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A Review of the Clean Environment Fund

October 1998

Office of the State Auditor
Division of Local Mandates
A. Joseph DeNucci, Auditor



The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

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October 16, 1998

His Excellency Argeo Paul Cellucci, Governor
The Honorable Thomas F. Birmingham, President of the Senate
The Honorable Thomas M. Finneran, Speaker of the House of Representatives
The Honorable Lois G. Pines, Senate Chair, Joint Committee on Natural Resources and
Agriculture
The Honorable Douglas W. Petersen, House Chair, Joint Committee on Natural Resources and
Agriculture
Honorable Members of the General Court:

I respectfully submit this review of the Clean Environment Fund (CEF) for your consideration. This report is issued under the State Auditor's authority to review any law having a significant financial impact on cities and towns, and as follow-up to a 1996 report issued by this office concerning this fund and the significant cost impact of recycling and solid waste programs on Massachusetts municipalities.

The Clean Environment Fund was established by the General Court to hold abandoned bottle bill deposits for the support of recycling, composting, solid waste reduction, and bottle bill related programs. Of nearly \$100 million in CEF revenue collected from FY 1990 to FY 1998, less than \$30 million has been expended on these solid waste management programs.

This report finds that annual CEF spending has increased since FY 1996, with almost all of this increase dedicated to recycling programs. However, environmental agency spending not directly related to recycling and solid waste still represents 65% of \$ 19.5 million in CEF spending in FY 1998; while recycling projects are limited to 35% of CEF expenditures. *The municipal grants component of CEF spending was \$3.5 million in FY 1998, just 18% of FY 1998 CEF expenditures.*

Municipalities invest millions of local dollars each year to provide these important recycling programs to residents. Greater funding from CEF is required if they are to build and sustain local recycling programs. As a strong supporter of recycling and an advocate for state assistance to cities and towns, I encourage your efforts to continue in this direction.

Sincerely,

A handwritten signature in black ink, appearing to read "A. Joseph DeNucci".

A. JOSEPH DENUCCI
Auditor of the Commonwealth

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OFFICE OF THE STATE AUDITOR *DIVISION OF LOCAL MANDATES*

A. Joseph DeNucci, Auditor

October 1998

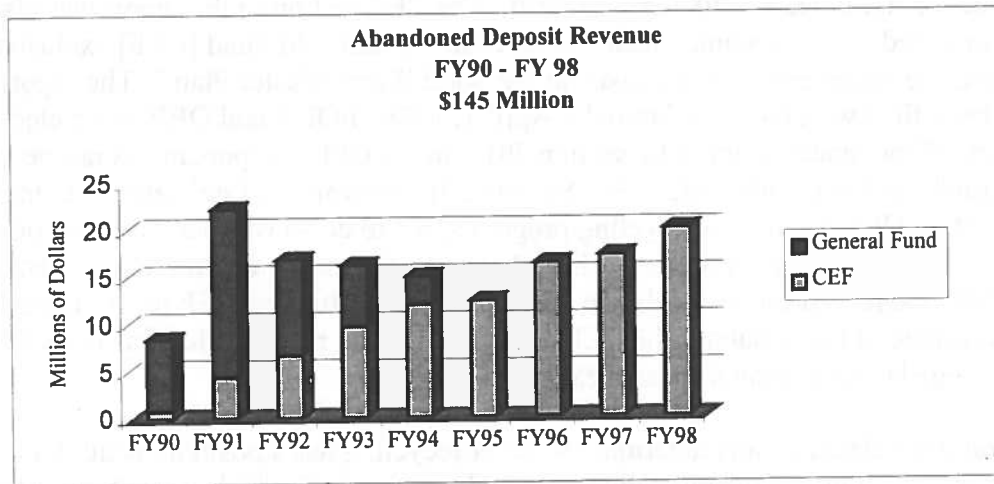
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Introduction & Summary

As a result of the 1989 "escheatage amendments" to the bottle bill, Massachusetts has collected \$145 million in unredeemed bottle bill deposits from beverage wholesalers over the January 1990 to June 1998 period. The escheatage amendment was one element of the Budget Control and Reform Act of 1989, (St. 1989, c. 653). Its intent was twofold: 1) to supplement state General Fund revenue during an economic downturn; and 2) to help solve environmental and economic problems in solid waste management. In particular, increased recycling was seen as a potential solution to an emerging solid waste disposal capacity shortfall.

As provided in the legislation, the General Fund share of abandoned deposit revenue would ramp down during the first five years, while the proportion credited to recycling increased each year and was deposited in the Clean Environment Fund (CEF). Since FY 1995, all abandoned deposit revenue has been credited to the Clean Environment Fund. From January 1990 through June 1998, CEF has received \$100 million in abandoned deposit revenue. CEF collections in FY 1998 alone exceeded \$20 million.



Subject to appropriation, Clean Environment Fund revenue is to be used *exclusively* for solid waste management, with specific proportions earmarked to providing support for recycling, composting, solid waste, source reduction, and other environmental programs related to the bottle bill. (See St. 1989, c. 653, s. 70 as codified in G. L. c. 94, s323F.) However, instead of receiving up to \$100 million available from the Clean Environment Fund, only \$30 million has been used to stimulate and support recycling and other innovative solid waste programs.

