

Lessons From Other States to Address California’s Redemption Center Closures

Legislative Analyst’s Office
Budget and Policy Post
April 10, 2017

Since January 1, 2016, over 300 “convenience zone” (CZ) recycling centers—those generally located within a half mile of supermarkets—have closed. (This represents about one-fifth of all recyclers.) CZ recycling centers are an important part of California’s Beverage Container Recycling Program (BCRP). They provide a convenient location for consumers to recycle beverage containers and have their deposit—the California Redemption Value, or “CRV”—repaid. Our May 2016 web post, *Addressing California’s Convenience Zone Recycling Center Closures*, identified market factors—specifically declining scrap values—and BCRP program payments that do not sufficiently cover recycler costs as the main causes of the closures. We also provided options that the Legislature could consider to help prevent additional closures. This post continues the examination of closures by reviewing programs in other states and identifying additional options to improve convenient recycling options in California.

Reduction in CZ Recycling Opportunities Has Multiple Consequences

Recycling Center Closures Affect Multiple Stakeholders. The closure of so many CZ recycling centers is problematic for multiple reasons:

- *Reduces Consumer Convenience.* Closures reduce consumers’ ability to easily redeem their containers because there are fewer remaining redemption locations. Consequently, some consumers have to travel farther to return their containers and have their deposit returned. Moreover, some recyclers have reported that consumers have had to wait in longer lines due to more consumers going to the remaining centers.
- *Increases Retailer Costs.* Under the BCRP, when an area near a supermarket does not have a recycler, the retailer generally is required to either accept containers themselves or pay a fee of \$100 per day to the state. This is mainly to help ensure that there are convenient locations throughout the state to redeem containers. Following the recycler closures, most affected retailers have reported that they are taking containers back themselves, which imposes additional costs on them. However, resources for the California Department of Resources Recycling and Recovery (CalRecycle) to enforce this provision are limited, and some stakeholders have expressed doubt that all of these stores are actually taking containers back.
- *Fewer Containers Recycled.* The state’s overall recycling rate is projected to decline from 84 percent in 2014-15 (the year prior to many of the closures) to 82 percent in 2017-18. This decline equates to about half a billion containers that will not be recycled. While many factors can affect recycling rates, including some recent program changes, this decline could be in part due to the CZ recycler closures.

Other States Have Not Experienced Similar Reductions in Redemption Opportunities. Nine other states have beverage container recycling programs where consumers pay redeemable deposits like in California (Connecticut, Hawaii, Iowa, Maine, Massachusetts, Michigan, New York, Oregon, and Vermont). Based on our conversations with recycling experts and officials in other states, recycling center closures have not occurred in other states on the same scale as in California despite similar recycling market conditions. For this reason, we explored the payment structure for recyclers in other states, as discussed below.

How California Compares to Other States

In our review of other state beverage container recycling programs, we identified a few key differences that likely affect California's CZ recyclers. First, beverage distributors typically play a more significant role in other states and are responsible for most of the cost of recycling. Second, recyclers are generally provided a fixed payment instead of payments that fluctuate with recycling markets. Third, other programs typically allow more flexibility for recyclers and retailers resulting in different container collection systems.

Beverage Distributors Responsible for Container Recycling in Other States. Under other beverage container recycling programs, beverage distributors are responsible for picking up collected containers from container redemption centers and retailers and ensuring that they are processed into reusable material. This means that distributors must cover these costs. Distributors receive greater revenue when processors are willing to pay more for this scrap material, and they receive less revenue when scrap values are low. Distributors can cover some of their net costs when they negotiate beverage and container contracts.

In contrast, California recyclers—including CZ recyclers—are responsible for selling the collected containers to processors. Recyclers receive “processing payments” from the state (partially offset by payments from distributors and manufacturers). These payments are intended to cover the difference between a container's scrap value and the average cost of recycling it (including a reasonable rate of return) in order to insulate recyclers from low revenues when scrap values go down. In accordance with state law, CalRecycle sets the per-container payment rates quarterly based on a 12-month rolling average of scrap values. However, the scrap value of beverage containers can fluctuate significantly based on changing market prices within those time frames. Therefore, CalRecycle payment calculations do not always reflect the most recent market conditions, especially when there have been significant changes in scrap values within the last few months. As a result, for the past couple of years processing payments have not kept up with the significant decline in scrap values.

This payment structure has meant that California recyclers, which are heavily dependent on processing payments to stay profitable, have seen significant losses when scrap values declined significantly. In other states, these market changes impact distributors rather than recyclers since they are responsible for the redeemed containers. Distributors are often better suited to absorb these losses since recycling costs are relatively small compared to beverage sales, and distributors can pass at least some of their recycling costs on to beverage manufacturers.

In our April 2015 report, *An Analysis of the Beverage Container Recycling Program*, we recommended that the Legislature consider implementing a market-based system to replace processing payments and make manufacturers and distributors responsible for the recycling of their material. Such a system would reduce recyclers' vulnerability to changes in the marketplace. Alternatively, the Legislature could consider making other changes to recycler payments that would better protect recyclers from significant losses, such as changing how the processing payment formula is calculated so that it reflects more recent market changes.

