

REQUEST FOR APPROVAL

To: Scott Smithline
Director

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

Request Date: May 1, 2016

Decision Subject: Eligibility, Scoring Criteria, and Evaluation Process for the Recycled Fiber, Plastic, and Glass Grant Program (Greenhouse Gas Reduction Fund, Fiscal Year 2016–17)

Action By: May 17, 2016

Summary of Request

Staff seeks approval of the proposed eligibility, scoring criteria and evaluation process for the Recycled Fiber, Plastic, and Glass Grant Program for fiscal year (FY) 2016–17, pursuant to California Public Resources Code sections 42995 et seq., with funding contingent upon passage and the adoption of the Budget for FY 2016–17.

Staff proposes to implement the changes summarized below and described under the *Proposed Changes* section:

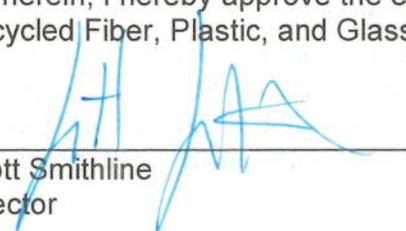
1. Include a performance-based payment methodology.
2. Include additional preprocessing requirements.
3. Modify points in scoring criteria.
4. Incorporate new textile reuse component.

Recommendation

Staff recommends approval of the proposed eligibility, scoring criteria, and evaluation process for the Recycled Fiber, Plastic, and Glass Grant Program.

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 eligibility, scoring criteria, and evaluation process for the Recycled Fiber, Plastic, and Glass Grant Program for FY 2016–17.



Scott Smithline
Director

5-18-16

Dated

Attachments

Attachment 1 – Recycled Fiber, Plastic and Glass Grant Program Scoring Criteria

Background and Analysis

Statutory Authority

PRC section 42995 et seq., added to statute by the enactment of SB 862 (Statutes of 2014, Chapter 36), 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 resulting in greenhouse gas emission (GHG) reductions, with a priority in disadvantaged communities. The total funding in the Governor's proposed budget for these programs for FY 2016–17 is \$100,000,000. If enacted, this allocation will fund the previously developed Organics and Recycled Fiber, Plastic and Glass Grant Programs, the Greenhouse Gas Reduction Revolving Loan Program and two new programs: the Food Waste Prevention and Rescue Grant Program and the Demonstration Projects Program.

Program Background

California has an estimated recycling of about 50 percent (this rate does not include materials being sent to landfills for alternative daily cover (ADC) 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 40 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. Approximately 1.2 million tons of textiles are landfilled every year, and 95 percent of that is reusable or recyclable.

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 Recycled Fiber, Plastic, and Glass Grant 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 facilities in California that use California-generated post-consumer recycled fiber (paper, textiles, carpet, mattresses or wood), plastic or glass to manufacture 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; result in air and water quality benefits in addition to GHG emission reductions; and create jobs.

CalRecycle held a workshop on March 19, 2015, to discuss draft program overview and scoring criteria documents for the proposed grant and loan programs for FY 2015–16. However, the Legislature did not take action on most California Climate Investments funding allocations prior to the end of the legislative session and CalRecycle did not receive funding for these programs for FY 2015–16. CalRecycle staff has continued to consider stakeholder comments from the workshop and subsequent discussions, and consequently is proposing some revisions for the FY 2016–17 cycle, as described in the *Proposed Changes* section below, and in the Scoring Criteria (Attachment 1).

Funding

The Recycled Fiber, Plastic, and Glass Grant Program will be administered by both the Financial Resources Management Branch and the Statewide Technical and Analytical Resources Branch. The total appropriation in the Governor's Proposed Budget for all CalRecycle's GHG grant and loan programs from the Greenhouse Gas Reduction Fund is \$100,000,000. Staff proposes to allocate \$15,000,000 to this program, with a maximum grant award of \$3,000,000 (which includes funding for performance payments; see Proposed Changes below).

Project Requirements

Projects must be located in California and result in permanent, annual, and measurable:

1. Reductions in GHG emissions by manufacturing products with California-generated recycled-content fiber, plastic or glass compared to existing practice of landfilling; **and**
2. Increases in quantity (tons) of California-generated fiber, plastic, or glass newly diverted from landfill disposal, **and** used to manufacture finished products.

