



Office of the Washington State Auditor

Pat McCarthy

Embedded Commercial Recycling in Washington Cities

Joint Legislative Audit Review Committee
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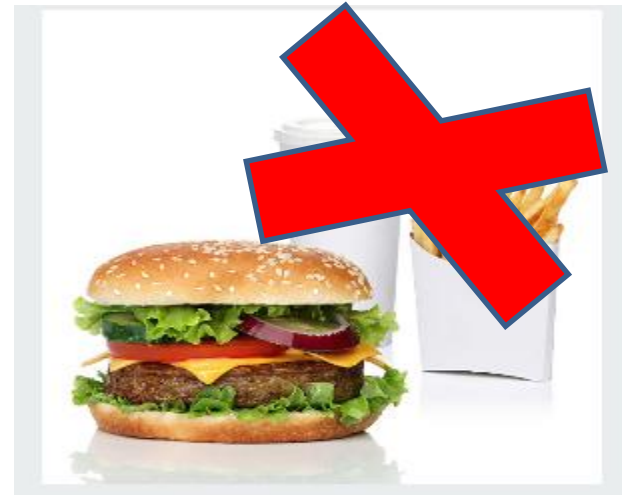
Rachel Moeckel, Senior Performance Auditor

Your audit question

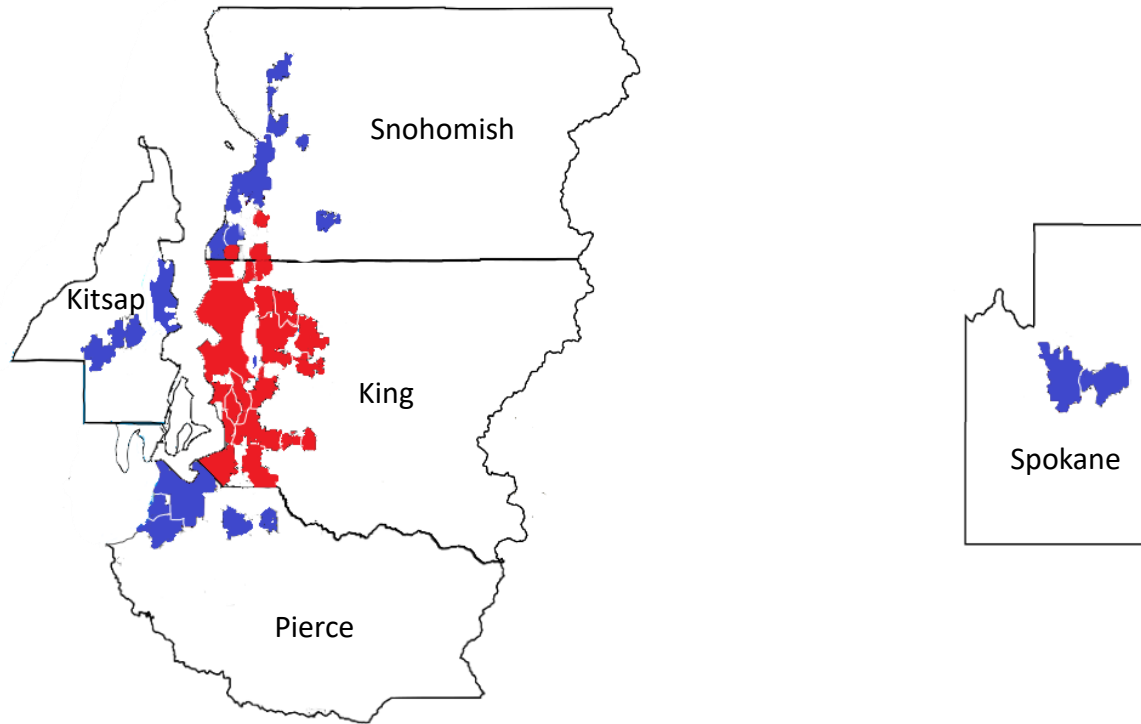
How does embedded commercial recycling affect:

- The recycling rate?
- How much taxes are paid?
- The distribution of work?
- Whether customers pay for services they do not use?

Embedding is bundling that cannot be undone



This audit looked at 39 cities in the five Class 1 counties



Cities with more than 15,000 residents

- *with* commercial embedding
- *without* commercial embedding

Why do cities use embedded recycling?

