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CALIFORNIA LEGISLATURE

ASSEMBLY COMMITTEE ON NATURAL RESOURCES

ASSEMBLY MEMBER BYRON D. SHER, CHAIRPERSON

OVERSIGHT HEARING ON IMPLEMENTATION OF THE BEVERAGE CONTAINER RECYCLING AND LITTER ABATEMENT ACT OF 1986 AB 2020

STATE CAPITOL BUILDING
Room 444
Sacramento, California

September 2, 1987

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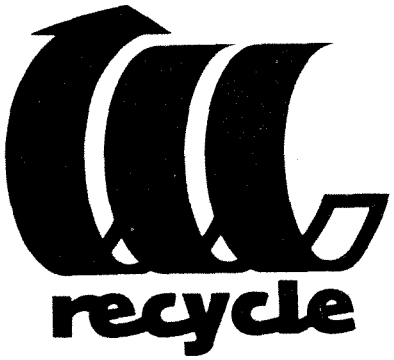

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CHAIRMAN BYRON D. SHER: ...but, this is a busy day for all of us. I first want to apologize for moving the time of this hearing around, but we had to try to conform to the break from the floor sessions. Here comes the machine now.

As you all know, the Beverage Container and Litter Abatement Act of 1986, which actually became law at the beginning of the year, reaches certain important milestone dates right about now, September 1st and October 1st being two very important dates under the implementation schedule laid out in Mr. Margolin's legislation. September 1st is important because no beverage containers that are covered by the act can be delivered, as I understand it, through the retailers unless they contain the logo "California Redemption Value" and, at this point, the pennies start being paid into the fund, which is administered by the Department of Conservation and which will provide the funds for the redemptions at the recycling centers which are supposed to come on line October 1st all over the state.

Because these dates are important and because we were still in session, we thought it would be useful to invite representatives of the Department of Conservation to come back to the committee. We had, if you'll remember, a hearing in January where we got a progress report on how the Department was doing and implementing the law and lining up the people who were going to run these redemption centers, so we thought it would be well to invite the Department back. We sent the Department a letter asking them to update us on various aspects of the program, including the status of their efforts to establish these

recycling locations within the convenience zones within the state. Perhaps they can tell us a little something about their efforts to establish the auditing system for tracking such matters as beverage container sales and the pass-through of the redemption values.

We want to hear about the Department's marketing campaign to let the public know about this beverage recycling program. We're interested in hearing about how the manufacturers are doing in labeling the containers. We already know that some of them aren't doing too well. That issue came up in the context of Senator Dills' bill, which the committee heard not so long ago, and we had here examples, and I think we brought them here with us again today, of some of the inscriptions that were being put on these cans that were hard to read. We actually added, as you'll remember, a provision to Senator Dills' bill mandating that the Department reopen this question when it reviews its regulations a few months down the line to make sure that the statement on the containers is legible and will come to the notice of the consumer.

There is the question of the processing fees on the various types of containers, and we want to hear whether the Department is satisfied about these processing fees and whether they will provide adequate incentives to recycle. The Department may wish to tell us about how they're doing fiscally, in terms of the funds available to them to implement this program. A question that might also be addressed is whether the Department has provided any grant monies yet to the California Conservation

Corps or other organizations for recycling and litter abatement programs, and generally whether the Department anticipates any real problems in the start-up phase which really begins September 1st.

So, with that introduction, I'll turn this program over to the Department. They're going to give us a report. Did the video machine arrive? Is it here? Half of it is here.

Well, the..., if you prefer to start with that, I've got a couple of specific questions I can put to you that has been communicated to me by people who are interested in this program. I was going to hold that and offer those after your formal presentation.

All right. Well, we're grateful to you. This is Mr. Randy Ward, Director of the Department of Conservation, and with him is Leon Vann, who is the head of the redemption program, and hopefully the other half of the machine will be here in a couple of minutes.

Those of you in the audience who, until members arrive, if you want to see these charts, I think it's okay. Why don't you just come on up and occupy these seats. We're going to use these charts. As members arrive, we hope you'll...

Oh, all right. Okay. They have a double set of charts, so I guess that won't be necessary. Before you start, Randy, Mr. Margolin, the author of this landmark legislation is with us. Mr. Bates has arrived, a member of the committee. Mr. Harvey is here, Vice Chairman of the committee. Mr. Margolin, did you wish to make any kind of statement at the outset?

ASSEMBLYMAN BURT MARGOLIN: Well, Mr. Chairman, just to thank you for having this oversight hearing today. We're into the final month before full implementation of this program. It's been a long time in coming. We've had a long implementation phase-in period. For this program to succeed, it's going to have to be well understood by the public, how it functions. It's going to require the cooperation and collaboration of a wide range of industries and companies, and public interest organizations, and it's extremely important for the Legislature, as we reach the final 30-day countdown, that we have an understanding of how close we are to meeting our goals and objectives.

I have a number of questions I'd like to pursue with the Department at some later point in the hearing as I shuttle back and forth between Ways and Means, but again, I'm grateful that you're having the hearing today and think it's a timely opportunity for us to see where we are.

CHAIRMAN SHER: All right. Thank you. Okay, Mr. Ward?

(BREAK IN RECORDING - EQUIPMENT MALFUNCTION)

MR. RANDY WARD: Assuming you don't want me to repeat my remarks, I'll continue. We're just beginning a very aggressive media campaign, which I will elaborate on in a few minutes, however, we've already answered over 100 media calls resulting in 70 articles in newspapers and trade publications, as well as three magazine articles.

I mentioned the contacts. We've had 25 industry workshops held throughout the state to develop our accounting and reporting system, our certification process regulations and our process fee regulations. Ten public hearings were held to develop the audit and processing regulations. Nearly 200,000 mail items were sent to retailers and distributors and beverage and recycling industry members. Eighty-one in-depth interviews were held by CPA firms with industry representatives for the purpose of designing the accounting and reporting system that we've currently put into place. We've had 35 field visits to processors and distributors, both in-state and out-of-state, in an effort to understand how their operations work. We've had one statewide marketing survey of over 1,000 individuals conducted to discover the consumer reaction to AB 2020. We felt this was necessary to really focus in on what it was going to take to sell this program. We've had five focus groups conducted to determine specific consumer group reaction to AB 2020. We literally had a consultant in grocery stores talking to different people with formulated questions that were statistically organized so that they could produce some thoughtful outcome for our ability to direct the program. We've had, as I indicated before, over 100 contacts from the press and media, and a number of newspaper and magazine articles.

This is a list of, just a partial list, of some of the organizations that we've been working with very closely in implementing this program. This list is also included in your package as well.

What I thought I'd do is go through the major components of our program, our administrative program, and talk to you about the accomplishments to date, the current status, and then some of the issues that we feel you should be aware of in the context of keeping track of the program and being able to monitor its success. Under certification, which is the process we go through to certify recyclers, so that they can, then, reimburse consumers for this penny, we've adopted regulations and procedures for the certification for those recyclers. The application period for certification began on May 20, and you've got a guide in your package which is what we were providing to recyclers, and this package is a soup-to-nuts approach, A to Z, on what you do to become certified. This is all on recycled paper, I might add.

We've developed application guidelines for the convenience zone exemptions. As you'll recall, the bill provided for approximately 10% of the convenience zones to be exempted, providing certain conditions were met. We've developed model zoning ordinances and local government guides to facilitate the siting of recycling centers and the local government guide, as well, is in your packet. We've had a very significant outreach. There have been 8 or 10 workshops held throughout the state that have been extremely well attended from local governments. I would say that we've probably covered the vast majority of local governments in the state, talking to them about this program, how it can impact them, asking questions, and effectively establishing a line of communication between the division and local governments on this program.

