



Quarterly Report on the Status of the
Beverage Container Recycling Fund
(FY 2014-15 – 2nd Quarter)

Department of Resources Recycling and Recovery

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This *Quarterly Report on the Status of the Beverage Container Recycling Fund*¹ is a review of the adequacy of resources in the Beverage Container Recycling Fund to make the payments specified in Public Resources Code (PRC) Section 14581 and the processing fee offsets specified in PRC Section 14575. This legislatively mandated report provides updates on the status of all five funds in the Beverage Container Recycling Program. This report also provides projections for sales, recycling volumes (returns), processing payments, processing fees, and processing fee offsets, by material type, and handling fees. Finally, this report provides an explanation of significant changes between the current projections and the projections presented in the October 2014 report.

¹ Public Resources Code [Section 14556](#) requires the Department of Resources Recycling and Recovery (CalRecycle) to report every three months on the adequacy of the fund to meet the current payments and to project estimates of future adequacy.

Executive Summary

Since its passage nearly 30 years ago, California's beverage container recycling law has proven a success in diverting materials from wasteful landfilling to beneficial reuse. In recent years, the statewide recycling rate for container types included in the program has remained above 80 percent.

However, a combination of factors has imposed a strain on the Beverage Container Recycling Fund (Fund), resulting in an ongoing structural deficit.

These factors include statutorily prescribed payments established when the Fund was running large surpluses, fraudulent activity, and ironically, the success of the program itself. In FY 2008-09, the recycling rate rose to 78 percent, while the break-even recycling rate – the rate at which unredeemed California Redemption Value (CRV) revenue equals non-CRV program expenditures – was approximately 70 percent. Since then, the recycling rate has continued to increase. The current break-even rate is about 79 percent, while the FY 2013-14 recycling rate was 82 percent.

Until now, the gap between expenditures and revenues has been temporarily bridged through repayments of loans, particularly to the General Fund, made from the Fund when it was operating at a surplus. However, all remaining loan repayments, amounting to \$82.3 million, are scheduled to be paid in full in FY 2014-15.

Failure to take sufficient action to close the structural deficit could result in cutbacks, known as "proportional reductions," in payments made to program participants, and potentially insufficient funds to provide CRV refunds to consumers. Continuous annual deficits threaten the continued viability of the program.

In order to address the structural deficit, CalRecycle implemented several program reforms, including reduced daily load limits for redemption at recycling centers, increased monitoring of the importation of out-of-state beverage containers, and the elimination of the commingled rate at buyback centers, which allowed for slightly lower

per-pound refund rates for loads containing a combination of CRV and non-CRV material.

These three measures were implemented between November 2013 and January 2014, and early indications of their impact are promising as fewer ineligible containers are being redeemed for payment. Additionally, beverage sales appear to be increasing. Notably, because of these circumstances, CalRecycle does not anticipate the need to impose proportional reductions until after the 2017-18 fiscal year, consistent with the last quarterly report, issued in October 2014.

However, actions taken thus far have secured only partial success; while the gap is smaller, the amount of money coming into the Fund is still insufficient to cover the amount being paid out. In order to eliminate the structural deficit and achieve a secure financial future for the Fund and the programs it supports, further measures are necessary.

Both the positive impact of the first round of reforms and the need for more are supported by the recent [audit](#) conducted by the California Bureau of State Audits and released in November 2014. The audit confirmed the Fund's structural deficit, then approximately \$100 million, and recognized that changes such as reducing or eliminating administrative fees for beverage distributors, enacting changes to mandatory payments such as those for curbside programs or quality incentives to beverage program participants, or reducing or eliminating processing fee offsets could improve the program's financial condition. However, the Administration continues to evaluate its policy options.

This report shows a decline in the projected structural deficit, to \$56 million, in fiscal years 2014-15 through 2017-18, based on lower payouts, potentially stemming from the recent reforms, as well as higher revenues as beverage sales have increased with an improving economy. Nevertheless, as the audit, titled "The Beverage Container Recycling Program Continues to Face Deficits and Requires Changes to Become Financially Sustainable (Report 2014-110)," and the information provided in this

quarterly update demonstrate, additional program reform measures² will be required to achieve long-term solvency.

² See Appendix 4 for a more detail description of currently implemented program reform measures.

Introduction

As of January 1, 2015, CalRecycle projects that the cash balance of the recycling fund will not permanently fall below the prudent reserve until after FY 2017-18, which is the extent of the current forecast horizon, if present trends continue. This projection time frame is unchanged from the October 2014 report. Additionally, the average structural deficits for FYs 2014-15 to 2017-18 are projected to decrease to \$56 million per year as compared to the \$72 million annual estimate cited in the October 2014 report, due to further reductions in expenditures and continued growth in sales revenue. Actual structural deficits averaged \$123 million per year for FYs 2008-09 to 2013-14, excluding FY 2009-10 when proportional reduction was implemented.

