

Recycling in the dumps

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As the state's landmark program struggles, CalRecycle might be missing out on millions

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By Michael Mott

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Every day,

A tower of recycling looms over David Kuhnen, general manager of Sacramento County's Recycling Industries.
PHOTO BY MICHAEL MOTT



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Californians pay an extra nickel for their favorite canned or bottled drinks, with the money earmarked to support the state's landmark recycling program. If they return the bottle or can, they get five cents back.

But what if the nickel never went to recycling?

California's recycling program could be losing out on \$200 million in California Refund Value (CRV) fees from beverage distributors who are undercounting the number of drinks they sell, according to a Los Angeles-based nonprofit.

Meanwhile, recycling rates have fallen from 84.7 percent in 2012-13 to 80 percent this fiscal year.

For many, going to recycling centers is a forgotten memory: Since 2012, more than 950 centers have vanished, a third of the total infrastructure.

The California Department of Resources Recycling and Recovery, or CalRecycle, reports that in Sacramento County, 355 have closed shop, leaving 55 for the 1.5 million people paying their five cents.

There's little disagreement: California's recycling system is in crisis.

A storm of factors have caused the failure, from plummeting commodity markets to California's stiff recycling legislation, which some say hasn't kept up with market changes.

"The program has done amazing things to increase container recycling over the past 30 years," says Heidi Sanborn, executive director of the California Product Stewardship Council. "But we need permanent solutions to fix permanent

problems.”

Susan Collins, president of the Los Angeles-based nonprofit Container Recycling Institute, or CRI, discovered an audit this September that showed Walmart underpaid millions of dollars to the state because it underreported the sale of 129.9 million containers from 2011 to 2014. The retail giant “incorrectly coded” 15 percent of the drinks it sold, pocketing \$14.5 million instead of sending it to the state.

Collins thinks there is more.

“Consumers are being hit hard twice—thinking they are paying nickels into a recycling program that don’t seem to be getting there, and being unable to redeem containers since so many centers have closed,” she says.

Meanwhile, SN&R found that one of Sacramento County’s main recyclers has been unable to sell the stuff it collects, landing it in \$350,000 debt to the county.

Overall, Sacramento’s recycling program is in trouble.

“We’re going from a \$1.2 million-a-year revenue to a \$1.2 million-a-year cost,” says Waste Program Manager Doug Kobold. “Until this resolves, we’re stuck with that cost. And our \$70 million in reserves is going, quickly.”

Missing millions

Collins is a former recycling consultant. As CRI’s president, she works on improving recycling nationally. But in California, a worldwide leader in recycling, she often checks CalRecycle’s fact sheets detailing the agency’s fiscal health.

This fall, she compared the most recent report with the one prior and found a surprise: \$18 million in revenue labeled with a short description: “audit findings.”

She started asking questions. CalRecycle revealed that of 66 recycling companies, 50 owed \$18 million to the state. The vast majority of that money—\$14.5 million—was owed by Walmart, which later paid the state the missing amount with interest, without penalty.

Collins is calling for more audits on beverage distributors. CalRecycle spokesperson Mark Oldfield says Walmart was an outlier.

Yet when reviewing reports from 2014 to 2015, Collins found a 3.6 billion container gap between what distributors self-report they sold in California and what CalRecycle found in an on-the-ground study of landfills and recycling.

At 5.55 cents per container on average, that’s more than \$200 million the state’s program could be missing out on.

Oldfield says CalRecycle believes other issues were at play: Contamination of moisture and gunk led to more waste in the 2014 study, and fraudulent material from out-of-state sources was included as part of the state’s recycling numbers, he says.

But the discrepancy was also found when CRI compared private, industry-used data with CalRecycle’s reports, Collins says. She hopes for more audits since, she says, audits generate \$3 in revenue for every \$1 spent.

Oldfield says CalRecycle does plan to audit the major distributors next year, as well as a “significant subset” of smaller ones to learn if there is broad underreporting.

“Even if there is, it will pale in scale,” Oldfield says. “We know there are a handful of small distributors that haven’t been paying, and we are working on developing collection measures. The big players pay the vast majority.”

If there are significant revenues that aren’t being collected, “we have yet to be provided any substantive documentation or evidence,” he says.

Collins responds: “CalRecycle is the authority to audit these companies. I’ve shown them how we calculated our numbers.”

Meanwhile, the recycling system struggles.

Heidi Sanborn’s Product Stewardship Council works in carpet recycling, so she rarely deals with can-and-bottle recycling. While she concedes that she’s not an expert, she says the audit program should be strong.

“It’s always ‘follow the money,’” she says. “If people have a financial incentive to benefit from underreporting, that should be examined more closely.”

Recycling in crisis

In three Northern California counties, there are no recycling centers. Del Norte County reached a breaking point in late September, when the rural Northern California county of just 30,000 people lost Julindra, its only recycler.

“The reality is, the scrap market value has plummeted, and CalRecycle’s subsidy program hasn’t kept them open,” says Tedd Ward, director of the Del Norte Solid Waste Management Authority, which held a contract with Julindra. “If you can’t get your nickel back without traveling 70 miles, you’re being charged for a service that’s functionally not available.”

Ward indicated several factors: State-subsidized recycling businesses not keeping up with market changes; thinner plastic, meaning bottles weigh less (with less CRV value); and China implementing harsher restrictions on the recycled products it buys.

Two recycling bills were introduced this year: Senate Bill 102, which would give a temporary reprieve to recycling businesses by resetting the subsidy rates; and Senate Bill 458, which would provide relief in redemption centers through five pilot programs to take bottles in unique ways.

SB 102 failed to come for a vote. Mark Murray of Californians Against Waste, lead advocate of the bill, says he hopes it comes back in January. Gov. Jerry Brown signed SB 458 in October.

One of SB 458's pilot programs is in San Francisco. The city saw Safeway and other grocery stores close the recycling centers in their parking lots—opting instead to pay the state a fine.

Currently, stores with \$2 million in sales of canned and bottled beverages trigger a "convenience zone" clause, requiring that they provide for recycling unless they are located within a mile of a recycling center. Failing that, they must pay \$100 a day.

CalRecycle says most retailers have promised to take in-store recycling. The agency confronts retailers only when it receives a consumer complaint—fewer than 100 people complained last year.

Bringing it home

An 11-ton bulldozer piles recycling into a two-story hill, contaminates co-mingling with recyclables. Forklifts zoom across the 155,000-square foot warehouse.

Recycling Industries handles much of the curbside recycling in Sacramento County. Public records show the longest-operating recycler in the region has accrued \$346,000 in debt after being unable to sell some of its recycled products to China.

According to reports, China stopped purchasing many U.S. recyclables in February. That hurt Recycling Industries, whose freight forwarding company hasn't been able to sell much of what it once did.

USA Waste Services of Sacramento saw the market trend. Before China's decision, it decided to buy out of its contract with the county for \$250,000. Recycling Industries, a smaller company, didn't.

The company and county may see a new agreement addressing repayment this month, which will go before the Board of Supervisors.

For now, the recycling sits, waiting, on the Oakland docks.

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