"Newly diverted" means the tons of materials that are currently being landfilled that will instead be diverted as a result of this project. For the purposes of this program, a manufactured "product" is defined as a good or package in a form which requires no further processing or forming before it is offered for sale to an end-user. It does not include intermediate products, such as plastic pellets sold as feedstock to a converter for fabrication into a consumer product.

Proposed Process and Eligibility

Staff will review all applications for completeness and eligibility. Complete applications will be evaluated and scored by a review panel of CalRecycle staff based on the attached Scoring Criteria (Attachment 1).

Only two applications per qualifying entity will be accepted. Eligible applicants may submit an individual, cooperative, or regional application. One entity must be identified as the Lead Participant to act on behalf of the participating jurisdictions. Eligible applicants include:

- Local governments (cities, counties, or cities and counties)
 - Cities, counties, and cities and counties as defined in Public Resources Code section 30109.
 - 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. Any and all subsidiaries, divisions or affiliated businesses are considered part of the primary business entity for the purpose of applying for and receiving a grant award under the program. A business is considered an “affiliated business” if it has at least one owner with a 40 percent or greater interest in another applicant business.
- State agencies (including offices, departments, bureaus, and boards).
- The University of California, the California State University, or California Community Colleges.
- 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.
- Qualifying Indian Tribes. A “Qualifying Indian Tribe” is defined as an Indian tribe, band, nation or other organized group or community, residing within the borders of California, which:
 - 1) Is recognized for special programs and services provided by the United States to Indians because of the status of its members as Indians; or
 - 2) Can establish that it is a government entity and which meets the criteria of the grant program.

CalRecycle requires that any application that includes a charter city (either as the sole applicant, as a participant in a regional application, or as a member of an applicant Joint Powers Authority) include a certification by the applicant that all charter cities included in the application are eligible to receive grant funds for the project described in the application. If it is later found that grant funds were received in violation of Labor Code section 1782, the grant will be terminated and the grantee will be required to return any grant funds.

Eligible projects include:

- Construction, renovation or expansion of facilities to increase in-state infrastructure to manufacture value-added products using California derived recycled content fiber, plastic, or glass into finished products.
- Construction, renovation, or expansion of facilities to increase in-state infrastructure for the preprocessing of fiber, plastic and glass waste when providing preprocessed materials to an in-state manufacturing facility that is using the waste to make finished products.
 1. Project must result in an increase in tons of material diverted from landfills beyond that which the preprocessor was already diverting.
 2. Preprocessor must provide proof of binding agreement with a California facility that is receiving the preprocessed feedstock to make recycled content finished products.

3. If the 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 reductions in GHG emissions.
- Expansion of projects that have previously received GGRF funding are eligible provided the project meets the grant criteria and the previously funded project is progressing in a manner satisfactory to CalRecycle.
 - A textile reuse component may be coupled with a recycled fiber, plastic, or glass project, and must be submitted as a cooperative application. The textile reuse component of the project must result in measurable reductions in landfill disposal of textiles. Textiles may include, but are not limited to, clothing, linens, and towels. The textile reuse component of a project is one that measurably prevents textiles from becoming waste normally destined for landfill disposal and results in rescued textiles being distributed to people in California. Any textile residuals must be tracked and sent to a recycling facility when one is available within the project service area. Textile reuse partners must be non-profit organizations distributing textiles at no or low cost within California.

Proposed Changes

1. Include new Performance-Based Payment Methodology

Both CalRecycle staff and stakeholders have raised the concern that GGRF funds will be disbursed yet awarded grant projects may not fully achieve anticipated GHG emission reductions for a variety of reasons (e.g., partial construction, inadequate funding for the total project, project delays, permit issues, failure to secure adequate feedstock, etc.). To address this concern, staff proposes to change the payment methodology for the grant programs to a performance-based approach to ensure that projects not only execute construction but also successfully achieve production that realizes anticipated GHG emission reductions. This performance-based payment methodology also provides an incentive to set realistic tonnage and GHG emission reduction projections in project applications and provides a disincentive to grant “banking” (i.e., when grant funds are awarded but not expended for an extended period of time) or to applying for and receiving funding for projects that are unlikely to develop in a manner similar to that originally proposed.