We've worked with both the state organizations, the County Supervisors Association and the League of Cities in this effort, and there's also been announcements of these workshops and their publications and those kinds of things, and I think that's one of the reasons they've been so well attended.

We've developed guidelines for convenience incentive payments and retention of the redemption bonus as well, which were two other issues that were debated at the outset of the legislation, that were designed to allow for recyclers to have the ability to expand their capital for operations.

Current status: we've had in excess, now, of 392 applications received for certification. These are from operators of recycling centers, nonprofit drop off programs, and processing facilities. Five recycling firms have signed letters of intent with major supermarket chains and independent grocers to contract for the establishment of certified recycling centers at or near 1700 locations. Recall, also, that we were looking at about 2700 locations statewide, so we are pushing 2000 locations that are either already certified or have letters of intent with the retailer to establish a recycling opportunity at that grocery store.

Nine convenience zone exemption requests are being processed by the Department this week, and we anticipate about 210 more asking for requests, far in excess of the 10% exemption that we're allowed by law to grant.

The issues: recycling firms have already contracted to service in excess of 1700 zones, however we've only received 392

applications. What this means, administratively, is that we're going to have one heck of a workload if these people all dump these applications on us in the month of September. We've prepared for that. We've done a lot of trading of staff to be able to handle that. What we're probably going to do is an interim approach to certification and say, "You're certified until we notify you otherwise" just to make sure that they can get in the business.

CHAIRMAN SHER: If I can interrupt, do you have to have an application for each convenience zone, or can one big operator in one application, for example, one who has the contract with Lucky Stores, apply in one application for 100, 200, or 500 of these?

MR. WARD: I'll let my division chief, Mr. Leon Vann, answer that.

MR. LEON VANN: The way we've handled that, we are requiring an application for each individual convenience zone because those zones are stand-alone zones. We are, however, working with the major recyclers, and we run through a trial application process for a single location and they basically duplicate that location at the other sites, so they end up submitting 400 or 500 applications, but they are basically duplicate applications.

CHAIRMAN SHER: So, what you're telling us, though, about these 1700, these major recyclers, have made arrangements with the supermarkets in those areas to run a redemption center there, but only 392 applications have actually been received?

MR. WARD: A lot of this has been occurring in the past 45 to 60 days, and it's taken... We were speculating a little bit as to what kind of recyclers would be handling the convenience opportunities that were mandated by this bill, and I think some of us may have envisioned that a lot of the smaller recyclers might be able to expand. What has occurred here is five to six major recyclers have decided to play in the game, and they're playing in the game in a big way, and they've divided up roughly 1700 convenience zones among themselves, and they are contracting with retailers. In many cases, they're taking a whole retailer...

CHAIRMAN SHER: They didn't divide them among themselves. They approached the retailers and...

MR. WARD: No, it's been a result of contract negotiations between the retailers and the recyclers and basically on the basis of what the retailers' needs were and what they felt was going to be most responsive to those needs and who was able to meet those needs.

CHAIRMAN SHER: Well, they can't open up until they actually have filed an application and you have certified for that zone a particular one, so there are 392, even for these 1700 to say nothing of the ones who aren't covered yet. Does that suggest to you that on October 1st, at least in the 1700, the applications will have come in and you will have certified those?

MR. WARD: We are making arrangements..., we're working with these five major recyclers right now, and they understand our problem. We will have all of them that come into us from these five major recyclers will be certified by October 1.

CHAIRMAN SHER: And you assume that that will cover at least these 1700 locations?

MR. WARD: Yes.

CHAIRMAN SHER: Are there any competitions for any of these? For example, in the 392, have you seen any two applications for the same convenience zone?

MR. WARD: Oh, absolutely, because what's occurred is that the retailers would like to provide the convenient recycling opportunity at their location as opposed to sending their consumer down to another retailer to recycle their cans.

CHAIRMAN SHER: So, among these 392, at least some of them would be for the same convenience zone?

MR. WARD: Absolutely.

CHAIRMAN SHER: And you have to pick the one, is that right?

MR. WARD: No, there's no limitation on the number that can be certified in a convenience zone.

CHAIRMAN SHER: All right. Ms. Waters had a question.

ASSEMBLYWOMAN MAXINE WATERS: Who are the five major recyclers?

MR. WARD: Let's see. Mobil Recycling is the large one. Twenty-twenty Recycling is another. INVIPCO is...

ASSEMBLYWOMAN WATERS: Who's that?

MR. WARD: INVIPCO, it's environmental products. It's a corporation. They're the ones that make the reverse vending machines. Innovative Recovery is another. Some of these firms, the names are very new and aren't recognizable, even in the

recycling business, because they have been offshoots of maybe another company involved with recycling.

ASSEMBLYWOMAN WATERS: But basically they are the five major ones?

MR. WARD: Five major. Twenty-twenty, INVIPCO, Mobil, Innovative Recovery, Pacific Rim, and Reynolds.

ASSEMBLYWOMAN WATERS: Now, have each of these indicated the area that they would like to work in?

For example, is Mobil all over the state of California, Southern California...?

MR. WARD: Mobil is primarily Southern California.

ASSEMBLYWOMAN WATERS: And Twenty Twenty?

MR. WARD: Statewide.

ASSEMBLYWOMAN WATERS: And INVIPCO?

MR. WARD: Statewide.

ASSEMBLYWOMAN WATERS: Innovative?

MR. WARD: Statewide.

ASSEMBLYWOMAN WATERS: Pacific Rim?

MR. WARD: Statewide.

ASSEMBLYWOMAN WATERS: And Reynolds.

MR. WARD: Reynolds is primarily Orange County.

ASSEMBLYWOMAN WATERS: No, how many...

MR. WARD: They're statewide, but their new centers are primarily down in the Orange County area.

ASSEMBLYWOMAN WATERS: Primarily Orange County?

Have they, in fact, indicated what areas they would like to work in?

MR. WARD: What has generally happened is that those firms have signed contracts with the major chains. From a regional basis, most of them have not indicated a preference in region. They will operate statewide.

CHAIRMAN SHER: Why don't you give us an example? One of them has signed up with Alpha Beta, for example, one with Lucky stores...

MR. WARD: Mobil is signed up with Alpha Beta. They will take all the Alpha Beta stores statewide.

ASSEMBLYWOMAN WATERS: Okay.

MR. WARD: Twenty-twenty, just to name one of their major contracts, has signed with Safeway North and South, so they will operate statewide.

ASSEMBLYWOMAN WATERS: Okay.

CHAIRMAN SHER: Mr. Bates?

ASSEMBLYMAN TOM BATES: So are they going to operate these on the sites of the markets primarily?

MR. WARD: Yes, that's our understanding. In most cases you're going to find them right on the grocery store site and they'll be meeting the standards that were mandated by Twenty-twenty.

ASSEMBLYMAN BATES: So the grocers have made a decision that, because of competition, they're concerned about where they redeem it, that they're finding, in essence, that all of them want to play in the game. They all want to have it in their recycling opportunity on their facility, rather than have one located within a half mile?

MR. WARD: I would say that there's a variety of reasons. I think their competition is one reason. I also think the safety net established in AB 2020, which requires the grocery stores to assume responsibility after January 1, if there's no recycling opportunity is another. I think also, very important, is the interest on the part of the grocery industry to make this bill succeed, and there has been a pretty sincere demonstration of good faith in that regard as well.

ASSEMBLYMAN BATES: So, Randy, as I understand it you said that roughly 1700 zones have been identified. Another thousand, now, do not have recycling opportunities that we know of.