CalRecycle is continuing to implement key reform measures³ to improve program integrity, reduce loss, and enhance revenue where possible. The measures are intended to improve program integrity and focus on certified recyclers by promoting higher standards of performance, accountability, and service to the public. The measures are also intended to reduce loss by concentrating on counteracting fraud. Finally, the measures are intended to enhance revenue by closing possible gaps in the collection of redemption fees and processing fees. Please see Appendix 4 for a summary of key reform measures. Overall, even if the reform measures continue to provide the same level of benefit to the program as has been observed during the recent short period following implementation, CalRecycle currently projects the combination of all reform measures outlined in Table 18 will not be sufficient to eliminate the ongoing structural deficit. Absent additional measures, proportional reduction in the long run remains inevitable.

Please be advised that projected fund condition statements in this report are very sensitive to the timing and amounts of actual receipts and disbursements. The timing of proportional reduction implementation may change based on more current information presented in future reports.

³ See Appendix 4 for a more detailed description of currently implemented key program reform measures.

The information presented here bears examination. CalRecycle has concluded a series of program reform workshops to look at ways to ensure long-term program financial sustainability. The workshops revealed the difficult challenges in addressing stakeholder concerns while working to close what was at that time a \$100 million annual structural deficit. As a result, CalRecycle must increase its emphasis on program fiscal integrity in an environment where Californians are exceeding the public policy of a beverage container recycling goal of 80 percent.⁴

While the initial effect of implementing the fraud prevention measures has shown promise, CalRecycle does not anticipate those measures will be sufficient to eliminate the current ongoing annual \$56 million structural deficit. As a result of continued deficit spending, CalRecycle believes proportional reduction eventually will be necessary, and once implemented, proportional reduction is expected to continue indefinitely without additional reforms to the program.

Furthermore, field visits to recyclers and processors conducted in August and September 2014 confirm that large volumes of material once collected through buyback centers is now being collected through curbside programs, resulting in lower-quality material due to increased contamination and breakage. Lower-quality material is more costly to recycle.

CalRecycle is committed to explore efforts and opportunities to support a stable recycling infrastructure in California.

CalRecycle welcomes your feedback concerning this report. Please send questions and comments to BeverageContainerReform@calrecycle.ca.gov, or contact the Division of Recycling at (916) 323-3836.

⁴ See Public Resources Code section [14501\(c\)](#).

Fund Condition and Structural Deficit

The program is designed to use surplus resources to fund policy goals. The program has traditionally had an excess of revenue due to high sales and relatively low recycling rates. Since FY 2008-09, exclusive of proportional reduction in FY 2009-10, the program began operating under a structural deficit averaging \$123 million per year due to recycling fund expenditures exceeding revenues. Annual structural deficits are projected to decrease to \$56 million from FYs 2014-15 to 2017-18, likely due to a combination of the recent implementation of reform measures and increasing sales. More detail on the structural deficits are shown in Table 1 below.

Table 1: Historical and Projected Structural Deficits for all Program Funds

Fiscal Year	Redemption and Processing Fee Revenues	Governor Budget Expenditures	FY Fund Surplus/(Deficit) [Note 1]
2007-08	\$1,225,962,000	\$1,215,731,000	\$10,231,000
2008-09	\$1,177,316,000	\$1,330,618,000	(\$153,302,000)
2009-10 <i>[Note 2]</i>	\$1,199,887,000	\$1,121,379,000	\$78,508,000
2010-11	\$1,150,101,000	\$1,337,230,000	(\$187,129,000)
2011-12	\$1,154,039,000	\$1,262,965,000	(\$108,926,000)
2012-13	\$1,175,473,000	\$1,285,065,000	(\$109,592,000)
2013-14	\$1,206,122,000	\$1,261,979,000	(\$55,857,000)
2014-15 (projected)	\$1,249,182,000	\$1,302,941,000	(\$53,759,000)
2015-16 (projected)	\$1,249,244,000	\$1,308,815,000	(\$59,571,000)
2016-17 (projected)	\$1,250,244,000	\$1,309,265,000	(\$59,021,000)
2017-18 (projected)	\$1,251,244,000	\$1,304,724,000	(\$53,480,000)

[Note 1] - Reflects ongoing operations only and excludes non-reoccurring revenues and expenditures

[Note 2] - Surplus due to implementing proportional reduction pursuant to PRC Sec. 14581(d)

The program has had a history of surpluses followed by a period of deficits, and continues to pay for operational costs based on prior annual surpluses. For the first eight years following the expansion of the program under SB 332 (Chapter 815, Statutes of 1999), the recycling rate ranged from 55 percent to 67 percent, falling short of the legislative policy goal of 80 percent. Program activities have been traditionally funded by unredeemed redemption fees, and with low recycling rates, the program was operating with significant year-over-year surpluses. To meet policy goals following the enactment of SB 332, California redemption payments and refund value (CRV, collectively) were increased from 2½ cents in 1992 to 5 cents in 2007 for containers smaller than 24 ounces and from 5 cents in 1992 to 10 cents in 2007 for containers larger than 24 ounces. Each increase in CRV initially resulted in higher year-over-year surpluses because recycling rates initially did not increase as sharply as anticipated due to increases in sales.

