

# Regulation and Recycling:

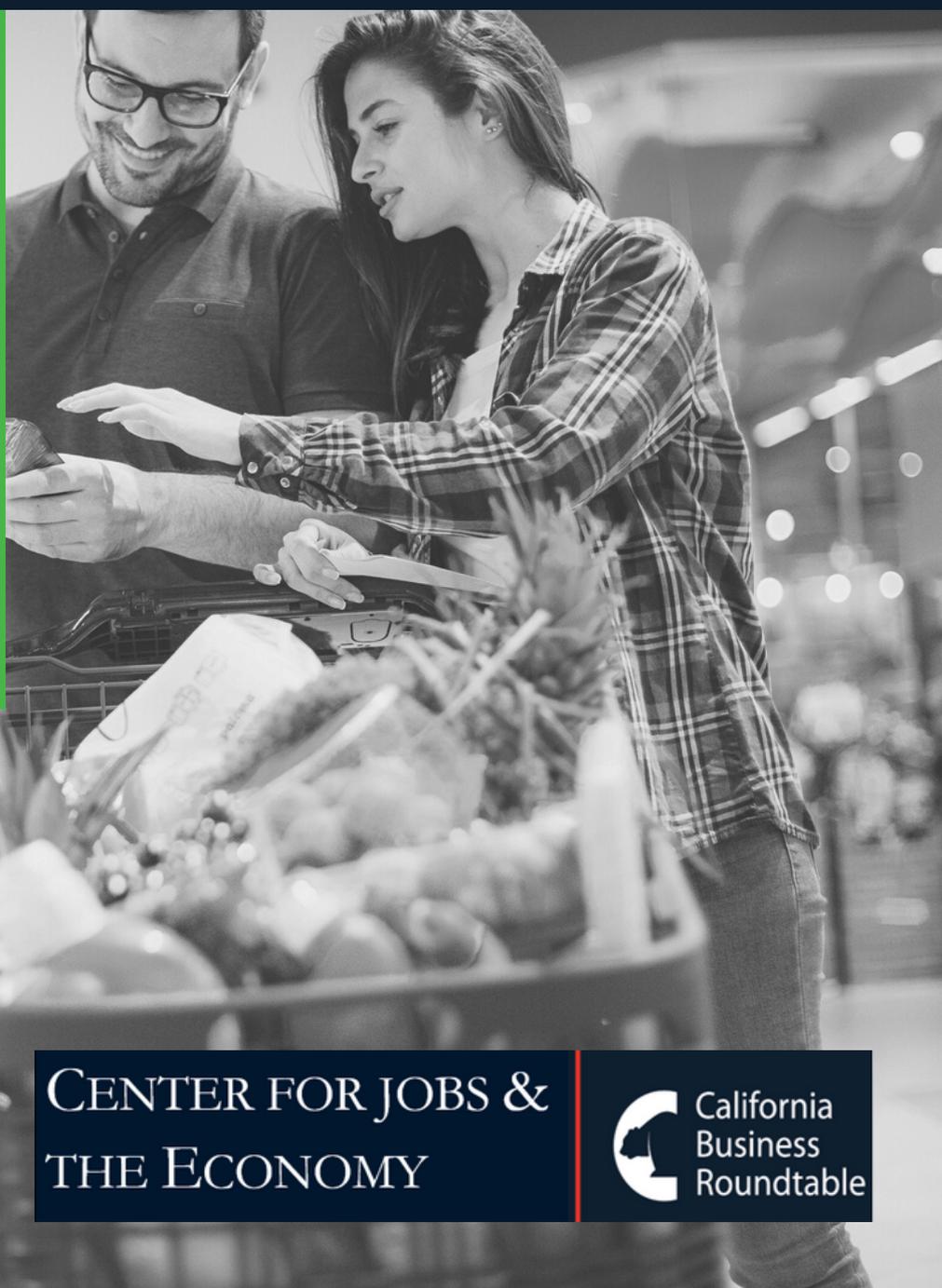
## The Impact of Initiative #19-0028A1 on Direct and Indirect Cost Increases for Consumers, Businesses and the California Workforce

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Prepared by

Center for Jobs  
& the Economy

Executive Summary



CENTER FOR JOBS &  
THE ECONOMY



California  
Business  
Roundtable

As part of its ongoing mission to identify and analyze policies driving up the cost of living and impacting the state's business climate, the Center for Jobs and the Economy undertook an in-depth analysis of Initiative #19-0028A1 to better understand its economic impacts for businesses, jobs and direct and indirect costs to consumers.

