

5-26-1988

# Oversight Hearing on the Implementation of the Bottle Bill - AB 2020 Beverage Container Recycling and Litter Reduction Act

Assembly Committee on Natural Resources

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CALIFORNIA LEGISLATURE  
ASSEMBLY COMMITTEE ON NATURAL RESOURCES

CHAired BY ASSEMBLYMEMBER BYRON D. SHER

OVERSIGHT HEARING  
ON THE IMPLEMENTATION  
OF THE BOTTLE BILL - AB 2020  
BEVERAGE CONTAINER RECYCLING  
AND LITTER REDUCTION ACT



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OVERSIGHT HEARING  
ON THE IMPLEMENTATION  
OF THE BOTTLE BILL - AB 2020  
BEVERAGE CONTAINER RECYCLING  
AND LITTER REDUCTION ACT

STAFF PRESENT

Kip Lipper, Chief Consultant  
Ann Boone, Committee Secretary

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CHAIRMAN BYRON D. SHER: Good morning, and welcome to this special hearing of the Assembly Natural Resources Committee to review various issues related to the Beverage Container Recycling Act.

Our meeting today is timely since there have been a number of press reports and editorials expressing concern that California's unique recycling law may be in danger of collapsing due, in part, to low redemption rates and lack of convenience at convenience centers leading to lack of consumer participation in the program.

The purpose of today's hearing is to examine two major areas of concern: first, the committee has asked the Department of Conservation, the state agency charged with implementing the program, to describe its current efforts to ensure that dealers and recycling centers are in full compliance with the operational requirements set forth in the law, i.e., they are taking back all three container types, they are staying open for the full 30 hours per week required by law, they are properly staffed and operated. We have also asked the department to describe enforcement actions it has taken against dealers and recycling centers which are not in compliance with these provisions. Finally, we have asked the department to describe the amount of funds currently used by the department for enforcement purposes and whether it has sufficient budget resources to take enforcement actions to ensure that dealers and recycling centers are in full compliance with the law.

Second, we have asked the department and other witnesses to comment on reports that convenience recycling companies have been forced to close some recycling centers due to low redemption values and redemption volumes and to give us their assessment as to whether any permanent damage is occurring to the program due to the closure of these centers.

We have asked witnesses to comment on a third subject, namely, the recent discussions which have been held among beverage container manufacturers, convenience recyclers, and others about the overall fiscal health of the program and whether the Legislature ought to consider changes to the financial provisions of the program.

I would like to remind our witnesses that we are on a rather tight timeline and they should be brief and to the point.

I would now like to ask Mr. Margolin, the "father" of the beverage container recycling law, if he has any opening remarks he'd like to make.

ASSEMBLYMAN BURT MARGOLIN: (RECORDING MALFUNCTION).

ASSEMBLYMAN TRICE HARVEY: Mr. Chairman, if I might, while it's setting up, that reminds me of a joke I saw about Senator Snort in the cartoons, and Senator Snort was standing up saying, "I feel very strongly about what I've said and I'll back it 100%. I only hope I was misquoted."

CHAIRMAN BYRON D. SHER: I want to introduce another member of our committee who has arrived, Assemblyman Sam Farr. He's the Hawaiian member of our committee, and he wishes to say something. Mr. Farr?

ASSEMBLYMAN SAM FARR: Thank you very much. I would just hope that, perhaps, some of the witnesses could speak to what I'm going to mention as a consumer not fully understanding all the administrative ins and outs of the program but just as one who has tried in one's own house to do something with this new bill, which I really laud as a major step in the right direction.

I, for one, and perhaps it's part the fault of the community, find that the process is still very awkward. As part of my daughter's allowance we decided that recycling would be a way that she could earn some money, so I went out and bought three new garbage cans and labeled them "glass," "plastic," and "aluminum," and we put all of the proper containers in them. When they get filled you have to load them in your car, drive about a mile to the nearest shopping center where there's a..., igloos they call them? The first time we went, there was nobody there. Not wanting to take everything back, we just dumped them in the proper containers and came home with our garbage cans. The second time we went we found the hours that the person was there, made sure, and we had to wait in line. When we got to the glass, my daughter was very disturbed because only about a third of the bottles in the glass container had any redemption value, and it was a process of having to actually go through and pull out every bottle: this one counts, this one doesn't. Then, what I find is that the process that we've developed, and that's where I think we need to develop some better incentives, is not as convenient as it ought to be. I really think we ought to be able

to develop some way, in our garbage collection system, of having some redemption value based on weight or something for all of the articles that are in a properly designated container. This is the one process that makes you collect and be an organized collector and then deliver and then have to get paid in an awkward process, so I support the concerns of the authors that we need to make this process more workable if it's going to really be implemented in every home and community in California.

CHAIRMAN SHER: Thank you, Sam. I think now we should invite our witnesses to come forward. The first witness is Mr. Randall Ward, who is the director of the Department of Conservation, the agency charged with implementing this program, and his assistant, Mr. Vann, who was in charge of the program itself in the department.

MR. RANDALL WARD: Thank you, Mr. Chairman and members, for the opportunity to be here today. I, as well, feel it is a good time for the Legislature to have an opportunity to review a program that is really the result of a lot of hard work by a number of legislators as well as a variety of industry and environmental interests.

We've prepared a package for you that contains a number of charts that I'll be referring to, and I think these charts will give you some indication of the complexity of some of the economics that, at least in terms of the questions that were raised by Assemblyman Margolin, that need to be addressed if we're going to talk about any short-term correction. But, first, let me start with answering and responding to the questions that the committee submitted to me.



We initially developed our audit program with the assumption that we were going to have somewhere between 1,700 and 1,800 recycling centers throughout the state. That assumption was based on the number of convenience zones, as you'll recall, that were tied to major supermarkets throughout the state. What has occurred, which I indicated at the last oversight hearing that we had, is by virtue of the competitive interests of the grocers, one grocer not wanting to send his customers to recycle at a nearby competitor. They have all chosen to contract with recyclers to provide that service on site. The consequence is that we have about 2,400 existing recycling centers throughout the state that are looking to achieve enough volume to survive.

In addition to that there are approximately 600, and I would say that is a minimum, of existing recycling centers that may or may not be in zones, the vast preponderance of which are not in zones, that were in business before this program was inaugurated.

So, in effect, you are looking at about 300 recycling opportunities, up from about 600 prior to the inauguration of this program. We estimated that approximately half our staff would be devoted to the subject of audits. We also estimated that we would have to, which we have done, open up field offices. We have a Los Angeles office that is currently open and staffed. We will have, in the near term, a San Diego office that is open and staffed, the Bay Area, Sacramento, and the Valley largely being serviced out of the Sacramento office.

We have conducted audits on each and every certified recycler and major dealer in convenience zones in the state to date. We did not anticipate, I believe, the severity of the problem as outlined by Assemblyman Margolin with regard to posted hours, sign-in requirements, and those kinds of things being adhered to. I would suspect that it would be rightfully characterized as a start-up phenomenon.

As a practical matter, you're looking at essentially five major recyclers that have responded to this program by the Legislature, as opposed to small individual recyclers simply expanding their operations. Those recycling companies went from next to nothing in terms of employees to, in one case, about 1,400 employees in a frame of about ninety days. While we recognize that we have a responsibility to enforce the law, it also needs to be recognized that there is a practical issue in terms of start-up associated with those centers. I suspect that you're going to hear more about that from the recyclers that have indicated they would like an opportunity to testify this morning.

The next question you ask is what enforcement action we have taken with dealers and recycling centers which are not in compliance with the provisions of law. We have a chart. \*(See written testimony in back). It's Exhibit One, the first page back. I think this gives you a fairly vivid description of the kind of activities that our audit branch has been involved in. Suffice it to say that there are audit problems over and above simply the issue of convenience and adherence by the recyclers to the laws relative to convenience; posting, hours, and signing

requirements, which we consider to be extremely significant. There are also a number of other activities within our audit function.

First of all, we have the collection of essentially twelve billion pennies from distributors throughout the state, which serves as the basis of the funding of this program. Secondly, we also have to maintain a very vigilant watch over the distribution of containers to assure that they are labeled properly in conformance with state law. The difference is, on a case price of beverage, a minimum of twenty-four cents. Given that there is a very significant competitive advantage with regard to soft drinks and those kinds of things, we find ourselves under a lot of pressure to assure that we are not seeing out-of-state beverages being shipped to California that are not in-California labeled containers and therefore have not paid into the fund. That also results in our paying out pennies to containers that never paid into the fund. I think, in terms of being stewards over the fund, that's something that we absolutely have to do.

ASSEMBLYMAN FARR: How big a problem is the out-of-state?

MR. WARD: We've had about five dealers, I think, to date, and I'd have to ask my division chief for the total number of cases affected, but it's pretty significant. Primarily, these are small distributors, Assemblyman, that are distributing to small stores, rather than the grocery stores that are getting their soft drinks from large bottlers. We're looking at a total amount of money approaching half a million dollars.

CHAIRMAN SHER: Out-of-state containers that are coming into California?

MR. WARD: A half million dollars in pennies, so in terms of...

ASSEMBLYMAN FARR: Have you been after these people with a significant enforcement action?

MR. WARD: Yes.

ASSEMBLYMAN FARR: Well, it won't happen in the future because you're going to set a great example, right?

MR. WARD: Yes. In fact, in the first part of the year there was quite a bit of press in the southern half of the state about some of the enforcement action that we took against dealers distributing unlabeled containers.

CHAIRMAN SHER: These are distributing companies that are where? In Arizona, Nevada, Oregon?

MR. WARD: No, they're distributing companies that are in California that are buying from someone outside of California.

MR. LEON VANN: They are dumping, basically. They found someone outside the state of California that wants to dump some product, and they're offered a very good deal on that product, and they ship it into the state. We have already turned the case of one of those dealers, or distributors, over to a local district attorney for action and consideration.

MR. WARD: Another example of an audit activity which is significant as well, and what we're talking about is significant in terms of the potential drain on the fund, is out-of-state aluminum primarily. Glass also can be used as an example, but

aluminum is certainly the most significant. Aluminum is coming into California and taking benefit of the additional penny on the redemption value over and above scrap. These are unlabeled containers, so it is illegal for whoever is paying for that aluminum to be paying this penny, but there are some very artful ways to beat the system that involve more significant investigation than simply looking at debits and credits in somebody's books.

We did not envision having to hire auditors that were going to be using binoculars and rented cars and sitting a block down from scrap metal dealers, and that is something that we have had to do. We have also been working with the state Attorney General's office division of law enforcement on that issue as well, but the amount of dollars there is significant. I can't give you an estimate at this point, but I will indicate to you that one 40-foot trailer with a load of crushed aluminum has a value of approximately \$20,000 in California, more than it would in another bordering state.

CHAIRMAN SHER: These are interesting and important and you're trying to tell us why you've got to look at a lot of other things besides enforcement at the convenience centers. Each one of these is going to be provocative and suggest questions from committee members. We'll stipulate that your audits have to cover other things, but we really want you to get to the subject of the hearing, which is the enforcement at the convenience centers, the hours, and so forth.

MR. WARD: Okay. If you take a look at the chart that I previously referred to, Mr. Chairman, we've made almost 4,200 visits. These are dealers, recyclers, and a very small number of processors. Of those 4,200 visits, we've had in excess of 1,900 violations. We're currently in the process of providing for due process for those recyclers and processors to pay the fines and settle their enforcement actions. Thirty-two percent, as you can see on the far right bottom, have already been settled.

CHAIRMAN SHER: Mr. Margolin?

ASSEMBLYMAN MARGOLIN: Mr. Ward, on the issue of enforcement for the convenience centers and recyclers, as you know, one of my concerns has been the slowness with which those enforcement efforts have been pursued. You've made the case today, you've made the case on other occasions, you have other enforcement actions you must undertake as well. I respect the importance of those other enforcement actions, but as I've mentioned to you in the past, from the perspective of the California consumer and the person interested in returning their beverage containers conveniently, the most important enforcement priority as envisioned in the bill was guaranteeing that the convenient recycling centers were up in operation and functioning according to the terms of the law.

When we checked with your department in early May on the issue of how far your enforcement efforts had progressed, we received a letter from you, dated May 9, which indicated that as of that date, May 9, all the fines that had been paid were dealer violations involving, I guess, other issues: sign posting,

unlabeled containers, things of that sort. I'm looking at how you affect the behavior of these convenience recyclers. We put into the bill \$100 per day per violation penalties. That's the fine, \$100 per day. We put that in on the assumption that people would meet the minimum standards in the bill pretty regularly if they thought they were at risk for \$100 per day. There had been as of that date, if I'm looking at your material correctly, no fines actually paid. Some cases were in process, but no fines paid as of May 9 by convenience recyclers. Is that correct? As of May 9, was that correct?

MR. WARD: Yes, I would assume that it is.

Let me stipulate as well that our highest priority is an oversight function over the proper operation of these recyclers, and I wasn't intending to minimize that as our objective, Assemblyman Margolin. I was simply indicating, and I think the other members would understand, that we have stewardship responsibility over \$120 million. The last thing that I want to see, or the Legislature wants to see, is that we've paid out some significant money for containers that weren't eligible to participate in the process.

ASSEMBLYMAN MARGOLIN: I will also stipulate, Mr. Ward, to the fact that your guardianship of that fund is extremely important and I'm not in any way questioning that. I'm just trying to get the key elements in what will give this program credibility with the Legislature and the public, or what has the potential to destroy credibility. This element of enforcement certainly has that. So, as of May 9 there were no fines paid by

convenience recyclers although there were a large number in process.

How many fines have actually been paid as of today, May 26?

MR. VANN: I think you can see that 35% of the 1,105 violations have been paid by recyclers. Now, I think...

