

Market Status Report:

*Industrial Recycling
Market Development
Programs*

October 1996



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Management
Board

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Table of Contents

Introduction	1
Objectives and Strategies	2
<i>Extend RMDZ Loan Program</i>	2
<i>Increase Awareness of Programs</i>	2
<i>Provide Technical Assistance</i>	3
<i>Fund Ongoing Training</i>	4
<i>Implement New Incentives for Businesses</i>	4
<i>Develop a Tracking and Reporting System</i>	4
<i>Secure Program Funding</i>	5
Additional Strategies	5

Preface

This report is one in a series of reports prepared by the California Integrated Waste Management Board that examine market barriers to recycling of postconsumer materials and strategies to overcome them. The following reports are part of this series:

- *Market Status Report: Buy Recycled Programs* (pub. #422-96-059)
- *Market Status Report: Container and Plate Glass* (pub. #421-96-060)
- *Market Status Report: Ferrous Scrap* (pub. #421-96-061)
- *Market Status Report: Industrial Market Development Programs* (pub. #421-96-062)
- *Market Status Report: Postconsumer Recovered Paper* (pub. #421-96-065)
- *Market Status Report: Postconsumer Plastics* (pub. #421-96-066)
- *Market Status Report: Recycled Inerts* (pub. #431-96-063)
- *Market Status Report: Secondary Material Export Markets* (pub. #421-96-064)
- *Market Status Report: Urban Compost and Mulch* (pub. #421-96-068)
- *Market Status Report: Urban Wood* (pub. #443-96-069)
- *Market Status Report: Waste Tires* (pub. #421-96-067)

In addition, the Board has prepared a market development plan, *Meeting the 50 Percent Challenge: Recycling Market Development Strategies Through the Year 2000* (pub. #400-96-058) that identifies the key actions the Board will implement to promote the recycling of targeted priority materials (paper, compostables and mulches, inerts, plastics, and tires).

To obtain copies of the plan or status reports, please contact the Board's Public Affairs Office or download them from the Publication List on the Board's web site (contact information is on the inside front cover of this report).

Introduction

Economic development is an important consideration in the diversion of solid waste from landfills. Once the materials are diverted from landfills, the next step is to develop sustainable markets for those materials. To accomplish the development of sustainable markets for these materials, the California Integrated Waste Management Board (CIWMB) has developed two closely linked economic development programs to assist businesses that manufacture new products from recyclable materials: the Recycling Market Development Zones (RMDZ) and the Recycling Business Assistance Team (R-Team).

In response to the concerns leading to the passage of Assembly Bill 939 (Sher, Stats. 1989, ch. 1095), the State of California established the Recycling Market Development Zone (RMDZ) program. Authorized by Senate Bill 1322 (Bergeson, Stats. 1989, ch. 1096), the program objective was to create markets for diverted materials by increasing the use of recycled materials as manufacturing feedstock.

This was the first program in the nation to couple established economic development practices with integrated waste management efforts. The program was intended to provide local governments with a tool to reduce dependence on diminishing landfill space and meet the waste diversion goals of AB 939 by working with the private manufacturing sector.

Subsequently, the R-Team was developed as a result of a U.S. EPA grant in late 1994. The R-Team's goal is, to provide recycling manufacturing businesses in California with coordinated business development, technical, financial and

marketing assistance. This is done by linking other programs and agencies with expertise in those areas. Two major linkages are referring R-Team businesses wishing to locate in California to the RMDZs and providing additional services as needed to the businesses within the RMDZs.

To qualify for RMDZ designation, jurisdictions were required to identify local incentives that they could provide to businesses that manufacture with secondary materials. Some incentives included site selection, tax benefits, permit assistance, local low-interest loan programs, and marketing and business plan assistance. The R-Team supplements these with additional services and information.

In exchange for local commitments to fostering recycling-based manufacturers, the Board provides technical assistance to both the zone administrators and the businesses requesting assistance and low-interest loans. The Board and R-Team offer services to local RMDZ staff such as training; "matchmaking" (linking recycled feedstock suppliers to users); technical information, (such as the plastics clearinghouse and lists of construction and demolition businesses that use recycled materials); market data on various secondary materials; and networking opportunities through Board-sponsored workshops.

Since March 1991, the Board has established 40 RMDZs, the maximum allowed. As a result of Board and local government efforts, the RMDZs are distributed throughout the state, and represent both urban and rural jurisdictions including 66 percent of the state's population.