MR. WARD: We have, in excess, Assemblyman Bates, of 200 that have either already requested certification or have signed letters of intent or contracts with major retailers, out of a field of 2700. So we've got 200 out of 2700.

ASSEMBLYMAN BATES: Just 700. Are those mostly in rural areas?

MR. WARD: Well, what I'm going to do is I'm going to show you a map in just a second to give you an idea. It's color coded, and then we can also provide you, if you're interested in what your district looks like as well, so I think as I get on in the presentation you'll get a good picture of that.

ASSEMBLYMAN MARGOLIN: Just a follow-up question. Randy, on this question..., on the issue of what types of organizations are taking over these locations, we always envisioned that for profit recyclers would do a major piece of

the work here, but when we were drafting this bill we also envisioned charitable organizations coming forward and as a fundraising device for their charity taking on locations, meeting the 30-hour a week mandate of the convenience zone location. Has that been happening to any significant degree, and do you think that charities that traditionally have fundraising drives built around recyclable materials are fully aware yet of this new opportunity to make money for their organization?

MR. WARD: I think we can answer that in two ways. Regardless as to whether a charity or nonprofit decides to go into business and certify themselves, they still have much more opportunity than they ever had in the past to recycle. Prior to now, they've been recycling aluminum and paper. Now they're going to be able to recycle plastic and glass as well, and they're going to be able to get more money for all of them, so there's a very serious incentive that you all put in that bill that's providing that incentive.

ASSEMBLYMAN MARGOLIN: And they've been coming forward?

MR. WARD: We've got Pacific Rim, largely nonprofit.

Pacific Rim is tied specifically to operating in conjunction with nonprofit operations, and then it's interesting to note that the for profits, the Twenty-twenty, the INVIPCO, even Mobil, all of them have plans in their operations to also provide some service for nonprofits in whatever jurisdiction they happen to be operating in.

ASSEMBLYMAN MARGOLIN: Does the Department have a strategy for communicating with the charities, with the nonprofits, in making them aware of this opportunity?

MR. WARD: One of which is the Speaker's bill that we were going to show you on the video, so we'll give you an opportunity to see that as well. But, I would also say that there's a built-in market incentive here for the recyclers, these major recyclers, to get the charities involved to get their volumes up. Their volumes are going to have to be significant to work these operations, and that's one of my concerns and that's one of things that I want to be very candid with you about, is that with five major recyclers operating out of there, one of which has approximately 1000 of the zones, if something happens and they go belly-up, then we've got a big hole out there, so there is a real incentive on their part to be working with the industry, to be working with the glass people, the plastic people, and the aluminum people to get those volumes up and I think it also lends itself to the aggressive marketing campaign that we're going to be talking about in a couple of minutes.

I would just say, following up on Mr. Bates' question, that I think that everybody feels good about the fact that these redemption centers are being established, primarily I guess on the parking lots of these supermarkets, in terms of convenience to the consumer that clearly is the best place they could be established. That's where they buy the beverages, and where they return to shop, and in terms of convenience, nobody knew whether it was going to work out this way but it has worked out this way, and everybody thinks that's all to the good.

I'll also mention that it's taken some time for the recycling firms to get together and get the financial commitments

and those kinds of things that they need. In some cases you have reverse vending machine operators that just fiscally, as a fiscal matter, do not have the ability to produce those machines in time for October 1, so there are a variety of things they are going to be trying to do on an interim basis, but the fact of the matter is we may not have all these covered by the 1st of October.

In fact, I think that's probably more...

CHAIRMAN SHER: Are you going to show us that now? Are you going to show us something about that?

MR. WARD: This map is color coded. The green areas indicate that at least two-thirds of the zones in those counties have been covered, either by contract, letter of intent, or have been certified.

CHAIRMAN SHER: So, with respect to the green areas, you expect that two-thirds of the zones on October 1st will have operating redemption centers?

MR. WARD: No, what I'm saying is I have some concerns that, in fact, they may not have, on October 1, even though they have a letter of intent or a contract with a retailer and are working very hard, some of the practical problems that they're facing in terms of getting the containers, getting trucks with scales, and all the kinds of things that they need to logistically support this operation may not be in place. We're looking at a firm like Twenty-twenty Recycling, for example, that has probably come together in a big way in the last 90 to 120 days, has received some major financial commitments and has got a lot of contracts, but they've been selling their wares and at the

same time having to develop a program that's going to be able to service 1000 locations, and they're working very hard and there appears to be a major commitment on their part, but just as a practical matter I have to point out that there is some question as to whether they're going to be able to service these zones beginning October 1. I think the important thing...

CHAIRMAN SHER: Well, then the terminology in the charts is a little bit over-enthusiastic when it says at least two-thirds zones and counties served. It should be may be served, or possibly be served, or hopefully will be served.

MR. WARD: I think the way best way to explain it, Mr. Chairman, is that there is serious progress toward serving those areas. There are contracts, letters of intent, or actual certification that has taken place to serve those areas. If not October 1, shortly thereafter. I think, also, it's important to point out, is that we had a 90-day period from October 1 to the 1st of January for this kind of integration into the market to take place and we also need to recognize that this bill was not law until January 1 of this year and it is a major undertaking to go out and service 2700 of these zones and I think we're recognizing that 90-day period that the Legislature provided for was something that was extremely thoughtful and I'm assuming that within that 90 days you're going to see all these covered, as a practical matter.

CHAIRMAN SHER: Randy, could you tell us -- give us your projection on how many of the redemption sites you expect to be established on October 1st? November 1st?...

MR. WARD: We don't know...

CHAIRMAN SHER: ...and January 1st? You don't have any projections?

MR. WARD: We don't know. My projection would be that you're going to have -- we will have the zones that I'm mentioning and the zones that are recorded up here, are going to be covered in the first 60 days after October 1, and that's -- I'm just being...

CHAIRMAN SHER: The ones on here?

MR. WARD: Yes.

CHAIRMAN SHER: So that would be October...

MR. WARD: By the 1st of December.

CHAIRMAN SHER: By the 1st of December. We know by the 1st of January they'll all be covered because the burden is on the retailer as of that date if one hasn't been established by someone else, the retailers in that zone have to establish it.

MR. WARD: Now, I may be sounding a little more pessimistic than I should be, I just don't want to promise something that isn't going to happen. There are a lot of things happening to cover the interim period between the time they can get the equipment that they envision being there for the long haul at the grocery store or the recycling center.

CHAIRMAN SHER: But the equipment, basically, consists of a trailer-truck and a person sitting there with a cash register or cashbox. Isn't that the equipment we're talking about?

MR. WARD: There's a variety of things.

CHAIRMAN SHER: Well, I mean that could be. It could be as simple as that -- like the Goodwill or Salvation Army collection centers that you see on...

MR. WARD: Certainly. And I think that's the kind of thing that is probably going to be handled on an interim basis by many of these locations. It's going to be something that is not quite as pleasing to the eye, and those kinds of things. There also are problems with permits from local agencies, which we've been working with local governments, and you saw the local government package that we'd put together to develop some ordinances, model ordinances for, local governments to allow these to be permitted, and in some cases just the administrative process at the local government level permitting these locations is not necessarily consistent with the mandate in AB 2020, so that is just another factor that has to be worked out.

CHAIRMAN SHER: But the 2020 does not allow a community to prohibit, entirely, these redemption centers, but they can control the conditions of it, but that may take some time to work out.

MR. WARD: And those conditions could be part and parcel to the permit and so that may have some impact on how the retailer views the company they're contracting with and the kinds of things they want to see that recycler providing on their side. I think those are pretty much the issues on the certification.