ASSEMBLYMAN MARGOLIN: This has all happened in the last fourteen days?

MR. VANN: It has happened in the last two to three weeks, and we are doing the final paperwork and asking for the checks from the recyclers at this point in time.

ASSEMBLYMAN MARGOLIN: Per location and per violation, do you have an average as to what's been paid? By convenience recycler, do you know per location, on average, the first five months of this bill's existence?

MR. WARD: I think the important thing to recognize here is there is due process to these individuals. Once we fine them, it's not something that happens...

ASSEMBLYMAN MARGOLIN: Mr. Ward, that wasn't my question. As you know, and as Mr. Sher certainly knows, I'm a defender of due process and believe very strongly in that. What I'm asking is...

MR. WARD: I suspected you were, and that's why...

ASSEMBLYMAN MARGOLIN: That was a very astute point to make, given my sympathies, and I'll note it.

My question for you is, and I'll state it in broader terms: the \$100 a day was designed as a fine which would be



sufficient in its size to discourage people from continuing to violate the law and simply assume that, well, if they have to pay a fine here and again it's a cost of doing business. We wanted to make the dollar amount large enough to discourage that kind of behavior. What I'm trying to find out here is, with these hundreds of centers out of compliance, continuing problems with compliance leading to the kind of consumer frustration we've had, for somebody who may not have been in compliance for five months, in many cases, or in some cases, what are individual centers having to pay on an average?

MR. WARD: Okay, let me give you an example. I was going to go into that. Really, your question was a potential criticism of the timing under which we had been able to actually settle these cases, and I indicated that some of that was relative to due process, and many of the cases that occurred back in January and February are only now being settled. What we're doing is fining them the maximum, \$100 a day. What we are settling for in most instances is, where we have a large recycler that may have 200 or 300 violations, we are charging him half of that in the form of a cash fine and we are mandating that he show us receipts for advertising for the other half.

ASSEMBLYMAN MARGOLIN: But Mr. Ward, the penalty was designed to encourage a recycler who was not respecting the law in the terms of his compromise to respect the terms of the compromise. Why would you take the impact of that penalty and reduce it to half? The advertising that you're talking about, the advertising offset, that's going to help that recycler. It's

good that they're doing the advertising. They should have done more. But how does that teach them a lesson? How does that tell them that you can't post hours and then not have...?

MR. WARD: Assemblyman Margolin, I have to say that it's a judgement call, and as far as I'm concerned there are a variety of maximum fines throughout state law that the various enforcing agencies choose to levy at or below the maximum rate. In this case, I feel that we got the benefit of the maximum rate. We exercised some judgement in terms of program administration. We had a number of recyclers that had multiple violations and it was our decision to simply maximize the effort on advertising, which you and I have both agreed deserves some criticism,...

ASSEMBLYMAN MARGOLIN: But it sounds to me, Mr. Ward, as if you're asking them to do something that they should have been doing anyway and that benefits them when they do it.

I guess the reason why I'm asking about the average fine paid per center, and I'll close on this point, Mr. Chairman, Mr. Harvey and others have some questions..., When I spoke to your department last fall we envisioned that we would have compliance with this law, because at \$100 per day for every day that ticked by there'd be a new \$100 fine levied and you'd have centers, maybe, out of compliance for the first few weeks but within a short period of time they couldn't afford not to be in compliance.

My understanding is that, for a range of reasons having to do with your department's interpretation of the law, when you see a center that doesn't have a sign posted properly or that

doesn't accept all three container types on the day that your auditor is there you cite them for that day. The fine would be \$100. Then we begin this several week long, several months long, actually, in many cases, administrator process. Do you go back to that location on subsequent occasions and cite them with additional hundred dollar fines? Can someone be cited, in other words, on one day in January for being out of compliance, you start your paperwork going, can they wait five months, now, before they pay their hundred dollar fine, or in the case of an advertising office it may be a fifty dollar fine, and during that time continue not to do what they were cited for not having done?

MR. WARD: Well, I understand the nature of your question.

What we have done, I think you can see by the number of violations that have occurred, we have been to more centers than just simply once. Our initial estimate for staffing and budget was that we would have two audits per year per recycling center, and that was the estimate on which we justified the personnel and the dollars. We also have an attachment that displays that would be necessary. We also recognized that during start-up it might take more than that, so we did contract with some of the big eight accounting firms to assist us in that audit function.

Now, I will be the first to admit that we had 2,400 versus 1,700 recycling centers. The best we could do was speculate, initially, on how many audits we were going to have to perform and try to prepare for that. We were gearing up at the same time.

ASSEMBLYMAN MARGOLIN: Mr. Ward, if I could interrupt in the interest of time, my question is, when you come across a recycling center that's flagrantly disobeying the law, give them a single citation, it's \$100, takes five months to process, what does your department do with the bad actors, with the bad violators, who are violating the law in the interim? They certainly are entitled to due process, but for fines paid. What enforcement action guarantees that they don't simply say, "Well, okay, I have to pay. I can operate for five months now and I don't have to pay for five months of noncompliance, it's \$50." What do you do to deal with that situation? That's the question.

MR. VANN: In most instances, when the auditor has been out in the field at a specific site and the operator is cited, let's say, for not having a sign up, they immediately respond and put that sign up, so when the auditor leaves, that signage is generally at that facility. The auditors are scheduled to go back to recheck those facilities periodically and make sure that they are still in compliance with the statute.

ASSEMBLYMAN MARGOLIN: Well, I guess the reason why I'm not sure that that's been done, Mr. Vann, to the extent that it would have an effect on recyclers is the fact that we still find, in the surveys we do in Los Angeles five months into the program, 30% or better noncompliance. If you've done your first run-through of all of the locations, issued these citations, and have a mechanism in place that's going to put some fear of this program in the hearts of those recyclers not committed to complying with the program, I would think that we still wouldn't continue to have this 30%-plus noncompliance rate.

MR. VANN: The auditors cycle back to those sites. We have told all of the recyclers that we have fined..., you commented on the 50% cash, 50% advertising,..., we have notified them that the next time around there'll be no negotiation, there'll be a fine, the maximum rate. On the individual recycler basis \$100 may not sound like much, but when you issue 100 fines to a single recycler that is \$10,000, and those fines begin to get very significant to those recyclers.

ASSEMBLYMAN MARGOLIN: Mr. Vann, you've now said the words that are the heart of my problem with your enforcement strategy: the next time around, no concession. There may not be for this program a next time around if we don't get it on track in its first year, in its first six months, of operation. That was the point I tried to make to you last year, and I'm trying to make to you this spring.

There's not but a limited amount of patience here in the Legislature for seeing this program incrementally phase into operation. What we wanted from the department, and what I asked you for as the author of the bill and tried to appeal to you to do, and thought we had an understanding on, was aggressive enforcement from day one, because somebody who goes in with a bag of cans to a recycling center and sees that center..., can't figure out when they're open, can't figure out where they are, can't figure out how to return the containers, and walks away in frustration, isn't going to come back, necessarily, the second time.

CHAIRMAN SHER: Mr. Margolin, I think the point's been made very well. We've heard the response. We need to get to the second question from Mr. Ward about the closure of the convenience center. Mr. Harvey wanted to ask a question and make a comment on this point.

ASSEMBLYMAN TRICE HARVEY: Well, I guess I'd say, on that point, because I know we've been in this about five months and I'm new here, but as I looked at the statistics here too, the recycling centers, you've got 2,609 cases and dealers, 1,555, so that appears to me that you're working hard on recyclers, twice as much as other areas. That's just an observation. It may or may not be right.

I realize, also, in this five-month period, nothing can be perfect. I sat here, and when I got up here I was against this, by the way, as I've expressed. I finally voted for this, felt it was the right thing to do as far as cleaning up. It's another example, I might say, of government passing laws and telling private enterprise, "We're going to put you in business. We're going to set all the rules for the business. We're going to tell you how to make money, and if you don't make money we're going to be upset with you."

Now, I believe in due process, as everybody does, but due process takes a long time, and five months is not a lengthy enough time to get involved. I will agree with midcourse adjustments, but I think for the \$100 fine, the fine today, that you're paying \$100 fine and 50% forced advertisement, you're fining that individual, knowing that you could fine him \$100 for

each violation, forcing him to advertise, and when you force this advertisement that's after he's stated business hours, probably, that's part of the deal, then you're bringing people back there through advertisement to see that the hours are posted. I think the compromise between half of it being money, half of it being advertisement, is good, so that when Mr. Sam Farr comes back this guy's paid \$50 plus advertised. He'll find that there are hours posted there. I think that what you're doing there is a good step forward. I'm not saying that Mr. Margolin disagreed. He's talking about process, speed, and all that. Unfortunately, the courts don't allow us to be as fast as we want to. I'm not one to say that I disagree with that portion, because we've all experienced that, as far as the due process. It's very slow. I think your opportunity after this is to stay aggressive. It's one I'm sure you recognized from the beginning and recognize today. I hope you will do that. I'm sure you will. I have no doubt about that.

ASSEMBLYMAN MARGOLIN: On the next point, Randy, just one last factual question to tie it down. How much money has been collected, checks in hand, from recyclers as of today? That's not clear to me from your chart, and if you can just answer that question I'll leave this issue for now and let us go on to the next point.

MR. WARD: It's my understanding, Assemblyman, that these have just been settled. As we indicated, between the time that you received that letter and now, we have settled a number of these that had been in process for approximately ninety days.

ASSEMBLYMAN MARGOLIN: But just to be clear, there hasn't been a single check received yet in the department, money transmitted, from a recycler five months into the program? Just to be clear on that point.

MR. WARD: We will have all the money that you see here within thirty days. They have agreed to all these stipulations.

You also need to understand that we have to offer them a public hearing process, a variety of things occur here.

ASSEMBLYMAN MARGOLIN: I understand. The larger theme, and I won't repeat it in the interest of time here, is the question...

MR. WARD: It's not like handing someone a traffic ticket and telling them they have 30 days to mail in the \$25.

ASSEMBLYMAN MARGOLIN: Well, we can discuss that at another time, Mr. Ward, but again the question is what kind of sign you send to the recycling centers, what kind of business practices have they established, what expectations do you create, about their need to perform in the future, and do you run the risk with enforcement that's too slow and that is not sufficiently aggressive. Do you run the risk of sending them the message that they can accept these occasional fines as a cost of doing business and not run the kind of operation we anticipated.

MR. WARD: On the one hand, I can tell you that one of the recyclers in particular was fined the \$10,000 that Mr. Vann was speaking about to begin with. That's a significant amount of money. Obviously there were going to be discussions relative to that amount, but I think \$10,000 is an inhibiting factor, as you suggest. At the same time, we recognize that they...



ASSEMBLYMAN MARGOLIN: Which recycler was that?

MR. WARD: I'm not sure that it's proper for us to...

ASSEMBLYMAN MARGOLIN: Okay, I won't ask. Thank you very much.

MR. WARD: The recycler may want to comment on his own to the degree our enforcement has impacted his ability to do business.

CHAIRMAN SHER: Sir, could we get you to shift to the second subject, the closure of these recycling centers, because we have to move through this and give the other witnesses and opportunity.

MR. WARD: Well, first of all, nothing is as bad as it seems and nothing is as good as it seems. I think that you need to recognize that, by virtue of the industry subsidy that we are providing to guarantee convenience we have, in fact, created a false economy to some extent. We recognized that going in. That was the price that the Legislature was willing to pay to guarantee maximum convenience for the consumers to recycle these three beverage container types. We estimated that between 1,700 and 2,000 were supportable under the way the system was inaugurated. Again, at that time, it was speculative. We have, now, 2,400 centers, so the piece of the pie is divided up, but not only is the piece of the pie divided up, as you can see on Exhibit Five, which is the colored chart that you have in your packet, on 31.4% of the volume is being collected by certified recycling centers within convenience zones. That volume is the key to their economic health.

That also raises a couple of other questions. We have a bonus that was provided from the unrefunded deposits that currently is at about 0.4% per container. That 0.4% per container is not restricted to the certified recycling centers. That bonus is paid indirectly to anyone who is collecting those cans. So you have the recyclers, who have been in business long before the inauguration of this program, receiving substantial benefit, 60% to 70% of the benefit, from this program and they are not certified or, if they are certified, they are not in convenience zones.

CHAIRMAN SHER: The law requires that they all receive the bonus.

MR. WARD: That bonus is handled in a variety of ways, but in many cases you may have a recycling center that has branches that aren't certified.

CHAIRMAN SHER: I'm not talking about certified. I'm talking about the noncertified.

MR. WARD: Noncertified?

CHAIRMAN SHER: Does the law require that they be paid the bonus?

MR. WARD: As it currently exists, they can take those to a certified recycling center, and they're no different than you or I would be.

CHAIRMAN SHER: Are they taking them to them?

MR. WARD: Yes, absolutely. Of the money that we have estimated for the bonus, we're looking at roughly 66% of that money...

CHAIRMAN SHER: They don't collect it directly, do they?

MR. WARD: No.

CHAIRMAN SHER: They only collect it by taking it to a certified...

MR. WARD: The only one who can collect it directly from us is a certified center, but what this indicates is that the benefit that you envisioned would be gained by these convenience zone recyclers as a result of a bonus program from the unrefunded deposits is largely not benefitting those that you hoped it would.

CHAIRMAN SHER: Well, if every container that's taken to a center that's certified benefits the certified center too, doesn't it.

MR. WARD: Well, if that certified center is not in a zone, if that certified center...

CHAIRMAN SHER: It benefits the certified center?

MR. WARD: That's correct.

CHAIRMAN SHER: So, if there were a way to adjust this to make sure that these were redeemed in those centers that we want to make sure are vigorous and viable, that might be something we ought to work on?

