion points should be higher. In addition, other stakeholders advocated for greater GHG weighting for conversion of organics into products other than compost, or for using a GHG metric that would not penalize small projects.

- a) **Project Readiness:** Some felt that this category should be more than 10 points considering the first two scoring criteria (GHG Reductions and Disposal Reduction) total 40% and are tonnage driven, while permits and project readiness only count for 10 points. They felt the proposed relative scoring criteria could result in large projects that are not ready and suggested increasing project readiness points and reducing GHG and disposal reduction points. One commenter suggested that the Organics Grants Program should prioritize facility expansion where permitted capacity already exists rather than providing funds to new facilities in those areas.

Staff Recommendation: No change recommended. Staff feels that the point spread takes this into consideration because the work plan, budget, and fiscal soundness sections help amplify the project readiness scoring. Facilities with existing capacity will need to compete with new facilities in the Project Readiness and Permitting category of the scoring criteria.

- b) **GHG Emission Reductions:** Several stakeholders voiced concerns that the scoring criteria did not place adequate weight on GHG emission reductions and the GHG scoring criteria should be increased because GHG reductions should be the primary use of Cap-and-Trade funds.

Staff Recommendation: No change recommended. Staff feels that the point allocation for GHG is responsive to the intended use of Cap-and-Trade funds. GHG emission reductions are encompassed in 40% of the points because disposal reduction tons directly correlates to GHG reductions as well. Additionally, the Disadvantaged Community section includes air quality components for an additional 10% of the points. Therefore, 50% of the points are directly responsive to Cap-and-Trade concerns and the rest of the scoring criteria help ensure successful projects (budget, permits, project readiness, etc.).

- c) **Increased Points for Fuel:** A few stakeholders felt that composting already has limited markets, so conversion of material into an alternate material including fuel should get higher weighting in the scoring criteria.

Staff Recommendation: No change recommended. Compost industry representatives indicated that they are experiencing high demand for their products. The scoring criteria for both grant programs include specific provisions for fuels and renewable energy.

- d) **GHG Reduction Calculations:** Several stakeholders requested additional guidance on GHG reduction calculations and verification.

Staff Recommendation: Change made and clarified in program documents. CalRecycle clarified in the grant documents that GHG calculations should be done using default factors referenced or an alternative approach that includes consideration of direct emissions from the facility receiving grant funds as well as upstream and downstream impacts. However, CalRecycle will still keep such guidance general in nature instead of trying to develop a protocol for each potential project type. Similarly, CalRecycle is not requiring 3rd party verification but rather relying on the applicant to demonstrate how it will verify emission reductions, which will then be subject to oversight of the grant manager.

- 4) ***Future Program Approaches:*** In addition to suggestions to expand the scope of eligible activities for the 14/15 cycle, some stakeholders suggested that CalRecycle consider an incentive payment program, particularly for traditional recyclables, in lieu of grants. Other stakeholders recommended that the loan program be increased as funds become available. As noted above, several stakeholders suggested that small, community-based food waste reduction and zero waste activities are eligible.

- a) ***Incentive Payments:*** Several stakeholders recommended a per ton incentive payment program to avoid concerns over disruptive market forces when individual winners and losers are picked via grants. This could allow funds to be spread more evenly across the state and would not benefit one particular company or jurisdiction that may not meet the criteria. Other stakeholders felt that although low interest loans may be helpful, the focus should be placed on grant and incentive programs that will help better stimulate capital investments. One stakeholder proposed devoting funds to compost market and sales expansion.

Staff Recommendation: No change recommended. CalRecycle could consider alternative approaches such as incentive payments if there is another round of funding. For this cycle, CalRecycle feels its emphasis on infrastructure is appropriate. In addition, for an incentive payment approach to be effective, longer-term sustainable funding is necessary. CalRecycle also could consider increases in loan funding and the scope of eligible activities, depending on the level of funding available; this could include set-asides for small, stand-alone, community-based food waste projects, as well as for rural areas. CalRecycle could also include food projects from other areas of the food waste hierarchy—including animal food. Regarding market development, CalRecycle has worked and continues to work on these efforts in other ways such as specification development, workshops, demonstrations, and outreach materials.