**Estimated Annual Costs: Summary Total**

*Source: see text; all dollar amounts (except per household) in millions*

Cost Component	Tax	Other Direct	EPS Cost	2030 Cost	Total Cost
Foodware	\$816		351	\$34	\$1,201
Bottles & Containers	286				286
Meat, Fish & Poultry Packaging	46				46
Other Packaging	3,096			119	3,215
<b>Compliance</b>					
Recycling/Composting Capacity		548			548
Data & Reporting		3,400			3,400
General Fund Appropriation		200			200
<b>Total (million)</b>	<b>\$4,286</b>	<b>\$4,148</b>	<b>\$351</b>	<b>\$153</b>	<b>\$8,895</b>
<b>Equivalent Cost for Household of 4:</b>					
Additional Annual Costs Paid Under the Measure					\$901
Annual Costs Already Paid for Recycling Programs (core taxes and fees)					\$567
Annual Costs Already Paid for Recycling Programs (w/ greenhouse gas taxes)					\$780

**Imposes Taxes & Limits on Single-Use Plastic Foodware & Packaging.** The proposed measure imposes a new tax on each piece of single use plastic packaging and plastic foodware, bans the use of certain single use plastic foodware, requires each producer to reduce the use of these items 25% by number and weight by 2030, and requires the remainder of these products to be reusable, refillable, recyclable, or compostable by 2030. These taxes will be in addition to multiple state and local taxes and fees consumers and businesses already pay on the goods they buy, including a wide range of other recycling and refund fees, bag fees, excise taxes, and sales and use taxes.

**Direct Annual Costs of \$8.9 Billion.** From the table above, direct costs to California businesses and households are estimated at \$8.9 billion annually consisting of: (1) \$4.3 billion in higher taxes; (2) \$4.1 billion in higher other direct costs to expand required recycling collection and sorting, comply with the extensive data and reporting requirements, and maintain general fund expenditures at specified state agencies; and (3) \$0.5 billion based on expected costs to replace non-complying materials on a lowest-cost alternative basis.

**More than Doubles what Californians Now Pay for Recycling Programs.** To put these costs into perspective, estimated costs of the measure are the equivalent of \$901 per household of four, paid directly and indirectly including through higher costs for most if not all of the goods they buy.

These costs are on top of the estimated \$567 per household of four already paid each year in taxes and fees for the current recycling and source reduction programs if the greenhouse gas tax is not included, and \$780 annually if it is. Based on recent inflation impact numbers calculated by Wharton Model, lower income households will see a relatively higher increase in these costs.

**Proposes One of Largest Tax Increases in Recent Years.** To put the estimated \$4.4 billion tax increase in perspective, State Controller data indicates that the largest recent tax increase—Prop. 55 (income taxes)—increased tax revenues by about \$6 billion a year. But unlike Prop. 55 that only applies to high income individuals, the costs from this measure will be paid by every household. SB 1 (Chapter 5, Statutes of 2017) raised fuel taxes initially by \$4.4 billion, and by \$5.5 billion at full implementation in 2020.

**Cost Estimates Based on 2019 Base Year.** Costs are estimated from base year 2019 conditions to avoid distortions from attempting to project across the pandemic period. Escalating them using Department of Finance inflation forecasts to 2022 when the tax would become effective retroactively, the costs would be \$9.4 billion annually, or \$940 per household of four.

**Cost Estimate May be Much Higher, Depending on How Undefined Terms are Clarified.** The costs will vary depending on how CalRecycle subsequently defines the various terms in the measure. For example, the cost estimates assume—consistent with the Department’s actions in the recent SB 1335 (Chapter 610, Statutes of 2018) regulations—that rigid plastics will be defined as recyclable for the purposes of the 2030 requirements, as the result of the increased recycling capacity and market development the measure is proposed to achieve. If 2030 requirements instead are defined to require fully recyclable and compostable materials from renewable materials, the costs for replacing EPS by food vendors alone would increase from \$351 million annually to \$690 million. The 2030 replacement costs would be substantially higher.

**Costs Not Included in the Estimate Push the Total Higher.** The measure includes other provisions that will push the costs even higher, but no estimates are included as these are more speculative. The primary factor is that individual producers must reduce their use of the covered materials both by weight and volume by 2030 based on their use in 2023. Costs will depend on whether the state economy and more importantly individual companies are still attempting to recover in 2023, and will vary considerably by company size with larger corporations likely to have more options across their different product lines and smaller companies instead faced with the need to reduce product offerings, shift company operations, or even reduce sales in order to avoid the hefty fines under this measure. Other provisions are the additional authorities given to CalRecycle, including: (1) mandate take-back programs and additional fees without the Legislature’s approval; (2) mandate minimum content, product reformulations, and product redesigns both on individual producers and product categories without the Legislature’s approval; and (3) create new labeling standards that conflict with current federal requirements.