Other Department of Environmental Protection (DEP) programs have benefited from \$70 million in CEF revenue. The Hazardous Waste Site Cleanup Oversight Program has been the main beneficiary of CEF revenue. CEF pays the largest share of this DEP agency's budget. The CEF funding provided to the hazardous waste site and other programs at

DEP during the 1990's has severely limited the state assistance available to cities and towns during a critical recycling development period.

The State Auditor's Division of Local Mandates (DLM) in its prior reports has recommended an increase in CEF appropriations for recycling programs. In our 1996 CEF report, "The Clean Environment Fund and its Impact on State and Local Government", DLM recommended that the Executive Office of Environmental Affairs (EOEA) prepare a plan to begin to replace the CEF contribution to DEP's hazardous waste site program with increased contributions from other funds. Further, we recommended that the CEF contribution to the hazardous waste office (\$7.9 million in FY 1996) be reallocated to the municipal recycling and solid waste grant program. Full implementation of this recommendation would return abandoned deposit spending to the purposes originally intended by the legislation that created the Clean Environment Fund, provide needed assistance to cities and towns, and help the state reach its recycling goals.

The Legislature adopted a similar recommendation through the FY 1998 state budget approved in July, 1997. Section 291 of Chapter 43 of the Acts of 1997 required EOEA and DEP to prepare a report, to be funded by CEF, on several aspects of recycling economics including a projection of the sources and uses of Clean Environment Fund revenue for fiscal years 1998 through 2000. The CEF section of the report was also to have included "... recommendations on ensuring that said Fund [CEF] exclusively supports the achievement of the goals in the Solid Waste Master Plan." The report was to have been filed with the Legislature by April 1, 1998. EOEA and DEP completed other sections of the report required by section 291, but the CEF component has not been submitted as of September 28, 1998. Section 291 confirms the Legislature's commitment to directing CEF revenue to recycling programs, but to do so without strapping other important environmental programs. EOEA's lack of response on this requirement in the FY 1998 budget represents a delay in progress toward returning CEF to its original intent. We recommend that it submit the CEF component of the report called for by section 291 to the Legislature as soon as possible.

Several interrelated factors determine whether recycling has a positive, neutral, or negative impact on the overall solid waste budget of an individual city or town. The most important of these is disposal cost avoidance. The financial incentive to increase recycling is greatest for cities and towns with high-cost solid waste services. However, disposal cost avoidance is often not sufficient to fully offset the costs of providing curbside recycling. This is particularly true for municipalities that have relatively low disposal costs. Recycled commodity market prices, diversion rates, contracting procedures and demographics also affect the relative cost effectiveness of recycling. For most curbside recycling programs it takes years of investment to reach the financial breakeven point.

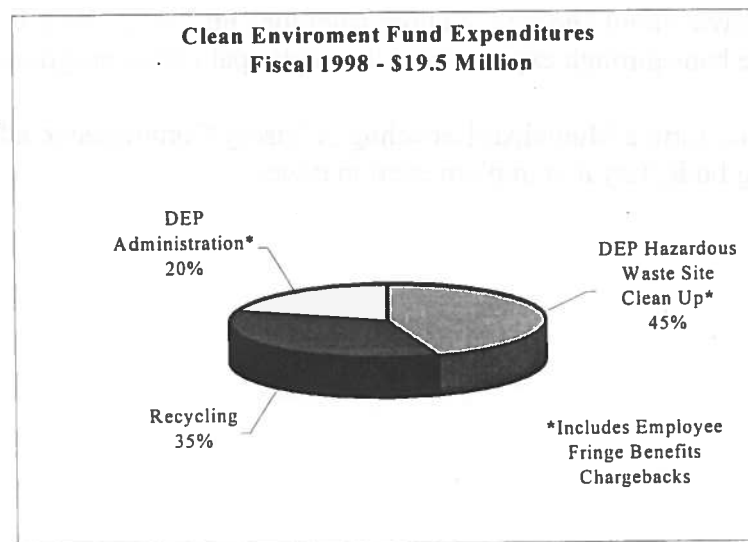
The statutory role of the Division of Local Mandates is to determine the additional cost imposed on cities and towns by laws and rules and regulations that are subject to the Local Mandate Law. DEP's disposal restrictions, or "waste ban" regulations have effectively mandated that all cities and towns take action to increase recycling. Grant

funding to support the level of change required by the regulations has been welcomed by municipalities, but it is far less than adequate to reimburse them for their efforts. The effectiveness of the current recycling program could be greatly enhanced with full use of CEF revenue.

Summary Findings and Recommendations

- Between January 1990 and June 1998, the state has collected a total of \$145 million in abandoned deposits from wholesalers of beverages subject to the Massachusetts bottle bill. Abandoned deposit revenue over the period indicates that 2.9 billion bottles and cans, about 20% of bottle bill containers sold since 1990, were not returned for deposit redemption.
- Annual abandoned deposit collections for FY 1991, the first full year of escheatage, were \$22.2 million. Revenue declined steadily each year to a low of \$12.4 million in FY 1995. Since FY 1995, annual abandoned deposit collections have increased steadily to \$20 million for FY 1998.
- A total of \$100 million of the \$145 million in abandoned deposits collected has been deposited in the CEF. The balance of \$45 million was earmarked to the state's General Fund during the first years of escheatage according to a formula provided by the amendments.
- Our 1996 CEF report found that between FY 1990 and FY 1996, only 28% of expenditures supported recycling. 72% of CEF expenditures over the period supported employee compensation and other administrative costs of the Department of Environmental Protection.
- For Fiscal 1998, total CEF expenditures were \$19.5 million – 35% of CEF expenditures supports recycling while 65% supports other DEP programs.

