

## Central Connecticut Redemption Center, New Britain, CT

### A stake holder testimonial before DEEP Re: **DEEP Beverage Container Recycling Grant Program**

To Katie Dykes, DEEP Commissioner and Chris Nelson, Supervising Environmental Analyst,

Independent Redemption Centers are an integral part to the state's container redemption program. With the expansion of containers and increased deposit in the near future looming, it is critical that CT RC network is bolstered to handle these major system updates. This will be accomplished through the establishment of new RC's and upgrading of legacy RC operations. The process in which this rollout will occur under is critical to avoid any missteps, below are my thoughts and opinions regarding the questions posed by DEEP.

#### 1. What types of information should DEEP request from applicants?

- **Articles of incorporation/Certificate of legal existence**
- **Copy of Lease, Proof of lease and or Letter of intent to lease** – Applicants should demonstrate the lease is of adequate term, i.e., no shorter than a multiple year lease period.
- **Proof of CT residency** – Applicant priority should be given to CT residents over corporations and entities from out of states. i.e., NY redemption operators applying to CT grants to expand their operations into CT
- **Description of plan for redemption method** – Applicants shall identify the means of operations; manual sort, RVM and or combination in order to justify grant funding levels.
- **Proof of Funds** – Applicant should have funds available. Without staking any funds in starting a venture, the applicant will struggle securing lease terms. Most landlords will require security deposits and run credit score check before agreeing with applicants on a lease agreement. A reasonable amount would be **\$35,000.00** which could be in the form of cash or approved credit line from a banking institution.
- **Zoning Approval** – Applicant must demonstrate that they have met with town zoning officials and or attended a zoning hearing thereby approving the RC operation at the address which they intend to operate. Without this town zoning approval, the RC project will not be allowed to open and operate and therefore should not be eligible for grant funding.
- **Grant amount Requested** – Applicant can state the amount of grant funding which they are estimating that they require in starting their RC operation.
- **Grant fund usage** – Applicant must demonstrate how they will adequately deploy the funds in starting a RC. i.e., budget showing fund allocation: labor, lease, equipment, daily cash distributions. Include documentation for expenses to be paid with the grant.

#### 2. What factors should DEEP evaluate when reviewing applications?

- **Operational Experience** – Applicant's background/experience level in business management, accounting, operations, HR, staffing, logistics. An applicant which

demonstrates that they are proficient in the skills listed above will be most likely to succeed in starting and sustaining a new RC.

- **Team Construction** – Does the applicant have partners who are ready to commit to this project or identified employees which will be used to staff the RC operation. An RC operation is very labor intensive, without proper staffing it makes it very operationally challenging.
- **Proximity to existing RC** – Applicants should demonstrate that they are opening a new location in an area which is under served and has adequate volume to accommodate a RC. The suggested minimum spacing between an existing RC and new RC opening under the grant program should be a **10-mile radius**. This is to prevent the NY/ME RC effect where RC rapidly opened within a common area to split the same container volume and not provide any better service to the consumers. In the end it leads to defaults of many RCs and causes back-end pickup service issues for all the RCs involved leading to a degradation of service for all RC operators which in turn leads to subpar experiences for consumers. **Refer to the end of the testimony for detailed analysis of RC siting and distribution within the state of CT.**
- **Timeline for Implementation** – Priority should be given to those applicants who can demonstrate that they have a timeline in place which shows that they can open a new RC within a reasonable timeframe. i.e., 2-3 months.

3. What siting criteria within urban centers and environmental justice communities should DEEP prioritize for optimal redemption center location – for example, should eligibility for funding through this program be limited to new redemption centers that are located more than a one-mile radius from existing redemption center? Should that radius be greater in municipalities with lower population densities?

- Siting for optimal RC placement in urban centers/EJ communities should be based upon the container volume per a given population density. Per the modeling I performed below my estimates are that there is a 1 RC need per 72,000 people or 12M containers required to be collected by a RC to remain a viable operation. Example of RC distribution based on the top 10 populated towns in CT (**Detailed analysis at end of testimony, along with RC business model**):