These convenience zones, real quickly, you saw the yellow was a third to two-thirds of the zones in the C's are covered and then the red areas were the ones we're concerned about that have less than a third.

CHAIRMAN SHER: What do you -- people who live in and shop in areas where no convenience zone has been set up during this interim period, as they accumulate these containers, will just have to go to a neighboring one, is that the...?

MR. WARD: That can happen. There's going to be -- you know, the grocery stores are still going to be marketing the program and in, primarily, the rural areas, I think you're going to see the information that's mandated by the bill is going to be put on the sign in the grocery store where that nearest recycling location is, so we're intending to market the program and wherever it is, we're going to have those addresses up at the grocery stores.

CHAIRMAN SHER: So even if, for example, on your map in Alpine or Sierra Counties, where so far you don't show any,...

MR. WARD: Well, Sierra and Alpine do not have any retailers that qualify under the mandated...

CHAIRMAN SHER: Oh, so there are no mandates there.

MR. WARD: That's right.

CHAIRMAN SHER: So there's no one who has to put up a sign?

MR. WARD: That's correct in those areas. Well, let's see, do all dealers have to put up a sign regardless...?

All dealers...

CHAIRMAN SHER: So the...

MR. WARD: All dealers would have to put up a sign as to where there is a place...

CHAIRMAN SHER: And they would send them to -- Sierra County for example -- well, go into Nevada County to this store and that's where you can redeem these.

MR. WARD: We're hopeful that maybe the CIP will be the incentive that the Legislature envisioned and that it will stimulate someone to locate in those counties. It is a convenience incentive payment, which is a kind of -- an additional piece of icing that if, in fact, there is no recycling center located in an area, that we can provide that incentive.

CHAIRMAN SHER: Okay.

MR. VANN: Also, on that point, just because of competition, we are having very small store operations in the rural areas saying they will operate a center even though there is no mandate for them to do so, so in Sierra County and Alpine County...

CHAIRMAN SHER: But they would have to apply and be certified in order to participate in the fund; to get the money from the fund.

MR. VANN: That's right but we're working with them on that.

CHAIRMAN SHER: I see.

MR. WARD: Once again, I think there is a couple of important points which should be raised before we leave the certification and opportunity for collection. The industry has done a number of things by container type. The glass industry has inaugurated a restaurant, hotel and bar program whereby they're collecting an awful lot of glass that's going through

those types of establishments. Without this bill, that wouldn't have been done. There was no incentive to do it, and they're concerned about getting their volume up, so there is the incentive that the Legislature provided in AB 2020 to get that volume up to 65%.

CHAIRMAN SHER: Those..., they're considered, the bars and restaurants, are considered a retailer for purposes of..., the pennies are due and payable when the containers go to them. The glass, you say, industry is going to pick up those bottles, and then claim the pennies, I suppose.

MR. WARD: I think they're more concerned about the volume, at this point than they are...

CHAIRMAN SHER: But they would be entitled to take those to a redemption center, is that right?

The important point is it keeps them out of the landfill.

MR. WARD: Well, it keeps them out of the landfill, and also they need something to support their programs. They've inaugurated a fairly serious program here, that they hope is going pay for itself, and I think they're willing to take the risk in hopes that it does, and recognizing that they're trying to achieve the 65% or 70% recycling level.

ASSEMBLYMAN BATES: If they fail to achieve that, then they pay more on the, is that correct?

MR. WARD: As of January 1, 1989, fifteen months after the first of October here, if they have not achieved, by individual container type, a 65% recycling level, then they will

go to 2¢, and subsequent to that, in 1992, they would go to 3¢ if they have not achieved that 65% recycling level.

ASSEMBLYMAN BATES: So the 2¢ would mean that every container that's sold, that they would have to put 2¢.

MR. WARD: That's right. Instead of being a penny for every container sold now, they would be distributing 2¢ on that container type.

ASSEMBLYMAN BATES: I'm sorry, you hate to go back over ground that may have been covered, but just for my own information, so they put up 1¢, and assuming we only get, as an example, 50% recycling, the money that's in the system, what happens to that? It's not redeemed.

MR. WARD: Okay. The administrative costs for the Department comes out of that, and that's five or six percent. In addition to that there's some grant programs for local conservation corps that comes out of that. In addition to that, the convenience incentive payment that I was talking about comes out of that, and the larger share of it is a bonus program which is designed to either be passed on to consumers or allow the recyclers the ability to have some additional income to expand their operations under the provisions of this bill, of which the intent was to provide real convenient recycling opportunities for consumers, so there's a bonus that's going to be between 1/2 and 3/4 of a cent over and above the penny, and in some cases, based on competition, you'll see a portion of all of that bonus being paid out to the consumer. In some cases, you'll see the recycler retaining that bonus, and under the provisions of the bill they

can retain that bonus, I can authorize retention of that bonus for up to 18 months to allow them to capitalize their operations.

ASSEMBLYMAN BATES: Okay. Now, if you have a location and you're..., what do you have to do to make money on that location. Could you just go over the economics of that. You were talking about the volume at that location, how much volume do you have to take in?

MR. WARD: It might be better if I go through the rest of my presentation, because I think the processing fee portion of my presentation is going to answer some of those questions, and what hasn't been answered maybe I can build on after I've explained the processing fee a little bit.

ASSEMBLYMAN BATES: Okay, but I don't have too much time. Unfortunately I only have until about 11:00. So if you can get to in the next twenty minutes, that would be more than...

MR. WARD: I'm there right now.

As you recall, AB 2020 required that where a scrap value of a container type was not sufficient to allow it to be economically recycled, the Department was required to establish a processing fee, and essentially the processing fee was a simple equation of the actual scrap value the container has versus the cost of recycling. The difference being a processing fee. This was something that is obviously a very difficult position to put a administering agency in. It's a regulatory process that really forces us to be in the position of walking on a double-edged sword, where the recyclers may be unhappy. It's never going to be enough, the people that are making these containers are going

to be unhappy because it's too much, and I don't think you ever are going to find a happy medium. We adopted emergency regulations for processing fees on July 1. What that was a result of was some workshops that we held to understand the mechanics of the industry, how the processing fee should be calculated. We used a formula based on direct and indirect cost, and we had a formula, and the formula had no numbers in it, and then we adopted that formula as regulation. We subsequently went out, a CPA firm went out and audited processors and recyclers, and by computation of an average, we came up with a processing fee, and there are people that are extremely unhappy with...

ASSEMBLYMAN BATES: Now, look, the processing fee, let's take plastic, which should be a good example, it is the difference between what plastic would bring on the..., what its real value is as redeemed and what it actually costs to recycle it. Is it per unit, per container?

MR. WARD: Well, you can calculate it per unit. We did it on a per ton basis.

ASSEMBLYMAN BATES: So then the people who manufacture these plastic containers have to pay that amount?

MR. WARD: They have a choice, and we have letters from both the plastics industry and the glass industry, indicating that they are going to pay the increased scrap value necessary to avoid the processing fee. And it's much...

ASSEMBLYMAN BATES: You mean they are going to pay the redemption people to bring this stuff back to them an amount that you figure is the cost of recycling a particular container.

MR. WARD: Right, it's cheaper for them. If they pay a processing fee it's on 100% of everything that is made. If they pay an increased scrap value, it's only on those containers that are actually recycled, so it was a choice, but really no choice. But suffice it to say, that both the glass and the plastics people have had an amount calculated. The amount for plastic is approximately a nickel a container. The amount for glass is 0.6¢ a container, and they are unhappy, and they have been going over what we've done in our regulatory process, our formulas, they've been requesting additional audit. We've attempted to be as flexible as we possibly can in working with them on it and we have conducted additional audits, and those fees have not substantially changed.

