

Proposal to Adjust the 904 Performance Grant's Award Calculation

Due to declining recycling fee revenues and increased grant awards, it has become necessary to adjust the 904 Performance Grant allocation formula. We propose changing the 904 Performance Grant award calculation, specifically reducing the commercial incentive award rate from \$10 per ton to \$5 per ton. Currently, the formula is calculated utilizing the following formula:

Base Award = Approved Residential Tonnage + Approved Commercial Tonnage x \$5

* Approved Tonnages cannot include any residues. Approved commercial tonnage for the base award cannot exceed the approved residential tonnage.

Bonus Award = Approved Residential Tonnage + Approved Commercial Tonnage x Municipality's Recycling Rate x \$1

* Approved Tonnages cannot include any residues. Approved commercial tonnage for the bonus award cannot exceed the approved residential tonnage. A municipality's recycling rate is determined in this manner:

Approved Residential Tonnage + Approved Commercial Tonnage / (municipality's population x 0.89) x 100

Commercial Incentive = Approved Commercial Tonnage in excess of that approved for base and bonus award x **\$10**

Total Award = (Base Award + Bonus Award + Commercial Incentive) x 80%

Rationale for the Adjustment:

1. Decrease in Recycling Fee Revenue:

- Historically, the Recycling Fund has received approximately \$43 million in fees annually. However, in 2024, the fund is projected to be under \$40 million, marking a significant decline.

2. Increase in Warehouse and Distribution Infrastructure:

- Pennsylvania has seen a substantial rise in the construction of warehouses and distribution centers. The PA Department of Community and Economic Development (DCED) estimates there are over 5,000 such facilities across the state.¹
- In the Lehigh Valley alone, there are 44 million square feet of land available for warehouses, with an additional 23 million square feet proposed over the past six years.²
- Recycling tonnages from warehouses and distribution centers (post-consumer materials) are eligible for the 904 Performance Grant and produce significant tons of cardboard and other packaging materials.

3. Focus on Residential Recycling Programs:

- The primary goal of the 904 Performance Grant is to incentivize robust residential recycling programs. Currently, the commercial incentive award rate exceeds the residential rate, resulting in some municipalities with strong commercial sectors but weak residential programs receiving higher awards.
- By adjusting the commercial incentive award rate, we aim to shift the emphasis back to residential recycling, ensuring that municipalities with strong residential programs are duly recognized and rewarded.

This proposed change will help address the financial challenges faced by the Recycling Fund and realign the grant's focus on enhancing residential recycling efforts. We believe this adjustment is both fiscally responsible and aligned with the overarching goals of the 904 Performance Grant.

(1) Utilize the DCED GIS Tool: <https://dced.pa.gov/pennsylvanias-top-industries/distribution-logistics/>

(2) Based on the August 26, 2024, Lehigh Valley News article: <https://www.lehighvalleynews.com/environment-science/the-lehigh-valley-warehouse-boom-has-brought-prosperity-problems-and-a-notable-culture-change>

Table 1. Recycling Funds spent in the calendar years 2019, 2020, 2021, and 2022 when utilizing different commercial incentive award rates. Please note CY2022 is based on data from awarded grants as well as projected awards.

	Commercial Incentive Award Rate					
	\$10	\$5	\$4	\$3	\$2	\$1
2019	\$5,920,457.20	\$2,960,228.60	\$2,368,182.88	\$1,776,137.16	\$1,184,091.44	\$592,045.72
2020	\$5,469,496.80	\$2,734,748.40	\$2,187,798.72	\$1,640,849.04	\$1,093,899.36	\$546,949.68
2021	\$5,957,290.00	\$2,978,645.00	\$2,382,916.00	\$1,787,187.00	\$1,191,458.00	\$595,729.00
2022	\$6,065,875.00	\$3,032,937.50	\$2,426,350.00	\$1,819,762.50	\$1,213,175.00	\$606,587.50

- **Table 1.** Demonstrates what would have been paid out each calendar year if a commercial incentive award rate was calculated at \$5, \$4, \$3, \$2, or \$1.
- At the current commercial incentive award rate of \$10 per ton, approximately \$5.4 to \$6 million was awarded as a commercial incentive each calendar year from 2019-2022.
- Over the past few years, the amount of funds spent on commercial incentives have been consistently rising, and commercial tonnages now exceed pre-pandemic levels.

Table 2. Estimated Recycling Fund savings from calendar years 2019, 2020, 2021, and 2022 utilizing different commercial incentive award rates. Please note CY2022 is based on data from awarded grants as well as projected awards.

Calendar Year	Commercial Incentive Award Rate				
	\$5	\$4	\$3	\$2	\$1
2019	\$2,960,228.60	\$3,552,274.32	\$4,144,320.04	\$4,736,365.76	\$5,328,411.48
2020	\$2,734,748.40	\$3,281,698.08	\$3,828,647.76	\$4,375,597.44	\$4,922,547.12
2021	\$2,978,645.00	\$3,574,374.00	\$4,170,103.00	\$4,765,832.00	\$5,361,561.00
2022	\$3,032,937.50	\$3,639,525.00	\$4,246,112.50	\$4,852,700.00	\$5,459,287.50

- **Table 2.** Demonstrates how much money would have been saved in each calendar year, if a commercial incentive award rate of \$5, \$4, \$3, \$2, or \$1 was utilized.

Proportion of the 904 Grant monies spent from Commercial Incentive at a \$10 per ton rate				Proportion of the 904 Grant monies spent from Commercial Incentive at a \$5 per ton rate			
Calendar Year	Total Spent	Commercial Incentive	% Com. Incentive	Calendar Year	Total Spent	Commercial Incentive	% Com. Incentive
2019	\$18,900,000	\$5,920,000	31.3%	2019	\$15,900,000	\$2,960,000	18.6%
2020	\$19,000,000	\$5,470,000	28.8%	2020	\$16,300,000	\$2,730,000	16.7%
2021	\$18,400,000	\$5,960,000	32.4%	2021	\$15,400,000	\$2,980,000	19.4%
2022	\$19,200,000	\$6,070,000	31.6%	2022	\$16,200,000	\$3,030,000	18.7%

- Currently the commercial incentive makes up about 28-30 percent of the 904 Performance Grant funds spent for each calendar year; by reducing the commercial incentive award rate to \$5, the percentage would be closer to 16-19 percent of the allocated funds.