NATIONAL TAXPAYERS UNION

February 20, 2024

The Honorable Rick Hansen, Chair
The Honorable Sydney Jordan, Vice Chair
Environment and Natural Resources Finance and Policy Committee
Minnesota House of Representatives
100 Rev. Doctor Martin Luther King, Jr. Blvd.
St. Paul, MN 55155

Dear Chair Hansen, Vice Chair Jordan, and Members of the Committee:

On behalf of the National Taxpayers Union (NTU), America's oldest taxpayer advocacy organization, and its many supporters in Minnesota, we write to offer our comments regarding HF 3200 and its underlying concepts, both of which we understand will be a topic in today's meeting of the Committee.

Minnesota lawmakers have an opportunity to lead the way with a new beverage container deposit program that could, if properly structured, not only save taxpayer dollars but also dramatically increase recycling rates, create jobs and improve the state's economy. A successful outcome for taxpayers greatly depends upon the specific language the Committee now chooses to offer to the full House.

Under model versions of the program, consumers would pay a deposit fee when purchasing beverage containers from commonly recycled materials such as plastic, aluminum, or glass. The consumer would then return the container to the place of purchase and receive their full refund. The program would be managed and paid for by a private sector entity, therefore not adding to the state's budget. The private sector entity would provide oversight to ensure the program operates properly and efficiently.

NTU urges you to ensure that HF 3200 hews to these general principles as the legislation undergoes another reading. In addition, there are specific points to which legislation in this area should adhere to obtain the best possible outcome for taxpayers. Accordingly, NTU wishes to offer the attached analysis to aid you in your deliberations over the best design of a container deposit program involving a PPP.

We are hopeful that, guided by a thoughtful legislative process, a final version of HF 3200 will incorporate and reflect best practices for a new container deposit program that taxpayers will be able to support. NTU looks forward to engaging with the Committee on this and other bills of interest in the days ahead.

Sincerely,

Leah Vukmir
Senior Vice President of State Affairs

Pete Sepp
President

Not Your Father's "Bottle Bill": Taxpayers Await New, Better Recycling Programs

By Leah Vukmir

Having served 16 years as a state elected official, I heard a common refrain from local government officials in my district: "Please send us more money so we can provide property tax relief to our residents!" Finding ways for government at all levels to be more efficient should be the goal of lawmakers everywhere – and one opportunity that's been coming to prominence recently has to do with recycling beverage containers.

For more than 50 years, National Taxpayers Union (NTU) has been tracking, analyzing, and advocating for good ideas to reform local government services so that they work better and cost taxpayers less. All the way back in 1976, NTU published "Cut Local Taxes – Without Reducing Essential Services," authored by local government finance expert Bob Poole at the Reason Foundation.

Poole noted at the time that municipal garbage collection had long been a leading field where contractors operated in place of government agencies. In fact, according to a Columbia University study Poole explained extensively, private firms had already provided garbage collection in three times as many cities as public entities. In addition, the study found, the typical government-run trash collection operation was 68 percent more expensive than a contracted company's service, due to many factors: larger crews, poor route design, and inefficient maintenance all made the government-provided garbage pick-up more expensive.

While private-sector-driven trash collection was firmly embedded in 1976, non-industrial recycling of certain throwaway materials was a much newer development. During the 1970s several states began adopting "deposit return systems" (DRS), or "bottle bills." These are laws whereby the price of a recyclable product (such as glass soda bottles that were popular at the time) reflected an embedded charge, determined by a state or local government, that consumers could recover if they returned the empty containers to a retail outlet or other approved facility. While consumers could simply choose to pay the difference instead of redeeming deposits to get their money back, in general these bottle bills were intended to provide sufficient incentives that would meet certain recycling targets.

But changing times require changing laws – and a new generation of bottle bills, properly drafted, can be up to the challenge of providing effective recycling that serves taxpayers, consumers, and businesses better than before. This framework has been developed not only by think tanks but also industry experts who've learned about the successes and failures of past efforts to encourage recycling of valuable materials cost-effectively.