Rank	Town	Population	Potential Containers	Yearly Redeemed Containers by RC	Recommended RC per Town
1	Bridgeport	145,639.00	60,294,546.00	24,117,818.40	2.01
2	New Haven	130,331.00	53,957,034.00	21,582,813.60	1.80
3	Stamford	129,309.00	53,533,926.00	21,413,570.40	1.78
4	Hartford	123,088.00	50,958,432.00	20,383,372.80	1.70
5	Waterbury	108,276.00	44,826,264.00	17,930,505.60	1.49
6	Norwalk	88,599.00	36,679,986.00	14,671,994.40	1.22
7	Danbury	84,619.00	35,032,266.00	14,012,906.40	1.17
8	New Britain	72,767.00	30,125,538.00	12,050,215.20	1.00
9	West Hartford	63,063.00	26,108,082.00	10,443,232.80	0.87
10	Greenwich	62,587.00	25,911,018.00	10,364,407.20	0.86

- Grant funding should be limited to new RCs which are more than a **10-mile radius** from existing redemption center. This is to ensure that there is not an over crowding of RCs for a given population size which does not result in greater consumer experience. Larger RC depots are more efficient in handling large number of customers over many small retail RC centers. DEEP must pay close attention to RC spacing to keep all the existing and new owners afloat during this expansion effort. While the new RCs have the grant capital to employ new technology, the legacy operators must invest their own money to modernize their operations. An unwanted side effect of RC overcrowding in a less than 10-mile radius will be in the form of material recovery issues. The pick-up agents can only handle so many stops per week to remove the sorted material from the RCs, if there are many small RCs scattered about it will cause undue burden on the system resulting in poor experience for all RC operators. From my experience this will lead to excessive material backup at the RC which can lead to shut downs until the matter is resolved.

4. Should DEEP require performance reporting from grantees? What metrics should be included in such reporting?

- DEEP should be monitoring that the RCs are indeed operational and collecting material to avoid any potential fraudulent players. The means to monitoring the RC performance can be to request the monthly payment invoices the RC receives from the distributors for a one-year period.
- DEEP should also require that they are meeting their advertised hours of operation. The minimum hours of operation should be no less than 6 hours a day and 5 days a week.

5. Should DEEP include certain minimum processing capacity or technology/equipment requirements for eligible grantees? What should be the minimum processing capacity be for a grantee?

- DEEP should request the method of redemption being employed and the steps the RC is taking in order to at minimum collect 4M containers per year. If the RC can not handle that volume they will be at the brink of viability and risk closure, early in their operating cycle. **Refer to the end of the testimony for detailed analysis of RC business model, this modeling will show the ideal container collection required per RC.**

6. Should DEEP consider providing additional grant funding after the first year of operation based on performance metrics—for example, a standard “cents-per-container” calculation based on the number of containers redeemed by the grantee in the prior year of operation?

- DEEP should allocate the additional grant funding towards legacy RC operations to ensure all the players in the CT system are kept whole. This will allow modernization of existing RCs.
- There is really no need for a grantee to receive additional funding the next year because they should be incentivized to increase the number of containers returned without “cents-per-container” bonus.

7. What other grant program priorities should DEEP consider? What other questions should DEEP address in the final grant program application process?

- Administer the grant amount to the max \$150,000.00 per application, this will lead to potentially 33 new RCs, which is in line with the required new redemptions center shown above in the modeling
- Grants should only be issued to applicants which are opening new centers in areas that currently do not have access to a RC. There should be adequate due diligence done to prevent the issues seen in NY and Maine where there are multitude of RCs in the same town competing for the same container stream leading to subpar RC experiences and eventual shut downs of centers. Maine has recently implemented a similar system like the liquor permit process system to prevent against these overcrowding of RC issues.
- Develop a checklist for potential new RC owners to be vetted by in order to assure good RC experiences for customers and overall, well-being of the RC operation.
- Come up with guidelines for RC spacing within towns which require multiple RCs and also with RCs that cover many smaller towns to prevent overcrowding. A minimum of a 10 mi radius maybe a viable number for RCs that cover a few different smaller towns.

The table below illustrates a sample business model for a redemption center operation in Connecticut. In this particular model, the assumptions are as follows:

- Number of employees not including the owner: 3
- Average rental cost per month \$4000
- Inflation over time for expenses 2%, but in reality, this number can be much higher
- Gross income is before taxes and any debt payments
- Annual growth rate of containers redeemed: 20%

The first four years of a new redemption operation will yield losses totaling over \$223,000. The owner will only have positive revenue after 5th year of operation assuming that their growth rate can maintain 20% per year. As you can see, it is critical that the grant amounts disbursed for new RC operation should be at the maximum amount of \$150,000.00, anything less will put new owners at greater financial risk and will lead to higher rates of defaults, leading to shut downs of the centers before profitability is reached.