MR. WARD: Well, I think you have to say not only certified. You're talking about a convenience zone.

CHAIRMAN SHER: Well, that's what I mean.

MR. WARD: Because, as you can see on the chart, there are number of certified centers that are not in convenience zones.

CHAIRMAN SHER: Of course, you have the ability to decide who's certified and who isn't certified, right?

MR. WARD: Within the guidelines of law, we do, but not based on our own independent decision as to who should benefit economically. We do not have that authority.

CHAIRMAN SHER: What I'm trying to get at, is this a problem where an adjustment could be accomplished to serve the purpose of seeing that the benefits of the bonus are carrying out the convenience objective?

MR. WARD: I think there are certainly some possibilities in that regard, Mr. Chairman. I think that, from our perspective, our priority was convenience. That was the major final negotiating issue that resulted in the passage of this piece of legislation and we considered convenience to be a high priority, and again, that's why it's very important that you're having this timely oversight hearing, so we have an opportunity to tell you a little about some of the consequences of this program currently are, and that's a major one.

Exhibit Six gives you an indication, and you can see, this is the current system. We currently have an overall recycling rate of about 53%. The two figures that are most important, and I can explain any of the others, are the bottom two numbers: the operational costs and the net income. The operational costs, and this is a fictitious recycling center that we estimated what it would take on a monthly basis to break even, and that is the \$1841.

The \$533 below that, and that is the negative cash flow that they're currently incurring, so thus, the reason for the convenience zone recyclers becoming a bit more organized and a bit more vocal.

CHAIRMAN SHER: Does this apply overall, or just to the convenience zone recyclers?

MR. WARD: This is convenience zone.

CHAIRMAN SHER: Exhibit Six relates, this is kind of the average situation for a recycling center in a convenience zone?

MR. WARD: That's correct.

And this is if it was..., I suspect that some of the recycler's operating costs are probably between ten and twenty percent higher than this \$1841. This is our estimate of a very efficient, lean and mean, operation.

Side B is if the recycling rate went up to 65% overall. Sixty-five percent recycling rate, to give you some perspective on that, would require about a 20% increase in the recycling rate of aluminum, and then you can see they will still...

CHAIRMAN SHER: Because it carries the biggest part of it and always will, presumably, because of the scrap value.

MR. WARD: Well, I think you can see these volumes and costs per container type, on the other two columns that give you that indication, that is correct.

So there is still a \$300-plus negative under the most ideal situation at a 65% overall recycling rate.

CHAIRMAN SHER: And the conclusion from that is that in order even to break even, let alone making a profit, they've got

to get more revenues than this recycling, from one source or another, is that right?

There are a variety of options. From one source or another?

MR. WARD: Yes.

CHAIRMAN SHER: Maybe we should list those options. One of course, is increase in volume, which would just bring the loss down to, on the average, the \$328, but...

MR. WARD: We've been asked by members to run scenarios on a variety of options at one cent and anyplace between 1.25 and 2 cents. What we've chosen to do is show you, at the current program level of one cent, what could occur, would have to occur, within the current statutory confines of the disbursement of those monies for a recycling center to break even under the penny.

Now, again, it's also been expressed that there is an interest in seeing additional money flow out to the consumer as an incentive. First, I would like to say that our polls, the industry polls...

CHAIRMAN SHER: That's not what I was trying to focus on. I know that there is concern about that, but I'm concerned about the options to cure this problem that you've just highlighted, and that is to bring more revenues into the recycling center. Unless, of course, indirectly, by getting more out to the consumer, it also benefits the recycling center by bringing a greater volume in. Is that what you're suggesting?

MR. WARD: I suspect it's a combination of both, but what I'm indicating here is that a 65% recycling rate under the current statutory framework of the program, they still don't survive.

CHAIRMAN SHER: That's a pretty dismal picture.

MR. WARD: Well, it's not one that I particularly like to paint, but, again, I think that, as I indicated, you've got between sixty and seventy percent of the unrefunded deposits that you anticipated to be benefitting these convenience zone recyclers that are going elsewhere.

CHAIRMAN SHER: Okay. That's why I wanted you to outline the options for curing this loss situation for your average recycler in a convenience zone. One way we suggested was increasing the volume, and another way is to try to find a way to see that these bonus payments go to these convenience recyclers and not to people outside the convenience zone or who aren't...

MR. WARD: Okay, well, the only two mechanisms that you currently have available to you, are the convenience incentive payment, which is the only pure direct subsidy to the convenience zone, and the bonus for the..., and on Exhibit Seven, if you increased that pure cash flow in the convenience incentive payment, the 40%, at the current recycling rate, you can see the loss is at \$133. That is also with the provision where the bonus would only be paid to convenience zone recyclers, as well, so this is the maximum internalization of the existing moneys that we have to benefit convenience zone recyclers.

CHAIRMAN SHER: Is it possible in the existing law to limit the bonus payments to recyclers in the convenience zones, or would that require a change in the law?

MR. WARD: It would require a statutory change.

CHAIRMAN SHER: Do you recommend that?

MR. WARD: No, I'm not recommending that. I'm simply providing you with an understanding of the two mechanisms that give an ability for these recycling centers, and convenience is your priority, to continue surviving under the current...

CHAIRMAN SHER: These are good charts, and they're informative. Is the information hard enough so that we can project unless something is done it will go on in this fashion and these convenience zone recyclers will continue to suffer these losses so something should be done during this legislative session to turn that around?

MR. WARD: Well, first of all, again, we're speculating. There's a couple of other potential mitigating factors here that we are, for all intents and purposes, five months into this program. For the most part, most of these recyclers weren't in operation until the drop-dead date of January 1. They have not experienced the heavy volumes that they're going to experience following the summer beer and soft drink sales. Seventy percent, approximately, beer and soft drink sales occur during the months of June, July, August and September.

CHAIRMAN SHER: So, are you telling me it's too early with the experience we have to assume that this situation will continue?



MR. WARD: I can't say that because there's an element of risk there, and that element of risk is if one of these recyclers decides to make a business decision and pull the plug, then I end up with egg on my face. What I'm saying is that you can speculate that there are going to be increased volumes and you can speculate with good reason by virtue of the increased sales through the summer months. What I'm indicating is that, as the volumes stay at the overall 53% rate, I'm showing you the 65% recycling rate also, so you can have an opportunity to speculate on your own.

CHAIRMAN SHER: Well, you understand our situation, Mr. Ward, and that is that we have these figures in the early months based on the non-peak periods and the Legislature adjourns at the end of August, after this peak season, and we have to make a decision if we want to make some kind of adjustment before we go into..., assuming the Legislature wants to do it and the Governor wants to sign it. So, that's why we're having this hearing and why we need your help. We don't want you to have egg on your face, but we don't want to have it on our face.

MR. WARD: I think..., the same thing that I told the industry is that the recyclers are probably in the best position to represent their ills. What I've given you, here, is a fairly generic recycler operating efficiency so that you can see from someone who is in a fairly objective position what they're facing recognizing that they're going to be testifying following me, and I'm also indicating here that the two options that you have are, really, to tinker with the bonus and the CIP under the current system.

CHAIRMAN SHER: Well, another option is, as Mr. Margolin indicated in his opening remarks, to increase the redemption payments. He talked about the \$120 million fund that you are the shepherd of now. That fund would grow substantially if there were two for a nickel payments made. It would provide moneys to increase the incentive payments to the recycling centers. I know your view is that it will also increase the bonus payments, and some of those are being misdirected, but perhaps we could deal with that as well, so there are other possibilities through legislation to try to increase the amount of money going into this program.

MR. WARD: I think, as I understood Assemblyman Margolin's proposal, and correct me if I'm wrong because I just got the benefit of seeing it yesterday, was that that  $2\frac{1}{2}$  cents comes from a graduated increase in the amount paid by distributors starting out with a 25%...

MR. MARGOLIN: Mr. Ward, if I can interject, we're still in the process of developing the details of the proposal and I don't think it's appropriate yet to get into the internal mechanics of how that  $2\frac{1}{2}$  cents would work. I guess Mr. Sher's question, if I can just restructure his question, is that there are options beyond the ones you've outlined here, and I think in my opening statement I made clear that the option that is most appealing to me because it most directly ties into the larger objectives of the program is to consider this increase in refund value, and we can discuss it another time, how it would be done, we can negotiate about the mechanics of it, but if we can produce

that two for a nickel incentive for producers, isn't that something we need to consider as well? That's the question of Mr. Sher.

MR. WARD: Okay, what I would indicate here is that any additional benefit that you pay to consumers that results in a disbenefit to convenience zone recyclers..., in other words, you're assuming that the additional pennies associated with the redemption of these containers is going to stimulate additional recycling, okay? You may well be right. What I'm saying is that you currently have 59% or plus of that money flowing to people outside those convenience zones. If you raise the minimum redemption value to 2½ cents and reduce the current amount of money that is going to convenience zone recyclers and, in so doing, that you have probably guaranteed that they will pull the plug.

ASSEMBLYMAN MARGOLIN: Mr. Ward, the point behind there being convenience zone recyclers is that they are supposed to be convenient to where consumers are and, if this program is to succeed, they therefore are supposed to have, over time, an advantage in terms of marketing to consumers the merits of returning your beverage containers.

MR. WARD: ...over time...

ASSEMBLYMAN MARGOLIN: Over time, but again, for this program to survive it has to happen within, as we discussed on many occasions a somewhat limited time-frame, especially if we start to see backward motion, which we've seen most recently. You keep on talking about the convenience zone recyclers and the

difficulties they face in competing with the nonconvenience zone recyclers. Obviously, I'm for making this convenient, and one of the keys to the compromise, and I want the convenience zone recyclers to prosper, but we can't guarantee that for any action by the state, whether it's your SIP increase subsidy, or whether it's this two for a nickel concept. There's no guarantee either way you go. In the end it's up to their ingenuity, their talent, their ability to make this program work in their own region that'll determine its long-range prospects. All we can do is make judgement about what we think will best benefit the consumer and have the most potential to encourage consumer participation involving the return of greater volumes of beverage containers. In the two for the nickel concept, the increase in refund value impacts the consumer. They will look at this program differently. This SIP increase, the subsidy increase, may make the economic bottom line for a convenience zone recycler come out somewhat differently, but I'm not interested in keeping those people, or anyone, for that matter, in business if they don't produce, if they don't perform, and this is not tied to performance.

MR. WARD: Okay, listen, Assemblyman Margolin, you and I don't necessarily have a difference in philosophical views on here. I'm simply operating under the mandate the Legislature gave me, which was to pay deference to these convenience zones, and I am looking at those convenience zones and the number of zones that we have as a priority, and I'm looking for ways, and I am not indicating that I support these ways. I'm simply looking for options.

CHAIRMAN SHER: No one is suggesting that you are. You have to operate under the existing law, but the point of this hearing is to see, in the remaining time we have in this legislative session, if some adjustment might be made that would change the law under which you operate that would serve these multiple purposes of providing more convenience for the consumer, bring greater volume in, and also making these convenience zone redemption centers more economically viable.

I don't know the details of the plan that Mr. Margolin is talking about, the two for a nickel, but at a minimum, as I understand it, if we did go to two for a nickel, or some other figure, the distributors would have to pay that amount into the central fund. They're paying a penny a container, and now they would be paying two for a nickel if we're going to give the consumer two for a nickel back. Even if you got the 65% figure, there's still 35% that aren't redeemed, and it is that leeway that funds this program and provides the incentive payment, the resource out of which the incentive payments can be made. In any event, it would not only be better for the consumer who redeems, but there would be more money in the program that you would be handling that would be available for the incentive payments as well. I would assume, and with an adjustment of the bonus, it would be even more effective, so what we're searching for here is some kind of mechanism, midstream, if we really think it's a problem..., you know, if your figures tell us we don't really know, it's too early to make an adjustment, we ought to live through the summer season and then make a decision, that means

we're making a decision next January, and Mr. Margolin's fear is the whole program may have collapsed by next January.

MR. WARD: He may well be right. You know, the provision that the Legislature established in the bill, that in the event that a recycling center decides to go out of business, is that the retailer, that is the center of that convenience zone is then responsible, so I mean, as I've indicated before this committee before, ultimately, I've never been too concerned about convenience because the Legislature, in their infinite wisdom, took care of it.

CHAIRMAN SHER: One man who is concerned is shaking his head in agony in the back: Mr. Howe, who represents those retailers who would ultimately have the responsibility.

MR. WARD: I can feel the darts in my back.

CHAIRMAN SHER: No, no, that's a fact. That's not something you're suggesting for the first time now. That's the way it is, so everybody has an interest in making sure that that doesn't happen, that it succeeds, and we're searching for whether, as Mr. Margolin labeled it, some midcourse correction is indicated now that will prevent that from happening, they will make sure that we've got convenience and that these centers don't fold in the interim and that's why we're here.

MR. WARD: I think the best thing that I can say in the interest of time, and I know you have a number of other witnesses and we've already exceeded our time, is that we're prepared to run scenarios, economic scenarios, based on these models which I think are pretty accurate, and anything that you want to take a

look at, we'd be happy to do that. I've already committed to work with Assemblyman Margolin.

CHAIRMAN SHER: And we're looking for your recommendations as well, if you have any, because we have vehicles, as they say around here, we have bills pending in which we can make these adjustments if they're necessary and if there's a consensus among those parties who put this program together in the first place that it would be helpful to achieve these commonly held goals.

ASSEMBLYMAN MARGOLIN: Just to indicate also that I'm more than prepared to work with the department, appreciate the cooperation we've received thus far in trying to sort through our differences, and we do have some differences about how to implement the program, but I've never questioned your commitment to trying to make it work within your vision of how it should work, and on the issue of midcourse correction we'll be working with you in the next several days to see if we can't run some proposals by you.

