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Cc: Vivian Cruz
Processing Payment Emergency Regulations
Department of Resources Recycling and Recovery, Regulations Unit
1001 "I" Street, MS-24B
Sacramento, CA 95812

Oct. 26, 2022

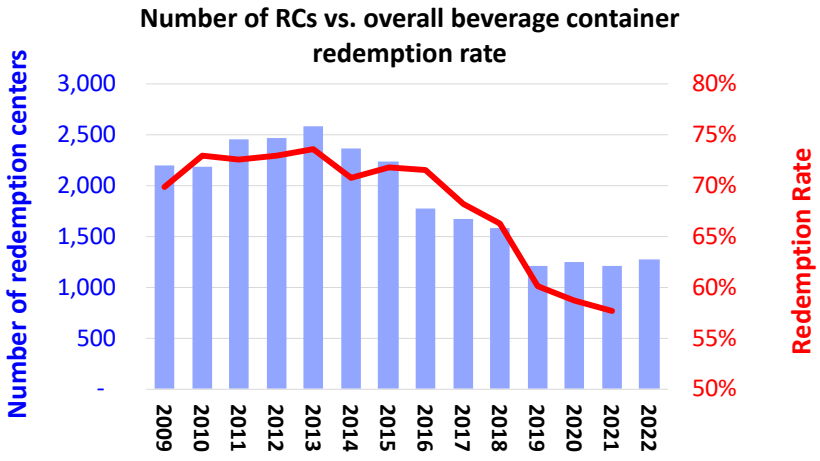
Topic: Processing Payment Emergency Regulations

Dear OAL Reference Attorney and Ms. Cruz,

The Container Recycling Institute supports CalRecycle's proposal to extend the Processing Payment Emergency Regulations for another year. It would be preferable, however, to have a 10% RFR written into statute, rather than repeatedly issuing emergency regulations—this is the sixth time CalRecycle has done so.

The Emergency Regulations suggest a value of 10% for the RFR (reasonable financial return) that is added to the processing payments that are made to certified recyclers. These payments are meant to offset the difference between recycling centers' operating costs and the revenues they take in from scrap sales. "Recyclers" include recycling centers, and curbside and dropoff programs.

As you know, recycling centers (RCs) across the state have been closing steadily due to their inability to make a profit under current economic conditions. Since the closure of rePlanet redemption centers in August 2019, the number of redemption centers has floated between 1,200 and about 1,275 across the state. The public's reduced access to redemption opportunities as a result of 1,307 RCs closing their doors (a 51% loss since 2013) has led to sharply declining redemption rates, as shown by the red line in the chart at right.



Source data from CalRecycle. Redemption rates derived by multiplying published recycling rates by participant shares for recycling centers.

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One reason for these RC closures (represented by the blue columns in the chart) is that the payment formula to redemption centers **does not take into account the multiple increases in California's minimum wage over the last several years.** The financial information used is two years old, dating from the 2020 cost study when the minimum wage for small businesses was $12 per hour. The minimum wage has increased twice since then, and will go up again to $15.50 per hour on January 1, 2023.

In addition, **plummeting commodity prices** have pushed many recycling centers over the brink. Because PET has lost two thirds of its value over the last four months (since June 2022), and mixed-color glass continues to have a negative value, many more RCs stand to become unprofitable and close in the coming months. The extension of these emergency regulations will help struggling centers remain in business.

Inadequative incentive for RCs to operate: while the number of redemption centers has largely stabilized over the last two years, the state has still lost over half of its redemption centers in the last 8 years of steady decline. Despite years of emergency regulations being repeatedly issued, the most recent number of redemption centers (1,271 on Oct. 25, 2022) represents *only 53 more redemption centers than were in operation in early 2021* (1,218 on 3/17/21), and ***only 7 more than were in operation in early 2022*** (1,264 on 2/16/22). This is a very disappointing number, especially because it occurred during a year where, until very recently, the value of scrap materials have generated higher-than-usual profits for RCs. These data are indicative of how reticent businesses are to join the redemption system: if they thought they could generate a profit, there would be more entrepreneurs opening new redemption centers.

The RFR is not the only factor that needs adjustment. ***The formula for calculating processing payments as a whole is inadequate.*** CalRecycle should be using scrap prices that are more reflective of current reality—such as the prior 4 - 6 months—not the rolling 1-year average with a 3-month lag time built into it. The table below chronicles the pattern of shortfalls that recycling centers have experienced under the current formula. **At the end of FY 2021, there was a net cumulative shortfall of $59 million since 2013.** While that shortfall was reversed in FY22 (to date) because PET prices hit an uncharacteristic high point in 2022, the pattern is instructive nonetheless. The deposit-grade PET price has already dropped from a high of 52 cents per pound in January 2022 to less than 15 cents per pound in late October. Most recycling center operators have not saved their recent windfalls for a rainy day; in all likelihood they've already spent the money on equipment, labor, or debts. When they start to feel the pinch of today's low PET prices, more of them will certainly close unless the formula for calculating processing payments is changed to be more current and relevant.

Windfalls/(shortfalls) in processing payments for glass & PET, July 2012 - June 2022*

Year	PET payment windfalls (shortfalls) (million)	Glass payment windfalls (shortfalls) (million)	Sum of PET & Glass payment windfalls (shortfalls) (million)	Cumulative PET & Glass payment windfalls (shortfalls) (million)
FY 2013	($15.6)	($0.6)	($16.2)	($16.2)
FY 2014	($6.6)	($0.8)	($7.4)	($23.6)
FY 2015	($10.5)	($0.7)	($11.3)	($34.9)
FY 2016	($16.5)	($1.5)	($18.0)	($52.9)
FY 2017	$3.2	($0.3)	$2.8	($50.1)
FY 2018	($4.1)	$0.2	($3.9)	($54.0)
FY 2019	($0.8)	$0.3	($0.5)	($54.5)
FY2020	($6.6)	($0.3)	($6.9)	($61.4)
FY 2021	$3.1	($1.1)	$2.0	($59.4)
FY 2022 (preliminary)	$54.4	$0.6	$55.0	($4.4)
Total to date	**($0.0)**	**($4.3)**	**($4.4)**	

*Positive numbers in black are windfalls, or profits. Negative numbers in red are shortfalls. Second half of FY22 includes tonnage estimates based on growth in previous year.

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Bear in mind that statute says that the processing payment should be "at least" equal to the difference between the scrap value and the COLA + RFR. We think that current conditions represent an instance where the PP **should be more than that,** because the built-in time lags will lead to underpayments.

The declining redemption rates shown in the graph on the first page of this letter represent hundreds of thousands of tons of wasted metal, plastic, and glass; increased greenhouse gas emissions and other environmental damages from a

failure to recycle; more litter on our state's roads, beaches, parks, and waterways; and thousands of lost jobs in the recycling industry.

While the bottle bill could benefit from a wide range of improvements, extending the emergency regulations is one immediate step that needs to be taken to curtail the loss of redemption centers.

Please feel free to contact me to discuss these issues further.

Sincerely,

Susan Collins
President and Executive Director, Container Recycling Institute