Most Other States Provide a Fixed Handling Fee to Recyclers. Programs in other states typically require distributors to provide participating recyclers (such as redemption centers and retailers) with a fixed per-container payment to cover the costs of container collection and administration. These "handling fees" typically are set in statute and not automatically adjusted. While some other programs have done recycler cost surveys to determine the fee amount, many have not. Usually the fee amounts are a result of decisions by policy makers weighing the value of recycling against the additional cost to distributors. The fees range from 1 cent to 4 cents and are typically about 3 cents per redeemed container.

In California, only CZ recyclers receive handling fees, and these revenues are intended to cover the higher costs of operation that these recyclers typically face compared to traditional recyclers because of more expensive rent, greater costs to transport materials to processors, and less economies of scale due to lower volume of redeemed containers. Surveys are conducted regularly in order to determine statewide average cost per container for each CZ and traditional recyclers, and then the handling fee is set based on the difference between these costs. Currently, the fee is about 1 cent per redeemed container.

Since surveys only occur every couple of years, handling fees cannot always reflect current costs. For example, California's minimum wage increased in January 2017 and is scheduled to increase again in January 2018. Higher minimum wages can significantly increase CZ recyclers' costs, but these increases will not fully be reflected in the handling fee amount for several years until data can be collected and incorporated in the next cost survey completed following those increases—likely in 2020. Additionally, recycler closures could have the unintended effect of resulting in lower handling fee payments in the future. Since the handling fee is based on a statewide average, individual recyclers whose average per-container operating costs are below the statewide average receive more in handling fees than their actual costs, and those with above average costs receive less. Since the higher cost recyclers do not receive enough in handling fees to cover their costs, they are more likely to close. In turn, the closure of relatively high cost recyclers can lower the average cost and, therefore, the handling fee amount when it is recalculated. This results in lower payments to recyclers, which could potentially cause more closures. Recyclers have indicated that they are concerned about the next survey—scheduled for release in 2018—and the potential effects of recent closures on the handling fee amounts.

The Legislature could consider making changes to California's handling fee structure in order to address this issue. For example, the Legislature could—like other states—set handling fees in statute rather than having them adjusted based on updated cost surveys. On the one hand, this would improve market stability and the recyclers would be better able to predict how much they would be paid. On the other hand, a fixed payment would be less likely to reflect actual

costs and might be more likely to overpay or underpay most recyclers. We have also previously identified some other options to how handling fees are administered, such as tiering the handling fee amount according to recycler size in order to better insulate small recyclers that usually have higher per-container operating costs. In considering different handling fee options, the Legislature could require CalRecycle to pilot test payment structures in order to identify their effects on consumers and CZ recyclers.

Recyclers in Other States Have More Operating Flexibility. Like California, most other states have requirements to ensure consumers have opportunities to redeem containers. In many states, retailers collect the containers themselves. However, our understanding is that most other states do not have as many specific operating requirements for collection as is the case for California CZ recyclers. For example, California recyclers must meet certain requirements to qualify as CZ recyclers. They must be located within a certain radius of a supermarket (generally half a mile), be open at least 30 hours a week, and be open at least 5 hours per week outside of regular business hours. Additionally, in order to receive handling fees, CZ recyclers must generally be located within the supermarket parking lot and be the only recycler within that area.

The flexibility provided to recyclers in other states allows for a variety of collection methods that could not be adopted by CZ recyclers in California under existing rules. For example, one company operates a collection system in Maine and New York that allows consumers to drop off bags of their containers into a secure chute at partnering supermarkets. Consumers have individual accounts that are credited after the company collects the containers. The credits can be cashed out, used for grocery purchases, or donated to charity. This system requires less space than a staffed collection site and can collect many more containers much faster than a reverse vending machine, which requires consumer to feed containers into the machine one by one. It also does not require an employee to staff the collection site. Another example in Hawaii and New York is mobile recycling collection. Under this system, a mobile trailer collects containers in different areas throughout the week or for a few hours at several locations throughout the day. This system can increase the number of sites where consumers can redeem containers since one recycler can serve multiple areas. As long as the recycler's location and hours are easily available, consumers can easily find them without them necessarily operating at the same supermarket site all the time.

Currently, these methods of collection are not allowed in California because of other requirements, but they could potentially increase recycling opportunities and lower recycler costs. The Legislature could consider eliminating some requirements in statute and allowing CalRecycle more flexibility to allow new collection methods. For example, in the past our office has recommended eliminating the requirement that recycling centers be located on supermarket parking lots in order to receive handling fees. The Legislature could also evaluate whether other requirements improve consumer convenience or drive up recyclers' costs. For example, the required hours of operation might not be necessary since recyclers are paid on a per-container basis and therefore already have an incentive to be open when they think they will be able to collect the most containers. Removing requirements that are costly or not effective could make additional closures less likely. If there is concern that eliminating some

requirements might reduce consumer convenience, the Legislature could consider using pilot projects to collect data and monitor the effects of the change before implementing them statewide.