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PROGRAM MANAGER – MARY PITTO

MEMORANDUM

To: ESJPA Board of Directors

From: Paul A. Smith, Senior Legislative Advocate
Mary Pitto, Program Manager

Date: November 30, 2011

Re: Reforming the Beverage Container Recycling Program

Summary

This memo provides an update on the state's Beverage Container Recycling Program, commonly referred to as the "Bottle Bill."

Background

Established in the late 1980's, California has a state-sponsored beverage container recycling program. Under the scheme, consumers pay a number of pennies per container as a deposit (California Redemption Value) and receive that money when they redeem those containers at one of hundreds of authorized recyclers. In addition, manufacturers of containers pay assessments (the processing fee) based on the numbers of containers they produce/sell in the state. The processing fee is used to pay the difference between the scrap value of the container and the cost to a recycler for processing the material.

When creating the program, the framers acknowledged that not all containers would be redeemed, leaving monies 'on deposit' with the State. As such, the governing statutes permit and specify a variety of payments from unredeemed amounts. When recycling rates are low, there are large amounts of unredeemed monies available. When rates are high, there is less. Furthermore, the law requires that when there is not enough unredeemed monies to make these payments, the State must make reductions equally among those receiving monies (proportional reduction).

There are three critical payments from unredeemed monies of concern to rural counties: 1) the City/County Payment; 2) the "Handling Fee"; and, 3) the Curbside Supplemental Payment.

City/County Payment. Cities and counties receive, upon application to the State, an annual minimum payment of \$5,000 and \$10,000 respectively; larger-population cities and counties exceed the minimum amount due to a population-based formula. Currently, the statutory aggregate amount to be used for city/county payments is \$10,500,000 annually.

Handling Fees. For consumers to redeem their containers, they must return them at an authorized recycler. These authorized recyclers are eligible to receive a supplemental payment from the state – known as a handling fee -- to help defray their operational costs. The amount of the payment is

determined by the number of containers handled per month per site. In most rural areas, recyclers of beverage containers are also the same entities that recycle all types of commodities (cardboard, non-CRV plastic and glass containers, copper, etc.)

Curbside Supplemental Payment. For municipalities that have curbside pick-up programs, the waste hauler is eligible to receive a 'Curbside Supplemental Payment' to assist with the costs of curbside collection. Note, the hauler is allowed to 'pocket' the value of the container materials collected; however, many jurisdictions factor both the scrap value and the Curbside Supplemental Payment in setting the rate to residents.

Issue

Three times in the past eight years, the State's General Fund has borrowed a total of over \$400 million from the Beverage Container Recycling Fund, which is comprised solely of unredeemed monies. Those loans are in the process of being repaid, with full and final payment occurring in the 2011-12 Fiscal Year.

As a result of increased recycling rates and these General Fund loans, after the 2011-12 fiscal Year, it is projected that there will be an insufficient amount of funds available to pay the costs of the recycling infrastructure. As such, CalRecycle, which administers the program, would be forced to proportionately reduce funding for the City/County Payment, Handling Fees, and the Curbside Supplemental payment – as was the case in 2009.

In the last days of the 2009 Legislative Session, the Legislature approved Senate Bill 402 (Wolk) which offered reforms to the program to preserve funding for core recycling programs, including handling fees to convenience zone recyclers, payments to cities and counties, and curbside recycling. Governor Schwarzenegger vetoed SB 402 citing concerns, among others, about expanding the types of containers included in the program and readjusting the deposit consumers pay on certain containers.

Immediately after the veto, stakeholders began discussing ways to alter and reform the program. At that time, the Administration floated a proposal to provide discretion to administrators when awarding monies. In essence, various payments would be prioritized with Handling Fees being a top priority. To accommodate varying priorities, other programs would be drastically reduced or eliminated. This proposal was dismissed by stakeholders; however, it is expected that the Administration will put forth similar recommendations. In that scenario, it is likely there could be an elimination of the City/County payment.

Staff Recommendation

In 2009, the ESJPA and RCRC Board of Directors provided staff with the priorities in discussions and negotiations involving changes to the Bottle Bill. RCRC's core position should be to preserve opportunities for rural residents to recycle their containers and the maintain the recycling infrastructure in rural counties in order to prevent an increase in "land filling" commodities and putting pressure on their diversion requirement. The handling fee is central to this priority. In addition, a priority was given to preserve, as much as possible, the City/County Payment.

RCRC staff recommends that these priorities be maintained in further discussions involving reforms to the Bottle Bill.