- State, counties and cities want to increase the recycling rate
- Recycling is cheaper than landfilling
- More service leads to more recycling

Recycling rates

County	Extent of embedded commercial recycling	Commercial-only recycling rate in cities
King	Widespread	47%
Snohomish	Limited	16%
Kitsap	None	16%
Pierce	None	11%
Spokane	None	insufficient information

Bid documents show recycling expenses exceed proceeds

Form 2b Operating Budget and Expenses - First 12 Months

Expenses:	Service Sector								Total
	Single Family				MF/Comm	Commercial/Multifamily Garbage			
	Garbage	Recycling	Yardwaste	Bulky	Recycling	Can/Cart	Container	Drop-box	
Amortized Start-up Expenses	\$ 4,503	\$ 1,801	\$ 991	\$ -	\$ -	\$ 540	\$ 8,106	\$ 865	\$ 16,806
Billing Costs	\$ 10,233			\$ -	\$ -				\$ 10,233
City Fees	\$ 172,977			\$ 37	\$ 3,084	\$ 2,027	\$ 136,157	\$ 45,720	\$ 360,000
Collection Labor	\$ 175,400	\$ 160,921	\$ 141,551	\$ 450	\$ 136,941	\$ 3,054	\$ 168,711	\$ 68,026	\$ 855,055
Container Depreciation	\$ -	\$ -	\$ -	\$ -	\$ 10,407	\$ -	\$ 18,923	\$ 3,025	\$ 32,355
Container Replacement (annual)	\$ 6,005	\$ 8,528	\$ 8,528	\$ -	\$ 8,326	\$ 105	\$ 15,138	\$ 3,438	\$ 50,067
Customer Service/Office Staff	\$ 28,000	\$ 11,200	\$ 6,160	\$ -	\$ 7,280	\$ 3,360	\$ 50,400	\$ 5,376	\$ 111,776
Disposal/Yard debris/Recycle fees	\$ 336,757	\$ -	\$ 141,793	\$ 420	\$ -	\$ 7,330	\$ 676,796	\$ 473,100	\$ 1,636,197
General & Administrative	\$ 35,886	\$ 14,354	\$ 7,895	\$ -	\$ 9,330	\$ 4,306	\$ 64,594	\$ 6,890	\$ 143,256
Insurance	\$ 21,027	\$ 15,533	\$ 13,311	\$ -	\$ 12,050	\$ 1,198	\$ 25,997	\$ 6,807	\$ 95,923
Property Rental/Lease	\$ 5,250	\$ 5,250	\$ 5,250	\$ -	\$ 1,365	\$ 630	\$ 9,450	\$ 1,008	\$ 28,203
Supervision Labor	\$ 24,083	\$ 9,633	\$ 5,298	\$ -	\$ 6,261	\$ 2,890	\$ 43,349	\$ 4,624	\$ 96,137
Taxes	\$ 44,679	\$ 7,938	\$ 6,982	\$ 54	\$ 8,781	\$ 803	\$ 42,364	\$ 18,381	\$ 129,983
Truck Depreciation	\$ 55,939	\$ 49,199	\$ 47,148	\$ -	\$ 37,275	\$ 2,026	\$ 54,950	\$ 14,911	\$ 261,448
Truck Fuel	\$ 19,966	\$ 18,318	\$ 16,113	\$ 158	\$ 14,688	\$ 348	\$ 12,803	\$ 14,438	\$ 97,730
Truck Maintenance	\$ 39,932	\$ 36,635	\$ 32,226	\$ -	\$ 31,176	\$ 695	\$ 38,409	\$ 16,500	\$ 195,573
Other/Miscellaneous	\$ 5,460	\$ 5,092	\$ 13,652	\$ -	\$ 4,200	\$ 84	\$ 8,327	\$ 1,905	\$ 38,720
Totals:	\$ 986,098	\$ 344,403	\$ 446,896	\$ 1,111	\$ 292,065	\$ 23,396	\$ 1,374,473	\$ 685,013	\$ 4,159,462
Revenues:									
Material Sales		\$ 93,454			\$ 101,322				\$ 194,776
Customer Charges	\$ 1,801,378	\$ -	\$ -	\$ 1,200	\$ -	\$ 32,637	\$ 1,702,126	\$ 740,286	\$ 4,277,626
Totals:	\$ 1,801,378	\$ 93,454	\$ -	\$ 1,200	\$ 101,322	\$ 32,637	\$ 1,702,126	\$ 740,286	\$ 4,472,403
Net Profit/(Loss):	\$ 815,280	\$ (250,949)	\$ (446,896)	\$ 82	\$ (190,743)	\$ (241)	\$ 327,652	\$ 55,273	\$ 312,940

Expenses

\$ 292,065

Sales of recyclables

\$ 101,322

Customer charges

\$ -

Total revenue

\$ 101,322

Loss

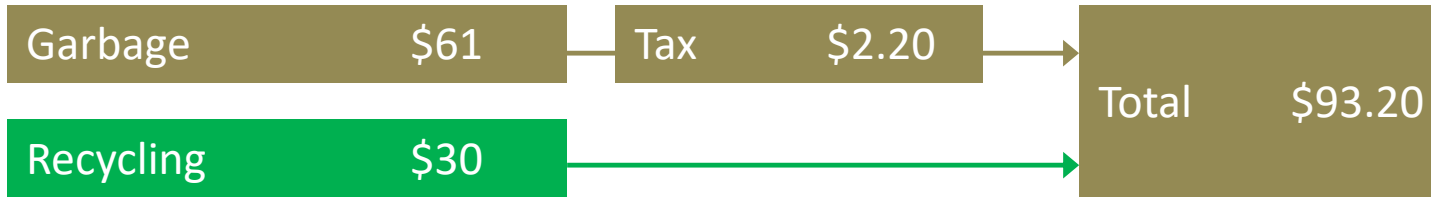
\$ (190,743)

