

California Legislature
Senate Committee on
Environmental Quality

BOB WIECKOWSKI
CHAIR



CONSULTANTS
RACHEL MACHI WAGONER
DAVID E. GARCIA
JOANNE ROY
COMMITTEE ASSISTANT
SUE FISCHBACH

**OVERSIGHT HEARING OF THE
SENATE ENVIRONMENTAL QUALITY COMMITTEE**

**An Overview of
California's Beverage Container Recycling (Bottle Bill) Program**

Wednesday, February 15, 2017
California State Capitol, Room 3191
9:30 a.m.

BACKGROUND

Bottle Bill Overview

The Bottle Bill was established by AB 2020 (Margolin, Chapter 1290, Statutes of 1986). The purpose of the program is to be a self-funded program that encourages consumers to recycle beverage containers to prevent littering. The program accomplishes this goal by requiring consumers to pay a deposit for each eligible container purchased. Then the program guarantees consumers repayment of that deposit, the California Redemption Value (CRV), for each eligible container returned to a certified recycler. Statute includes two main goals for the program: (1) reducing litter; and, (2) achieving a recycling rate of 80% for eligible containers.

Eligible beverage containers. Only certain beverage containers containing certain beverages are part of the CRV program. Most containers made from glass, plastic, aluminum, and bimetals (consisting of one or more metals) are eligible. Wine, spirits, milk, fruit juices (over 46 ounces), vegetable juice (over 16 ounces), and soy drinks are not eligible for CRV. Container types that are not included in the CRV program are cartons, pouches, and any container that holds 64 ounces or more.

Participants in the Bottle Bill program. The various stakeholders in the Bottle Bill program include:

- *Consumer.* Every person who, for his or her use or consumption, purchases a beverage in a beverage container from a dealer.
- *Dealer.* A retail establishment which offers the sale of beverages in beverage containers to consumers. However, any lodging, eating, or drinking establishment, or soft drink vending machine operator who engages in the sale of beverages in beverage containers to consumers shall not be deemed a dealer for purposes of the Bottle Bill program.
- *Distributor.* Every person who engages in the sale of beverages in beverage containers to a dealer in the state, including any manufacturer who engages in these sales. “Distributor” includes any person who imports beverages from outside of this state for sale to dealers or consumers in this state.
- *Beverage Manufacturer.* A person who bottles, cans, or otherwise fills beverage containers, or imports filled beverage containers, for sale to distributors, dealers, or consumers.
- *Container Manufacturer.* A person who produces beverage containers for filling by beverage manufacturers, including any person who imports these beverage containers from outside of this state for filling by beverage manufacturers.
- *Recycler.* A recycling center, dropoff or collection program, or curbside program.
- *Processor.* A person, including a scrap dealer, certified by the Department of Resources Recycling and Recovery (CalRecycle), who purchases empty aluminum beverage containers, bimetals beverage containers, glass beverage containers, plastic beverage containers, or any other beverage containers, including any one or more of those beverage containers, which have a refund value established pursuant to the Bottle Bill, from recycling centers in this state for recycling, or, if the container is not recyclable, not for recycling, and who cancels, or who certifies to the department the cancellation of, the

refund value of these empty beverage containers by processing empty beverage containers, in any manner which the department may prescribe.

- *CalRecycle*. State agency which administers, oversees, and enforces the Bottle Bill program.

Flow of CRV containers and payments. The Bottle Bill involves the flow of beverage containers and payments between several sets of parties, including consumers, retailers, recyclers, and manufacturers. At each stage, beverage containers and CRV are exchanged between participants. The Beverage Container Recycling Fund (BCRF) is used to collect and distribute payments for the CRV program.

Consumers generally have three options to recycle: return container to a recycler at a convenience zone (CZ) recycling center; return to an “old line” recycler; or, “donate” the container to a curbside collector. Once collected, the containers are sold to a processor.

Processors sort, clean, and process the containers into materials ready to be recycled, such as glass cullet or plastic flake, which they are able to sell to manufacturers for use in new beverage containers or other types of products. Beverage manufacturers that use glass and aluminum containers combine the recycled material with virgin material to create new containers and fill them with beverages. Plastic beverage containers generally contain no recycled content.

