

The California State Auditor released the following report today:

California Department of Resources Recycling and Recovery
The Beverage Container Recycling Program Continues to Face Deficits and Requires Changes to Become Financially Sustainable

BACKGROUND

Created in 1986 to encourage and increase consumer recycling, the Beverage Container Recycling Program (beverage program) is administered by the California Department of Resources Recycling and Recovery (CalRecycle). Beverage distributors are required to make a redemption payment for every qualified beverage container sold or offered for sale in the State. Consumers can return qualified beverage containers to recycling centers and receive a recycling refund payment. Recycling centers return the eligible beverage containers to processors and receive the applicable recycling refund payment from the processors—CalRecycle then reimburses the processors. CalRecycle performs audits of distributors to ensure that payments comply with laws and investigates participating recycling centers and processors to ensure refund payments are legitimate.

KEY FINDINGS

During our review of CalRecycle's administration of the beverage program, we noted the following:

- The beverage program's long-term financial health is at risk—the program's costs exceeded revenues by \$100 million in three of the last four fiscal years and by nearly \$29 million in the past fiscal year.
 - ✓ Large cash infusions to the Beverage Container Recycling Fund (beverage fund) coming from loan repayments have somewhat masked the financial performance of the beverage program. These loans are now nearly repaid.
 - ✓ When CalRecycle's resources are inadequate to meet financial commitments, state law allows it to reduce certain types of spending in the beverage program with at least 80 days' advance notice to the Legislature.
 - ✓ Several viable options exist for CalRecycle to increase revenues, such as requiring beverage manufacturers to pay the full cost of the processing fee. Doing so could increase revenue by \$60 million to \$80 million annually.
- CalRecycle needs to better respond to and quantify the fraud risk of recycling centers making recycling refund payments for containers that were sold out of state—where beverage distributors did not initially pay into the fund.
 - ✓ Because the California refund logo is printed on the beverage containers along with the logos from other states, it is difficult to identify out-of-state beverage containers at recycling centers and prevent fraudulent refund payments.
 - ✓ CalRecycle does not yet have a formal approach to analyze data it has and establish a systematic process for monitoring and responding to the risk of making recycling refund payments for out-of-state beverage containers.
- Although its fraud prevention efforts appear reasonable, the financial recoveries in the form of restitution and penalty assessments against those who violate the beverage program's rules have been limited. In fiscal year 2012–13, CalRecycle conducted more than 3,500 recycling center inspections and investigations and identified roughly \$1.3 million in funds owed to the beverage program—or about \$370 per investigation or inspection.
- A potentially simpler and customer-centric model of revenue collection may lessen the risk of underpayments to the beverage program, but would require amending state law to require the California State Board of Equalization (Equalization) to collect payment at the point of sale.

KEY RECOMMENDATIONS

We made numerous recommendations to both the Legislature and CalRecycle, including the following:

- The Legislature could amend laws that increase revenue and/or reduce costs—as we detail in the report—to better ensure that the beverage program is financially sustainable.
- CalRecycle should modify and annually update its fraud management plan to include analyzing data about out-of-state containers and taking appropriate action with the results, developing fraud estimates by type of fraudulent activity, and identifying fraud that has actually occurred and the amount actually recovered for the beverage program.
- CalRecycle should determine the feasibility of transferring revenue collection duties to Equalization and pursuing legislative changes to do so to ensure all appropriate redemption payments are identified and collected.