Objectives and Strategies

Based on the evaluation of the programs to date and on assessing the need to reach 50 percent diversion by the year 2000, the goal of the Board's industrial market development programs for the next two to three years should be to create a strong and sustainable secondary materials-based industry throughout California, capable of absorbing an estimated 27 million tons of recovered materials each year. This is the total amount estimated by the Board as necessary to achieve the 50 percent diversion rate by the year 2000.

To achieve this goal, the Board must take a focused, proactive approach, which seeks to identify businesses and business opportunities for "getting to 50 percent." This includes implementing an aggressive marketing strategy which sets the agenda for targeting candidate businesses, and pursuing them by offering the services they need to be able to feasibly use recycled materials in manufacturing and marketing recycled-content products.

A primary goal of the Recycling Market Development Zone Program is to generate \$10 million in initial loan applications and approximately \$3 million in closed loans per quarter, or \$40 million in applications and \$12 million in closed loans per year. This is a preliminary goal subject to ratification or modification when staff brings forward the RMDZ marketing strategy.

At its April 24, 1996 meeting, the Board set the following objectives for the RMDZ program and recommendations for achieving them. These objectives and recommended actions are based on, and are intended to address the issues raised in the Board's program evaluation surveys and other information gathering efforts.

Extend the RMDZ Loan Program

The Board should ensure the extension of the RMDZ Loan Program through the year 2005 in accordance with the Board's May 1995 recommendations to the Legislature, including authorization to participate in the California Capital Access Program (CalCAP).

Strategies

- The Board should continue to work to secure the extension of the RMDZ loan program, consistent with its May 1995 recommendations, including seeking the ability to leverage its funds by enabling it to participate in CalCAP.
- The Board should continue to consider other leveraging mechanisms when available to increase the amount of loan funds available to it.

Increase Awareness of Programs

The Board must increase awareness of the RMDZ program and the development of recycling-based businesses in the zones.

Strategies

- In the spring of 1996, the Board should consider, adopt, and begin implementation of a marketing strategy for the RMDZ program that makes efficient use of limited funds and maximizes the leveraging of outside resources to inform the manufacturing community of the benefits offered. This strategy should be directed first at the zones and their surrounding communities; second, at the rest of

California; and third, at other states and countries.

- The focus of the marketing strategy should be to aggressively identify candidate manufacturers who could benefit from the RMDZ program and who could best assist local governments in reaching their diversion mandates under AB 939.
- Toward this end, the Board should work proactively with the zones to target and establish one-on-one working relationships with interested businesses, to assist those businesses in expanding or converting to the use of recycled feedstock and/or locating within the zones, while making maximum use of all available RMDZ services and benefits.
- The Board should provide general promotional materials as part of the strategy.
- The Board should investigate what can be done at the State level to assist recycling businesses through the local and State permitting processes.
- The Board should evaluate and compare the RMDZ loan program's credit and collateral requirements with other State and commercial lending programs and determine if improvements can be made, particularly to encourage smaller, start-up businesses.

Provide Technical Assistance

The Board should provide the zone administrators and recycling-based manufacturers with "hands-on" technical assistance regarding siting decisions and regulatory compliance, feedstock information, business planning and development assistance, financing resources, manufacturing technologies,

and marketing assistance for recycled-content products.

Strategies

- The Board should inventory the expertise of its staff and that of the zone staffs, and make a listing of expertise available to provide for mutual assistance.
- The Board should secure outside consultant services to supplement Board and zone staff expertise in areas such as business plan development and product marketing assistance, while seeking to supplement and train staff to minimize the need for consultant services in the long run. These contracts, which would provide direct services to RMDZ businesses on an as needed basis, could be partially funded out of the R-Team monies. R-Team contracts of this nature are being considered at the Board's May 1996, Administration Committee meeting. Staff is directed to consider in the scheduled May 1996, Administration Committee item on R-Team contracts the feasibility of using only R-Team funds for implementation of the marketing strategy.
- The Board should continue to establish itself as a leader in developing, evaluating and providing information about recycled feedstock, secondary materials and recycled-content product market conditions, and recycling technologies. This should include the publication of quarterly market reports.
- The Board should share information and increase the effectiveness of and support for the RMDZ programs zone administrators. Staff should compile, and publish case studies of successful RMDZ program efforts to all zones and other interested parties, such as local officials, economic development

professionals, and lenders. Case studies should be structured so that they address specific questions and needs of targeted audiences.