Some customers use other recycling providers

About 20 percent of businesses do not use the embedded recycling services for their recycling

- Using corporate system
- Did not know it was available
- Dissatisfied with customer service

Embedding results in higher taxes



Businesses pay an estimated average **\$28** more each year, a total of **\$900,000** more in taxes across King County

Embedding leads to less competition

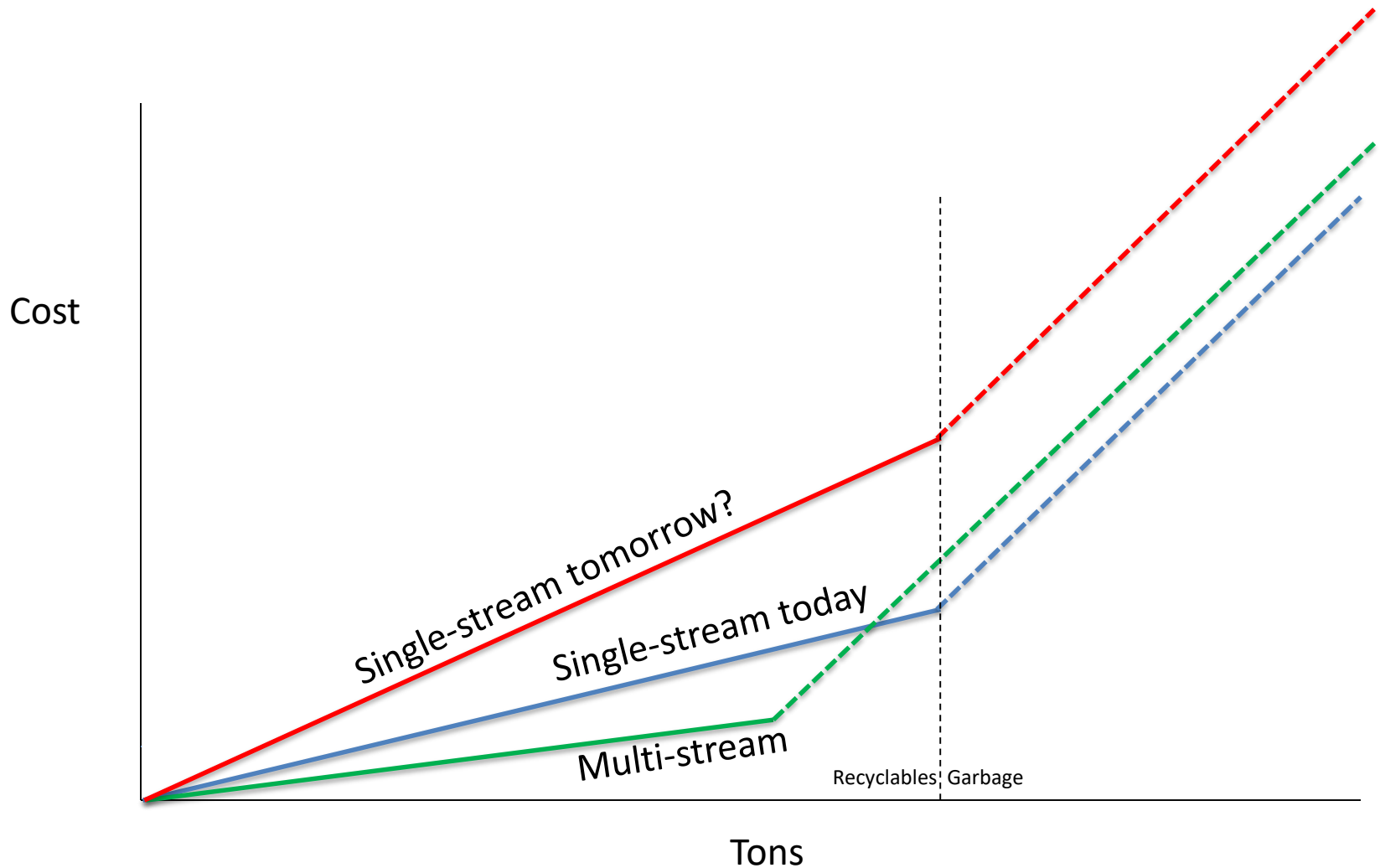
Commercial recycling market share held by companies other than the four national firms

County	Extent of embedded recycling	Market share held by small companies
King	Widespread	<25%
Snohomish	Limited	25-50%
Pierce	None	25-50%
Kitsap	None	51-75%
Spokane	None	>75%

No recommendations

- Current, rapid changes in market conditions
 - ▣ Affects residential as well as commercial recycling
- Status quo? Fewer materials? Back to multi-stream?
- This is a choice to be made by city councils

Recycling is still cheaper than garbage



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