MR. WARD: Okay.

CHAIRMAN SHER: Mr. Ward, I want to thank you both for your testimony. It was good testimony. We threw the question and the interaction, we brought out the issues, and now we're going to hear from other witnesses and get their views, and I, again, I want to particularly focus on these questions about enforcements and the convenience centers and whether the idea of bringing in new money into the program for the consumers and for the centers, so let's go to our next witness who is Bill Shireman, the Californians Against Waste. Is Bill here?

MR. BILL SHIREMAN: Thank you very much Mr. Chair and members of the committee. Two years ago we began a very unusual and unique and laudable process. We brought together a variety of groups; environmentalists, industry groups, recyclers who made a mutual commitment that they would put into place in California, a recycling system that would work. That would prosper environmentally, as well as for recyclers and put into place an efficient system that would clean up California. Now it's time to ensure that the system that we put into place is one that we can all be proud of, that we can all continue to stand behind. The reality is that the system that we have doesn't yet meet the standards of quality that Californians deserve. And I think that calls upon all of the players in this process. The industry groups, the recyclers, the environmentalists and members of the Legislature to make a choice. And the choice is whether we're to work separately and institute perhaps nonsolutions to the program, or whether we are to work together to institute a serious midcourse correction to the program that will allow it to achieve it's objectives. Environmentalists have convened a study group for this process to come up with a solution that works for the program; industry groups have done that as well. Environmentalists' concerns with the program thus far are that consumers are not getting by and large, the two-cent refunds that we anticipated would be paid to them for containers at convenient centers by use of the redemption bonus. And that processing fees have not been recalculated so that they would be sufficient to finance quality recycling centers. Now the industry has concerns



that if processing fees are recalculated, to finance those quality centers, the fees would be too high, and they would prefer that that change not happen. The first alternative that they would look to would be to provide for some kind of internal subsidy -- to again take the moneys that would provide a higher refund for consumers and direct those towards supporting the system -- or the alternative of not supporting the underlying convenience system. We don't think that an end to the underlying convenience system is any kind of a solution to this problem, nor is simply providing barely enough support for a continually starving system of convenience recycling centers.

CHAIRMAN SHER: If I could break in, do you dispute the department's figures they gave us this morning that suggests that even if there were greater incentives for consumers out there and even if the volume of redemption rose to 65 percent, these recycling centers would still be losing money. Do you dispute that?

MR. SHIREMAN: Well, it depends upon the assumptions that are made. And there are many, many assumptions that are included there that we would dispute, yes. It depends on what proportion of aluminum you're saying are going to go to convenience centers, as opposed to other centers, it depends on them coming up with that overall 65% what individual rates you are choosing for aluminum, for glass, for plastic and such. There are many, many ways one can compile those numbers. We have done a number of studies that have come to different conclusions. We believe that the best approach we can take, the approach that

needs to be taken now is a joint commitment by environmentalists, by industry, and by recycling centers to provide for 2 for 5 cent refunds with sufficient volume, sufficient CIPs to ensure that we support a quality range of convenience recycling centers. And I'm happy to say that in the discussions that we've have with a number of parties on this there is openness to that process. But it doesn't spread clear across the industry groups that we have worked with.

CHAIRMAN SHER: Your recommendation is before the Legislature adjourns, the law should be changed to provide for two for a nickel payment into the fund by the distributors and redemption by the consumers at that price.

MR. SHIREMAN: I believe that before the Legislature adjourns we need to do something to ensure that this system is operating. And that means getting the environmentalists and the recyclists ...

CHAIRMAN SHER: We don't have a lot of time in this session so I am trying to get people to be concrete about what their recommendation is. I take it that is the something that should be done in your view and recommendation.

MR. SHIREMAN: I think there is openness to that approach yes, and that is open...

CHAIRMAN SHER: Openness by others to your recommendation that that be done or you're open to it. What are you telling me Mr. Shireman, are you telling me that that is your recommendation and you think others are open to it?

MR. SHIREMAN: I think that others are open to this recommendation that we provide for a system....

CHAIRMAN SHER: And who's recommendation is this: Californians Against Waste's recommendation?

MR. SHIREMAN: Californians Against Waste's recommendation is that we provide for a system that does two things. That insures the consumers ..

CHAIRMAN SHER: What I want you to say is yes we want two for a nickel.

MR. SHIREMAN: It does two things. Two for a nickel refunds for consumers, and sufficient support to ensure that we have a system of recycling centers that is convenient to consumers. I think that's a reasonable ..

ASSEMBLYMAN MARGOLIN: If I could help the witness Mr. Chairman. Just to characterize what two for a nickel is right now. It is an idea generated by the environmental community, CAW and others for discussion purposes. It may be within a matter of days but we're not there yet. We are in discussions, we're in negotiations, we have numbers to run, we want a solution, a proposal put before the Legislature. This midcourse correction I talked about that will work and we need to spend a few more days not only developing the policy framework for how this will work but also making sure that the political pieces are in place and we're going to have sufficient support in the Legislature among the affected parties to make this realistic. We're not there yet.

CHAIRMAN SHER: Okay I interrupted, but I'm just trying to focus on what it is people say needs to be done.

MR. SHIREMAN: Well, I appreciate the assistance, and I think that that demonstrates that this is an open process that we want all players to become involved in so that we reach a mutual agreement on a correction of this system that will support a quality system. We want in California a system that is every bit as good as the nine systems we have in other states. This one can be. So that's my testimony.

CHAIRMAN SHER: Thank you very much. Mr. Margolin...

ASSEMBLYMAN MARGOLIN: Oh, just briefly Mr. Shireman, Mr. Shireman, before you leave. Two things Mr. Shireman in considering this two for a nickel concept, this approach towards moving away from copper and into silver so that we have the potential of getting greater consumer interest in this program and support for this program, isn't it correct that CAW did a trial survey to test consumer reaction to the two for a nickel concept? And if that's the case could you tell us what the results were?

MR. SHIREMAN: Yes, we've conducted a number of surveys comparing the impact of volume of different rates of redemption value on volume. At one cent something like 8% of Californians indicate a willingness to redeem containers. At two cents something like twice that, 15% of Californians indicate that willingness. At two for a nickel, more than 60% indicate a willingness to redeem containers. And I think that it is the magic of talking about silver or nickel in this case that

motivates that kind of return. I think also the numbers that the Department of Conservation were showing that show that at those centers which are financially able to pay more than the one cent redemption value, that's where consumers go. Even for incremental increases, incrementally higher values. So it's clear that value of the containers more than any other factor drives volume.

ASSEMBLYMAN MARGOLIN: Thank you Mr. Shireman. A final question for you. On the Department's calculations about various return rates and profit loss statements, isn't it, this is based upon their estimate of the operating cost of existing centers in a system that really is dominated by three major companies that have taken on most of the work of doing this recycling. Isn't it true though that when we envisioned this program in our negotiations two years ago we anticipated that there would be a very broad range of recycling operations ranging from nonprofit centers that were done by local charities, to a center that used machines, centers that used part-time personnel, full-time personnel, operated in parking lots, operated in different locations near the supermarket, collected other recycling materials, wasn't diversity and flexibility in terms of the kind of operation what we envisioned in the compromise two years ago?

MR. SHIREMAN: We did anticipate a diversity of options for consumers and that diversity is still being kind of worked out in the process. But I think a very important point that environmentalists would like to make is that we do not have this supposed over-convenience that has been discussed, and discussed

and discussed. When we agreed upon this compromise in writing, it was specified that this compromise would produce approximately twenty-one hundred and eighty-six new recycling centers in addition to eight or nine hundred preexisting recycling centers, for a total of thirty-one hundred recycling centers. We have now according to the department's estimates, three thousand recycling centers. And perhaps six hundred of those aren't paying out redemption values to any significant degree. So we have effectively twenty-four, twenty-five hundred recycling centers in the state. We're by no means saddled with over-convenience according to the system. We have about the level of convenience that we expected and intended.

ASSEMBLYMAN MARGOLIN: Well, except one final qualification there based upon our continual review of these centers in such a substantial percentage, thirty percent or better, are out of compliance with the law, you could argue though we may have somewhere over two thousand that are formally certified on paper, we don't have that number that are performing the job that are accepting all three container types that do the work that we anticipated in it provided the consumer convenience. My point about diversity is my final point. Of centers, is that I don't want to get caught in the trap of looking at the way the existing three major recycling companies do their business; looking at their costs and saying that for any adjustment in this system to work we have to use their overhead charges. One or the other there are ways perhaps of reducing overhead, ways of having smaller companies move into the field, nonprofit companies take

up some of the slack. Diversity is the key here and we should not be making our decisions here in the Legislature strictly on the basis of how the three major companies that are out there right now do their particular brand of business. We should not be indifferent to that, because they are important components in the system, but that's not the only basis for a decision.

CHAIRMAN SHER: Thank you for your testimony. Next witness is Mr. Bruce DeWoolfson of ENVIPCO. Mr. DeWoolfson, welcome.

MR. BRUCE DEWOOLFSON: Thank you Mr. Chairman, I also have with me Bill Westoff of ENVIPCO.

CHAIRMAN SHER: Are you one of the big three we're talking about here?

MR. DEWOOLFSON: Yes sir. I will be submitting into the record a copy of an Internal Revenue Service ruling which was recently received by my company. This correspondence will show that we were denied access to some 25 million dollars in pollution abatement bonds approved by the California Finance Authority, but found by the IRS to be ineligible for tax exempt financing. We told everyone that would listen in 1986 that help was needed to finance a convenience infrastructure. And the bonds were one of the main vehicles provided in the statute. The reason we do not have more machines in the market place now is because of this problem. And retailers who have been forced into the position of buying back bottles in their stores manually, which they never bargained for, actually deserve in my opinion credit and praise for their cooperation to make this program a

success and not punishment and/or criticism. In other words the law was imperfect not the retailers' reaction to it.

As far as the recyclers go, I'm very concerned every time we get a citation for not having a proper sign posted, but I don't feel we are motivated here by enforcement or punishment. We came here to make money and it's in our own best interest more than anyone else to run a good efficient operation. Otherwise we won't have the customer support and retailer cooperation that make a program a success.

We have reviewed the paper entitled Possible Consumer Refund Adjustments to Achieve Higher Container Return Volumes through the AB 2020 Recycling System. Or in other words the two for a nickel primarily paper. It appears that the approach discussed there in would merely replace one complex unproven scheme with another.

CHAIRMAN SHER: Go back and say that again, you say you're not in favor of the two for a nickel thing?

MR. DEWOOLFSON: Not in favor of the scheme as written up in the preliminary paper Mr. Chairman. Maybe with manipulation and input from various people, that could be improved, but there is some frightening aspects frankly.

CHAIRMAN SHER: Now you've got Mr. Margolin's attention.

ASSEMBLY MARGOLIN: Well, we haven't proposed yet Mr. DeWoolfson, that particular scheme or mechanism so it's premature for us in today's oversight hearing to debate the merits of that way of reaching two for a nickel. You can talk for instance about two for a nickel as a concept, the mechanism for reaching it is up for negotiation.



CHAIRMAN SHER: Very good. You have your own solution you're going to tell us about?

MR. DEWOOLFSON: Relating back to what Randy Ward said, we feel that there is an over riding fix that's needed at this time in this statute which would do more than anything else to fix the problems that we have. That fix concerns the use of the funds in the bonus account. Today there are some four billion containers being returned to scrap dealers and buy back centers operating outside of convenience zones and the redemption bonus of four tenths of a cent on each of these containers means that there's some sixteen million dollars a year of program moneys being paid to the users of these centers, many of whom are professional or semiprofessional collectors and scavengers who are receiving a windfall profit on containers which were for the most part being recycled before this new law went into effect.

CHAIRMAN SHER: So your solution is change the law, limit the bonus payments to those in the convenience zone and we're going to be hearing from Mr. Massey and Mr. Lang who won't like that, is that right?

MR. DEWOOLFSON: That's probably correct. They probably won't.

CHAIRMAN SHER: Okay, they are these redeemers outside of the convenience zones?

MR. DEWOOLFSON: That's correct.

CHAIRMAN SHER: That's your recommendation, is that right?

MR. DEWOOLFSON: Yes.

CHAIRMAN SHER: Sixteen million bucks? And then make that available to the redeptor?

MR. DEWOOLFSON: To consumers through the convenience centers only.

CHAIRMAN SHER: But it would go to the convenience centers right?

MR. DEWOOLFSON: And then passed on to the consumer through the convenience center. That's correct.

CHAIRMAN SHER: Well, it might or might not be but it could be. But it certainly would help those redemption centers in the convenience zone.

MR. DEWOOLFSON: To be able to pay the types of prices that are paid by the preestablished centers. That's correct.

CHAIRMAN SHER: Simple as that. Sixteen million dollars will do it.

MR. DEWOOLFSON: Well, that's an important part of the fix Mr. Chairman. The scrap yards and buy back centers where these containers are being returned existed before this law went into effect, and have made very little apparent investment to help make it work. Unlike the convenience centers which must make a commitment to recover glass and plastic many of these centers are skimming the cream and taking aluminum only. Aluminum which is needed by the convenience recycler to help cover his costs.

CHAIRMAN SHER: They're not certified, is that right?

MR. DEWOOLFSON: Some of them are not certified.

CHAIRMAN SHER: But they take the aluminum. And they take it through a certified center in or outside of the convenience zone and get paid there is that right?

MR. DEWOOLFSON: That's correct.