Figure 2



- The FY 1998 *appropriation* for recycling was \$7 million, an increase of 67% over the FY 1996 appropriation of \$4.18 million.
- FY 1998 grants to municipal recycling were \$3.5 million – 18 % of CEF expenditures.
- The bottle bill amendments specify that CEF abandoned deposit revenue would be dedicated *solely* to recycling, composting, solid waste, and bottle bill related purposes. However, the legislature has approved CEF appropriations, notwithstanding this provision (See section 323F of Chapter 94 of the General Laws). As a result, the largest of three FY 1998 CEF spending categories, 45% of CEF expenditures, supports the hazardous waste cleanup oversight program at the Department of Environmental Protection (DEP). Another 20% of FY 1998 CEF expenditures support DEP's main administrative account.
- The major municipal grant program funded by CEF is the Municipal Recycling Incentive Program (MRIP). DEP provided \$2.4 million in FY 1998 to 246 local programs. The average grant amount was \$9,733.
- The 1998 MRIP grant program serves a population of 5.4 million. Funding equals \$.46 per capita.

Recommendations

- We recommend that EOEA devise a strategy to increase CEF funding for the state's recycling program in accordance with St. 1997 c. 43, s. 291.
- Cities and towns should be fully compensated for impacts resulting from current and future waste bans through expansion of the municipal grants program.
- EOEA should form a Municipal Recycling Advisory Committee to advise the agency on recycling budgetary and implementation issues.

Division of Local Mandates History with Recycling Funding Issue

June 1992 – Mandatory Recycling Legislation

In 1992, the Division of Local Mandates (DLM) issued a study that was requested by the Committee on Natural Resources and Agriculture – finding that mandating curbside recycling would impose annual costs ranging from \$16 - \$30 million on cities and towns during the first years of implementation. The study was based on detailed information gathered from 23 of the most active municipal recyclers at the time, and analysis of solid waste data of 158 cities and towns using the curbside method of solid waste collection.

As a result of our findings, we recommended that:

1. Any mandatory recycling program initiated by the Commonwealth be funded sufficiently to prevent any adverse impact on local budgets.
2. If adequate state funding were not available, the Commonwealth should establish a voluntary program with state funding incentives. Our report showed the impact of partial state funding proposals and demonstrated the levels of participation that could be achieved at various levels of state funding.

The mandatory recycling approach was tabled by the Legislature in favor of a voluntary approach with financial incentives and other assistance to be provided by DEP with Clean Environment Fund Revenue and bond funds authorized by the Solid Waste Management Act of 1987, St. 1987 c. 508.

1992-1993 Waste Bans

With mandatory recycling legislation off the table, DEP chose a regulatory approach, which would prohibit solid waste disposal facilities from accepting deliveries that contain recyclable materials. The “waste bans” prohibit any Massachusetts solid waste facility from accepting solid waste shipments unless almost all yard waste, leaves, metal and glass containers, and recyclable paper and plastic are removed prior to landfilling or incineration. Since no facility has the capability to segregate these materials from mixed solid waste deliveries, Massachusetts cities and towns must shoulder the ultimate burden and expense. A small state grant and technical assistance program was the only state help provided, outside of the area included under a pilot project in Western Massachusetts.

On September 3, 1992 DLM informed DEP that the Local Mandate Law requires the state to fully fund the cost of implementing these new municipal solid waste management responsibilities. Despite widespread public acceptance of recycling as desirable activity, many cities and towns have had to delay establishment or expansion of recycling programs for budgetary reasons. Therefore, we advised DEP that instead of mandatory statewide disposal restrictions, it should encourage recycling by providing grants and technical assistance to cities and towns until a recycling mandate can be fully funded with

state funds, such as revenue from the Clean Environment Fund which was increasing each year.

DEP's position was that state funding for cities and towns is not required under the mandate law. The position was based on DEP's belief that solid waste management is a voluntary activity for municipalities and that cities and towns can charge fees for solid waste services they choose to provide.

In March 1993, Auditor DeNucci sent a bulletin to all cities and towns and their legislators outlining problems with the waste ban approach. For example, this report pointed out that no other state has attempted to impose waste bans without providing *substantial* state funding.

A compromise was reached where DEP would authorize solid waste facilities to waive the waste ban inspection regulations and other enforcement for municipalities with "Department Approved Recycling Programs (DARP). One of the eligibility criteria for inclusion on the DARP list was described as "Commitment of Recycling". Municipalities that had established either a curbside recycling program (municipality-wide) or have maintained a drop-off program for three years that includes metal and glass containers are eligible. Otherwise, a mandatory recycling bylaw, ordinance, or executive order must be enacted. A public education program and reasonable access standards are also requirements of eligibility for the approved list.