CHAIRMAN SHER: What is it for aluminum?

MR. WARD: Aluminum did not have a processing fee. The scrap value of aluminum is greater than the cost of recycling it. I think, clearly, aluminum has been enjoying a 50% to 60% recycling rate at scrap value of less than a penny per container. It's significantly more than that now. At less than a penny per container, there was a lot of motivation to achieve those percentages.

CHAIRMAN SHER: So they pay that right into the central fund, what, monthly based on the...

MR. WARD: If they had a processing fee imposed, which I indicated they are not because they are going to pay those increased scrap values. That is internal. You'll never see it, okay? The state will never see that. They're just going to increase the amount of money...

CHAIRMAN SHER: So when the redemption center returns the plastic containers to the plastic people they just pay enough to cover that cost as set by you?

MR. WARD: That's correct.

CHAIRMAN SHER: So they pay a penny per container into the fund, then they pay a processing fee?

MR. WARD: Yes, in addition to the penny a container now. The manufacturer doesn't pay a penny. The distributor, so it's the Coca Cola's, the Seven-Ups, are going to be paying the penny.

CHAIRMAN SHER: Does the plastic actually go back to the people who are paying these nickel containers...?

MR. WARD: The plastic industry, again, the glass industry has put together an effort in order to get their volume up. The plastic industry has recently formed a plastics recycling corporation and there is actually now some competition on plastic that probably, well, absolutely, would not have occurred without AB 2020. We've probably moved the opportunity to recycle plastic forward by 10 or 15 years.

CHAIRMAN SHER: But the plastics people have the option to pay the nickel for the redemption and say, "You keep the plastic containers we don't want them," is that right?

MR. WARD: We adopted a fee that makes it..., it's in their best interest to recycle that material. They want to get something for it. There is a value to plastic, and there are people that are willing to pay for that plastic...

CHAIRMAN SHER: Well, the thrust of my question is, will you anticipate that the plastic containers will continue to go to landfills, or will they actually go back and be recycled?

MR. WARD: It's our intent, through the development of our processing fee regulations, that it be recycled. That was consistent with the intent of AB 2020, and that's what we did.

CHAIRMAN SHER: That's the way you think it'll work out?

MR. WARD: that's the way we think it's going to work out.

CHAIRMAN SHER: Okay.

ASSEMBLYMAN BATES: Well, I need to understand, if you have a plastic bottle and you're going to pay only when it's brought back to you, in other words, you're not going to pay the processing fee, you're going to pay the actual cost at that time, isn't it to your advantage not to have that recycled? I mean, the fewer that come to you, the less you're going to have to pay out.

MR. WARD: Well, you've got the 2¢ and 3¢ (inaudible) that I mentioned. They want that volume. They want to take that volume up. Also, it costs them money to landfill it, so it is a matter of economics. They're much better off taking it someplace. The problem with plastics has been the logistical collection of it. Once they get enough to make the collection worthwhile, which this program causes to occur, then they have an ability to ship it overseas. There are a number of Pacific Rim companies that are buying plastic. There are a lot of cars that are coming back from Japan and Korea right now that have recycled

EET containers, the 2-liter bottles, that we're using domestically, and there are literally a myriad of opportunities to recycle that plastic, the inhibiting factor being collecting it. Now, we've taken care of that. There is also a company, the largest plastic recycling company, in South Carolina, that is making a variety of products of recycled plastic that is extremely interested in the California market. They have said to us that they can take everything California can provide in plastic, so they're very interested in participating in this program.

ASSEMBLYMAN BATES: Well, the redemption centers want to get them back, because they're going to get this nickel for every one that passes through the redemption center, so they have an interest because of the proceeds that each one carries. Of course, the distributors of beverages in plastic containers have an interest in having it come back because they don't want to go to the 2¢ per container if they don't reach the 65%.

MR. WARD: Absolutely.

CHAIRMAN SHER: After you've looked at the map, it seems like, if you're only capturing a percentage, say 25% of the plastic, and then you're only paying a nickel, right, at the point it's recaptured, 75% is not coming back that you're not paying for, so...

MR. WARD: That could very well be being disposed of. There's not a lot we can do about the public's disposition to recycle or not recycle. I think that's going to get into that in some of the media marketing that we're going to attempt to do here.

ASSEMBLYMAN BATES: So you market it in a way that's barely identifiable. It's redeemable. You don't push it, it's only a penny, you just hope people continue to throw it away. They might be better off having a low recycling...

MR. WARD: Well, but they're going to lose their market, because the people who distribute this presumably, if they're going to have to go to 2¢ on plastic, containers, they are going to prefer, and it's only 1¢ for the glass and aluminum...

ASSEMBLYMAN BATES: It might be cheaper for them to pay 2¢...

MR. WARD: But the distributor pays the 2¢, not the people who manufacture the plastic.

Let me mention -- Assemblyman Bates, I think your questions are very astute, and they're questions that, in some cases, can't be answered at this point. We're speculating a little bit based on markets and some thoughtful analyses, but I think it's important to note here that we may want to revisit this, the Legislature may want to revisit this issue with plastic. It was fairly commonly understood that plastic was the one that was going to have difficulty with scrap value at the time AB 2020 was passed. That has been borne out by the processing fee that I don't think anyone would consider to be insignificant at a nickel a container, and that being the case, then I think it's going to be something you all are going to be watching very closely as well as the Division, and it's been a very difficult process, suffice it to say, and that was something that..., again, this was a free market approach to recycling.

When you're getting involved in dealing with the market on a processing fee, as I've indicated and outlined, that really is the one area in this bill where we're affecting the market, and it's probably, without a doubt, it is the most difficult regulatory aspect of this program.

The visibility, as we've indicated, on some of the containers has been poor. I would indicate to the committee that based on the committee's interest and the Division's interest we've had commitments from those users of labels that were in question to correct that problem in the short terms rather than in the longer term that the committee was concerned about a week or so ago at a previous hearing. The manufacturers of certain natural sparkling products have voiced some concern about themselves qualifying under the Act. Primarily one who manufactured a 100% fruit-juice product that was carbonated. Again, this bill is quite different from the approach used in other states for determining whether a container of beverage is eligible for a deposit or minimum redemption value, etc. In Oregon, the driving force is that if it's non-fruit product. Well, 100% apple juice would be considered a food product. In California, AB 2020 did not clarify it that way. It simply said "carbonated", so we've looked at carbonated fruit juices and those kinds of things as qualifying beverages, and as far as we're concerned, we're not in a position of granting exemption, and as those issues come forward we'll bring them to your attention, and that' something for policy debate of this committee, and I've seen that policy debate over at least one container type in the last four months.

CHAIRMAN SHER: Before you leave, you mentioned the problem about the inscription of the words on the label. Another issue that has arisen is the content of the words themselves, California, or CA, redemption value. I've heard suggestions from two perspectives on that. Some of those who manufacture these things think they're too many letters, and so it's difficult for them to fit it on the label or on the end of the can.

From the point of the consumer, some people suggest that that is not as clear as it might be in terms of the fact that this carries a redemption value. Is that an issue that the Department would likely revisit? Obviously, you're not going to do it immediately, because we're just getting started. Everbody's putting this one, but is that an issue that could be looked at somewhere down the line when you review it. Obviously, it would take a statutory change, I guess, because it's actually mandated.

MR. WARD: I think the important answer to that question would be based on our experience over the next six months or so we are going to be revisiting that issue. I indicated to you that we will be doing that and also legislation that went through this committee several weeks ago also asked us to revisit that issue, which is what we will be doing.