AB 2020 is contributing to this problem. Dealers who are paying 75 cents a pound on cans in March of this year are now paying 85 cents with a redemption bonus increase which went into effect in April. Or have raised their price to 80 cents per pound and put the extra nickel in their pocket. So here in one sense at least we have a five cent recycling law in California. Two for a nickel minimum redemption value would further exacerbate the situation, enabling the scrap dealer to pay up to a dollar twelve per pound of aluminum. Meanwhile the convenience zone recycler who is made in the aggregate over 20 million dollars in investment in this program, become certified, taken on the paperwork burdens of the program, open their books and records for public audit, and committed to redeem all package types are going down the drain.

CHAIRMAN SHER: Let me just make sure I understand. Your argument is that the valuable aluminum containers are being, are not going into the recycling centers in the convenient zones. They're going elsewhere. And if you got more of that stuff it would help pay your costs. And the solution is to make sure that happens.

MR. DEWOOLFSON: That's an important part of a fix that's going to make this program work.

ASSEMBLYMAN MARGOLIN: Mr. Chairman you seem to be also saying though that you don't think that two for a nickel that you can compete even with this major new incentive for consumers to return their containers, you don't think that you can compete with these other centers? At what point in the process can you compete with them if you can't do it with two for a nickel, Mr. DeWoolfson, I'm trying to understand that better.

MR. DEWOOLFSON: By directing, for example in my calculations based on the volume that's coming through the convenience zones, if all the redemption bonus money was directed only through those zones to consumers, it would mean an incremental two cents per can that could be paid to the consumer by those centers. And that would bring the price much closer to the price that could be paid by the established centers.

CHAIRMAN SHER: Except where we have a lot of centers right now paying two cents per can, convenience zones centers that I know of in Los Angeles, that don't market, don't advertise, no way of knowing that it's not a paid program there, but it's a two-cent program and really isn't because of the absence of the marketing and the advertising, the promotion has not really been an effective approach. You want to somehow, I guess you are concerned about the impact on the nonconvenience zone recyclers, that anything we do to improve the overall strength of the program you think they will disproportionately take advantage of. Is that your concern?

MR. DEWOOLFSON: I didn't use the word take advantage of. The system is leading to that result by the mechanics of the

system itself. And these bonuses and redemption value payments adding to the scrap value that these people are already paying for aluminum is making it in terms of the consumers comparison shopping perspective impossible for the convenience center to attract any raw material.

ASSEMBLYMAN MARGOLIN: But looking at the stand point at the Legislature while I want convenience to be there, we thought that by making you the most convenient location, you would have a special advantage in and of that fact, we also believed that the key in making this program work in convenience centers was your ability to attract new people who have never before recycled before. These nonconvenience zone recyclers have all the volume they have because they have people who have been scavenging for these containers for a long time. The key here is getting new people in the program. That's what convenience zone recycling is all about. And how do we do that if we don't in some way guarantee a new incentive to consumers. The new consumers who aren't in the system right now.

MR. DEWOOLFSON: Well, we have already put such an incentive in place. And it's the prizes. Forty thousand prizes for consumers in California who will be distributed through our program ranging from two dollars to fifty thousand dollars between the months of April and August when the first game ends. And as I believe you will recall it was always part of our plan to have this type of game incentives to attract new business from the household. But beyond that issue which is very relevant of attracting new volume for the household, there's the fundamental

issue of the economically of the convenience recycling situation itself. And I would just like to take a moment to review

CHAIRMAN SHER: Before you do that what you're saying in response to Mr. Margolin is it doesn't make any difference how much the redemption value is, how much volume is attracted from consumers if the consumers are taking it to the wrong place, i.e. the centers that are not in the convenience zone. Or as far as the convenience objective of the laws. Is that what you are saying?

MR. DEWOOLFSON: That's true and I also believe that in the ranges that we're talking about based on experience every where else in the world, if your talking a penny or two pennies or even two and a half pennies, you're not going to get the kinds of increments that it's going to satisfy the Legislature in terms of public policy. It increases in recycling volume.

CHAIRMAN SHER: Wherever they take them if there is enough money that they are getting back that provides the inducement to take it somewhere that will achieve that objective. But why do you say it won't achieve the objective. It may not be as convenient for the consumer but I mean these, your complaining now that too many people are taking them to these centers outside of the convenience zone.

MR. DEWOOLFSON: Primarily the semiprofessional collector yes.

ASSEMBLYMAN MARGOLIN: Why is it, I know that that's not the business your in but if the objective is to increase the amount of redeemed containers why wouldn't that be achieved? Even if it would be an inconvenient way?

MR. DEWOOLFSON: Well, I'm saying that I don't think the difference between two cents or a penny or two and a half cents or a penny is going to draw additional volume out of the household that you are looking for.

ASSEMBLYMAN MARGOLIN: But Mr. DeWoolfson what's that based on? We had a discussion about this bill two years ago, we all agreed that the penny was too low to start with. We thought at that time that a two cent floor might be much better. We were not able to succeed in getting the two cent floor in, now we are talking about a concept that for consumers will represent two for a nickel. To my knowledge that has not been tried anywhere else in the country before there's no model to base that on and I can't. And therefore you're rejecting it two for a nickel is not based upon anything compared, it's an opinion.

MR. DEWOOLFSON: I have one more observation to make. But I'd like to respond to the statement about subsidy by Mr. Margolin. When this law was put together, it was clear to everyone that there was not sufficient value in the materials that were to be taken back to each convenience center to make a free enterprise kind of a business out of operating one of those centers. And there were five different mechanisms in the legislation that were put there to make the economics more attractive. The first one was Energy Commission loans and grants, the second one was bonds, the third one was processing fees, the fourth one was CIPs and the fifth one was retain redemption bonuses. Well, the regulatory process never got us through the grants and loans with the Energy Commission, the IRS

said no to the bonds, processing fees nobody wants to take seriously because now it's recognized which we knew all along that it would put some container types out of business if those were really held to the letter of the law. CIPs are now being called a subsidy, and retained redemption bonuses are for the most part going out to scrap dealers. So all the things the package that was offered us to entice us into this market place, has evaporated. And we didn't come here looking for a subsidy, we came here looking for the deal that was offered us in the Legislation.

CHAIRMAN SHER: Your recommendation though, I want to be clear about it, is to do something about these centers outside the convenience zones. Is that it? That's the nub of what you're recommending to us?

MR. DEWOOLFSON: I think it's the most important issue here today.

CHAIRMAN SHER: Okay, got you. Next witness. Mr. David Little and Mr. Schweitzer will follow him, will have more or less the same point of view, you can confirm that, and these are the recyclers in the convenience zones, if you have a variation on it let us hear that.

MR. DAVID LITTLE: Thank you, Mr. Chairman, fellow members, I agree in most part what Mr. DeWoolfson has spoken of and I'm sure that he speaks representing the association of convenience zone operators which has recently been established. I would just like to point out some things in specific and then I'll be open to questions if you have any. There are a number of



things that are causing the problems at the convenience centers. I think it's important to bear in mind that the operation has been in effect for about a hundred and twenty days. Starting in January 1. So we have an incredible start-up involvement that's gone on here with extraordinary costs that were not expected in that start-up area.

The volumes that we expected to receive in our centers based on our estimates and projections, for the month of April, were 450 pounds per week per center of aluminum. We're receiving about 276 as an average over the 950 centers that we operate.

CHAIRMAN SHER: All in convenience zones?

MR. LITTLE: They're all in convenience zones, yes. Glass, we projected to receive about a thousand pounds of glass per week. We're receiving 619 pounds per week, and plastic is pretty much in line with the 40 pound projection and hitting 31.

Those volumes make all the difference in the world. It's a volume oriented business. If we don't get the volume of aluminum cans into the redemption centers, then it's not going to make the kind of money that attracted the investors that are here.

And speaking of the investment, I think it's important to note that in spite of the justified criticisms of many of our operations in our start up, Agraindustries, the parent company of 20-20 Recyclers, invested a little over a million dollars in this operation so far this year, including the operating losses to date. We still have faith in the program. We still believe that fixes can be made that will make it work. We are continuing to

make our product a quality product, and there is nothing that incenses us more than when an attendant doesn't show up, when the hours aren't posted, and we have instituted many, many different programs to respond to that problem. We've experienced extraordinary start-up costs, much of it relating to the landlord and municipality problems, and to chase that down and negotiate that over the last five months has been an incredible cost of hundreds of thousands of dollars. It's still not solved. We intend to have to close or have proposed closings of 116 centers, primarily due, or totally due, to the landlord problem, where they will not let us put our operation in a convenient location for the public. We continue to have...

CHAIRMAN SHER: When that happens and you're in convenience zones, those are in supermarkets?

MR. LITTLE: Yeah, the supermarket, yes, sir.

CHAIRMAN SHER: And they won't let you put them where it's visible and where it's going to attract the volume?

MR. LITTLE: That's right. Many of our...

CHAIRMAN SHER: And if you fold they have to take the containers back in their stores, is that right?

MR. LITTLE: If we fold, short of any other alternative, they would have to take them back inside their store, that's correct. Many of the locations are out behind the store, so it makes it unsafe. Consumers can't find it. It forces us, in some cases,...

CHAIRMAN SHER: Let me ask you, are most of the convenience centers that you run the only ones in that zone, or are there other competing ones in the zone?

MR. LITTLE: There are competing in many cases, but that is, as has been stated earlier, because many of the grocers want to be able to not direct their...

CHAIRMAN SHER: All right. So, if you close, let's just say for example, a Luckys store, because, this is hypothetical, let me make that clear, because of some problem about the volume, just your own costs, or problems with the landlord, but down the street there's a convenience center at a Safeway store, then the Lucky store will not have to take them back but they'll have to post a sign in their store saying, "Take you containers back to the Safeway store," is that correct?

MR. LITTLE: That's correct. But there are many areas in the state where the grocers are cooperating and as long as the convenience zone is covered it's all right. That's not the primary problem. The primary problem is that landlords do not want the system on the parking lot near their store, and they are, thus far, at least in those 116 cases, not in a cooperative mood.

CHAIRMAN SHER: Let's get to the fix. you said the problem can be fixed, and I want your recommendation. Or is it essentially what Mr. DeWolfson said, and that is...

MR. LITTLE: It is substantially that. There's no question that an increase in redemption value would have an impact on the consumer, but what has to be directed here is money into that convenience zone location, and the fact that the convenience zone operator has expended the millions of dollars to be in place deserves all of the attention to attract the consumer

to that convenience zone. That's not happening with the present system.

CHAIRMAN SHER: Because these people outside can pay more?

MR. LITTLE: The people outside can pay more.

CHAIRMAN SHER: And that's attracting the aluminum cans, particularly, to them?

MR. LITTLE: That's correct.

CHAIRMAN SHER: Your recommendation is we should fix that before the Legislature adjourns on August 31?

MR. LITTLE: Our position is that there has to be a fix during this session, yes.

CHAIRMAN SHER: Well, I know. Everybody keeps saying that, and I don't want to put words in your mouth. I want you to say the words. What is the fix, so we know what the competing proposals are here.

MR. LITTLE: The fix has to take place with a consensus, and...

CHAIRMAN SHER: Okay, are you suggesting Mr. Massey and Mr. Lang are going to come up here and endorse Mr. DeWoolfson's proposal?

MR. LITTLE: I don't have any idea what Mr. Massey's going to do.

CHAIRMAN SHER: Well, we'll ask him.

MR. LITTLE: But as far as the fix is concerned an increase in redemption value, if there is no other way to get money directed at the redemption center is a fix. The redemption

bonus being redirected from the outside convenience zone operators into the convenience zone is a fix. I recommend both if that's the only alternatives that we have to look at.

CHAIRMAN SHER: If you can't get both, if you can't get a consensus for both, you'd recommend one, is that right?

MR. LITTLE: As long as the CIP program remains as it is...

CHAIRMAN SHER: The CIP program will be increased. If you go to two for a nickel...

MR. LITTLE: It would be increased.

CHAIRMAN SHER: ...and you have unredeemed containers there's going to be more money in the system to pay bigger CIPs as I understand it.

MR. LITTLE: If that is part of what the proposal is beginning to emerge here...

CHAIRMAN SHER: There is no proposal emerging here. I'm trying to make one emerge, but there's none emerging, okay?

MR. LITTLE: More redemption value, more money into the CIP payment fund, more marketing, which is another big problem with the whole system, of course, will make the difference and solidify the program.

CHAIRMAN SHER: Okay. Thank you for your testimony.

MR. LITTLE: Okay.

CHAIRMAN SHER: Next witness is Mr. Ron Schweitzer, Mobile Recycling Corporation, the last of the big three.

MR. RON SCHWEITZER: That's correct.

In ten days, our company will have shut down one out of every four centers that we operate today.

Convenience zone recycling...

CHAIRMAN SHER: Want to put that in numbers?

MR. SCHWEITZER: I'm sorry, it's 65 centers that we're closing down. We operate 250.

CHAIRMAN SHER: Okay.

MR. SCHWEITZER: Convenience zone recycling is expensive and it's very risky. Reducing the convenience by cutting out 700 centers doesn't do it. It does not solve the problem. Most of our customers would be unwilling to drive down the street to another center.

CHAIRMAN SHER: Do you know if those 65 are in zones where there are other redemption centers in the same zone?

MR. SCHWEITZER: Some are. A lot are not.

CHAIRMAN SHER: And in those cases the retailer will be responsible for taking the containers back in the store?

MR. SCHWEITZER: That's correct. More volume is part of the solution, but it's only a part. There are only so many cans still out there, and as the Department of Conservation pointed out earlier, convenience zone operators are getting less than one third of those containers, and aluminum cans are the only containers that anybody really wants. The unredeemed deposits fund must take up the slack for better or worse, but there's not enough money in the system now to do both things. If you want to leave the convenience system as it now is in place, redemption value is a user fee. Those who recycle get their money back.