Nearly all municipalities are on the approved list. This compromise has allowed cities and towns the time they needed to marshal mostly local resources for recycling. In FY 1999, DEP plans to add the following materials to the list of materials already banned; fluorescent tubes and other mercury containing waste such as batteries, and used televisions and computers. DEP is likely to require local programs to recycle these wastes and to upgrade DARP eligibility requirements accordingly. DEP also requires "parallel access" for recycling and solid waste services as a grant eligibility criterion. In other words, municipalities that use curbside collection for solid waste but use drop off for recycling programs will be required to implement curbside collection for recycling. Additional funding will be required on the local level to implement these programs.

1996 Clean Environment Fund Report

Our 1996 report, "The Clean Environment Fund and Its Impact on State and Local Government" evaluated state implementation of 1989 amendments to the Massachusetts bottle bill. Its focus was the Clean Environment Fund (CEF), a state special revenue fund created by the amendments to hold unclaimed bottle bill deposits, and CEF's impact on state and local government. This report provides a history of the bottle bill, summarizes CEF revenues and expenditures over the period January 1990 to June 1996, and includes recommendations to the General Court concerning CEF administration.

In 1983, Massachusetts became the eighth of ten states to implement a deposit system for beverage containers. The bottle bill deposit-redemption cycle begins when beverage

wholesalers charge retailers a five-cent deposit on each full bottle bill container. At the end of the cycle, wholesalers pay retailers and redemption centers five cents for each empty container. However, only about four out of five bottle bill containers are returned for deposit redemption. Consequently, for every dollar in bottle bill deposits they collect, beverage wholesalers on average pay out only 80 cents in deposit redemptions. The 1983 bottle bill allowed beverage wholesalers to keep unredeemed or "abandoned" deposits. This revenue helped to offset wholesalers' bottle bill costs.

Effective in January 1990, the bottle bill was amended by St. 1989, c. 653, ss. 68-72, ss. 235-237 ("the amendments"). Under the amendments all unclaimed bottle bill deposits determined to have been abandoned by consumers would "escheat" to, or become the property of the state.

The bottle bill amendments established the Clean Environment Fund (CEF), a state special revenue fund to be supported exclusively by abandoned bottle bill deposits. CEF revenue would be dedicated to recycling, composting, solid waste and bottle bill related projects and programs. The amendments contained a formula for apportioning overall abandoned deposit collections between CEF and the state's General Fund during the first five years of escheatage. In FY 1990, the General Fund received 90% of the revenue collected and the CEF received a 10% share. The CEF share increased each year until FY 1995 when 100% of abandoned deposit collections was credited to CEF. The Executive Office of Environmental Affairs (EOEA) is the state agency responsible for bottle bill administration and regulation under the original bottle bill including; deposits, refunds, handling fees, and redemption center registration and reporting. Under the amendments it also oversees CEF expenditures as appropriated by the Legislature.

The main findings of this report were that during the period January, 1990 to June 1996:

- 72% of CEF expenditures supported employee compensation and other administrative costs of the Department of Environmental Protection's hazardous waste, solid waste and other offices. Only 28% have provided support for recycling programs and recycling research;
- The bottle bill amendments specify that CEF abandoned deposit revenue would be dedicated solely to recycling, composting, solid waste, and bottle bill related purposes. However, the largest of three CEF spending categories, 42% of expenditures, supports the hazardous waste cleanup oversight program at the Department of Environmental Protection (DEP), a program that is not consistent with the intent of the bottle bill amendments. Another 30% supports other DEP's responsibilities. The smallest category of CEF spending, 28% of expenditures, provides support to municipal recycling programs.

The primary recommendation of our 1996 report was that the General Court earmark a greater proportion of CEF revenue to the direct benefit of municipal recycling, and composting programs by reducing CEF support to state environmental agency operations not related to recycling.

Specifically, we recommended that EOEА prepare a plan to begin to replace the CEF contribution to DEP's hazardous waste cleanup program with increased contributions from other funds. Several state special revenue funds have been established for hazardous waste purposes, (e.g. the Environmental Challenge Fund, the Toxics Use Reduction Fund, and the Underground Storage Tank Fund). Yet, each of these funds pays a smaller share of the hazardous waste cleanup oversight account than does CEF. We recommended that the CEF contribution to the hazardous waste office (\$7.9 million in FY 1996) be reallocated to the municipal recycling and solid waste grant program. Full implementation of this recommendation would return abandoned deposit spending to the purposes originally intended by the legislation that created the Clean Environment Fund and provide needed assistance to cities and towns.

The Legislature's Response to DLM's Recommendation

The Legislature adopted a similar recommendation through the FY 1998 state budget approved in July, 1997. Section 291 of Chapter 43 of the Acts of 1997 required EOEА and DEP to prepare a report, to be funded by CEF, on several aspects of recycling economics including a projection of the sources and uses of Clean Environment Fund revenue for fiscal years 1998 through 2000.

Section 291 requires EOEА, DEP, the Department of Economic Development and the strategic envirotechnology partnership to conduct a study and prepare a report which shall include:

- an assessment and evaluation of the supply of recyclable materials and the demand for recyclable materials in the Commonwealth;
- the development of a strategic plan to promote the use of recyclable materials, and;
- a review of the Clean Environment Fund.

