

MAINE STATE LEGISLATURE

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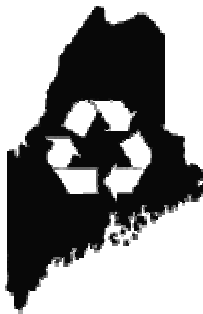


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A Report Prepared for the 123rd Legislature
Joint Standing Committee on Business,
Research and Economic Development



Response to Chapter 40 Resolve, To Estimate the Annual
Value of Uncollected Bottle Deposits, Fraud and Total
Costs under Maine's Bottle Bill



By the
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Resolve, To Estimate the Annual Value of Uncollected Bottle Deposits, Fraud and Total Costs under Maine's Bottle Bill

Sec. 1 Unclaimed deposits. Resolved: That the Department of Agriculture, Food and Rural Resources shall, in conjunction with other state agencies and 3rd-party administrators of beverage container commingling agreements that have knowledge of unclaimed beverage container deposits, estimate the unclaimed beverage container deposits that revert each year to the State and to beverage distributors; and be it further

Sec. 2 Redemption fraud. Resolved: That the Department of Agriculture, Food and Rural Resources shall estimate the total number of beverage containers that are illegally redeemed in the State each year; and be it further

Sec. 3 Total costs. Resolved: That the Department of Agriculture, Food and Rural Resources shall estimate the total annual costs to Maine's beverage distributors to fulfill their obligations under Maine's beverage container deposit law; and be it further

Sec. 4 Reporting date established. Resolved: That the Department of Agriculture, Food and Rural Resources shall report its findings and any recommendations based on the estimates developed pursuant to this resolve to the Joint Standing Committee on Business, Research and Economic Development no later than January 15, 2008. The Joint Standing Committee on Business, Research and Economic Development is authorized to submit legislation concerning this report to the Second Regular Session of the 123rd Legislature.

The following is submitted in accordance with Chapter 40 resolve “To estimate the Annual Value of Uncollected Bottle Deposits, Fraud and Total Costs under Maine’s Bottle Bill. The resolve did not appropriate additional monies for this study. The Department was directed to:

- Estimate the unclaimed beverage container deposits that revert each year to the State and to beverage distributors;
- Estimate the total number of beverage containers that are illegally redeemed in the State each year; and
- Estimate the total annual costs to Maine’s beverage distributors to fulfill their obligations under Maine’s beverage container deposit law.

Overview

The Bottle Bill was enacted by referendum on November 2, 1976 and was implemented in January 1978. The original Bottle Bill required deposits on beer, soft drink, mineral water, and wine coolers. It later expanded to include wine, liquor, water and non-alcoholic carbonated or non-carbonated drinks in 1989, with implementation in 1990.

In 2002, a study performed by the State Planning Office estimated that nearly 700,000,000 to 750,000,000 containers were sold in the State annually. Although it is unknown the exact extent of growth of the beverage industry in the State of Maine, the Department using the State Planning Office estimates arbitrarily chose one billion containers as a comparison number for this report.

In developing a logical response for this report, the Department found that its ability to quantify this information was impeded by the lack of appropriate statutory authority. The Department has no legal basis to officially access, audit and verify the information contained in this report. All information was obtained voluntarily from “initiators of deposit”, commingling groups, redemption centers and contracted agents.

Thus, the findings of this report should be considered incomplete in order to make any conclusions.

Commingling Exemptions

"Commingling groups" which represent approximately 2/3 of the beverage industry are 2 or more initiators of deposit (distributors) of beverage containers for which they have initiated deposits to be commingled by dealers and redemption centers. The advantages of comingling agreements allow for the commingling of beverage containers by like product group (beer, wine, spirits and soft drinks etc.) material and size.

Distributors who are members of a commingling agreement pick up all other beverage containers subject to the agreement in assigned geographical locations. The end result is less sorting for redemption centers and less handling and transportation costs for distributors.

In addition to the payment of the refund value, each distributor who is a member of a commingling agreement, reimburses a dealer or local redemption center for the cost of handling beverage containers at a rate of 3¢ per container versus non commingled containers that are reimbursed at the rate of 3 ½ ¢.

Methodology

In July of 2007, the Department sought voluntarily compliance from industry stakeholders by requesting the completion of a survey.

Two surveys were developed, with respect to the resolve, which focused on specific information only obtainable from initiators of deposit, commingling groups, redemption centers and contracted agents. The industry's cooperation was solicited with the promise that all information would be reported in a proprietary manner, in so much as practical. Participants were requested to return completed surveys by September 30, 2007.