- The Board should encourage its staff and assist the zones in developing working relationships with other state economic development programs to leverage their resources. Suggested programs to consult with include the California Association of Local Economic Developers (CALED), the Trade and Commerce Agency, the Business Environmental Assistance Center, and various chambers of commerce in the RMDZs, as well as other small business service providers, such as the Small Business Administration districts and branches and Certified Development Companies.
- The Board should recognize differences in zone needs and work with individual zone administrators to provide appropriate services.

Fund Ongoing Training

Fund ongoing training of Board and zone staff to enable them to provide needed information and technical assistance to client businesses.

Strategies

- In light of limited zone resources and the diversity and breadth of training required, the need for ongoing training, and the desirability of a common denominator in certain subject areas, the Board should continue to sponsor and/or approve specific training courses for Board and zone staff. Training should be conducted on a basis that offers the best economy of scale. Future training should be considered as part of the Board's overall training program.

- The cost of training of zone staff by the Board should be approved in advance and reimbursed to the zones for completed courses, within specified dollar limits and with a minimum required local match of at least 5 percent, either in cash or in-kind services.

Implement New Incentives for Businesses

The Board should investigate and implement feasible new incentives to provide zone administrators with additional tools to assist, attract, and retain recycling businesses.

Strategies

- The Board should investigate the feasibility of business incentives offered throughout the country and develop recommendations regarding their feasibility and steps required for implementation in the RMDZs.

Develop a Tracking and Reporting System

The Board should develop a zone and loan program reporting system at the Board and in the zones, to track business contacts and other zone activities such as materials diverted, jobs created, technical assistance services, and resources expended.

Strategies

- To provide for more complete and consistent information about program activities and future program needs, the Board should work with the zones to develop and institute a uniform business and administrative tracking and reporting system, such as ACT! (a contact management software) and other appropriate fiscal record-keeping

systems. The use of such systems, when developed, should be required of the zones by the Board as a condition of financial support.

- Information required semiannually from the zones should include the number of businesses contacted, type of assistance offered, responses, and results. The information compiled would be reported to the Board and to the zones semiannually.
- Staff should work with the California Association of Recycling Market Development Zones (CARMDZ) to determine the feasibility of developing and implementing a standardized reporting system, with both computer and manual versions, without provision of financial incentives by the Board. The computer version should have a "fill-in-the-blanks" option available in a standard software program such as Excel.
- Parameters such as jobs retained or created and tons diverted should be considered as part of any reporting system.

Secure Program Funding

The Board should secure adequate and sustained funding for the RMDZ program and ensure that the zone and loan programs are implemented efficiently by the zones at the local level.

Additional Strategies

In addition to the recommended actions already approved by the Board, the Board could adopt any of the following options:

- Pursue legislation to enhance incentives

Strategies

- The Board should consider appropriate financial support for the RMDZ program at the State and zone levels as a part of its annual budget process.

- To maximize the amount of capital available for loans, the Board should minimize paying for loan program administrative costs from the Loan Sub-Account (LSA). The Board should, also, adopt a policy that specifies when demand for loan funds exceeds the available supply, the Board shall avoid paying for any and all costs from the LSA for activities other than directly funding loans. Staff is directed to provide the Market Development Committee with information on Board administrative costs allocated in the RMDZ LSA and on procedures for making this allocation.

- To help provide adequate and sustained program funding, the Board should actively seek to obtain federal funds and other financial support to supplement the zones' and the Board's program resources.

- The Board should assist the zones in seeking increased local funding, by providing them with information about the program's potential local benefits.

- The Board should continue to evaluate options regarding the establishment of financial incentives for the zones.

available to recycling-based manufacturers within RMDZs. Incentives like those available to businesses in California's Enterprise Zones would strongly encourage manufacturers to select RMDZs

when considering their siting options.

•In order to stimulate the expansion of recycling-based manufacturing by making such expansions more feasible, the Board could work with local utilities (such as Sacramento Municipal Utilities District) to encourage them to offer utility rate discounts similar to those currently offered by Pacific Gas and Electric, San Diego Gas and Electric, and Southern California Edison.

•In order to increase the attractiveness of the RMDZ loan program, the Board could consider some modifications. These changes could include moving the application from a quarterly cycle to a continuous process.