CHAIRMAN SHER: Yes, I think that was specific though to how you put it on the label, but this is a different question, is what you put on the label.

MR. WARD: We will look at that. We will.

CHAIRMAN SHER: And you might have a recommendation for the Legislature based on experience?

MR. WARD: Certainly.

Now that I see we do have, we're ready with the video, what I want to do is touch real quickly..., we did adopt audit and accounting regulations and this case, we're literally chasing 10 billion containers, which equates to 10 billion pennies. We're concerned about being good stewards of that fund. Once that money is paid by the industry to the State of California it's no longer industry money it's public money, so we have taken great pains to try to develop a system, given the means of collection that AB 2020 envisioned.

CHAIRMAN SHER: Ten billion a year, is that the...?

MR. WARD: Ten billion annually, a year, is what we're looking at.

CHAIRMAN SHER: And at a penny a container, that comes out to...?

MR. WARD: One hundred million dollars.

CHAIRMAN SHER: And that's what you'll be working with in this fund.

MR. WARD: That's what we're going to be working with, so our biggest concern is paying out money for foreign containers that are entering the mix, and we've taken great pains to be able to deal with that issue.

CHAIRMAN SHER: Foreign in the sense of from out of the state, or foreign in the sense of look-alikes, such as wine coolers, that aren't covered by the bill, just to take an example out of the hat.

MR. WARD: All of the above.

CHAIRMAN SHER: Well, the people who redeem them should not take them, and certainly they shouldn't claim the redemption values, and that's one problem that we're trying to work on.

ASSEMBLYMAN BATES: One follow-up? If a bottle is marked, it says California Redemption, then you're entitled to get a penny back on that bottle?

If it's not marked, you're not entitled. In other words, at a certain point you have a bottle, a person could have been saving since January, which would be redeemable if they would have bought that bottle in September. Is that correct?

MR. WARD: That's correct. Because this program, I don't want to get too complicated on this, but because this program was trying to deal in the most efficient way possible, collecting the stuff by weight so you could literally be bringing in crushed glass. Make it as easy as possible for someone to recycle. What we have developed and are in the process of moving out is a commingled rate for someone who is bringing in crushed glass and those kinds of things, so that we are going to be able to maintain some accountability over this fund and be able to say with some certainty that we're not paying out for mayonnaise bottles and pickle jars and those kinds of things.

CHAIRMAN SHER: Mr. Harvey.

ASSEMBLYMAN TRICE HARVEY: That's the one that stimulated thought in my mind and I thought I'd ask it now. You mentioned what industry is doing in terms of getting up to that 60% in bottles and also trying to help in plastic. If you go to

restaurants and bars and you do end up getting some wine cooler bottles there, then when it gets back to the recycling center at some point they're going to be doing crushing. Who is there to monitor that, to sit right there and count every bottle and make sure it says that across that bottle before the crushing takes place?

MR. WARD: Well, as I indicated, this commingled rate. If you bring in containers, and I think we're using a magic number of fifty, so if the consumer brings in their containers and it's less than fifty they're going to get a penny for every one of those containers, or if they want to bring them in individually, they'll get their penny for every container, however, if they're bringing those containers in in bulk, glass for example that you used, they're going to get a commingled rate, and that rate is going to be reflective of the kinds of percentages the commingled containers are in the total mix of glass, so if the kinds of containers of glass that qualify may be 30% or 40% of the total mix, and I don't know what the percentage is, I'm just using that for an example, then they will get, on a per pound basis, 30% or 40% of what that would equate to if all that material was qualifying containers. That was the only way, in discussing this with the Price-Waterhouse, Pete, Marwick and Mitchell, that we could come up with that solved the problem that we had in terms of trying to maintain some confidence over the stewardship of this fund.

ASSEMBLYMAN HARVEY: Well who, if I may ask Mr. Chairman, might then, in these multitudes, roughly 2,000 sites

spread out over the state, who's there at each site to check that commingling?

MR. WARD: Well, what they would do, let's say, as a recycling center that you and I as consumers would go to, would be collecting glass, we'd be bringing that glass in a crushed form, and typically it's going to be separated by color because there's a higher value when it's color separated like that, and that glass is broken and they're taking it to a processor, such as Owens-Illinois. Owens-Illinois will be paying them a commingled rate.

ASSEMBLYMAN HARVEY: Okay. They're doing it there at the time.

MR. WARD: The recycling industry is already geared for that. Aluminum, for example, what they will do is if a flatcar comes in with a load of crushed aluminum, they'll sample that aluminum right now and it's in their best interest to devalue that aluminum. If they pull out 15% foreign containers, be that liquid in the containers, dirt, non-aluminum cans, what have you, in that mix, they'll devalue that whole freight car. So they're already geared up to do that kind of thing. That's something that they're used to.

ASSEMBLYMAN HARVEY: Okay. Thank you, Mr. Chairman.

ASSEMBLYMAN BATES: I've got a question. You can determine what portion of that is redeemable and what isn't?

MR. WARD: Yes, you know the mix of qualifying containers that is in California out of the whole universe of glass, and you pay a commingled rate based on that percentage.

ASSEMBLYMAN BATES: So in a sense, it's not in the interest of someone who's bringing back all qualifying containers but you crush them so that they're unidentifiable, they're going to lose a lot on that.

MR. WARD: That's right.

They lose, the state wins.

CHAIRMAN SHER: But it's going to be reversed in other situations, so it's going to work out on the average, and there's enough of unreclaimed containers to cover mistakes that are made in the...

MR. WARD: Yes. My big concern here is I don't want us in a hearing like we're having here today where I'm trying to explain why I've spent $15 million for foreign containers, and that's been pretty much the guiding force here and the Governor has some concerns about that as well, so we're doing our best to ensure that that does not occur.

ASSEMBLYMAN BATES: So you're simply saying that these are bottles that are in California, glass that's in California, as an example, of which 80% is redeemable, 20% is not. (inaudible) you're going to get 80-20, and that's it.

MR. WARD: That's right. They weigh it out by the pound, they give you 80% of whatever...

ASSEMBLYMAN BATES: No problem. I just wondered. Like mayonnaise, you're going to get mayonnaise jars and all that?

MR. WARD: You bet. You bet. All glass, but at the same time it's worthwhile to recycle that glass. It's good to have that glass come back in.

CHAIRMAN SHER: You know, they may get on..., I think the important distinction here, Assemblyman Bates, is they may get devalued on the penny, okay, the minimum redemption value. It won't be devalued on the scrap. They're going to get that scrap value, and the glass industry has already indicated they're going to pay that higher per tonnage scrap value for all glass, because it's in their best interest to do that to avoid going to 2¢. Okay? So there is additional money for all glass in addition to this penny that's being paid out on the minimum redemption value.

ASSEMBLYMAN BATES: So as a consumer, if I go to my redemption center with my mayonnaise jar, they'll be happy to accept those.

MR. WARD: You bet.

ASSEMBLYMAN BATES: And they'll give me a penny for them?

MR. WARD: Yes.

ASSEMBLYMAN BATES: Well, not if you took it in...

MR. WARD: They will give you the scrap value for it, okay? So you will get, on top of the penny you are getting you will get the scrap value for all that...

ASSEMBLYMAN BATES: If you go into one of these redemption centers with a mayonnaise jar, they're not going to get the penny for it, right?

MR. WARD: Yes, you will not get the penny for the mayonnaise jar.

ASSEMBLYMAN BATES: And they may not give you anything for it.

MR. WARD: That's right.

