December 15, 2020

Clark Williams, Branch Chief
CalRecycle
1001 I Street
Sacramento, CA 95814

Transmitted Electronically

Dear Clark:

CARE appreciates the opportunity to provide CalRecycle with additional information regarding impacts related to the unique business stability and continued operations security offered through our emergency Covid-19 Action Plan for California Recyclers. As we all recognize, the unforeseen duration and depth of impacts created by the pandemic has presented unparalleled challenges across all walks of life and every business sector worldwide. Fortunately, due to the level of reserves available in the California Carpet Stewardship Program budget, CARE was able to survey, assess and swiftly take action in offering financial support to our carpet recycling stakeholders.

Upon analysis of the pending Covid impacts and related government mandates, CARE immediately recognized aggressive action was needed to support and help ensure survival of the carpet recycling infrastructure. Cash flow analysis showed that CARE had funds available, ensuring that the decision making by the Stewardship Planning Committee (SPC) and Sustainable Fund Oversight Committee (SFOC) was rapid and garnered unanimous support allowing CARE to release funds for the first Covid Action Plan Payment in early April.

CARE’s Covid Action Plan was initially adopted for 90-days in mid-March, retroactive to March 1st and has subsequently been extended three times due to the extended impact of the pandemic. Thus, the actions are now effective through March 31, 2021. Immediate Action Plan adoption aided the carpet recycling community by assisting with cash flow and reduced administrative burdens while recyclers endeavored to maintain adequate raw material supply despite reduced carpet sales.

A brief recap of Covid Action Plan highlights includes the following:

1) **Issuance of one-time emergency cash infusion payments** to each qualified recycler, calculated on the average monthly subsidy received over the last 12 months. **Approximately $1.13 million** was paid in April which did not affect the cash reserve. A second, smaller payment was released by the SPC in July for 1/3 of the initial payment in April. These actions were taken to directly support cash flow for recyclers.
2) Early payment of monthly subsidies - affords recyclers the opportunity to receive prompt payment on 80% of earned subsidies within 15 days of the end of the month (as opposed to the usual 40-45 days). More than $450,000 in early subsidy payments were made during the initial March Shelter-in-Place and Safer-at-Home health orders. This action was taken to directly support cash flow for recyclers.
3) Monitor retail sales and post-consumer carpet (PCC) availability to aid recyclers in planning for dramatically reduced raw material flows.
4) Introduction of an additional temporary $0.02/pound for PCC collection for 90 days effective April 1, 2020 (for a total of $0.04/pound on collected PCC). Based upon continuous retail sales monitoring and PCC flow conditions, this collection support incentive has been extended three times and is now effective until March 31, 2021.
5) Introduction of additional fiber specific Q3 and Q4 special subsidy adjustments in response to significant swings in directly competitive virgin and post-industrial (PI) polymer markets. Analysis for these subsidy adjustments were carried out as a part of CARE’s ongoing Subsidy Justification Model (SJM) analyses. These fiber market support adjustments have been extended to March 31, 2021.
   • Nylon 6 Tier 2 increased by 15 cents/pound
   • Nylon 6,6 Tier 2 increased by 3 cents/pound
   • PET Tier 1 increased by 5 cents/pound
   • PP Tier 1 increased by 5 cents/pound
6) Coordination and general communication with other Product Stewardship groups to identify the best ways to tackle shared challenges.
7) Suspension of routine audits for 90 days during the outset of the pandemic to afford recyclers the opportunity to keep their focus on Covid-19 operational challenges. It should be noted that these time periods are still subject to future Agreed Upon Procedures (AUP) audits. AUP’s have restarted beginning with Q3.

General observations from feedback indicated the immediate cash infusion for businesses allowed survival for payment of payroll (and thus holding the skilled workforce), utilities and lease payments while focusing on documentation for PPP loans. Enhanced subsidies allowed businesses faced with significant lost sales to continue their operations. While we do not know total individual sales, recyclers indicated major reductions in revenue for March, April and May which has resulted in very substantial losses.