Elements include:

- A scale of deposit values a consumer can receive per container, depending on the volume it holds. All containers, aside from those containing drugs, baby formulas, or special medically prescribed foods, could be eligible under the program.
- A non-government entity (e.g., a nonprofit organization) would manage the activities program's industrial participants, primarily distributors of eligible products. The organization would also be in charge of collecting fees (set to cover the collection costs of each type of material) on distributors and other participants in the system, as well as deciding where and how to most efficiently sell the materials collected. Unredeemed consumer deposits could be reinvested in the organization's management operations.
- The organization would, at its own expense, provide and maintain container collection and processing machines (and in some cases parking) for consumer use at selected retailers. The space that retailers provide for these collection points would depend upon the size of the establishment.
- Appropriate oversight of the organization would be provided by a government agency (compensated by the organization rather than funded by taxpayers), while other recycling performance targets and ongoing progress reports would be required.

This model, which could be described as a form of Public Private Partnership (PPP), has a number of parallels in the policy world. At the federal level, for example, NTU has long supported transitioning the U.S. air traffic control system, currently operated by the Federal Aviation Administration and funded by several specific taxes, into one funded by user charges. Embraced by dozens of countries around the world, such as Canada and the UK, this structure utilizes a non-governmental entity with a board of directors consisting of airlines, airports, union leaders, and others concerned with the quality of air traffic control service. The government then retains the role of safety regulator over this service providing organization. The results from abroad generally show that the PPP running the taxpayer-funded air traffic control system is more responsive and less expensive than the government-run entity it replaced, without compromising public safety.

At the local level, PPPs have been successfully employed here and abroad to complete infrastructure projects like roads and bridges more quickly and cost-effectively than traditional procedures where a government agency is in charge of all contracting and accepts the risks of delays or ownership of defective products. Under a PPP, a private entity can become the total contract manager – from designing, to building, to maintaining the structure. In other countries, this concept has also been applied to "vertical infrastructure" such as schools and government office buildings. In the U.S., NTU-backed legislation called the Public Buildings Renewal Act (PBRA) would have made key changes to federal tax policy that would allow local PPPs for vertical infrastructure to be more commonplace. A study NTU commissioned from the Beacon Hill Institute found that "every dollar of investment enabled by PBRA would boost the economy by $2.80, all while saving taxpayers an average of 25 percent over the lifespan of each project."

Recent bottle bills would harness these powerful, pro-taxpayer precepts on behalf of an area of public policy that could definitely stand greater fiscal discipline: recycling.

Currently, 10 states have created "bottle bill" programs which have yielded significantly higher recycling rates across a variety of containers. Changes in Chinese recycling policies in 2018 collapsed the recycling market in the United States. China stopped taking foreign materials, dramatically worsening a trend of rising costs for local curbside programs in the United States. Without these exports, the price per ton that can be recovered from most types of curbside recyclables is often dwarfed by "tipping fees" and the additional expense of maintaining special vehicles and other facilities for pickup and processing.

As a recent Manhattan Institute study pointed out, the economics of curbside recycling for most governments are likely to remain poor or at least tenuous from a taxpayer's standpoint unless municipalities significantly rethink how they deliver the services.

The addition of a statewide recycling program has the potential to save significant taxpayer dollars, by taking some of the pressure off of the local programs and directing them to the statewide program. Also, by establishing a private-public partnership relying on fewer collection points (retail instead of residential), more efficient pickup and transport, and more selective sorting as opposed to "single streams" of recyclables that tend to contain less valuable or contaminated materials, the economics of recycling in general may be less vulnerable to market shocks such as China's decision.

Taxpayers have a major interest in efficient, effective government -- innovating the way city-county-state level services are delivered can help to keep property taxes under control while conserving precious dollars for other budget priorities. It will also lead to higher recycling rates which can be a plus for the environment, if coupled with more effective systems for financial oversight.

As legislative sessions continue across the U.S., NTU will be seeking opportunities to advance the right kind of legislation to reform recycling programs, alongside numerous other projects to ensure that taxpayers come first. Here are some principles that taxpayers are looking for in ideal DRS legislation:

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1) **Net Cost Reductions for Taxpayers.** For all the reasons above, one important goal of the new DRS approach must be to relieve some of the financial pressure of conventional curbside recycling on taxpayers and ratepayers. NTU recommends that legislation should contain statutory language affirming this objective in the design of the program alongside other more obvious ones such as benefits to the environment. The performance goals of the non-governmental entity in charge of administering the program should include not only measurements such as percentage rates of recycling particular materials, but also cost-per-ton comparisons with the curbside program and any resulting savings.
2) **Transparency.** Consumers should understand the deposit on each container, with clear labeling indicating the amount that can be redeemed (typically 10 cents on a container of 24 ounces or less, 15 cents on bigger containers). However, labeling should also ideally indicate more clearly that the deposit has already been embedded in the price of the product the consumer has purchased. This will have the salutary effect of incentivizing more consumers to participate in recycling.
3) **Robust Risk Transfer.** Whether they involve air traffic control, facilities maintenance, toll roads, or recycling, all well-designed PPPs should involve a significant (or total) degree of financial risk transfer from the government to a private entity. This greatly reduces potential balance sheet liabilities for taxpayers, who in the past have been stuck with tremendous bailout costs when public projects owned or operated solely by the government fail to perform as advertised. A non-governmental recycling entity, not a municipal agency, should be specifically named in any DRS legislation as the financially responsible party.
4) **Proper Compensation for Participants.** Retailers will be providing in-store or front-of-store space for the recycled material collection and processing points. The non-governmental entity operating the program can provide impartially determined compensation to the retail entity, based on fair market value of the space for sales displays or other retail uses. Governments could also provide property tax abatements, again determined impartially using the local prevailing assessment method, to ensure that participants' costs are adequately offset.
5) **Financial Guardrails.** A redesigned DRS program should not be misused as a way to subsidize other environmental programs or goals – or worse, totally unrelated – government services. NTU has witnessed numerous cases where taxes or user charges – ranging from Superfund excises to Passenger Security Fees on airline tickets – wind up being siphoned into spending schemes that have nothing to do with their original purpose. A PPP, being differently structured from a purely governmental program, should be better insulated from these problems, but well-drafted DRS legislation can provide extra insurance. Windfalls from unredeemed deposits should go toward recycling program administration, then fee reductions for operators and finally, additional offsets to other

taxes or costs associated with waste management above and beyond the reduced demand and costs for local curbside programs (see above).

6) **Consistent Oversight.** While the new DRS model does call for consistent performance evaluations and governmental oversight, I know from experience it is all too easy for a program to fly on autopilot and for mandated progress reports to gather dust on a shelf. State lawmakers and executive branch officials must fulfill their end of the PPP, by utilizing performance and oversight data to make informed decisions on the future direction of the program.

Fiscal conservatives may be skeptical of the value of curbside recycling, but should withhold such a judgment for reformed DRS programs. The reality is that public officials everywhere are proposing tax hikes, spending subsidies, and regulatory mandates, all in the name of radical environmental policies. These include, but are not limited to, increases in corporate and small business tax rates, complex tariffs, complex and unadministrable electric vehicle credits, more green energy loan programs (remember Solyndra?), and draconian emission targets on electricity generation. Market-based, pro-taxpayer alternatives are needed now more than ever, and if well-designed, DRS programs can fit the bill.

ConservAmerica, which approaches environmental and energy policy from just such a market-based perspective, had this to say, from Senior Advisor Robert Dillon:

> Plainly speaking, the economics of many municipal recycling programs don't pencil out. Recycling can increase the cost of trash collection for cities that must commit personnel and equipment to separate recyclables from non-recyclable materials and must often pay companies to cart off materials that cannot be recycled profitably. … The solution to these and other challenges facing the recycling industry shouldn't require an extensive government program to force people to change their habits, though. …It's an elegant solution to a long-standing problem.

The R Street Institute, a market-oriented think tank, agrees. An analysis from the Institute's Senior Fellow, Philip Rossetti, noted:

> There are potentially good reasons for why policymakers may want to improve recycling rates, be it in pursuit of environmental reasons or to reduce materials reliance on foreign sources. For beverage containers, there is strong evidence to support several claims:
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> 1. DRSs are more effective at inducing recycling behavior than curbside programs, affirming economic theory that financial incentives are a better motivator for recycling behavior than mandates.

> 2. The value of the deposit matters; states with higher values for redeeming beverage containers have higher recycling rates, indicating that should it be necessary to ensure higher recycling rates for specific materials or containers, a larger deposit will increase recycling rates…
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> If policymakers do adopt recycling focused policies, they would be better served by pursuing market-based mechanisms over increased regulation.

NTU agrees, and policymakers in both parties should devote considerable, careful deliberation to designing just the right kind of DRS program that will benefit their states and localities. The principles above, combined with the research and expert evaluations cited here, provide a good start to what should be an ongoing conversation.

Recycling can and should be all about reducing waste — both the material kind and the monetary kind. NTU looks forward to engaging on this issue in the future.