

FEBRUARY 10, 2021

# **The 2021-22 Budget: Department of Resources Recycling and Recovery (CalRecycle)**

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LEGISLATIVE ANALYST'S OFFICE

# Department Overview

<b>CalRecycle Budget Summary</b>					
<i>(Dollars in Millions)</i>					
Fund Source	2019-20 Actual	2020-21 Estimated	2021-22 Proposed	Change From 2020-21	
				Amount	Percent
Special funds	\$1,641	\$1,568	\$1,578	\$10	1%
General Fund	531	2,343	4	-2,339	-100
<b>Totals</b>	<b>\$2,173</b>	<b>\$3,910</b>	<b>\$1,581</b>	<b>-\$2,329</b>	<b>-60%</b>

CalRecycle = California Department of Resources Recycling and Recovery.

**Proposes \$1.6 Billion in 2021-22.** The Governor’s \$1.6 billion proposed budget for the California Department of Resources Recycling and Recovery (CalRecycle) reflects a \$2.3 billion (60 percent) decrease compared to estimated current-year expenditures. The decrease is almost entirely due to one-time General Fund expenditures in 2020-21 related to wildfire debris removal. The Governor’s budget also includes proposed funding for:

- **Beverage Container Recycling Pilots (\$10 Million Beverage Container Recycling Fund [BCRF]).** Expansion of beverage container recycling pilot projects. We discuss this issue in more detail below.
- **Plastic Beverage Container Minimum Content Standards (\$129,000 BCRF).** Implementation of a plastic beverage container minimum content standard, pursuant to Chapter 115 of 2020 (AB 793, Ting).
- **Organic Waste Reduction (\$782,000 Cost of Implementation Account).** Implementation of regulations requiring organic waste reductions, pursuant to Chapter 395 of 2016 (SB 1383, Lara).



# Beverage Container Recycling Pilot Project Grants

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## Background

***Beverage Container Recycling Program (BCRP).*** As described in greater detail in our report [An Analysis of the Beverage Container Recycling Program](#), the BCRP promotes beverage container recycling and reduced litter by using the California Refund Value (CRV) deposit and return system.

- Consumers pay the CRV—5 cents or 10 cents per container—when purchasing beverages in containers subject to the program. The CRV deposit is returned to consumers when they redeem the empty beverage container at a certified recycling center.
- State law requires CalRecycle to designate “convenience zones” located within a half-mile radius from most supermarkets. Each convenience zone must be serviced by at least one certified recycling center in order to provide consumers convenient opportunities to redeem beverage containers near places where beverages are purchased.
- If there is no recycle center within the convenience zone, it is considered unserved. Beverage dealers in unserved zones must either redeem containers in-store or pay a daily \$100 fee.

***Market Changes Have Reduced the Number of Recycling Centers.***

Over the last several years, changes in global markets—including a decrease in prices for recyclable materials—has reduced recycler profitability. This, in turn, has led to a substantial decrease in the number of recycling centers operating in the state.

- As a result, there are a large number of unserved zones. Currently, 42 percent (over 1,600) of statewide convenience zones are unserved. These unserved zones include over 6,300 beverage retailers.
- See our budget and policy post, [Addressing California’s Convenience Zone Recycling Center Closures](#), for more detail on past recycling center closures.



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**Recent Legislation Authorized Pilot Programs to Test Different Redemption Options.** Chapter 648 of 2017 (SB 458, Wiener) authorized CalRecycle to develop a Beverage Container Recycle Pilot Program, which allows up to five pilot projects to provide new approaches to providing convenient beverage container redemption options in areas that lack recycling opportunities. Subsequently, Chapter 793 of 2019 (AB 54, Ting) allowed for greater flexibility for where pilot projects could operate—specifically, allowing pilots to operate outside of convenience zones—and extended the sunset date from January 1, 2022 to July 1, 2022. The Legislature also appropriated \$5 million on a one-time basis from the BCRF to support the pilots.

- **CalRecycle Approved Five Pilots.** CalRecycle has approved five pilots in the following jurisdictions: San Francisco, Culver City, San Mateo County, Irvine, and Sonoma County. The local jurisdictions work with recyclers to test different redemption options, including bag drop service, reverse vending machines, mobile collection programs, and fixed recycling centers at nontraditional locations (such as a city park). As of January 2021, only one of the approved pilots (Culver City) has begun operation. The other four pilots are expected to begin implementation by spring 2021.

## Governor's Proposal

**Provides Additional \$10 Million to Expand and Extend Pilot Programs.** The Governor proposes to allocate an additional \$5 million (BCRF) to the pilot programs in 2020-21 as part of his “early action” package and an additional \$5 million in the 2021-22 budget.