**These Additional Authorities Remove Checks and Balances on CalRecycle & Allow Them to Raise Costs in the Future.** The department is given broad authority to raise additional taxes and fees administratively to expand programs for any of the broad purposes under the measure. The department can also dictate how any good is packaged or sold in the state, raising its costs even more.

**Higher Taxes Will Vary Widely by Product Sold.** The tax will vary by each item of final goods sold as it: (1) applies to every step in the goods cycle process from raw materials and components to production, transportation, and final display and sale; (2) is counted from the individual pieces of plastic packaging used rather than by each item sold; and (3) applies to single use packaging made wholly or partially from plastics, meaning even items such as paper hot cups will be subject to the tax due to the PE or bioplastics coating used in these products.

**Only About 30% of Tax Goes to Recycling & Reducing Plastic Packaging.** Revenues generated by the tax would be allocated to a wide range of state and local programs. While a specific distribution will be subject to future state budget decisions, simply assuming equal allocation among the core purposes indicates that at most only about 30% of the funding raised from the new tax would go to plastics recycling or reducing current single-use plastics packaging use in the state. Administrative costs to most state and local agencies are capped at 5% of their allocations, but there is no limit to the funds that can be spent by CalRecycle to develop and implement regulations and to collect, administer, and enforce the new tax.

**No Guarantee the Money will be Spent for the Purposes Voters Approve.** Even if voters approve this measure, there is no guarantee that even 30% will be spent on reducing plastics use and plastic pollution in the state. As a statutory initiative, the legislature can change any part of this measure—how high the taxes can be raised, budget allocations of the funds to other legislative priorities—with a two-thirds vote of each house. When funds were short for other priorities in the past, the legislature has redirected other recycling taxes of this type to other purposes and even in normal budget years approved spending with only a tangential relationship to the intended purpose.

**Spending Another \$8.9 Billion a Year Will Still Leave the State Short of Its Recycling Goals.** California as with the rest of the country lost ground under its current recycling programs even prior to the pandemic, going from 50% in 2012-2014 to 37% in 2019 and a brief uptick to 42% in 2020 due to how the numbers are calculated. Even assuming the measure is fully effective, the 2020 rate would only rise at most to 46%, well below the 50% recycling rate the state was supposed to reach by 2000 and the 75% rate by 2020. The actual potential is lower as the waste numbers used to calculate this gain covers more than the materials that will be subject to the measure.

**Californians Will Be Asked to Spend Even More in the Future.** While claiming to be a comprehensive solution to plastic wastes, the measure will only apply to about two-thirds of plastics currently sent to landfills or littered. Californians are asked to spend another \$8.9 billion a year to cover only 4% of the wastes overall now going to landfills or being littered, and they will be asked to spend even more in the future if the state is ever to reach its 75% diversion goal. The estimated costs must be considered from this cost effectiveness factor—taxing and spending more to revive programs that have failed to meet their mandated goals, yet still doing little to reverse this trend.

**Measure Asks Californians to Spend Twice for Recycling Programs They Already Pay For.** The state's current recycling and other waste diversion programs presumably are sized to reach the 75% goal they were mandated to achieve by 2020. The measure expects California households and businesses to spend another \$8.9 billion on top of the estimated \$5.6 billion they already spend each year on these programs, \$7.7 billion if greenhouse gas funds—which are another source reduction tax levied by the state and that generates revenues that could be used for the various programs under the measure—are counted. Current recycling fees and taxes also have generated surplus funds that could be used for the same purposes as in the measure, ranging from \$710 to \$881 million in recent years and a much higher \$911 million to \$4.1 billion if the greenhouse gas fund is included. The measure expects California households and businesses to spend even more while achieving even less for programs already sized for the materials covered under this measure.

**Measure Misleads on the Amount of Plastics Now Diverted to Other Uses.** The measure and its proponents rely heavily on the contention that only 9% of plastics are currently recycled, relying on 2018 data from US EPA. That same data source indicates that a slightly higher share—13%—of plastics subject to the measure are recycled and that a much higher share—28% overall—are diverted to reuse rather than landfilled. The core difference is the amount used to generate waste-to-energy. As with the current programs, combustion is not allowed to count for the purposes of recycling under the measure. As worded and as previously interpreted by CalRecycle, this restriction is also likely to apply to advanced recycling technologies which in essence return plastic wastes to their component resins, chemicals, and fuels. Advanced recycling sets up a true circular economy as envisioned under the measure. Mechanical recycling as currently practiced instead produces a substantial share of downgraded recycling, turning potential resin feedstocks into products such as plastic lumber, buckets, and pails.