See Appendix 2 for complete text of section 291

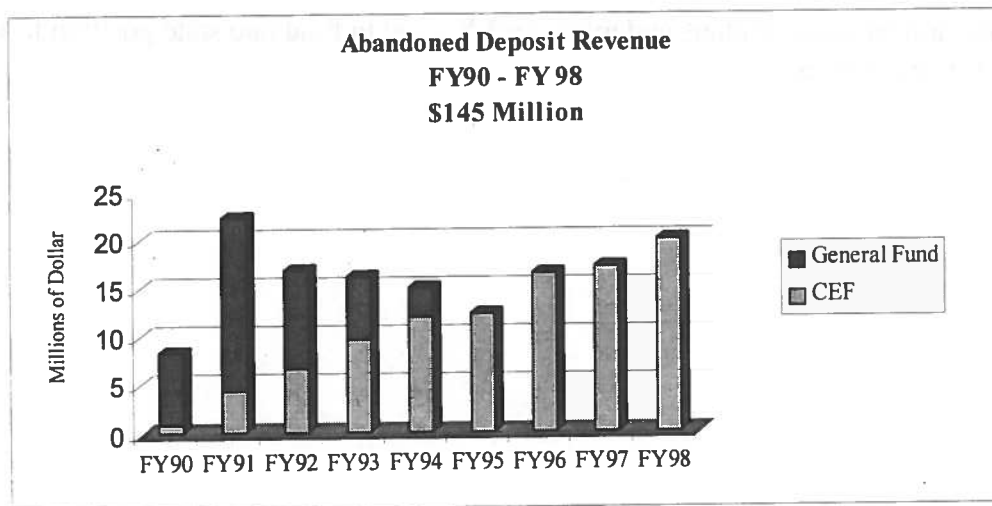
The CEF component of the report is to include "... recommendations on ensuring that said Fund [CEF] exclusively supports the achievement of the goals in the Solid Waste Master Plan." The report was to have been filed with the Legislature by April 1, 1998. The agencies have submitted information on other sections of the report required by section 291, but the CEF component has not been submitted as of September 28, 1998. Section 291 confirms the Legislature's commitment to directing CEF revenue to recycling programs, but to do so without strapping other important environmental programs. We recommend that the CEF component of the report called for by section 291 be completed as soon as possible.

Revenue History

From January 1990 through June 1998, beverage wholesalers have turned over \$145 million in unclaimed bottle bill deposits to the state. Of the \$145 million total, almost \$100 million has been deposited in the state's Clean Environment Fund. The remaining \$45 million was credited to the state's General Fund during the first five years of escheatage. The escheatage amendment to the bottle bill was a provision of the 1989 Budget Control and Reform Act. Under its terms, in FY 1990, 90% of abandoned deposit collections went to the General Fund to address the state's revenue shortfall and 10% was credited to CEF. The General Fund share would be decreased each year until FY 1995 when 100% of abandoned deposit collection would be credited to CEF, to be used for recycling, solid waste and bottle bill related projects and programs.

As shown in Figure 2, abandoned deposit collections reached an all-time low in FY 1995, with only \$12.4 million collected, after a steady decline from a high of \$22.2 million in FY 1991. Since FY 1995, collections increased steadily to the 1998 level of over \$20 million.

Figure 3



Revenues (in Millions of Dollars)	FY90 *	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98	Total
Revenues Credited to CEF	0.84	4.44	6.72	9.72	12.00	12.40	16.40	17.20	20.00	99.72
Revenues Credited to General Fund	7.56	17.76	10.08	6.48	3.00	0.00	0.00	0.00	0.00	44.88
Total	\$8.40	\$22.20	\$16.80	\$16.20	\$15.00	\$12.40	\$16.40	\$17.20	\$20.00	\$144.60

In our 1996 report, DLM recommended that DOR and EOEA cooperatively study the factors which may be responsible for such wide swings in abandoned deposit revenue. These factors include;

- The availability and convenience of redemption facilities,
- The changing market share of container types and sizes,
- The impact of municipal recycling programs on bottle bill redemptions,
- Out-of state redemptions and other redemption fraud,
- DOR collection regulations and policies,
- Wholesaler accounting practices,
- The general strength of the Massachusetts economy.

In our 1996 report, we recommended further study of these factors combined with increased oversight of the collection system, including implementation of uniform internal controls for deposits in the beverage industry.

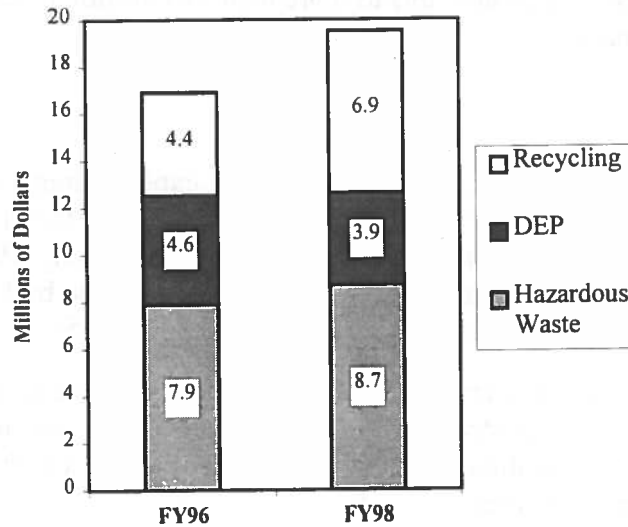
EOEA has informed us of plans underway for FY 1999 to fund one state position to work on CEF revenue issues.