Additionally, the Department of Agriculture sought the cooperation of the Maine Revenue Services in order to obtain data for unclaimed deposits or "Escheat" voluntarily reported to Maine Revenue Services for 2006.

Discussion:

The Department of Agriculture found that due to poor survey response and the large number of surveys that we were not able to use in calculating totals, there is insufficient data available to draw reliable conclusions. A majority of data lacked appropriate accountability due to the following:

- The majority of the participants reported the 5 cent and 15 cent beverage containers as a block when they reported fraudulent redemption. The survey requested actual numbers of each type of container (5 and 15 cent deposit containers) be reported to assist in identifying the types of containers that are being redeemed fraudulently.
- Department of Agriculture's review of the survey responses determined that many of the responses were either over or under reported, having inordinately high numbers of fraudulent redemptions reported or no fraudulent redemption reported whatsoever. There was no way to verify that this information was correct or that anything other than arbitrary (not actual) numbers were submitted.

Many respondents provided feedback as to why there is no specific method to measure fraudulent redemption. That being:

- Containers from out of state are redeemed for Maine deposit value. No controls exist that can effectively prohibit the redemption of containers from either New Hampshire, Massachusetts or New Brunswick;

- Distributors or contracted agents have no means of assurance the redemption centers do not tender to distributors or contracted agents containers that are short of the designated counts;
- A segment of the beverage industry is non-compliant with the Bottle Bill requirements for initiator of deposit and responsible parties for pick-up. Leaving redemption centers to either refuse acceptance, or have no means of tending containers to a distributor contracted agent.
- Reverse Vending Machines (RVM) have no technological controls to prevent non-deposit containers from being redeemed as many containers have the same UPC code for beverages sold in Maine and throughout the United States and Canada.
- Historically, municipal landfills and out of state municipal recycling programs have been a conduit for containers that are fraudulently reclaimed by trash collectors to re-enter the redemption system.

Summary

The majority of the industry's participation in responding to the survey questions was insufficient to reach any reliable conclusions. Many responses lacked sufficient data and there was no means to verify the data that was reported. The Department is unable to make any recommendation based on the findings of this report.

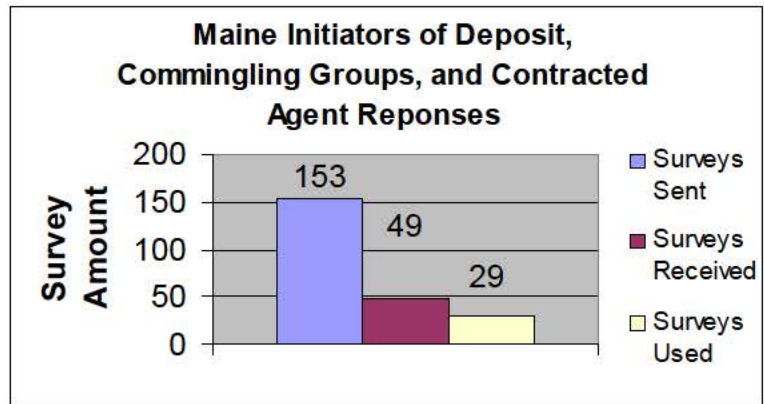
Survey Results

Initiators of Deposit, Commingling Groups, and Contracted agents

Question: How many beverage containers were initiated for deposit in the State of Maine during calendar year 2006, and how many containers were returned for deposit during calendar year 2006?

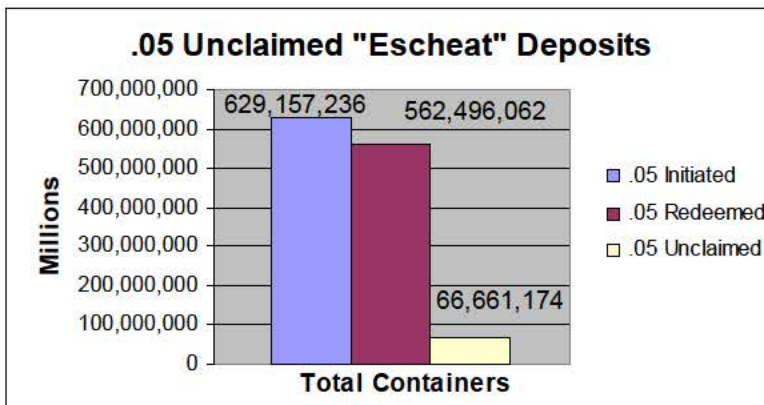
Findings

The Department surveyed 153 stakeholders, with 49 responses received. Of those responses, only 29 or 19% provided information that was useful in developing a response to this question.