Flow of CRV. When beverage containers are exchanged, there is a corresponding CRV exchange. When consumers purchase beverages, they pay CRV to retailers. Retailers pass the CRV to beverage distributors. Beverage distributors pay CRV on all new beverage containers they sell in California to the BCRF after keeping 1.5% (about \$18M/year) for administrative costs. The BCRF is then used to pay CRV to processors for the containers they process. Processors pass the CRV on to the recyclers who collected the empty containers. Recyclers, in turn, pay CRV to consumers who redeem their beverage containers at a recycling center. In this way, consumers are able to recoup their CRV from the recycler.

Ways to redeem containers. Consumers have three different avenues in which they may redeem containers:

- Return the container to a “convenience zone” recycling center located within ½ mile radius of a supermarket. These are generally small centers that only accept beverage containers and receive handling fees from the BCRF. CZ

recyclers collect about 25% of CRV containers, but are utilized by 60% of consumers.

- Return the container to an “old line” recycling center, which refers to a recycler that does not receive handling fees and usually accepts large quantities of materials, frequently by truckload from municipal or commercial waste collection services. Traditional recyclers collect slightly more than half of all CRV containers (54%).
- Consumers can also "donate" their containers to residential curbside recycling collection. Curbside programs collect about 10% of CRV containers. Curbside programs keep the CRV on these containers.

High recycling results in structural deficit. Since the program was first implemented, the recycling rate of eligible containers has increased from 52% to 85%, exceeding the statutory recycling goal of 80%. Moreover, the total number of containers that are recycled has tripled due to the higher recycling rate and several expansions in the types of eligible containers over the years. The high recycling rate combined with the large number of additional expenditures has resulted in a budgetary shortfall within the BCRF.

Additional Expenditures. Until recently, lower recycling rates resulted in a half-billion dollar surplus in the BCRF, and previous Governors used the surplus to fund several loans to the General Fund. In an attempt to increase recycling and reduce the surplus, the Legislature amended the Bottle Bill a few times between 2000 and 2003 to include additional beverages, reduce the processing fees paid by manufacturers, establish the processing fee “offset” (reduced processing fees based on the “recycling rate” of a material), increase the CRV, increase handling fees to larger CZ recyclers, and establish and increase funding for a number of additional recycling programs. These programs are not directly related to the CRV, but they are intended to help achieve broader recycling goals. In 2006, AB 3056 (Committee on Natural Resources, Chapter 907, Statutes of 2006) increased the amounts of many of the additional programs, adjusted handling fees, and increased distributors' administrative fee.

The funding amounts for the supplemental programs are set in statute. A provision within the section that establishes the bulk of the BCRF expenditures requires CalRecycle to “reduce all payments proportionally” if it determines that there are insufficient funds to make any of the payments. Stakeholders refer to this reduction in funding as “proportional reduction.”

Supplemental programs funded by CRV include:

- *Processing Payments, Fees, and Offsets.* For many material types, the cost of recycling containers is greater than the value of the recycled material, which is referred to as the “scrap value.” This means that, absent some additional financial support, accepting these containers from consumers and recycling them would be unprofitable for recyclers and processors. In order to close that gap, the state subsidizes recycling by making “processing payments” from the BCRF to recyclers and processors. CalRecycle determines processing payment amounts by estimating recycling costs through surveys of recyclers every two years and calculating scrap values based on monthly reports from processors.

The cost to the BCRF of making processing payments is partially covered by the beverage manufacturers who produce these containers when they pay “processing fees” into the BCRF. The processing fees are calculated based on the number of containers each manufacturer sells. While processing fees were established to cover the full cost of making processing payments to recyclers and producers, over time the Legislature has reduced the processing payment by creating the “processing fee offset.” Since 2003, processing fee offsets have been determined on a sliding scale based on recycling rates (the amount of material collected for recycling, not the amount of material actually being recycled into new containers). As recycling rates for specific materials increase, beverage manufacturers that produce containers from those materials pay proportionally less in processing fees.