Those who do not support this convenience zone infrastructure through a retained bonus and through CIP.

CHAIRMAN SHER: Wait a minute. You mean the consumer?

MR. SCHWEITZER: Yeah, consumers who recycle...

CHAIRMAN SHER: Well, they get their money back, but they may never have been charged that money up front, depending on whether they passed it through. They don't actually make a deposit, you know. In that sense they don't get...

MR. SCHWEITZER: Technically, yes.

Those who do not are supporting the convenience zone network.

CHAIRMAN SHER: What's your fix.

MR. SCHWEITZER: Well, what's yours?

CHAIRMAN SHER: Something needs fixing if you had to close 65 of your centers, right?

MR. SCHWEITZER: Right.

Without subsidies from the grocers, and I'm not advocating that, because I think they're already doing quite a bit by allowing us on the parking lot in the first place and redeeming our vouchers. But I think that, I'm told that the two for a nickel is a good solution, it's palatable, I think, to both parties, but maybe it can't politically pass.

CHAIRMAN SHER: You would not resist two for a nickel, though, if...?

MR. SCHWEITZER: Not at all.

CHAIRMAN SHER: Okay, so you think that may be a possible solution?

MR. SCHWEITZER: If it can pass, yes.

CHAIRMAN SHER: Well, of course, if it can pass. If we get a consensus here, if everybody says that's the right way to go it'll pass. But I'm trying to find out how people stand on that. Mr. DeWoolfson said that alone will not do the job.

MR. SCHWEITZER: That alone would not do the job.

CHAIRMAN SHER: Right. He says you have to crack down on Mr. Massey and Mr. Lang. Right now. See how they respond.

Mr. Massey, chairman of the recycling coalition of California. That's a coalition that does not include these recyclers in the convenience zones, is that right?

MR. JOE MASSEY: No, that's incorrect.

CHAIRMAN SHER: Oh, that's wrong? Okay, I'm sorry.

MR. MASSEY: Noble Recyclers is a parent corporation. So is 20-20. They both sit on the board of directors.

CHAIRMAN SHER: How about ENVIPCO?

MR. MASSEY: No, ENVIPCO did withdraw their membership.

20-20, if it was intended to create more recycling centers is successful. It has. We've all heard that there's 400% more recycling centers. It's increased recycling rates, so it's also been successful there. Aluminum is up 25%. Glass is up 150%. Plastic is up 300%. The only problem that it's stumbling on is logistics. The increased volumes are being redeemed and recycled through nonconvenience zone operations, not through the newly created locations. This creates a problem which needs fixing.



CHAIRMAN SHER: What does it create, problems for the consumer and for the goal of achieving recycling? Apparently not if it's being...?

MR. MASSEY: It creates problems for all of us. It creates problems for the CZ operators and it creates problems for us, and it creates problems for the consumer. The basic problem with the convenience zone operation is the lack of volume. They're getting subsidies in the form of CIPs, but not every recycler in that location is entitled to a CIP. A recycler who was in operation prior to October 1 of 1987 is not eligible for a CIP. Only if you've been established afterwards, and, ironically, the ones that were established prior to October 1 are the ones that are doing the job. They're the ones that are getting the volumes.

CHAIRMAN SHER: Are they in the convenience zones?

MR. MASSEY: Yes, sir, they are, and they are certified, but...

CHAIRMAN SHER: And they are in the convenience zone?

MR. MASSEY: Yes, they are, and they're not entitled to the CIPs.

CHAIRMAN SHER: They're doing all right, you told us.

MR. MASSEY: But according to Section 14585-A7, if they're there and they're not getting the CIPs, nobody in that zone should get them. That's one thing that has to be fixed.

Secondly, there are too many convenience zones. What was designed to be the backbone of this program has turned out to be its albatross. The overlapping zones have to be eliminated

through expanding them or regionalizing them, particularly in the urban areas. There are some zones in the City of Los Angeles, and I'm sure Assemblyman Margolin is familiar with this, that have three to five zones within a mile radius.

CHAIRMAN SHER: But if they overlap, if those retailers wished and the industry wanted, they could set up one in the overlapping zone that would serve all those supermarkets, but there are competitive reasons that we've heard, the supermarkets don't want to do that, and that's nothing that the law can deal with.

So how would you suggest that we prevent Lucky's, Alpha Beta, and Safeway in the same area from setting up their own if, for competitive reasons, they feel they must do that?

MR. MASSEY: Within those zones are existing recyclers who would have met those requirements. If they were regionalized, if they could handle all five, or all four, zones or how many zones, but the stores won't allow them to.

CHAIRMAN SHER: But that's not a problem with the law. It's a problem with the stores and their need to compete.

MR. MASSEY: It's a problem with the interpretation of the law.

CHAIRMAN SHER: No, I think we knew from the beginning that..., in fact, there were a lot of people who thought that was a good thing, that people who buy their beverages at Safeway, Lucky, Alpha Beta, that's the place that they would logically take it back and that was not to be discouraged. Now, it may have a side effect that you're talking about...

MR. MASSEY: Well, one of the side effects is that the convenience zone operators, which the law created, are now having economic problems because...

CHAIRMAN SHER: How would you persuade the retailers to get together and jointly have one on neutral grounds?

MR. MASSEY: Outside of taking them into a room and beating the...? No, I don't know. I would just strongly urge them to do two things: one, drop their chain-wide requirements and, two, utilize the existing recyclers that were in their zones. They don't have to have it on their store. They can recommend that..., or they can publicize that they go to an existing recycler in their zone, not necessarily to another grocery store.

CHAIRMAN SHER: So you suggest that problem is with the operations of the retailer, is that it? That ought to be more sensible.

MR. MASSEY: Well, my suggestion is that all architects of this legislation who are participating in it except the grocers, and they have to participate more, basically, by the two suggestions I just made.

CHAIRMAN SHER: It would be hard to ..., I'm glad to have your suggestion.

MR. MASSEY: Well, you asked for a fix. That's a fix.

CHAIRMAN SHER: That's right.

MR. MASSEY: You wanted concrete, there's concrete.

CHAIRMAN SHER: I mean, one way to do that would be to somehow change the law so that there could be only one redemption

center in every convenience zone, and then we'd have to have a mechanism for deciding how that one would be set up.

MR. MASSEY: Assemblyman Sher, it was already in the law that the CIP can only be paid to one location in a zone, and..

CHAIRMAN SHER: That's different from saying that there can only be one, because in spite of that fact there are more than one that have been set up in these convenience zones, as you yourself have testified.

MR. MASSEY: That's correct.

CHAIRMAN SHER: So, that happened even though only one can collect the CIP.

MR. MASSEY: Okay. Also, you have mentioned that the two organizations that I'm a member of, we represent 80% of all the active certified processors in the state, and through the regulations, we are the ones that have to put out the front money, and I haven't seen Mr. Margolin's paper on the two for a nickel,  $2\frac{1}{2}$  cents, but I have conveyed my notions that the administrative fee for a processor is totally inadequate, with the help of the Division of Recycling, the paperwork mess that we started out with is being streamlined.

CHAIRMAN SHER: Are you having as difficult a financial time in your own operation as Mr. DeWolfson says ENVIPCO is having?

MR. MASSEY: Our costs have increased tremendously. We've had a higher number of people, specifically for dealing with the paperwork in 2020.

CHAIRMAN SHER: Have you had to close down any of your operations?

MR. MASSEY: Excuse me?

CHAIRMAN SHER: Have you had to close down any of your operations?

MR. MASSEY: No, sir.

CHAIRMAN SHER: You're the bright spot in this picture, apparently, because everybody else is moaning...

MR. MASSEY: Well, I don't want to tarnish that star, but we don't operate any convenience zone operations.

CHAIRMAN SHER: Well, maybe that's why you're doing so well.

MR. MASSEY: But the problem there is we've been doing well since 1902.

CHAIRMAN SHER: Right. Okay.

MR. MASSEY: We've been around a while. we've paid a lot of taxes, hired a lot of people.

CHAIRMAN SHER: Okay, we'll stipulate to that. Now, do you have anything else you want to tell us?

MR. MASSEY: Yes, well, besides the administrative fee, and you all have a copy of my written comments. But this is supposedly a free market program. All I'll say is let it work. The rates, the recycling rates to get to 65% were established, or were to build over a 26-month period from the time it started in October, 1987, through December of 1989. We're only eight months into it, and I don't share the opinion of Mr. Margolin that we need a fix right now. we've got to look at it.

CHAIRMAN SHER: So, you're not ready yet to say that you think the two for a nickel idea is one that ought to be pursued at this time?

MR. MASSEY: What I'm ready to say is that, from a processor's standpoint, no, we don't need to spend more money and wait longer to get it back. We don't need to finance this program.

CHAIRMAN SHER: Those who will be spending the money up front will be the ones who pay into the program...

MR. MASSEY: No, I disagree. The people who spend the money up front are the ones who pay the recyclers. The law requires that we have to pay the recycler in 48 hours, and the controllers office has a requirement of a minimum of 2 months...

CHAIRMAN SHER: So it's a float question.

MR. MASSEY: That's right. We have a minimum 23-day float, and when you talk millions of dollars in the 23 days, you're talking very high interest.

CHAIRMAN SHER: Mr. Margolin?

ASSEMBLYMAN MARGOLIN: If we fixed your float problem, would you be for two for a nickel?

MR. MASSEY: This is going to sound facetious, and it probably is, but why don't we just go for a buck?

ASSEMBLYMAN MARGOLIN: It is facetious. It's not realistic. What we're dealing with is...

MR. MASSEY: If you fix the administrative fee, we would be less inclined to fight you on it, but we'd have to look at it.

ASSEMBLYMAN MARGOLIN: Why would you be less inclined?  
Why would you fight us on it at all?

MR. MASSEY: I'd have to see the total proposal.

ASSEMBLYMAN MARGOLIN: Well, we're still developing it.

CHAIRMAN SHER: Okay, Mr. Massey, thank you very much for your forthright testimony. We appreciate it. Mr. Lang. You want to say "ditto."

MR. LEONARD LANG: No, I'll speak for myself. I am with Allen Company. There are three plants within Allen Company, Fresno, San Diego, Baldwin Park, and I represent a total of eight plants that are all certified as recyclers and processor within the 2020 system.

Those eight plants represent a capital investment of over \$20 million. Now, let me address a few of the things...

CHAIRMAN SHER: Did you make it before or after 2020?

MR. LANG: Before. long before. Allen Company's been in the business of recycling for 25 years.

Current efforts to address your agenda. We have been audited several times, and there is a lot of paperwork to go through. It's a difficult clerical problem, but we attempt to comply. We haven't closed any. We're all there, we're all viable. Now let's address the recent discussions and the health of the program.

I think the first thing that struck me was this graph.

CHAIRMAN SHER: Is it accurate, as far as you know?

MR. LANG: I would say that probably in total it is accurate. I would disagree, maybe, with the white versus the

black portion. Maybe there are some assumptions there that I am not familiar with.

Yours is red and green. Ours is copied black and white.

CHAIRMAN SHER: It seems like gross discrimination to me that we should get this nice colored one and you get that one, but anyway...

MR. LANG: I think the point is what is convenience as defined by anybody? This shows you where the convenience is. It shows you where it's at.

CHAIRMAN SHER: Wait a minute. Some have argued it shows us what the power of the dollar is.

MR. LANG: We'll get to that.

CHAIRMAN SHER: Okay. You're attracting more, but it's not necessarily as convenient for the consumer because they've got to go further to get the higher price.

MR. LANG: Now, as far as what's happening with the program and things that have been proposed, we know that there's a higher redemption that is being proposed from several different arenas. This will increase the subsidies that are available. There are efforts in legislation to remove containers from the program. I would strongly disagree with any of those bills. It confuses the public. There are efforts to stop the recalculation of the processing fee. This is intended to maintain a profitability factor for the recycler.

CHAIRMAN SHER: It's a little inaccurate, but you know, I try to characterize a point, too. I'll correct that in a minute for you.



MR. LANG: And there are those that want to increase the subsidy, the CIP.

I would say this, a lot of the discussion here today has been over aluminum. Californians recycled over 50% of the aluminum before the bill. This was done for profit through approximately the 600, or whatever figure you come up with of recycling businesses in place prior to the bill. Newly created or out-of-state businesses came in to negotiate contracts with grocery chains. Therein lies the problem. The existing recyclers knew that there was not enough material for 2400 centers to be profitable. There was no guarantee that they would receive a subsidy. In fact, the present interpretation of the bill prevents them from getting a subsidy because they were already in business. The bottle bill was a compromise between the beverage industry and the grocers consumer groups and we left out the most important: the recyclers that were already here.

Convenience is not the key. If it were we wouldn't have increased our recycling of aluminum 5% with 2400 centers. The old line recyclers, very few of them, qualified for convenience centers. We have, out of the eight plants, three that fulfill that requirement. If we increase redemption to 2½ or 3 cents, the cost of the program goes up \$120 million per penny. This will substantially increase the subsidies that are available to the new recyclers, subsidies that were not available nor promised to the existing recyclers, and on the bottom line, the public is paying for this.

CHAIRMAN SHER: You don't like the idea of increasing to two for a nickel, is that right?

MR. LANG: You always interrupt me and say I don't like.

CHAIRMAN SHER: I'm trying to focus. You've got a nice prepared statement, but we're here to find out whether we need to do something before the end of the year. From what you've said so far, I think it adds up to saying we could repeal 2020 and everything would be hunky dory.

MR. LANG: Well, the problem with the 2½ cents, representing eight processors, is that that takes a lot of capital. Every cent that you add onto aluminum is 25¢ a pound. That's substantial. Any business that is growing and doing something good has a problem with capitalization, and that takes a lot of capital, and as we've talked about, there's a float problem.