CHAIRMAN SHER: They have to accept it under the law, don't they. Under the law, they are required to accept the glass containers at these redemption centers?

MR. WARD: All types of containers.

CHAIRMAN SHER: All types of containers, and all the glass that is taken in is counted toward the 65% goal?

MR. WARD: If they are using all glass to meet their 65% goal, it then goes to 70%. There is poetry in this bill, I assure you Mr. Chairman, but...

CHAIRMAN SHER: I don't know what you mean by that, but I take it as a compliment to the legislation.

MR. WARD: It is a compliment, because what we're doing here is..., it is not just a minimum redemption program for beverage containers. We've provided an incentive here for all glass, and I think the distinction once again is that the glass industry, for example, has indicated they're going to pay that increased per tonnage rate, and we talked about the processing fee, for all glass. So the value of glass has gone up, even excluding the penny that the consumer is going to be getting as a minimum redemption value, and I think that term minimum redemption value is extremely important here.

CHAIRMAN SHER: Mr. Harvey?

ASSEMBLYMAN HARVEY: Yes, Mr. Chairman. I liked the last statement of the value of glass has gone up and there is a

certain amount of poetry here, sweet music you might say. If I were able to speak for Assemblywoman Hansen because of her concern about wine bottles and the discussion that we had here, with the cost of glass going up and the scenario that I see now in trying to make the 65% profitable with those folks, I see an awful lot of wine coolers that are going to be into the system. I see a lot of those out of the agricultural area, along the road, into the system now as people pick up as they do with aluminum cans now, that price is going to..., Everything is bringing the price up for recycling, which is what this committee wanted to do, but I see the wine coolers..., we looked at them for a year to see the value. They may not be out in that field. A lot of that is going to be recycled, probably more than the mayonnaise jars. I think, if most districts are like yours and mine, there's more people drinking wine coolers, probably, than eating mayonnaise, but it's just a wild guess.

I see a good point about this, Mr. Chairman, that the poetic part is that we have the wine cooler bottles about to get back in the recycling process, in my opinion...

CHAIRMAN SHER: Don't get carried away with this argument, Mr. Harvey.

ASSEMBLYMAN HARVEY: I'm enjoying it though.

CHAIRMAN SHER: Well, I think you'll find, though, that the individual consumer who takes those wine coolers in and hears, "No, you don't get a penny for those things" are going to at some point stop. The individual consumer taking the wine coolers back, because they'll see the distinction between the two.

ASSEMBLYMAN HARVEY: Except that I feel that right now, I use the example of aluminum cans, which have always had a better price and a better price under this AB 2020 that we have, is now, there is some value now that's created by this bill with bottles in general as far as tonnage, and therefore there will be the opportunity to take them, if not for the one cent then to get something for them, and I think there'll be an up beat in that, is all I'm saying. I certainly wouldn't argue with the Chairman on that, but...

CHAIRMAN SHER: I'm glad to hear it.

The 65% goal, is that all glass, or is that just beverages?

MR. WARD: They can use all glass...

CHAIRMAN SHER: But it's only the beverage amount that you're looking at, in other words, the total amount of glass and beverage...

MR. WARD: Sixty-five percent of beverages.

CHAIRMAN SHER: But they can use glass to achieve that.

MR. WARD: They can use glass to achieve that, but if they do they go to 70% in order to avoid the stepped up amount.

MR. WARD: Okay, I've got this video that ...

CHAIRMAN SHER: Okay, let's let it roll.

MR. WARD: With just a short preface. This is designed for a speaker's bureau, the people who are making presentations are in the speaker's bureau. It's designed to be used for civic groups, local governments, those kinds of things which we're getting many invitations to speak before.

I might also mention that any members that might be interested in using this, we'll make it available. If you're in front of the Kiwanis or something like that, it probably would work pretty well.

VIDEO TAPE SHOWING

CHAIRMAN SHER: Who said that legislators and bureaucrats aren't photogenic, huh?

MR. WARD: It wasn't me.

CHAIRMAN SHER: That's very well done. I think you'll get wide distribution on this.

MR. WARD: We will make that available to legislators and hope that they find it helpful. I know that there have been these kinds of productions done in the past that, when you're speaking to local civic organizations and those kinds of things, they can be extremely helpful, and those people are also available as well. So if you have an event, it's something that we'd like you to be conscious of that we can take the opportunity to do the outreach, because again that's a very important aspect of this program, is the outreach.

As I indicated earlier, on marketing, and this is a big area and I know that you're concerned about it and you have some questions about it, so I'm going to spend a little bit of time here, but I recognize also it's been a very long hearing so I'll try to be succinct. We've completed a statewide survey of consumer recycling habits, and under contract we've produced a

wide range of awareness and promotional materials, and we've got a chart here that is really talking about what we anticipate doing. We've got public service announcements. We've got all kinds of materials that are going to be used on everything from buses to beverage trucks to bumper stickers that uses that logo that you saw in the film. We've got a media kit that we've put together. We've got one for the media, we've got one for the industry, we've got one for environmental groups. I think Leon's got a chart. Am I going out of order here, Leon?

This is the certification that we're using for all the recyclers. This is what they will be getting. This is a kit. This logo was something that was embraced by the industry. We've held a marketing task force meeting with all the major elements of the industry, and this is going to be used..., Three of the major domestic soft drink manufacturers are going to be using that logo on their containers.

CHAIRMAN SHER: We saw that in the film, I guess. Those are the stick-ons that you are providing to some of these transition...

MR. WARD: Now, the logo isn't actually a stick-on. Actually, the stick-ons for the redemption...

CHAIRMAN SHER: It says California Redemption... There was a circular...

MR. WARD: That is the logo and the "Turn Up the Volume, California -- Recycle" goes hand in hand with that.

CHAIRMAN SHER: Didn't I see some of those on some of those containers?

MR. WARD: Were they on some of the containers?

MR. VANN: They aren't on the containers yet but they were on the...

CHAIRMAN SHER: Reverse vending machines? Right.

UNIDENTIFIED SPEAKER: That's the legally mandated California Redemption sticker that you saw. The logo is a promotional design.

CHAIRMAN SHER: Well, on the California Redemption Value, those words which appear in a variety of ways, as we've seen on..., but the logo that is not required to be on the bottles and containers...

MR. WARD: No, this is strictly promotional. The industry has indicated...

CHAIRMAN SHER: In a way it's too bad.

MR. WARD: Well, in a way it is, but in many cases we are going to be seeing it, so I think on a majority of soft drink containers, because the three beverage manufacturers, the three largest soft drinks, have already indicated they're going to be using it on their containers. So, although it's not mandatory, I think we're going to be seeing quite a bit of it, and again, this is the frame of reference that we're using for the consumer to come back to, and you know, they look at these things as market points, how many times you can hit the consumer. We're buying radio, we're actually making a radio buy. We are in the process of producing four public service announcements, one geared for Hispanic, one geared for everyday life, one geared with a country-western flavor, and the other is more of a young adult,

rock and roll type flavor, that we anticipate being run prime time because of the amount of money the beverage industry spends in advertising, the leverage that they're going to be able to provide to use those PSA's in a meaningful way is very significant, and they've already indicated that they're going to do so.

I want to show you some of the posters, and why don't we just..., we're getting a thousand billboards, Patrick Media Group, by virtue of the relationship they have with the beverage industry has donated a thousand billboards that that logo is going to be going up on. We have print inserts, retailer posters, point of sale signs, and we can go over some of these as well.