<b>Redemption Center Income Model</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>Year 6</b>	<b>Year 7</b>	<b>Year 8</b>
<b>Revenue</b>	\$ 175,000.00	\$ 210,000.00	\$ 252,000.00	\$ 302,400.00	\$ 362,880.00	\$ 435,456.00	\$ 522,547.20	\$ 627,056.64
Containers Redeemed	3,500,000.00	4,200,000.00	5,040,000.00	6,048,000.00	7,257,600.00	8,709,120.00	10,450,944.00	12,541,132.80
Gross Margin %	60%	60%	60%	60%	60%	60%	60%	60%
Gross Revenue	\$ 105,000.00	\$ 126,000.00	\$ 151,200.00	\$ 181,440.00	\$ 217,728.00	\$ 261,273.60	\$ 313,528.32	\$ 376,233.98
<b>Operating Expenses</b>								
Wages (3 People @ \$15/hr)	\$ 120,931.20	\$ 123,349.82	\$ 125,816.82	\$ 128,333.16	\$ 130,899.82	\$ 133,517.82	\$ 136,188.17	\$ 138,911.94
Rent (\$4000/month)	\$ 48,000.00	\$ 48,960.00	\$ 49,939.20	\$ 50,937.98	\$ 51,956.74	\$ 52,995.88	\$ 54,055.80	\$ 55,136.91
Utilities	\$ 4,560.00	\$ 4,788.00	\$ 5,027.40	\$ 5,278.77	\$ 5,542.71	\$ 5,819.84	\$ 6,110.84	\$ 6,416.38
Insurance	\$ 5,000.00	\$ 5,250.00	\$ 5,512.50	\$ 5,788.13	\$ 6,077.53	\$ 6,381.41	\$ 6,700.48	\$ 7,035.50
Can liner bags	\$ 12,000.00	\$ 12,240.00	\$ 12,484.80	\$ 12,734.50	\$ 12,989.19	\$ 13,248.97	\$ 13,513.95	\$ 13,784.23
<b>Total Expenses</b>	\$ 190,491.20	\$ 194,587.82	\$ 198,780.72	\$ 203,072.53	\$ 207,465.99	\$ 211,963.92	\$ 216,569.23	\$ 221,284.96
<b>Gross Income</b>	\$ (85,491.20)	\$ (68,587.82)	\$ (47,580.72)	\$ (21,632.53)	\$ 10,262.01	\$ 49,309.68	\$ 96,959.09	\$ 154,949.03

The table below illustrates the future required number of RCs in the state of CT. The assumption of the model below is that 80% redemption rate is achieved and that 50% of the redemption is occurring through RC's and the other 50% is through RVMs. The required number of containers for an RC to stay operational and generate enough revenue is based on the model above from year 8 of operation. Anything under that container amount could lead to negative revenue and the redemption center not longer able to stay in business. The model below calculates a 1 RC need for every 72,000 people. The second table shows the model for the top 10 populated cities in CT.

CT population (2020)	Average Total Containers Sold (Rolling 4 year Avg)	Average Containers/person	Assumed Redemption Rate	Yearly Redeemed Containers	RVM/RC Collection Split	RC Required Redeemed Containers	Estimate for Total required RCs in CT	Current Number of active RCs in CT	Potential New RC locations
3,605,944.00	1,492,744,414.00	414	80%	1,194,195,531.20	50%	12,000,000.00	49	18	31

Rank	Town	Population	Potential Containers	Yearly Redeemed Containers by RC	Recommended RC per Town
1	Bridgeport	145,639.00	60,294,546.00	24,117,818.40	2.01
2	New Haven	130,331.00	53,957,034.00	21,582,813.60	1.80
3	Stamford	129,309.00	53,533,926.00	21,413,570.40	1.78
4	Hartford	123,088.00	50,958,432.00	20,383,372.80	1.70
5	Waterbury	108,276.00	44,826,264.00	17,930,505.60	1.49
6	Norwalk	88,599.00	36,679,986.00	14,671,994.40	1.22
7	Danbury	84,619.00	35,032,266.00	14,012,906.40	1.17
8	New Britain	72,767.00	30,125,538.00	12,050,215.20	1.00
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10	Greenwich	62,587.00	25,911,018.00	10,364,407.20	0.86

I have been working under the CT Bottle Law for 18 Years. Please don't hesitate to contact me if you have any questions pertaining to this industry. I will be happy to help.

Sincerely yours,

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Central Connecticut Redemption Center