CHAIRMAN SHER: There's a float. You'd get it back eventually, but it's the float problem.

MR. LANG: Yes. Now, it also adds some costs. I don't know if you're familiar with how liability insurance works with businesses but they look at your revenues, and so that artificially, again, inflates the revenues and we have to have expenses that go up accordingly, insurance expenses. It's not...

CHAIRMAN SHER: Gross revenues. They look at your gross revenues.

MR. LANG: They look at gross revenues, what is deposited in the bank.

ASSEMBLYMAN MARGOLIN: Would you be supporting, then, comprehensive reform of the insurance industry as one part of this...?

MR. LANG: If we could be excluded from something like this, yeah, that might help.

But that is a problem. Even DOR has said that there's too many recycling zones. I would have to agree. We still do the majority of the business. I think we always will, and if you look for convenience, and you go to one of our types of centers where we have the equipment and the mechanism to handle volumes and handle it efficiently, you'll see why we get more business.

The key to this is the grocers. The solution is still the same.

ASSEMBLYMAN MARGOLIN: You take glass and plastic, too?

MR. LANG: We're certified. We take it all.

ASSEMBLYMAN MARGOLIN: You're all certified.

MR. LANG: We were only in the aluminum business prior to this along with paper recycling, but since the inception of the bill we moved into glass and plastic. We were concerned that we might lose paper customers because we didn't take...

ASSEMBLYMAN MARGOLIN: You're all..., you said you had eight facilities?

MR. LANG: Eight facilities. All certified recyclers.

Now, the solution is still the same. The grocers need to work with the existing recycling community, which they didn't do in the first place. A lot of us are small. We can't promise store-side, chain-wide, service. That's not feasible. But you

can take the recyclers in those areas, and they can help service those areas, like Mr. Margolin was alluding to, the nonprofits and the smaller community recyclers. They can become a part of this, and I think that's what was intended.

ASSEMBLYMAN MARGOLIN: Questions?

CHAIRMAN SHER: Well, we have until August 31 to make changes in the law. What would be your suggestion that would be most helpful to make this system work and achieve the goals that the Legislature had in mind when it adopted 2020 between now and August 31?

MR. LANG: Put all the state recyclers in a room with the grocers.

CHAIRMAN SHER: You can't do that by law.

MR. LANG: The recyclers got in business long before 2020. They put up their money. A lot of them have gone out of business. No one's offered us subsidy.

CHAIRMAN SHER: You don't think that's a bad thing, that's a good thing. The more recyclers that go out of business, you think, maybe the better it is. It's just a shake-out, is that right?

MR. LANG: There'd be a lot more equipment available.

CHAIRMAN SHER: Okay. Your company, like Mr. Massey's company, is not losing money, right?

MR. LANG: Yes, sir. Let me say this, that out of the 50,000 tons of material we handle a month 500 of it is aluminum, glass, and plastic.

CHAIRMAN SHER: Okay, thank you for your testimony. We have one other witness who has sent up a card and wishes to testify. Of course, anyone else who wishes to testify briefly will have an opportunity. Pam Brody from the Sierra Club.

MS. PAM BRODY: Thank you. I'm Pamela Brody from the Sierra Club. I will not use my prepared statement. I just want to say that we shouldn't lose sight of the fact that the key factor is the volume, that the point of AB 2020 was to get a good volume of recycling to help stop litter and to help with our solid waste landfill problem, too. The Sierra Club has always supported the nickel deposit and in-store returns because we know that works. It is working very well in a number of other states. So far this program is not working in terms of volume here, and we believe the reason it's not working, there are two reasons, one being that the refund is inadequate, and the other being that the convenience centers are not convenient and not adequately promoted.

From my own personal experiences here in Sacramento trying to return bottles, I've had worse experiences than what Mr. Farr described as his own problems, so although we prefer the five cent deposit we would endorse the idea of a two for a nickel refund as a good way to go for a midcourse correction.

CHAIRMAN SHER: Your first choice would be to repeal 2020, substitute a nickel deposit with the containers returnable in the stores?

MS. BRODY: Yes.

CHAIRMAN SHER: Recognizing that's not likely to happen, you second recommendation would be to go to something like the two for a nickel?

MS. BRODY: That's correct.

CHAIRMAN SHER: And take whatever steps are necessary to make sure that convenience is preserved?

MS. BRODY: That's correct, well, increased.

CHAIRMAN SHER: At least preserved and, hopefully, increased, right? Thank you.

For the record, will you identify who you are representing?

MR. RALPH SIMONI: Mr. Chairman and members, I am Ralph Simoni representing the Industry Environmental Council which is a coalition of soft drink bottlers, brewers, beer wholesalers, retailers, and beverage container manufacturers.

CHAIRMAN SHER: So whatever you recommend already has a consensus.

MR. SIMONI: Yes. At the risk of offending everybody's blood sugar level including my own, I'd like to just take a moment to put some of this discussion in perspective. The enactment of Assembly Bill 2020 in 1986 provided a framework for a program to recycle beverage containers. It was an extremely complex program, which I think resulted from the myriad discussions and the multiplicity of parties that were involved. Additionally, we had no model whatsoever to base this upon. I think from that, you can understand that it's only natural that we are experiencing some initial start-up, phase-in, and shake out.

Now, it's surprising that the features that we crafted into the bill were made to accommodate a number of contingencies, and to balance these contingencies among the various parties. We created a delicate system of inducements and penalties for all parties to the system, your basic carrot and stick concept. For example, to just name a couple, CZ wasn't covered by 1188, then the safety net was the retailer. If a scrap value did not cover the cost of retrieving a particular container through the system, we had the stick, which was the processing fee. All of these were in place.

Also, I would stress that there has been a considerable amount of discrediting of the program today. Unfortunately, we're tending in looking for a solution to elaborate on that, but I would remind you folks sitting up there and the people in the audience that there has been a considerable number of tangible accomplishments and we should attempt to perhaps correct the system but not to move beyond the basic framework of checks and balances that were placed into the bill.

Now, we're just starting to accumulate data, experience data, hard numbers on the entire program: how much is coming into the state, what is going out for various functions, what it's costing to run a recycling center, etc. Although technically we have been up and running since October of 1987, basically a seven-month period, we really only have a mature experience data for that period from January through April of 1988, a mere five months. Now, this data is, in my opinion and the opinion of the industry, not mature enough to make major

programmatic shifts. Before any shifts are proposed and adopted, we would recommend that you have at least a complete cycle of data and information upon which to base these major shifts. I'm suggesting that you allow the program to move forward and look at an entire cycle, look at the high volume months of major soft drink sales. I believe Mr. Ward referred to the fact that 70% of soft drink and beer sales occur during that period of time of June through September, so we really need this whole cycle before we can make some determinations.

CHAIRMAN SHER: As long as you're here, Mr. Lang's suggestion that perhaps the bill I happen to be carrying represents a major programmatic shift.

MR. SIMONI: Well, the point I would stress is the framework of checks and balances is placed in the bill. Yes, the CIP concept is placed in the bill, and Assembly Bill 3957, to provide the subsidy for those recyclers who stepped up to the plate and came and fulfilled the convenience mandate of Assembly Bill 2020. All we are suggesting by Assembly Bill 3957 is that the 20% level for 1988 be continued for a five-year period so that those people who chose to locate in a convenient manner could capitalize their equipment and basically bring that commitment of the state to the bank.

CHAIRMAN SHER: Very good, Mr. Simoni. There are three parts to my bill, you remember? I think...

MR. SIMONI: Well, let me state this, Assemblyman Sher, in the opinion of the IEC there is no single solution to where we find ourselves today, however, there is a combination of



solutions, and what I would suggest is that combination of solutions be taken out of what is already the framework of AB 2020.

CHAIRMAN SHER: Has your organization heard about the suggestion of two for a nickel?

MR. SIMONI: Yes, we have, and Assemblyman Margolin and I had a very brief conversation about that yesterday, and as I stressed to him and as I would stress to you, we are not out of hand rejecting any proposal whatsoever so long as it remains within the framework that we agreed to when 2020 was passed in 1986. The concept, if it can stay within the amount that the soft drink bottlers and beer wholesalers are paying into the system at one cent, which was the absolute cornerstone and the foundation to move the bill on, if it can remain at that level and you can still offer two for a nickel, of course we'd be for that, but when you start tinkering with a lot of the other uncertainties, the number of convenience zones, how processes would factor into this, we need to explore that, and we certainly are willing to look at the numbers and to explore all of the contingencies that are in effect.

A couple of other things with regard to the two for a nickel concept is, I think you need to look at how it exacerbates the problem of the money flowing outside the convenience zones to those people who did not come in and fulfill the convenience mandates.

CHAIRMAN SHER: Mr. Ward suggested, and you second that, is that right?

MR. SIMONI: I would say it warrants exploration and, in fact, it may be part of this combination of solutions to the framework of the bill that might work.

One concern on the two for a nickel concept, however, is that as I understand it, and this is very rudimentary, there is a irrational result in that concept. That is, that as recycling rates increase the amount that the soft drink bottler or the beer wholesaler pays in would likewise increase. That is, when you're fulfilling the public purpose of increasing recycling, you're actually paying more in. Now, that deviates significantly from all of our discussion during the development of Assembly Bill 2020. We always felt that the more you achieve results, the less the burden would be on the industry...

ASSEMBLYMAN MARGOLIN: Mr. Simoni, just to interrupt, we don't have a proposal out yet for discussion today. There is a draft that's circulating. The mechanism by which we achieve two for a nickel has not been proposed by me yet, formally, and this hearing today, is not directed at discussing that proposal.

CHAIRMAN SHER: Well, inevitably it came up, right? The mechanism, right?

Okay, Mr. Simoni, could I ask you to kind of conclude?

MR. SIMONI: Two other points I'd like to stress, and again, within the existing framework of the bill, we propose to raise CIPs as you know. That is a legislative solution, however, administratively I think that there can be some modification to redistribute the current CIPs to those most in need. The Department came up with a solution that would

distribute it equally on the basis of number of containers. I think they need to revisit that particular issue. I think they need to look at the overlapping zones and the number of recycling centers that are out there.

Now, all of this, and this is a key component to the suggestions of increased subsidy, which I know Assemblyman Margolin has a problem with. The key to any of these features has to be balanced off against self-help, and by self-help I mean those recyclers that are out there today have to optimize their efficiencies. They have to reduce double, triple, quadruple transportation and a number of other features that make their operating of these centers extremely high. That benefits no one, it creates extreme burdens on the program and the amount of money that's kicked out.

The second point I'd like to make...

CHAIRMAN SHER: Well, on that, we can say they have to do that but we can't make them do it, and if they don't do it we're going to find them folding.

MR. SIMONI: I recognize that, Assemblyman Sher. It is a challenge for all of us to create what might be a model type of recycling center for which you would then subsidize up to that point. Beyond that point, where they are in inefficient, mismanaged mode, they don't receive anything, and I am really at a loss to tell you precisely how I would recommend that being done in statute or by market forces but we need to explore that.

CHAIRMAN SHER: Okay, your last point?

MR. SIMONI: The last point is there seems to be a considerable amount of discussion, some prior witnesses made comment to public opinion polls on convenience versus monetary incentive. I think that is a critical thing that we are wrestling with. However, I see two divergent opinions. On the one hand, I see people who would advocate for, and to an extent, the IEC convenience as the focus of Assembly Bill 2020. On the other hand, there are other people who would suggest that the monetary incentive be increased. I don't think there's any easy answer to this, but I would reflect on some of the polling, public opinion polls, that I've seen and usually right at the top of consumer motivation has been the fact that convenience is a critical factor. Now, I would stipulate, for the purposes of this testimony, that if we went, Mr. Massey said, to a dollar, to 50 cents, or to a quarter, you would have more motivation, but I think the challenge that we all have here is to balance convenience with an adequate monetary incentive, and that's where we really have to focus our efforts.

CHAIRMAN SHER: Okay, thank you for your testimony. Our last witness is Mr. Les Howe. Did you like what you heard earlier, Mr. Howe?

MR. LES HOWE: Do you want me to grade it?

CHAIRMAN SHER: You like some of it but not all of it?

MR. HOWE: I have a handout.

ASSEMBLYMAN MARGOLIN: Is this a chart, Mr. Howe.

Is this a color chart?

MR. HOWE: Mr. Chairman, members of the committee, I'm Les Howe with the California Retailers Association and somewhat of a veteran of the AB 2020 wars, along with the chairman and obviously Mr. Margolin. I'm not going to take much time because you're probably not going to give me much time. But I think that the one thing that bothers me in this whole process, we've got a lot of Johnny Come Lately's. I just want to touch on that. Mr. Lang was saying what the grocers ought to do and this, that, and the other, and I can't imagine where they were when the chains had deadlines out there to get these convenience zones cities and the only people that were coming to talk to you, to the best of my knowledge, were the people that were here testifying here today to say that the world was going to Hell in a handbasket. I think that's unfair, but by the same token, if they have something to offer now, then they ought to come up front and center.

I think one of the key things I want to do if I can, if I don't accomplish anything else, is to try to put this retailer responsibility into some perspective, because I can't think of anything that's been more misstated and misunderstood about AB 2020 and the retailers' responsibility from about all sources, including the press and even, in a sense, our director of the Department of Conservation didn't quite state it right today either. So, this is scary.