- **Makes Statutory Changes to Allow Up to Ten Pilots.** The proposal would also make statutory changes to (1) allow up to ten pilot projects to operate at any given time and (2) extend the sunset date for the pilots from July 1, 2022 to December 31, 2025.



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- ***Expands Pilots to Additional Jurisdictions and Potentially Provides Funding to Extend Current Pilots.*** According to the administration, funding would be used to expand the number of pilots, as well as potentially provide additional funding to extend some existing pilots. The administration indicates that an expansion would allow it to explore more redemption options in different parts of the state, such as in rural areas.

## Assessment

***Expansion of Pilots Has Merit.*** Given ongoing consumer convenience challenges, we think expanding the pilot programs to explore new redemption options in a more diverse range of jurisdictions (such as urban, suburban, and rural) could be valuable. An expansion could provide the state with additional information about how effective different collection methods are, as well as how efficacy might differ depending on the area. Although we do not think there is a “right” number of pilots, we think allowing up to ten total pilots is a reasonable number.

***Scale of Request Not Adequately Justified.*** The proposal would triple the total funding for the pilots—going from \$5 million to \$15 million. The need for an increase of this magnitude is unclear, particularly as the existing pilots are in the early stages of implementation.

- ***Amount of Funding Not Proportionate to Scale of Expansion.*** This proposal would allow five more pilots to operate at any given time (up to ten total) and requests \$10 million in additional funding. This reflects \$2 million per additional pilot—twice the \$1 million per pilot that the Legislature authorized in AB 54. The administration has not demonstrated that a significant increase in per pilot funding is needed.



# Beverage Container Recycling Pilot Project Grants

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- **Level of Interest From Diverse Set of Jurisdictions Is Unclear.** The number of additional jurisdictions that would both apply for the funding and be able to implement a new collection model in a different part of the state is unclear at this time. According to CalRecycle, it rejected three applications in the initial pilot solicitation because those jurisdictions were located in close proximity to other pilots. Four other jurisdictions expressed interest in implementing pilots, but did not submit applications.
- **Funding to Extend Existing Pilots Is Premature.** The administration indicates that a portion of the proposed funding could be used to extend the existing pilots. However, most of the existing pilots have not begun to operate yet. As a result, providing funding to extend pilots would be premature until there is additional outcome information to evaluate the pilot and/or the administration provides a clear justification for why funding for a pilot would need to be extended.

**Administration Has Not Provided a Strong Rationale for Early Action.** In general, we think there should be a strong rationale for taking early action to provide funding in the current year. Providing \$5 million this spring might allow the administration to implement additional pilots a few months earlier than if the funding were provided in 2021-22, but it limits the amount of time the Legislature has to deliberate and assess the merits of the proposal. We do not think the administration has provided a strong rationale for early action on this item.

**Proposal Expansion Does Not Include Legislative Reporting.** There is no requirement in current law—or in the administration’s proposal—for CalRecycle to report to the Legislature on pilot outcomes, including the degree to which the pilots helped improve redemption rates. Since the pilots are intended to provide the state with information about how different CRV redemption models could help improve convenience and recycling, we think it is important to ensure the department provides the Legislature with such information. This would help the Legislature evaluate the success of these pilots prior to determining whether to expand certain redemption methods statewide.



# Beverage Container Recycling Pilot Project Grants

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## Recommendations

**Reduce Amount of Additional Funding for Pilot Expansion to \$5 Million.** We recommend the Legislature reduce the amount of funding provided to expand the pilots to \$5 million.

- This amount would be consistent with the \$1 million per pilot that the Legislature previously authorized.
- This would allow the department to explore additional redemption methods in different areas of the state, but also limit the fiscal cost.
- Under this approach, if the administration determines that there is a need for additional pilots or funding to extend certain pilots in future years, it could submit a proposal as part of a future budget request.

**Provide Funding as Part of 2021-22 Budget.** If the Legislature provides additional funding for pilot expansion, we recommend it provide funding as part of the 2021-22 budget, rather than as an early action item. This would give the Legislature more time to evaluate the merits of the proposal. To help inform its deliberations, the Legislature could require the department to report at budget hearings on the status of the current pilots, as well as which jurisdictions and redemption models would likely be piloted with the additional funding.

**Require CalRecycle to Report on Pilot Project Outcomes.** We recommend the Legislature adopt budget trailer legislation requiring CalRecycle to report annually on pilot outcomes, including the (1) number of containers redeemed, (2) how redemption rates in the pilot jurisdiction compare to rates before the pilot was implemented, and (3) the costs of operating the different redemption models. This would ensure the Legislature has information that could be used to evaluate potential statewide programmatic changes.