CEF Expenditures

This section compares total CEF expenditures in FY 1998 to FY 1996, the last year included in our prior report on CEF. It also breaks out recycling spending by state agency and by category, and highlights the major recycling projects funded by CEF. Expenditures throughout this report include employee fringe benefits chargebacks, where applicable. As a result, expenditures may exceed legislative appropriations.

Figure 4

CEF Expenditure Growth



	FY96	%	FY98	%
Hazardous Waste	7,940,109	47%	8,720,856	45%
DEP	4,575,412	27%	3,925,144	20%
Recycling	4,367,985	26%	6,876,865	35%
Total	<u>\$ 16,883,506</u>	<u>100%</u>	<u>\$ 19,522,865</u>	<u>100%</u>

CEF Expenditure Growth 1996-1998

Between FY 1996 and FY 1998 overall annual CEF spending grew by \$2.6 million – from \$16.9 million to \$19.5 million. Annual spending growth for recycling accounts for \$2.5 million, while the combined expenditures for the two “non-recycling” accounts had a net increase of approximately \$100,000. The CEF share of expenditures for DEP’s main administrative account (2200-0100) declined by \$700,000, while CEF expenditures

in support of the DEP hazardous waste site cleanup account (2260-8870) increased by \$800,000. The “non-recycling accounts” are partially funded by CEF.

The increase in the recycling account (2010-0100) was the result of a 67% increase in the appropriation for recycling by the Legislature. As a result, recycling expenditures account for 35% of all CEF spending in FY 1998, whereas in FY 1996, recycling programs represented 26% of CEF spending. This growth in recycling expenditures corresponds with the increased annual CEF revenue trend between FY 1996 and FY 1998.

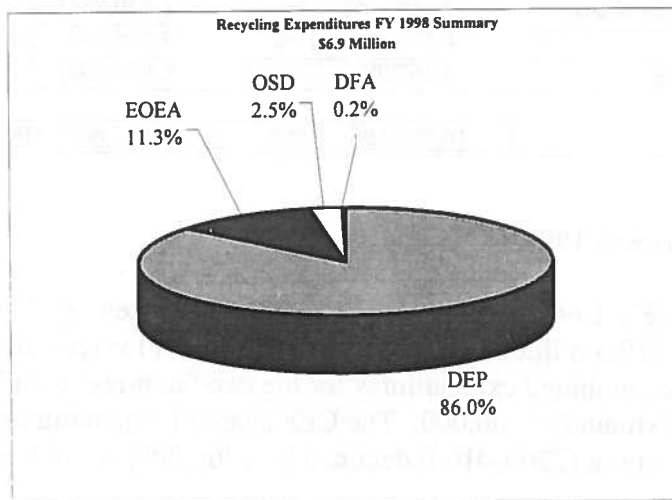
While the DEP Waste Site Cleanup and Administration accounts together expended a smaller percent share of all CEF spending in FY 1998, (74% in 1996 versus 65% in 1998), the dollar amount is up slightly – from \$12.5 million to \$12.6 million. Approximately 85% of the combined expenditures for these two DEP accounts are for employee compensation, which amounts to more than \$10 million in each year, including fringe benefits chargebacks.

Agency Spending

Figure 4 breaks down the recycling component of CEF expenditures for FY 1998 by “spending agency”. The total appropriated for recycling (2010-0100) is \$7 million. This appropriation is assigned to the Executive Office of Environmental Affairs (EOEA) and is funded completely by CEF. According to information provided by DEP and the State Comptroller’s Office, expenditures for FY 1998 totaled \$6,876,856.

As shown in Figure 5, EOEA spent \$775,662 – 11% of recycling expenditures. The primary expenditure was for contracts with the University of Massachusetts for recycling research and development totaling \$492,000. The goal of this research is to increase demand for recycled commodities.

Figure 5



Waste reduction and other recycling program consultants are also funded by CEF under contract with EOEА. This account also funds EOEА program administration, coordination, and evaluation of all Massachusetts recycling programs.

EOEA allocates 89% of expenditures from this account to three state agencies under Interagency Service Agreements. The agencies and account numbers are shown below.

- DEP's recycling program spent \$5.9 million, 86% of CEF recycling expenditures. Account # 2200-0881.
- Operational Services Division (of EOAF) spending for a "Buy Recycled" program accounts for \$172,261 or 3% of CEF recycling expenditures. Account # 1755-0010.
- The Department of Food and Agriculture (DFA) expended \$14,016, less than 1%. Account # 2511-0102.

Recycling Program Expenditure Categories

The following section describes very briefly the elements of the FY 1998 recycling program as shown in Figure 6. See the State Solid Waste Master Plan for more detail.

DEP Recycling Grants

The DEP recycling program's largest expenditure is for direct assistance to municipal recycling programs totaling \$3,527,818. The elements of municipal assistance are:

The Municipal Recycling Incentive Program, FY 1998 expenditures – \$2,752,465:

This program provides incentive payments to municipalities that meet DEP eligibility conditions for each ton they recycle. Per ton payments for FY 1998 are;

- \$8/ton for curbside recycling municipalities,
- \$4/ton for drop off recycling municipalities.