Impacts on the collections and sales side include the following:

Collections:
   • Shutdowns started by county and the 6 surrounding Bay counties were first. Most carpet retailers closed as part of that lockdown.
   • Most installation jobs were canceled or postponed over concerns about installers working in homes.
Some installers refused to service occupied homes from a safety perspective and were only allowed to install carpet in empty homes. This significantly limited retail carpet installation and thus severely limited carpet rip out for several months.

The 6 Bay county stay-at-home ordinance expanded to all CA counties and collections virtually dried up.

April and May collections dropped by about 40% year over year.

This contraction had a profound impact as a significant reduction in the availability of raw materials was not able to keep up with the increased production capacity established in 2019, leading to production interruptions and shutdowns.

In one case: Recycling operations were halted and then restarted on a single line. Ultimately a second shift was finally added in July but again, only on a single production line. Resumption of 2 production lines occurred sometime in August.

CARE’s plan assisted in the company not laying off any employees.

Sales:

The auto industry shut down affected the entire supply chain and resulted in the immediate cancellation of nylon 6 and 66 demand for that sector, which represents a significant percentage of the market for PCC materials.

The impact was further felt when automotive manufacturing reopened at only 25% capacity and not reaching 50% for 3 months. It would appear current operations are approaching pre-pandemic levels.

The automotive manufacturing process was never intended to be socially distant and the process in some cases had to be modified to limit work on the production line.

Just as the automotive manufacturers were about to start, Mexico issued a complete stay-at-home order and the Mexican components could not be shipped/produced, further delaying the auto industry start up.

Since the auto industry started manufacturing at 25%, inventories lasted 4 times longer than normal, thus delaying the downstream suppliers even further. Most auto companies are still not manufacturing at the pre-pandemic rate.

Nylon 6 became the biggest challenge. Automotive, furniture and textiles all slowed or stopped receiving product. This was then followed by a virgin Nylon 6 pricing collapse. This resulted in the need for a major subsidy increase for this material.

Many PET outlets were maintained but due to the collection shortfall, not enough PET raw material was available.

Trucking costs have also seen steep rises upwards of 50% or more, causing some east coast recyclers to suspend shipments during the initial recovery phase.

CalRecycle has received a letter from Circular Polymer that generally outlined the value/impact of the CARE Covid Action Plan from their perspective. A second letter from Los Angeles Fiber Company is shown below with specific market information removed.

Upon the March 2020 Shelter-in-Place and Stay-at-Home health order announcements, CARE promptly surveyed subsidy supported stakeholders on measures CARE could take to
best support their operations. As with other business sectors, CARE stakeholder concerns revolved around state and local paid leave, implementing more stringent health and safety measures, closer cash flow monitoring, evaluating ability to secure capital to continue operations under an impending shut down, ensuring end market sales have ability to continue and the ability to further secure raw goods to operate.

The two cash infusion payments, received in April and again in July, at 1/3 the April rate, allowed for immediate economic assistance with payroll, utilities, lease payments, etc. while principals focused on critical Payroll Protection Plan (PPP) documentation and assessment of an emergency business survival strategy. The offering of the two one-time special payments and various temporary subsidy increases for PCC collection and Tier 1 and Tier 2 materials have been exceptionally well received by the community. Recycler statements received by CARE and influencing Action Plan decisions included:

- “Extremely concerned about continuing to operate, ensure recycling facilities get same designation as waste facilities and can continue to operate”
- “We are expecting a significant decrease in raw materials. Desperate for additional raw materials. Effective immediately, collectors must offer their material in-state at market pricing before selling whole carpet out of state in order to get paid by CARE their 2 cents on material and out of state reclaimers claiming tier 1.”

Fortunately, for some time demand remained strong for limited products, thus keeping recyclers operational. CARE was able to facilitate meeting certain customer demands as a result of the cash infusions and subsidy enhancements.