Responses were received from Initiators of Deposit and two Commingling groups, Contracted Agents abstained from completion of the survey.

Generally, responses to the surveys were received in a timely manner.



Survey Responses for 2006
.05 Unclaimed Deposits

Initiated 629,157,236
Redeemed 562,496,062

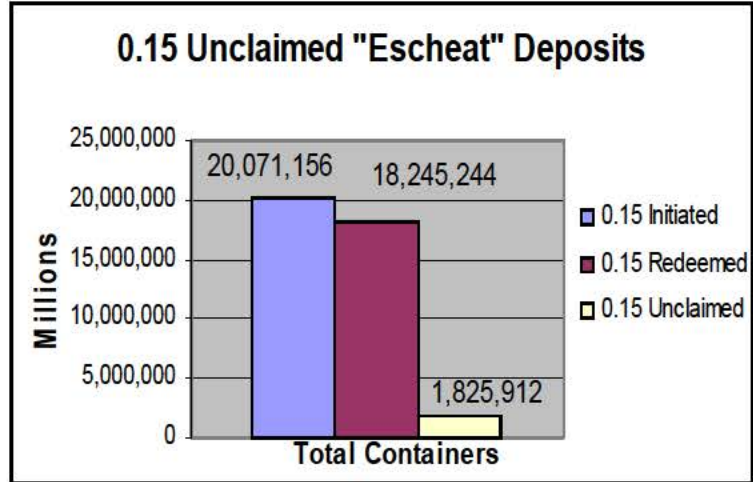
Unredeemed Containers *66,661,174

** This total represents only 19% of the 153 Initiators of deposit who were surveyed. The actual number of unredeemed containers is unknown.*

2006
0.15 Unclaimed Deposits

Initiated	20,071,156
Redeemed	<u>18,245,244</u>
Unredeemed Containers	1,825,912

** This total represents only 19% of the 153 Initiators of deposit who were surveyed. The actual total of unredeemed containers is unknown.*



Maine Revenue Service 2006 Unclaimed Deposits	
JAN 2006	\$56,911.00
FEB 2006	\$32,667.00
MARCH 2006	\$56,043.00
APRIL 2006	\$99,389.00
MAY 2006	\$25,007.00
JUNE 2006	\$34,162.00
JULY 2006	\$19,290.00
AUG 2006	\$118,080.00
SEPT 2006	\$33,553.00
OCT 2006	\$40,738.00
NOV 2006	\$56,590.00
DEC 2006	\$43,957.00
2006 TOTAL	\$1,232,774.00

The establishment of the Deposit Transaction Fund mandates that an initiator of deposit shall report to the State Tax Assessor by the 20th day of each month concerning transactions affecting its deposit transaction fund in the preceding month.

The reporting requirements exclude commingling groups, which make up the largest segment of industry.

In addition, a brewer who produces no more than 50,000 gallons of its product or a bottler of water who sells no more than 250,000 containers each containing no more than one gallon of its product in a calendar year is exempt from the reporting requirements.

Discussion

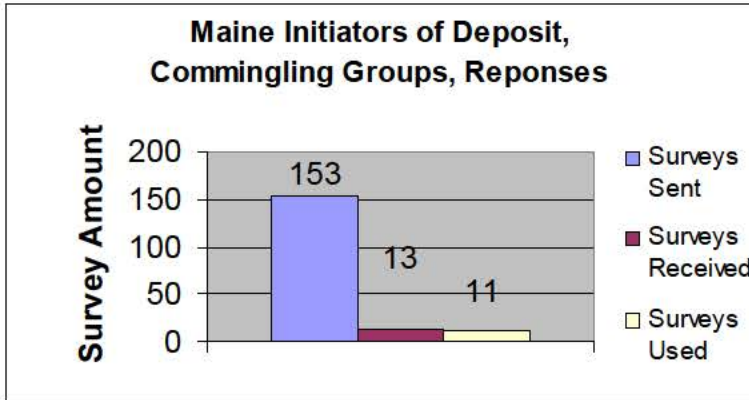
Although both commingling groups (who represent beer, wine, soft drink and some water sales) responded, the remainder of the beverage industry was not well represented; therefore, the Department of Agriculture lacked sufficient information to quantify an estimate of the total annual number of containers that are not redeemed for deposit.

The reporting requirements imposed by the Deposit Transaction Fund, although mandatory, lack sufficient enforcement to identify all "Initiators of Deposit". The Deposit Transaction Fund total should be considered to be "under reported".

Initiators of Deposit and Commingling Groups

Question: What are the total costs to your company associated with the administration of the Bottle Law for calendar year 2006?