This statewide program is an extension of a pilot incentive payment program established for cities and towns being penalized under "put or pay" provisions of their contracts with the North East Solid Waste Council (NESWC). Per ton payments for NESWC municipalities are \$13 for curbside, and \$8 for drop off programs.

Based on information provided by DEP the statewide per ton incentive payments including NESWC is summarized below. These figures do not include expenditures for six regional recycling coordinator positions that are also funded by MRIP.

MRIP Program – FY1998

	# of Municipalities	Total \$	Average \$	Median \$	Per Capita \$
Curbside Programs	135	2,099,152	15,549	11,096	\$0.58
Drop Off Programs	111	295,315	2,660	1,260	\$0.34
All MRIP Assited Programs	246	2,394,467	9,733	6,178	\$0.46

The MRIP program provides assistance to cities and towns that is both needed and appreciated. Yet, several municipal officials have commented that meeting the criteria for MRIP program eligibility can be burdensome and often requires program expansions that exceed the grant amount.

In 1993 and in 1996, DLM recommended incentive payments from CEF to municipal recycling programs. We now recommend that the MRIP program be expanded significantly. On a per capita basis, MRIP grants translate to \$.58 per capita per year for curbside programs, and \$.34 per capita per year for drop off programs. Higher incentives are required to build and sustain local recycling efforts.

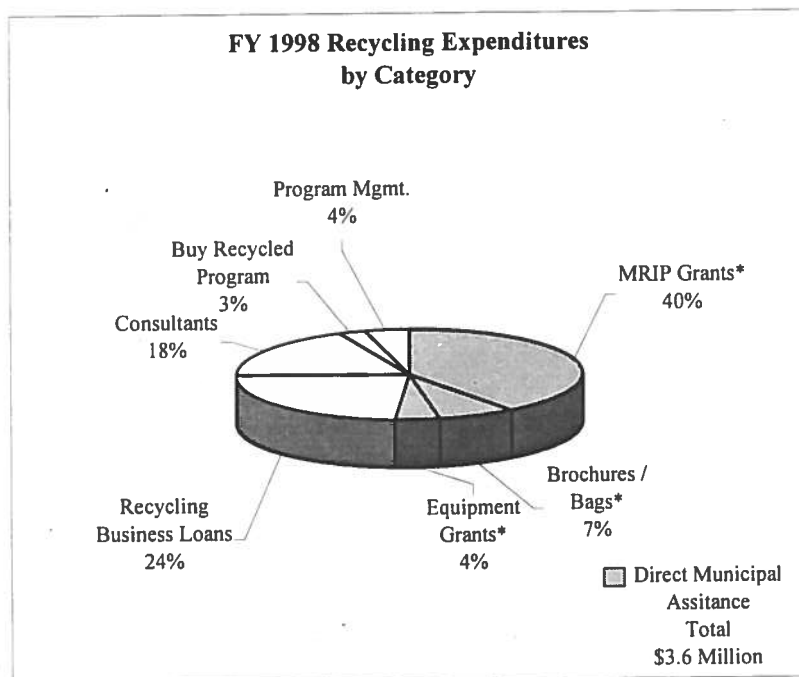
Other elements of direct assistance to cities and towns include \$502,508 in contracts for *recycling brochures, postage, "pay as you throw" bags and stickers*, and other measures designed to increase recycling participation and diversion rates. *Recycling equipment grants* totaling \$263,244 provided two recycling trucks and recycling and composting containers requested by municipalities under the Equipment Grant Program. \$9,601 was also expended on a *paint-recycling workshop* for local officials. In the graph, it was included in the equipment grant program.

Other Recycling Programs

- The *Massachusetts Business Development Council* received \$1,650,000 from CEF in FY 1998 to implement a loan program for recycling businesses. By increasing recycled material processing and recycled products manufacturing capacity this program will increase demand for, and therefore the market price of recycled material. This loan program is an element of DEP's Recycling Markets Strategic Plan.
- Total expenditures for *consultants* for all agencies from the recycling account were \$1,245,638.
- The *Operational Services Division's (OSD) "Buy Recycled" program* is a demonstration project for products made with recycled material; e.g. recycled lumber and paint. By evaluating feedback from state and municipal users of these products, OSD hopes to overcome resistance to recycled products purchasing. Total expenditures were \$172,261.
- *Program management* includes expenditures for state employees and administrative expenses. Expenditures – \$281,139.

FY 1998 Recycling Expenditure Summary		
MRIP Grants*	2,752,465	40.0%
Brochures / Bags*	502,508	7.3%
Equipment Grants*	272,845	4.0%
Recycling Business Loans	1,650,000	24.0%
Consultants	1,245,638	18.1%
Buy Recycled Program	172,261	2.5%
Program Management	281,139	4.1%
Totals	\$6,876,856	100.0%
<i>* Denotes Direct Municipal Assitance</i>		

Figure 6



Conclusion

Massachusetts municipalities have made significant progress in increasing access to residential recycling programs. In 1990, only about one-half of our cities and towns offered recycling to residents, and only a few provided curbside collection of recyclables. Since 1990, the goal of providing almost every resident with access to municipal recycling has been achieved. In fact, almost three-quarters of Massachusetts residents can have recyclables collected at the curb. The impetus behind the growth of municipal recycling was a DEP regulatory mandate that prohibits solid waste facilities from accepting waste deliveries containing significant quantities of newspaper, cans, glass, plastic, and yard waste. This regulation effectively mandated municipal recycling without providing for state funding needed to assume local implementation costs.