In an effort to quantify the flow of funds the following charts help to put this into perspective. The following chart shows pounds of recycled output by month over the period January 2019 through October 2020, along with the percent change from the prior year same month (red line). Beginning in April you can see the dramatic impact. While the recovery is underway, we are still behind 2019.
The next chart shows the subsidy payouts since the Covid Action Plan was put into effect. It is worth noting that the added subsidies total over $1.2M for the period March through September. Note, the added Covid subsides are exclusive of the one-time special payments made in April and July).

<table>
<thead>
<tr>
<th>Month</th>
<th>COVID Action Plan Subsidy</th>
<th>Total Subsidies for Month</th>
<th>% Total Subsidies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar-20</td>
<td>$82,689</td>
<td>$1,240,823</td>
<td>7%</td>
</tr>
<tr>
<td>Apr-20</td>
<td>$61,852</td>
<td>$996,131</td>
<td>6%</td>
</tr>
<tr>
<td>May-20</td>
<td>$62,639</td>
<td>$1,024,179</td>
<td>6%</td>
</tr>
<tr>
<td>Jun-20</td>
<td>$74,578</td>
<td>$1,281,817</td>
<td>6%</td>
</tr>
<tr>
<td>Jul-20</td>
<td>$299,155</td>
<td>$1,550,353</td>
<td>19%</td>
</tr>
<tr>
<td>Aug-20</td>
<td>$345,642</td>
<td>$1,537,982</td>
<td>22%</td>
</tr>
<tr>
<td>Sep-20</td>
<td>$347,501</td>
<td>$1,762,826</td>
<td>20%</td>
</tr>
<tr>
<td>Total (March - September)</td>
<td>$1,274,055</td>
<td>$9,394,111</td>
<td>14%</td>
</tr>
</tbody>
</table>

CARE is acutely aware that carpet sales provide a direct corollary relationship for the generation of tear-out carpet. While Q1 sales of $17.1 million were at an all-time Program low and 9% below budget projections, Q2 carpet sales of $14.4 million during government mandated shutdowns and stay at home orders were alarming at 32% below budget.
When it comes to CARE Drop off Site (DoS) impacts, the picture varied widely. Some sites continued to operate but saw a drop-off in collections, some sites suspended operations, while some sites refused PCC due to Covid contamination fears. Many sites are seeing staffing issues for a variety of reasons. CARE continues to stay connected with all DoS in an effort to share information and experiences.

The net result of the swift and decisive actions and efforts CARE was able to implement, is that the carpet recycling infrastructure has survived what looks to be the worst of the pandemic and is poised for growth again in 2021. That said, the implications for the rest of 2020 and into the first half of 2021 remind difficult to assess.

Respectfully submitted,

Robert Peoples, Ph.D.
Executive Director, CARE

c:c:  Sustainable Planning Committee (SPC)
     Jacy Bolden, CA Program Director
Excerpt from letter from Los Angeles Fiber Company

December 8, 2020

To: Dr. Robert Peoples

From: Ron Greitzer

RE: CARE’s emergency Covid-19 stimulus package

Bob,

CARE SPC stewardship committee decided to support the recycling efforts that made a dramatic difference for all of us in the Carpet Recycling Community.

The decision to use funds from the reserve account and provide the monies to the recyclers saved jobs, saved businesses, and saved the life’s work of the Entrepreneurs.

Covid-19 impact on all of us have changed the way we conduct business. The fear of illness, the suffering for families, and the alterations in lifestyle is something CARE cannot change. However, CARE did change how its members could emerge from this tragedy.

The carpet recycling industry got hit in two directions:
   Goods In
   Sales out

In March, April, May, and June 2019 vs 2020 saw a 26% reduction in goods in (collection)

In March, April, May, and June 2019 vs 2020 saw a 23% reduction in sales revenue

With CARE’s assistance, we were able to maintain full employment, pay all of our bills, continue to invest in the future with completion of capital projects, while incurring and average of 25% reductions in goods in and goods out.

We are standing today because CARE provided us with stimulus gifts and extra subsidy.

Thank you

Ronald J. Greitzer