Background on California’s Convenience Zone Structure and Current Status

Table 1. Convenience Zones: Status, Definition, Number and Percent of Total, April 2019

<table>
<thead>
<tr>
<th>DESIGNATION</th>
<th>DESCRIPTION</th>
<th># of Zones with this status</th>
<th>% of Zones with this status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Served</td>
<td>There is a beverage container redemption center within the zone.</td>
<td>1,498</td>
<td>38%</td>
</tr>
<tr>
<td>Exempt</td>
<td>CalRecycle has issued an exemption for the retailer. By statute, not more than 35% of the total number of convenience zones shall be granted an exemption. Note: more than 700 of these exemptions were granted more than five years ago, and some date back to 1987.</td>
<td>1,234</td>
<td>31%</td>
</tr>
<tr>
<td>Hold</td>
<td>Hold status is supposed to expire after six months.</td>
<td>162</td>
<td>4%</td>
</tr>
<tr>
<td>Unserved</td>
<td>If a convenience zone is neither “served,” “exempt,” or on “hold” status, then it is “unserved,” and the retailers in the zone must either take back containers in-store (option A) or pay the “in-lieu-of” fee (option B - $100/day).</td>
<td>1,092</td>
<td>27%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>3,986</td>
<td>100%</td>
</tr>
</tbody>
</table>

Background on California’s Beverage Container Recycling Centers

- A “convenience zone” is defined as the area within a half-mile radius of a supermarket that has gross annual sales of at least $2 million. By statute, the intent is to have one redemption center in each convenience zone. This would ensure that it is just as easy to return an empty beverage container for refund as it is to purchase the beverage in the first place.
- There are nearly 4,000 convenience zones designated in the state.
- “Recycling center” means an operation which is certified by the department and which accepts from consumers, and pays or provides the refund value for, empty beverage containers intended to be recycled.
- If no redemption center is in a zone, then all beverage retailers, including supermarkets and other types of stores, must comply as follows:
  - (a) take back containers inside their stores (“option A”), or
  - (b) opt out of the take-back system by paying fees to CalRecycle (“option B”), or
  - (c) apply to be “exempted” from participation altogether in certain circumstances.
• By statute, no more than 35% of zones shall be “exempt”.
• At this time, only 38% of the convenience zones in the state are “served” with a redemption center; the remaining 62% are “unserved” (27%), “exempt” (31%) or on “hold” status (4%).
• CalRecycle reports that nearly 3,800 retail stores have signed option A affidavits acknowledging that they accept beverage containers directly from consumers and give refunds to consumers. However, this list of in-store take-back sites cannot be found on CalRecycle’s website, and it is unclear if any significant numbers of containers are redeemed in-store.
• CalRecycle reports that 117 retail stores are currently paying the “option B” fees of $100 per day, which equals $36,500 per year per store, or more than $4.3 million per year to CalRecycle overall. (Note: in 2017, 142 stores were using “option B.”)
• Therefore, consumers throughout California theoretically have 5,300 locations to redeem beverage containers: 1,500 redemption centers plus 3,800 retail stores. However, only the redemption center locations are advertised on CalRecycle’s website, and consumers are generally not aware of the “return-to-retail” option (option A).
• CalRecycle entered into a million-dollar interagency agreement in May 2016 to have UC Berkeley study convenience zones, and part of that study was to “develop a proposed definition of ‘convenient recycling’ in the context of the” California Beverage Container Recycling and Litter Reduction Act. While the study was originally scheduled to be completed in October 2017, it has not yet been released.
• California has perhaps the most inconvenient redemption infrastructure of any of the dozens of container deposit programs in the world. Californians have only one redemption center for every 26,000 people (for example, Oregon has at least 40% more redemption locations than California, even though Oregon’s population is only one-ninth the size of California’s).

5-Year History and Impacts of Redemption Center Closures in California

• In the last 5 years, redemption centers have faced financial hardships due to both scrap price declines and inadequate payments from CalRecycle. More than 1,000 redemption centers have closed since 2013. Fewer than 1,600 redemption centers remain in operation in California, compared to nearly 2,600 centers in 2013.
• About 754 of these redemption centers are supermarket-adjacent “handling fee” redemption centers. At the peak, in 2009, there were more than 1,200 “handling fee” sites, meaning that 37% of these sites have disappeared in the last several years. Some have closed due to financial hardship, some have been evicted by their supermarket hosts, and some have closed due to enforcement actions by CalRecycle.
• In 2017, approximately 90 redemption centers went out of business. In 2018, another 51 centers closed.
• Currently, California is losing redemption centers at the rate of 4 per month.
• Beverage retailers of all types and sizes are impacted when a zone is “unserved.” Currently, 3,800 stores have signed option A affidavits, up from 2,100 in 2016.

Looming Financial Crisis for Redemption Centers: 3 New Unaccounted-for Challenges

- In response to the alarming number of redemption center closures, CalRecycle passed emergency regulations in 2017 and 2018, which provide an 11% boost in payments to redemption centers. The temporary, 11% supplement expires on December 31, 2019, which means redemption centers will receive an 11% pay cut next January.
- In addition, a new cost survey was conducted, which resulted in even lower payments to redemption centers beginning on January 1, 2019.²
- Minimum wage increases are another financial challenge for the redemption centers, with increases in 2017, 2018, and 2019. The minimum wage in California has increased 20% since 2016. Both the prior and current cost surveys do not have a mechanism to incorporate these cost increases, even though they are a certainty. This is a part of the statute that has not been updated to reflect current conditions.

Recent Attempts to Enlarge Zone Size: Impacts

Recent legislation has proposed expanding zone size to 1-mile or 2-miles. There are at least 3 implications of expanding zone size:

1. In the places where there are 2 handling fee sites, one would no longer be eligible to receive handling fees (notwithstanding legislative intent.)
2. In places where a second handling fee site is redundant, host supermarkets would likely evict redundant sites, thereby reducing return locations for consumers. Previous analyses by CalRecycle indicated that 200 sites might be eliminated due to zone size enlargement to one mile.
3. For zones that remain unserved, the larger zones would cast a larger net that would contain more small businesses that would be subject to the “option A” and “option B” requirements. If 3,800 stores are currently subject to option A and B requirements, a zone size enlargement could force thousands of new retailers to be subject to the option A and B requirements.

- A half-mile radius encompasses .785 square miles
- A 1-mile radius comprises 3.14 square miles, or 4 times as much area as a half-mile radius
- A 1.5-mile radius comprises 7 square miles, or 9 times as much area as a half-mile radius
- A 2-mile radius comprises 12.56 square miles, or 16 times as much as a half-mile radius

If there were larger radii, ALL convenience zone types would be enlarged, including “served,” “exempt,” “unserved” and “hold” zones. The larger zones would likely ease requirements for supermarkets by causing more to be considered “served” or “exempt” with the existing number of redemption centers. Meanwhile, thousands of non-supermarket retail stores that currently have no redemption responsibilities would likely be captured in the new, larger “unserved” zones and would suddenly be subject to the law. This could increase requirements for thousands of retailers and for CalRecycle, which must track the stores, document their compliance options, and enforce compliance.

² [https://www.dir.ca.gov/dlse/SB3_FAQ.htm](https://www.dir.ca.gov/dlse/SB3_FAQ.htm); For small employers, the minimum wage was set at $10/hour on 1/1/17, rising to $10.50 on 1/1/18, and will rise to $11/hour on 1/1/19.