Staff proposes that the performance-based methodology function as follows:

- An applicant can be awarded up to a \$3,000,000 grant with \$2,400,000 for capital expenses and other eligible expenses for the infrastructure of the project as described in the eligible projects section. Performance payments will make up the remainder of the award equal to twenty-five percent of the infrastructure costs. The infrastructure portion of the grant will be paid on a reimbursement basis. Performance payments are issued for each newly diverted ton of California-generated postconsumer recycled fiber, plastic, or glass diverted from landfills and used to manufacture a product during the term of the grant. Performance payments will be issued quarterly on a per ton basis with the dollar amount determined by dividing the amount awarded for performance payments by the total number of newly diverted tons by the project during the grant term, as stated in the application.

- *Example 1:* Applicant requests \$2,400,000 for the construction of a new facility that will divert 50,000 tons of previously landfilled plastic during the grant term (10,000 tons per year for the five-year term of the grant). \$600,000 will be in the form of performance payments. These payments would be at a rate of \$12/ton (\$600,000 divided by 50,000 tons). Total award will be \$3,000,000.
- *Example 2:* Applicant requests \$1,000,000 for the expansion of an existing facility. The conversion will allow the facility to utilize an additional 50,000 tons of fiber waste during the grant term (10,000 tons per year for the five-year grant term). \$250,000 will be in the form of performance payments. These payments would be at a rate of \$5/ton (\$250,000 divided by 50,000 tons). Total award will be \$1,250,000.

2. Include Additional Preprocessing Requirements

- 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 recycled content finished products.
- If the 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 reductions in GHG emissions.

3. Modify Points in Scoring Criteria Compared to Previous Cycle

- Application completeness points are not needed because an application must be complete in order to be submitted. Eliminate the Application Completeness category (5 points) and add it to Tonnage (diversion) for a total of 20 points.
- Increase points for Disadvantaged Communities – To recognize the importance and provide priority to disadvantaged communities, increase points from 10 to 15 and reduce Air & Water Quality Benefits from 10 to 5 points.

4. Incorporate New Textile Reuse Component

- A recycled fiber, plastic, or glass project may incorporate a textile reuse component that results in measurable reductions in landfill disposal of textiles.
- Textiles include, but are not limited to; clothing, linens, and towels.
- Projects must be able to measurably prevent textiles from becoming waste normally destined for landfill disposal.
- Projects must result in rescued textiles being distributed to non-profit organizations servicing people at no or low cost; any textile residuals must be sent to a recycling facility when one is available within the project service area and not exported outside of California.
- Textile reuse partners must be a non-profit organization.
- Allow up to 50 percent of textile reuse budget to pay for salaries.

Tentative Timeline for FY 2016–17

Staff will post a Notice of Funds Available on CalRecycle's website that includes the funding, eligibility requirements, deadlines, and other important information. Notices will be distributed through CalRecycle's local assistance and market development staff to inform their local jurisdictions, the Grants Management System database, applicable listservs, outreach presentations, and newsletters.

Table 1. Tentative Timeline

FY 2016–17	Activity
July/August 2016	Post Notice of Funds Available, application, and related instructions and documents on the web site
August 2016	<p>Alternative GHG Methodology Period – due date is approximately three weeks before application due date</p> <ul style="list-style-type: none"> • An applicant can request the right to submit an alternative methodology, i.e., applicant does not feel the quantification methodology characterizes the project <i>Note: actual methodology and calculations will be submitted on application due date.</i> • CalRecycle confers with ARB on whether applicant should be allowed to submit alternative methodology and provides response to Applicant via email no later than two weeks prior to the application due date.
August 2016	Question and Answer Period – due date is approximately four weeks after the release of the application
September/October 2016	Applications due
September - February 2016	Conduct application evaluation/review process and determine funding for eligible applicants
March - May 2017	Grant Agreements distributed and executed
April 1, 2021	Grant term ends

Please refer to CalRecycle’s website, <http://www.calrecycle.ca.gov/Climate/GrantsLoans/FPG/default.htm> for more information.