- *Handling Fees.* Supermarkets with more than \$2 million in gross annual sales are required to have a recycling center within a ½ mile radius, which is referred to as the “convenience zone.” CZ recyclers receive a “handling fee” from CalRecycle based on the number of containers they redeem.

Supermarkets that do not have a CZ recycler are required to take back containers themselves or pay an “in lieu” fee of \$100 per day.

- *Administrative Fees.* Statute provides administrative fees to beverage distributors, recyclers, and processors to defray their costs of program participation. Since 2006, beverage distributors retain 1.5 % of the total CRV collected to cover administrative costs. CalRecycle pays processors

2.5% of their reimbursed CRV; processors then distribute 0.75% to recyclers.

- *Curbside Supplemental Payments.* \$15 million is annually allocated to residential curbside recycling collection programs and neighborhood drop-off programs to encourage curbside recycling. The curbside supplemental payment is distributed to individual programs based on each program's share of beverage containers collected over the previous year.
- *Payments to Local Governments.* \$10.5 million is annually allocated to cities and counties for beverage container recycling and litter cleanup activities. Payments are distributed proportionally based on each jurisdiction's population.
- *Plastic Market Development (PMD) Payments.* PMD payments are awarded to plastic processors and plastic product manufacturers for empty plastic beverage containers that are processed and recycled into new material in California.
- *Quality Incentive Payments (QIP).* \$10 million is annually allocated for QIP in order to improve the quality and marketability of collected glass containers. Glass container recycling has significant GHG benefits and supports in-state bottle manufacturing. Curbside glass has significant issues with contamination and requires a great deal of processing prior to recycling. Glass collected at recycling centers is generally much higher quality and more easily recycled into new containers.
- *Local Conservation Corp (LCC) Grants.* LCCs are awarded grants to operate beverage container litter reduction and recycling programs. The 2014-15 Budget shifted some funding for the LCCs from the BCRF to three other special fund sources to reduce LCC reliance on the BCRF on an ongoing basis.

CalRecycle's proposal on comprehensive reform of the Bottle Bill program. According to CalRecycle, the Bottle Bill program is limited in its abilities to adapt to changes in consumer products and behavior, developments in recycling systems, and fluctuations in the global commodities market. These limitations have created challenges and missed opportunities to maximize the benefits of recycling beverage containers, especially climate change benefits. To that end, CalRecycle

has proposed a policy framework outlining key components of reform and based on the following principles:

- *Improving recycling and remanufacturing.* According to CalRecycle, the program has been successful in its initial goal of reducing litter by providing recycling collection opportunities for consumers. However, collection does not ensure that a product is recycled into a new commodity. Future investments should be dedicated to creating clean, recyclable streams of material to facilitate recycling and remanufacturing. To facilitate recycling and remanufacturing, CalRecycle will focus on reform efforts on maintaining redemption opportunities for consumers and increasing the stream of clean recyclable materials.
- *Sharing responsibility.* According to CalRecycle, historically, the consumer has shouldered most of the financial burden to sustain the program. Program responsibilities and financing should be rebalanced among all program participants. Under the current program, consumers pay \$0.05 or \$0.10 on each beverage container purchased, and in order to get their money back, consumers must travel to a recycling center to return the container. In contrast beverage manufacturers pay \$0.00024 for each polyethylene terephthalate (PET) container they sell in California.
- *Enhancing adaptability and sustainability.* According to CalRecycle, increases in the recycling rate have resulted in a structural deficit in the BCRF. In addition, the program does not respond quickly to fluctuations in the global commodities market. The program must be both nimble and fiscally sustainable to advance the state's economic and environmental goals. A comprehensively reformed program must be fiscally stable and include a mechanism preventing future structural deficits.

CalRecycle has committed to collaborating with stakeholders on a comprehensive reform of the Bottle Bill program that aligns with the state's climate change goals and the state's 75% solid waste reduction, recycling, and composting goal, and is fiscally sustainable.

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