Findings



The Department survey encompassed both Maine and out of state stakeholders. Of the 153 surveys sent, 13 responses were returned, with only 11 responders from Maine companies providing information that was useful in developing a response to this question.

The following table lists the total annual costs reported for 2006 by 11 Maine companies in order to meet the requirements of Maine’s Bottle Bill.

The survey asked Initiators of Deposit and Commingling groups to estimate the costs associated with administration of the bottle bill. Of the 11 responses received, approximately 63% of the industry is represented. No quantitative estimate can be made based on the information that has been provided.

1	\$12,153,400.00
2	\$4,531,454.00
3	\$650,000.00
4	\$393,805.00
5	\$5,809.75
6	\$2,942.00
7	\$1,750.00
8	\$1,697.95
9	\$1,202.00
10	\$247.00
11	\$67.00

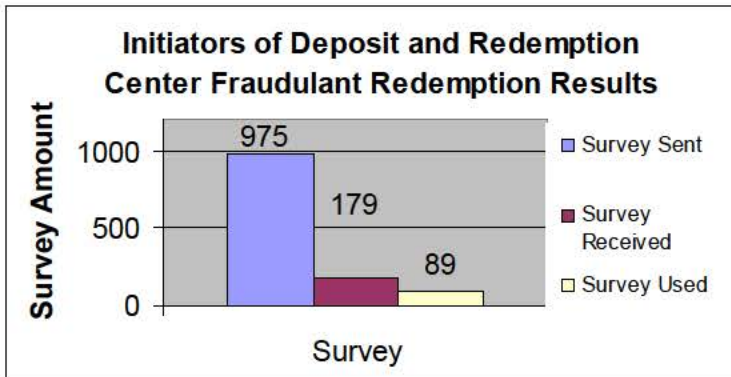
Redemption Centers

Question: Estimate the number of containers and their value that have been fraudulently redeemed during calendar year 2006?

Findings

The Department recognizes two types of “fraudulently redeemed” containers:

1. Beverage containers that have been tendered for redemption that were not originally sold in State of Maine.
2. Beverage containers that have been sold in the State of Maine, tendered for redemption, and have no responsible party to retrieve the empty containers, nor pay the deposit value and handling charges.



The Department surveyed 975 redemption centers, with 179 responses received. Of those responses, only 89 or 9% of those surveyed provided complete information that was useful in this report.

Survey results for 2006 indicate a total of 24,952,563 containers valued at 0.05 and 16,007 containers valued at 0.15 were fraudulently redeemed.

** This total represents only 9% of the 975 Redemption Centers that were surveyed. The actual total of fraudulently redeemed containers is unknown.*

\$ 0.05 containers	Total Value
*24,952,563	\$1,247,628.15
\$0.15 containers	
*16,007	\$2,401.50
COMBINED TOTAL	\$1,250,029.65



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Bottle Bill Survey
Report all figures for calendar year 2006

Company Name:		Contact Person:	
Mailing Address:		Telephone:	
City/Town:		I am a: (Check One)	
State:	Zip Code:	Initiator: _____	Distributor: _____

Question 1.

How many beverage containers were initiated for deposit in the State of Maine during calendar year 2006, and how many of those containers were redeemed for deposit in calendar year 2006.

Container Value	Amount Initiated		Amount Redeemed		Difference
0.05		<i>Minus</i>		=	
0.15		<i>Minus</i>		=	

Question 2.

Estimate the number of containers and their value that have been fraudulently redeemed during calendar year 2006.

Container Value		Containers Fraudulently Redeemed		Total Value
0.05	<i>Times</i>		=	
0.15	<i>Times</i>		=	

Question 3.

What are the total costs to your company associated with the administration of the Bottle Bill Law for calendar year 2006? (*Note: total costs represent administrative, transportation, personnel, material handling etc. minus the difference in initiated deposits and deposits redeemed.*)

Dollar Amount:

PLEASE RESPOND TO THIS SURVEY NO LATER THAN SEPTEMBER 30, 2007



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Redemption Center Bottle Bill Survey
Report for calendar year 2006

Company Name:		Contact Person:	
Mailing Address:		Business Location:	
City/Town:		Telephone:	
State:	Zip Code:		

Question 1.

Estimate the number of containers and their value that have been fraudulently redeemed during calendar year 2006.				
Container Value		Containers Fraudulently Redeemed		Total Value
0.05	<i>Times</i>		=	
0.15	<i>Times</i>		=	

PLEASE RESPOND TO THIS SURVEY NO LATER THAN SEPTEMBER 30, 2007