But let me, if I can, just simply go through here, that what we have, as far as those retailers out there who are selling soft drinks and or beer, that's your universe, and actually, if

you start on the far right, you have a number of these retailers, what we call on-premise retailers, bars, restaurants, and even vending machines, who really don't have any legal requirements as far as AB 2020. That's one group of retailers. Then, if I could, I'd like to take those that, we'll call them the on-premise dealers, no question they're the ones selling the most volume. The on-premise dealers, you have two categories of those: one, you have those that are located outside of a convenience zone. They have no responsibility in this whole thing except to post a sign to say where the nearest convenience zone is. And then, and the bulk of these dealers, are the on-premise dealers that are located in the convenience zones. Going back again, and we covered this in Mr. Margolin's bill earlier, the supermarkets, the 2700 approximately, supermarkets that have been identified here, were in the bill, placed in the bill, as a reference point, and if you read the bill it simply says that's all their role is. Obviously, they're also a dealer located in the convenience zone, but so is the case for all the small grocery stores that physically are there, the liquor stores, and there's thousands of those, chain drugstores, your service stations that are selling soft drinks and beer, and so when somebody says, "Well, if the recycler leaves the convenience zone, the supermarket's responsible." The supermarket's not responsible any more than all the other dealers in that zone.

CHAIRMAN SHER: I would say retailer, if you... I don't say the supermarkets. The retailer, every retailer, who sells the product is responsible to take them back.

MR. HOWE: But only if he's located, if he's off-premise retailer and located in the convenience zone. If he's not in the convenience zone he has no responsibility as far as, shall we say, being a safety net.

CHAIRMAN SHER: Of course, you'll remember, I started out saying that the department, when it drew the maps, the whole state should be covered with convenience zones, so everybody would be..., that's a difference a long time ago.

MR. HOWE: And so really, what this program and this so-called convenience zone network, the pivot point here is the supermarkets that are not only the reference points, not only the dealers within the convenience zones, they are the ones who have been put in a position of responsibility of getting, for the most part, a recycling operation on their lots, by and large, and somebody was saying, "Well, the landlord is making them go in the back." Well, that's not the supermarket in that case. He's the lessee. Whoever owns the shopping center is the one who can ultimately say, "I want that in the back and not in the front." I think that's another kind of unfair shot. But the whole burden has been placed on the supermarkets to make these contracts, and they have, no question, they have these costs.

CHAIRMAN SHER: Mr. Howe, you've made your point. The minimum point that you wanted to make. I want to ask you a question, thought.

MR. HOWE: Yes, sir.

CHAIRMAN SHER: And that is, do you have any recommendations for changing the law, recognizing, as we've heard

in earlier testimony, that these centers and convenience zones are closing, and if there are no other centers in those zones, all of the retailers in that zone will have the responsibility to do something that is the last thing you want to see happen, to take back the containers. Now, do you think we need to make a midcourse correction? What would it be?

MR. HOWE: Well, first, and I'm not going to take the time to say what's going on out there now. Mr. Margolin's touched on some of it, and I think while it's clear that we are, the quantity of convenience zones has exceeded our original estimates, maybe we have too much quantity and that's certainly something that needs to be looked at. I mean quantity over and above the minimum legal requirement. But as far as the quality, there are some of the problems, of course, that you and Mr. Margolin and others are aware of, and they are...

CHAIRMAN SHER: That could be fixed by enforcement under existing law. I want you to focus on whether you think there ought to be any changes, or maybe you're not prepared to make any recommendations.

MR. HOWE: Well, I could be prepared to say this: I think that what we have to do and what is going on now, because there's no question there is a big problem here. None of us can afford to sit by and watch the recyclers leave all these zones. That's not in our interest, or our membership or anybody else's membership, so I think, yes, we do have to address this now and I think part of the thing is that we need more information on how..., what is the present problem and be sure we're identifying the things that are causing this.



CHAIRMAN SHER: Well, that was the purpose of this hearing today, and we don't have a lot of time before the end of the session.

MR. HOWE: I know.

CHAIRMAN SHER: We're not going to be able to get any more information between now and the end of August. We're going to have to act on what we have now.

MR. HOWE: I would hope, and when I say that I'm saying within the next week or so. I think as far as I'm concerned, we've talked..., most all of these things will help in some combination, have been mentioned today, and its a question of hoping we get agreement on what combination of all those things will come together.

CHAIRMAN SHER: Your organization stands ready to consider a combination of adjustments that primarily would serve the goal of not seeing these convenience zone centers fold up?

MR. HOWE: Sure. Beyond that, I would simply like to see this program remain viable and do what we had hoped it would originally.

CHAIRMAN SHER: That's a great, positive, note on which to end this hearing...

MR. HOWE: I'm glad I provided that.

CHAIRMAN SHER: Thank you very much. You always do. We're going to adjourn the hearing at this point. Thank you all for coming and for your testimony. It was helpful to me, and I thank Mr. Margolin.

# # # # #

DIVISION OF RECYCLING ENFORCEMENT ACTIVITY REPORT

5/25/88

Participant Type	Number of Visits	Number of Violations	Number settled and paid	Amount received	Number settled and NOT paid	Amount due from settlements	Percent settled
Dealers	1,555	822	235	\$23,480 (cash)	0	0	28%
Recyclers	2,609	1,105	0	0	382	\$18,975 (cash) \$18,975 (advertising)	35%
Processors	28	0	0	0	0	0	0%
TOTAL	4,192	1,927	235	\$23,480	382	\$37,950 (cash and advertising)	32%

EXHIBIT II

BEVERAGE CONTAINER RECYCLING FUND AND REDEMPTION BONUS ACCOUNT

REVENUE AND EXPENDITURE STATEMENT  
 (FY 1987/88 PROJECTED AS OF JUNE 30, 1988)  
 (\$ millions)

A. Total Revenues	120.0
-----	
B. Expenditures	
Redemption Value (@ current 53% overall rate)	(63.6)
Program Administration Costs	( 8.1)
Loan Repayments	(10.0)
Contingency Reserve	( 5.0)
-----	
C. Total Expenditures	86.7
-----	
Balance (Transferred to Bonus Account) (A - C)	33.3
-----	
-----	
*****	
BONUS ACCOUNT	
*****	
D. Funds available	33.3
-----	
-----	
E. Expenditures:	
Local Conservation Grants/CCC Grants (10%)	(3.3)
Nonprofit, Education Grants and Disbursements (10%)	(3.3)
Convenience Incentive Payments (20%)	(6.6)
-----	
Total Expenditures	13.2
-----	
Balance Available for Bonus Payments (D - E)	20.1

## DIVISION OF RECYCLING

TOTAL ADMINISTRATIVE COST EXPENDITURES (FY 1987/88)  
(\$THOUSANDS)

SALARIES AND WAGES		2,954
OPERATING EXPENSES		5,164
General	647	
Travel	220	
Facilities Operations	217	
Consultant Services	2,253	
Equipment	726	
Overhead	1,101	
TOTAL		8,118

(includes projected expenditures to June 30, 1988)

## DIVISION OF RECYCLING : AUDITS BRANCH

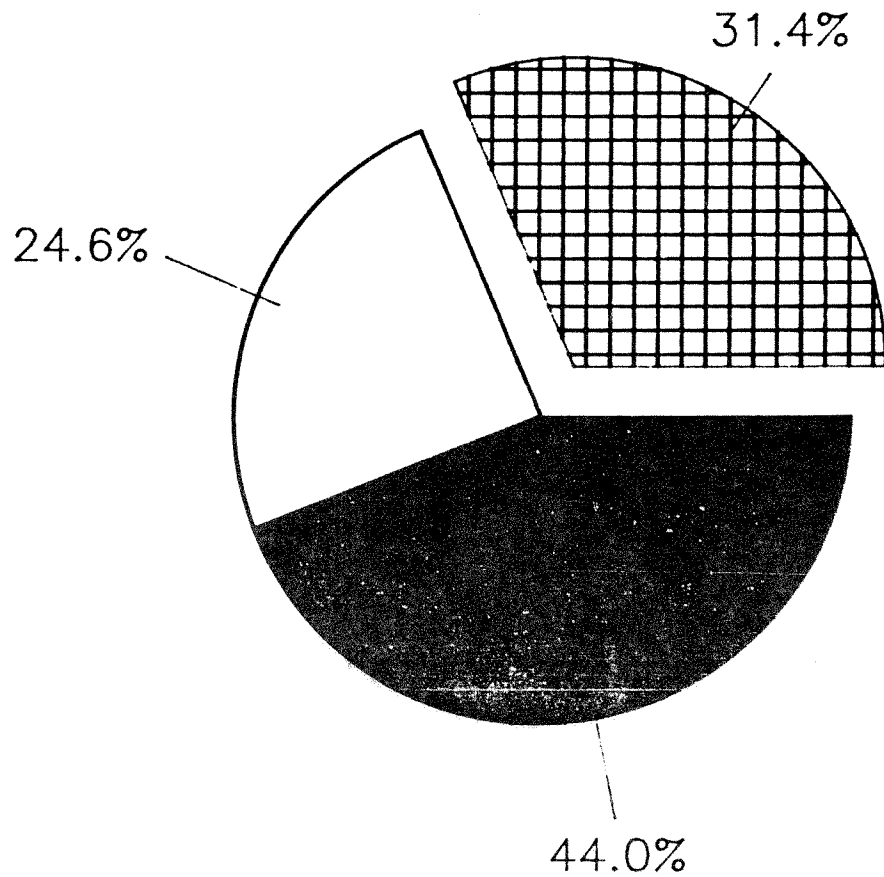
TOTAL ADMINISTRATIVE COST EXPENDITURES (FY 1987/88)  
(\$THOUSANDS)

SALARIES AND WAGES		1,477
OPERATING EXPENSES		2,739
General	323	
Travel	110	
Facilities Operations	100	
Consultant Services	1,293	
Equipment	363	
Overhead	550	
TOTAL		4,216

(includes projected expenditures to June 30, 1988)

# VOLUME OF MATERIALS COLLECTED

Centers Inside Versus Outside Of Zones



 Certified - In

 Certified - Out


 Noncert. - Out

EXHIBIT VI

CURRENT SYSTEM

- o CURRENT ONE CENT REDEMPTION VALUE PAID TO CONSUMER
- o BONUS PAID TO ALL RECYCLERS AND RETAINED ONLY BY CONVENIENCE ZONE RECYCLER
- o CIP SET AT 20 PERCENT OF BONUS ACCOUNT

	(A)			(B)		
	OVERALL RECYCLING RATE OF 53%			OVERALL RECYCLING RATE OF 65%		
	Current Status	Costs Per Container Type	BreakEven Volumes (Pounds)	Projected Status	Costs Per Container Type	BreakEven Volumes (Pounds)
<b>INCOME</b>						
<b>ALUMINUM:</b>						
o Pounds Per Center	963		1,081	1,181		1,081
o Scrap Value/# To Recyclers	\$0.650			\$0.650		
o Total Revenue	\$626	\$1,105		\$767	\$1,105	
<b>GLASS:</b>						
o Pounds Per Center	2,323		8,313	2,848		8,313
o Scrap Value/# To Recyclers	\$0.039			\$0.039		
o Total Revenue	\$91	\$552		\$111	\$552	
<b>PLASTIC:</b>						
o Pounds Per Center	103		775	126		775
o Scrap Value/# To Recyclers	\$0.150			\$0.150		
o Total Revenue	\$15	\$184		\$19	\$184	
<b>CIPS AND RETAINED BONUSES:</b>						
o Total Number of Containers	29,339			35,970		
o CIP Rate Per Container	\$0.040			\$0.040		
o Bonus Rate Per Container	\$0.006			\$0.006		
o Total Revenue	\$576			\$616		
<b>TOTAL INCOME:</b>	<b>\$1,308</b>			<b>\$1,513</b>		
<b>OPERATIONAL COSTS</b>	<b>\$1,841</b>	<b>\$1,841</b>		<b>\$1,841</b>	<b>\$1,841</b>	
<b>NET INCOME</b>	<b>(\$533)</b>			<b>(\$328)</b>		

EXHIBIT VII

40 PERCENT CIP  
 -----

- o CURRENT ONE CENT REDEMPTION VALUE PAID TO CONSUMER
- o BONUS PAID TO RECYCLERS IN CONVENIENCE ZONES ONLY
- o BONUS RETAINED BY CONVENIENCE ZONE RECYCLERS
- o CIP SET AT 40 PERCENT OF BONUS ACCOUNT

	(A)			(B)		
	OVERALL RECYCLING RATE OF 53%			OVERALL RECYCLING RATE OF 65%		
	Current Status	Costs Per Container Type	BreakEven Volumes (Pounds)	Projected Status	Costs Per Container Type	BreakEven Volumes (Pounds)
<b>INCOME</b>						
<b>ALUMINUM:</b>						
o Pounds Per Center	963		781	1,181		781
o Scrap Value/# To Recyclers	\$0.650			\$0.650		
o Total Revenue	\$626	\$1,105		\$767	\$1,105	
<b>GLASS:</b>						
o Pounds Per Center	2,323		6,006	2,848		6,006
o Scrap Value/# To Recyclers	\$0.039			\$0.039		
o Total Revenue	\$91	\$552		\$111	\$552	
<b>PLASTIC:</b>						
o Pounds Per Center	103		560	126		560
o Scrap Value/# To Recyclers	\$0.150			\$0.150		
o Total Revenue	\$15	\$184		\$19	\$184	
<b>CIPS AND RETAINED BONUSES:</b>						
o Total Number of Containers	29,339			35,970		
o CIP Rate Per Container	\$0.080			\$0.080		
o Bonus Rate Per Container	\$0.006			\$0.006		
o Total Revenue	\$976			\$1,016		
<b>TOTAL INCOME:</b>	<b>\$1,708</b>			<b>\$1,913</b>		
<b>OPERATIONAL COSTS</b>	<b>\$1,841</b>	<b>\$1,841</b>		<b>\$1,841</b>	<b>\$1,841</b>	
<b>NET INCOME</b>	<b>(\$133)</b>			<b>\$72</b>		