**Measure Misleads on the Amount of Plastics That Could be Diverted from Polluting the Oceans.** Preventing plastic wastes from going into the oceans is a key theme of the measure, but the language relies on global statements rather than the contributions currently coming from the state. Using a recent study cited by the UN, a detailed analysis of the terrestrial sources that would be covered by the measure indicates the overwhelming source of plastic pollution is from Asia (81%) and Africa and South America (13.5%) due to poor management of solid waste, landfill, and wastewater systems.

Even if the measure was fully effective, plastic waste discharges to the oceans would decrease globally by only 0.02% annually. The measure is also not likely to be considered as a model to be adopted by the countries who are the largest source of the problem, due to the extremely high costs of its approach.

**Affects More than 40,000 Current Manufacturing Jobs in the State.** In 2019, there were 1,275 establishments engaged in the production of packaging subject to the measure, employing 40,159 wage and salary workers including 1,045 using recycled plastic resins. These industries employed a substantially larger share of Latino workers (56.5% vs. the state-wide average of 35.5%) and a larger share of workers with only a high school degree or less (51.2% vs. 37.9%). The key difference is that these industries paid an average annual salary of \$60,271, providing blue-collar middle-class wages rather than the minimum and above wages workers with less than a college education increasingly can expect as this type of middle-class wage job has declined overall in the state. Additional jobs affected by the measure include current suppliers to these industries and potentially jobs at end user businesses as they seek to reduce other costs such as labor in order to adjust. The primary determinant of the net jobs effect, however, will come as households shift consumption due to higher prices and a net reduction in their effective disposable incomes.

**Recycling Jobs are Declining in the State.** The measure is based on the contention that recycling currently supports 125,000 jobs in the state and that even more are possible through expansion of these programs. There is no reference for this estimate, but it appears to come from studies first citing the 125,000 jobs number at least in 2011, with no change despite the recycling rate falling from 58% to 42% in this period and the contention that another 65,000 would be added by the state's adoption of the 75% recycling goal. That number also appears to be the broadest possible accounting for jobs under "recycling," including regulatory jobs in government agencies, waste haulers, collection and sorting, reprocessing and remanufacturing, and even automotive and appliance repair based on the presumption that by repairing products, their effective lives are renewed. Instead, using CalRecycle data, three decades of focused state policy and billions in annual fees and taxes imposed on households and businesses have produced a circular economy component that represents just over 3% of current (including materials other than plastic and paper) packaging establishments in the state. All recycled content businesses represent only 0.03% of total nonfarm establishments. High and growing operating costs in the state have caused many recycling businesses to close, with the most recent data showing that 42% (over 1,600) of the state convenience zones under the beverage container program are no longer served by a recycling center.

**Measure Creates Jobs but Not Necessarily in the State.** Use of US EPA data indicates the potential for new job creation would include up to 20,000 direct jobs using recycled plastics and 60 for composting the affected paper packaging, assuming a shift to fully compostable materials. Not all these would be created in California due to the high permitting, labor, energy, tax, and other operating costs in the state and the need for these products to produce at prices that while still higher, come closer to competitive levels with traditional plastics. Even under the current recycling programs, only 45% (13 million tons) in 2020 went to end uses defined as a consumer use or use of the materials as an input to production, construction, fuel, or other use, and up to 9 million tons of that amount consisted of compost. Instead, 40% of the diverted tonnage continued to be exported for conversion in other countries. Even if the focus of the programs instead become promotion of renewables rather than recycling, current projections for bioplastics capacity show that Asia will account for 70.8% by 2026, Europe for 16.9%, and North America only 8.5%.

**Measure Works at Cross Purposes to Job Claims.** The measure claims to produce jobs though both the expansion of businesses using recycled feedstock and businesses producing packaging using renewable materials. Under the measure, though, packaging using recycled content and packaging made from bioplastics will still be counted for taxation purposes and for compliance purposes with the requirement that each producer reduce single use packaging by 2030 based on both weight and number of items used in 2023. Companies developing around this recycling stream and/or renewables requirement will see their markets and source materials slashed just as they should be reaching profitability. Uncertainties over additional COVID strains still put the state's economic recovery by 2023 into question, with this requirement potentially having a far more restrictive effect over goods sold in the state moving forward. Investors clamor to get into growing markets, not ones that will be constrained artificially over time.

To view the report in its entirety, please visit [www.centerforjobs.org/ca](http://www.centerforjobs.org/ca).

## ABOUT THE CENTER FOR JOBS

The Center for Jobs and the Economy is a 501(c)(3) public benefit corporation that was established in 2013. The mission of the Center is to provide an objective and definitive source of information pertaining to job creation and economic trends in California. In addition to producing monthly job and trade reports as well as monthly energy price updates the Center also produces occasional research papers on issues that have a significant impact on the California Economy. In October of 2020 the Center released [California Workers: Modernized Telecommuting Policies to Build Equity and Reduce Costs](#), which was an in-depth look at the state's current telecommuting policies.