The funding CEF provides to the hazardous waste site cleanup program severely limits the assistance that can be made available to cities and towns. As a result, except for the state recycling grant program, which provided \$3.5 million in FY 1998, cities and towns use local resources to finance the operating costs of municipal recycling.

The progress made to date has been impressive, but an increase in direct aid to cities and towns for recycling is necessary to sustain this progress. Recycling programs are popular with most residents but they do not always provide financial benefits to cities and towns. In fact, many cities and towns are struggling to maintain existing efforts due to a downturn in the market value of recycled materials. Further, the bottle bill itself affects the economics of Massachusetts recycling programs. As a result, the dollar value of materials collected by recycling programs in Massachusetts is lower than in states without deposit laws.

Increased funding for cities and towns from CEF abandoned deposit revenue could compensate for the bottle bill's impact on municipal recycling economics, help to offset the impact of fluctuations in the market value of consumer recyclables, and recycling program collection costs.

Appendix I

Division of Local Mandates

The Division of Local Mandates (DLM) was established by Proposition 2 1/2 to determine the financial impact on cities and towns of proposed or existing state laws and regulations. Chapter 29, Section 27C, of the General Laws, generally provides that any post-1980 law or regulation imposing service or cost obligations on cities, towns, regional school districts, or educational collaboratives shall be effective only if locally accepted or fully funded by the Commonwealth. Any protected party aggrieved by such a law or regulation may petition superior court to be exempted from compliance until the necessary state funding is provided. DLM's determination of the cost imposed may be offered as prima facie evidence of the state funding necessary to sustain the mandate.

DLM maintains a Legislative Review Program to analyze pending legislation on mandate-related issues. To ensure that the local cost impact of legislation is considered by the General Court, DLM reviews thousands of bills, prepares preliminary cost studies when appropriate, and contacts members of the Legislature to make them aware of the Auditor's concerns. In addition, DLM responds to requests for opinions and cost studies from individual legislators, legislative committees, municipalities, and governmental associations.

Chapter 126 of the Acts of 1984 expanded DLM's powers of review by authorizing DLM to examine any state law or regulation that has a significant local cost impact, regardless of whether it satisfies the more technical standards for a mandate determination. Chapter 126 reviews include cost-benefit analyses and recommendations to the General Court.

Through these functions, DLM works to ensure that state policy is more sensitive to local fiscal realities so that cities and towns can maintain autonomy in setting municipal budget priorities.

Appendix II

FY 1998 State Budget – Section 291 of Chapter 43 of the Acts of 1997

SECTION 291. The executive office of environmental affairs, the department of environmental protection, the department of economic development and the strategic envirotechnology partnership, so-called, shall conduct a study and prepare a report which shall include, but not be limited to, an assessment and evaluation of the supply of recyclable materials and the demand for recyclable materials in the commonwealth, the development of a strategic plan to promote the use of recyclable materials, and a review of the clean environment fund. Said report shall include, but not be limited to, estimates of quantities of nonhazardous solid waste generated by residential, municipal, commercial, and construction and demolition sources; an assessment and evaluation of the quantity of materials collected and recovered as recyclable materials, the amount of recyclable materials potentially available as postconsumer waste, the amount of recyclable materials reclaimed and processed, and the amount of recyclable materials sold and used as materials or commodities for the manufacture or production of new goods or products. Materials evaluated shall include, but not be limited to: glass, plastic, metal, paper, wood, organics and tires. Said report shall include an estimate of the savings to the commonwealth of the diversion of recyclable materials by avoided costs such as tipping fees, landfill construction and incineration and other associated costs of solid waste management. Said report shall present a detailed analysis of the potential for successful recycling of each material under investigation, including an objective analytical approach which identifies materials with stable or mature markets, problematic materials which may require stimulation through development initiatives at the state or local level, barriers to market demand and materials with promising demand trends for the future. Said report shall assess and evaluate the impact of existing state and local programs on the supply and demand of recyclable materials. Said report shall include a strategic plan with the goal of using state and local resources to maximize voluntary private activity and investment in using recyclable materials in manufacturing and production, promotion and the use of recyclable materials in manufacturing and production, and increasing the demand for new goods or products made with recyclable materials. Said report shall estimate supply and demand by materials beginning in 1994, including projections through 2001. Said report shall provide a methodology and model for ongoing assessment of Massachusetts recycling markets in the future, to be prepared separately or as part of subsequent versions of the solid waste master plan. Said report shall include a projection of the sources and uses of the Clean Environment Fund from fiscal year 1998 to fiscal year 2000, and recommendations on ensuring that said Fund exclusively supports the achievement of the goals stated in the Solid Waste Master Plan. Said report shall be filed with the house and senate committees on ways and means and the joint committee on natural resources and agriculture not later than April 1, 1998.