This is, you saw some of the grocery bags with this on the side of the grocery bag, and that's provided. This is, what we're doing here is providing camera-ready art that the industry is already committed to using, so we're not producing grocery bags. The State of California isn't. We're providing the camera-ready art. This is an informational sheet, what it will look like, that's going to be going up in various media publications. This is a sign for a recycling center. This is the mandate that's going in the grocery store that's going to have the address, the location of the store, and three easy steps to recycling.

CHAIRMAN SHER: That's the required form of the sign, so every grocery store that dispense these containers...

MR. WARD: Right, and we were providing roughly 40,000 of these statewide because that was mandated by the Act. Anything that was mandated we're making, providing it. So that will be distributed statewide.

ASSEMBLYMAN HARVEY: Question, Mr. Chairman.

CHAIRMAN SHER: Is there a potential of conflict..., I assume at that bottom place you put the address of the recycling center, within a half mile radius there are other people that are going to be moving in and out of that area. Can we get caught up in a conflict with someone trying to compete with that? Concerning who's address is on the bag?

MR. WARD: That's a potential problem. I think it's something that the grocery stores can deal with. They want to make sure it's convenient for those consumers, so they're going to be...

CHAIRMAN SHER: The law actually says that the name that appears there has to be the name of the nearest redemption center. Of course, if they have one in their own parking lot, that's what they'll do. If it's a small grocery store a little ways away they'll have to give the address of where the redemption center is, and there might be more than one in many of these convenience zones.

MR. WARD: This is a dangler that would be hanging up in the grocery store that they can use, and we're providing camera-ready art for this. This is point of purchase. It goes right on the shelf where the beverages are being sold. This has all been designed working with a marketing task force made up of

the beverage industry, retail industry, the environmental groups, so they're focused on what it's going to take to get the consumers' attention and all those kinds of things, so I'm not an expert on statistics, but supposedly this has a very serious market orientation and is designed to produce results.

Bus and truck, this will be going on lots of beverage trucks throughout the state, and we've also got B.A.R.T. committed to using these on their buses as well as Public Service.

CHAIRMAN SHER: When will all this start, in terms of when we can expect to see these?

MR. WARD: October 1st. We feel that there's certainly been some concern on the part of the industry as far as "Should we be doing all our marketing in October or should we wait until January? If recycling isn't conveniently located, are we perhaps raising expectations unnecessarily?" What we're doing here in this marketing program is generic to recycle. As you saw, it's "Recycle, Get Cash", those kinds of things, but the message is getting out. We think it's important to integrate that message into the market as soon as possible. This is going to be taking place over six and eight weeks, at least initially with the first punch...

CHAIRMAN SHER: But the law mandates that these signs go up in the grocery stores as of...

MR. WARD: That's right, as of the 1st of October.

CHAIRMAN SHER: So we're going to see these all over the state, and you can't really avoid that because the law requires it.

MR. WARD: That's right. We had a mandate, and so we feel that we are fulfilling the terms of that mandate.

CHAIRMAN SHER: Let's again look at a situation where the beginning, the redemption center is somewhat remote but the name goes on there and as others establish closer by, the grocer has to change that name, is that right?

MR. WARD: That's right. Now, on the other side of the coin, we've had..., certain environmental groups are critical that we haven't started marketing prior to October 1, that we should have been integrating this program and affecting consumer attitude prior to October 1, so I don't know whether you want to call it a happy medium, but we felt the mandate of the law was October 1 and given the time frame that we had to put this program together, develop really in a collegial fashion the number of industry and environmental groups that have all participated in this program and get them to embrace what we're doing and really take benefit of their marketing operations. They're the ones that are skilled at this, get the benefit of all their combined thinking, that it is taking some time, and I think we've got a very effective program. I think it's going to go over very, very well.

As I indicated, we've developed a program for the radio, we're actually making a major radio buy throughout the state. We're establishing a toll-free phone number that's going to go on the public service announcements. It's going to go on the video announcements, so that if consumers have a question, "Where can I recycle, they can call a toll-free number, that we'll be able to

give them that information, so there'll be a phone bank. We'll be contracting with those who are going to be providing that service. We're meeting with editorial boards, the Department is, statewide. I've already met with a couple through the next few weeks, and am meeting with all the major publishers in California. And I assume that you, as well as other members of this committee, have been getting phone calls about the status of the program, so I think it's important that in this package you see a lot of things that we've done. We've produced a monthly newsletter called "Twenty-twenty Vision" that's been going out, literally, to all elements of the industry talking to them about regulations, status, any number of things that are germane to the implementation of this program. We've made available, literally all of our consumer surveys to the major industry groups, and those kinds of things. We've done some surveys as well. You've seen the publications we've done for local governments, for media and industry and for recycling centers. All that is all part of the media and marketing program that we've implemented as a result of AB 2020.

I mentioned the marketing task force. I also mentioned the speaker's bureau where we're going to be able to respond for you as well as other requests that we're getting to talk about the program. I may have left something out, Leon, if you think...

Oh, we're putting out under the marketing program, and those of you involved in politics understand impressions the public gets in terms of advertising better than I. The marketing

program result is going to be 5.8 billion impressions over the week period after the program kicks off, which means an average of two impressions per day per Californian. And I'm told that's very significant from every marketer that I've talked to... I think we're meeting our mandate in the area of marketing and trying to sell this program, and again, I think it's extremely important that we recognize we have to affect consumer attitude here. We felt that that's been a major charge, the industry has felt that's a major charge, and as I indicated in the video, there's been a real serious demonstration of commitment on the part of all involved to do that. There's some very interesting events that are taking place: concerts and those kinds of things that at this point are proprietary. The industry doesn't want to let one know what the other is doing, but some very interesting events where they're going to be promoting the program through some kind of a recycling opportunity. Very interesting kinds of things going on. Exciting things going on.

CHAIRMAN SHER: Well, if that's the end of your presentation, I want to thank you for making yourself available today. I think it's important for the Legislature to stay on top of this program and I want to say, for myself and I know for the other members of the Committee, that we continue to be impressed with the job that the Department is doing. Both Mr. Ward and Mr. Vann have obviously..., and we've had continuing contact, my committee staff, with the Department. They not only have, obviously, a big stake in this and a lot of effort's gone into it, but you've demonstrated a commitment to make it work. I'm

very impressed. There was a lot of discussion, as we all know, about which branch of government should carry on this program, a lot of debate about it, and in my view we clearly made the right choice. We got the right people, who want to see this program work, so I applaud your efforts, and the thing that really impresses me is that, while this will deal with beverage containers, I think that with these impressions and with the logos appearing and in a variety of ways, we're going to promote the recycling effort in California, and not just for beverage containers. I'm really hopeful that it will work and that we won't be the model for the rest of the country, and Mr. Vice Chairman, did you want to say anything as we conclude this hearing?

ASSEMBLYMAN HARVEY: I applaud you.

CHAIRMAN SHER: Well, thank you very much. We certainly appreciate the good work, and we know you're going to be reviewing this as you gain experience, and this committee is going to stand ready to address problems if any develop as we get into the program, so thanks again.

MR. WARD: Thank you, Mr. Chairman.

ASSEMBLYMAN HARVEY: I should say one thing, in all sincerity, Mr. Chairman, to you because I read the mail and so forth, and you took the initiative to write the letter to ask Mr. Ward and Mr. Vann to be here to lay this all out to us, so I should say that there wasn't a lot of us here. The reasons, I'm sure, are all good, but on behalf of the Vice Chairman to the Chairman, I appreciate your doing this, bringing it together. It

was very educational today, and I'm glad the Chairman did it. I personally want to thank you on behalf of the rest of the committee.

CHAIRMAN SHER: Thank you. With that, our meeting is adjourned.

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