Based on increased reserves during years of surpluses, inter-fund loans were authorized from the recycling fund, mostly to the General Fund, to meet statewide needs. Between FY 2002-03 and FY 2009-10, loans made from the recycling fund totaled \$458.7 million. Additionally, in FY 2003-04, loans totaling \$66 million were made from the processing fee funds to the General Fund.

To further policy goals, the Legislature passed AB 3056 (Chapter 907, Statutes of 2006), which created or supplemented programs to improve the quality of and promote in-state markets for recycled beverage container materials. The combination of incentives through higher CRV and the investments made in recycling infrastructure and technologies converged to raise recycling rates above the policy goal of 80 percent and to expand markets for higher volumes of recycled beverage containers. However, the measures that have contributed to the success of the recycling program have also resulted in unsustainable demands on the recycling fund.

The program began to operate under a structural deficit in FY 2008-09 when the actual recycling rate rose to 78 percent, exceeding the break-even recycling rate of approximately 70 percent. The break-even recycling rate is the estimated recycling

rate—the quotient of containers recycled over containers sold—at which redemption fee revenue equals total expenditures. In the years following, the recycling rate has continued a gradual climb, reaching 84 percent in FY 2012-13 for all material types, and the break-even recycling rate increased to about 75 percent due to the reduction of fixed expenditures for various incentive programs and a decrease in the plastic processing fee offset. In FY 2013-14, the recycling rate decreased to 82 percent, possibly due to the effect of recently implemented anti-fraud measures. CalRecycle projects that the recycling rate will remain at the current level at least through FY 2015-16.

Table 2 details the structural deficit based on the actual amounts for FY 2013-14 by showing program payments by stakeholder group. The only payments in this display not subject to proportional reduction are California Refund Value (\$998.4 million), administrative fees paid to processors and retained by beverage distributors (\$43 million), and program administration (\$45 million), totaling \$1.086 billion. Absent all other expenditures paid in FY 2013-14, there would be an annual surplus of \$138 million (\$1.224 billion–\$1.086 billion). The actual structural deficit for all program funds totaled about \$56 million; thus, addressing the structural deficit continues to be a priority for CalRecycle.

Table 2: Program Payments by Stakeholder Group

Type	Stakeholder Group	Entities	Payment	Amount (FY 2013-14)
Revenue	Beverage Distributors	1,752	Redemption Fees [Note 1]	\$1,212,200,000
	Beverage Manufacturers	1,588	Processing Fees	\$12,105,000
	Total Revenue			\$1,224,305,000
Expenditures	Beverage Distributors	1,752	Administrative Fees [Note 1]	\$18,183,000
	Certified Processors	225	Administrative Fees	\$17,666,000
	Certified Recycling Centers	2,368	Processing Payments	\$63,095,000
			Administrative Fees	\$6,737,000
	Certified Recycling Centers in Convenience Zones	1,320	Handling Fees	\$46,318,000
	Curbside Programs	597	Curbside Supplemental Payments	\$15,000,000
			California Refund Value	\$83,607,000
			Processing Payments	\$13,977,000
			Administrative Fees	\$557,000
	Dropoff, Collection, and Community Service Programs [Note 2]	343	California Refund Value	\$28,000,000
			Processing Payments	\$3,020,000
	Local Governments	525	City and County Payments	\$10,500,000
	Local Community Conservation Corps	14	Local Conservation Corps Grants	\$20,643,000
	Competitive Grantees	11	Beverage Container Recycling Grants	\$1,500,000
	Glass Color Sorters	65	Quality Incentive Payments	\$9,600,000
	Plastic Processors and Plastic Product Manufacturers	51	Plastics Market Development	\$10,000,000
Consumers Redeeming at Recycling Centers		California Refund Value	\$886,806,000	
CalRecycle		Program Administration [Note 3]	\$44,953,000	
Total Expenditure			\$1,280,162,000	
Net (Structural Deficit)			(\$55,857,000)	

[Note 1] - Beverage distributors receive Administrative Fees by retaining 1.5% of the total Redemption Fee. The net Redemption Fee revenue for FY 2013-14 with the inclusion of the distributor's Administrative Fee amounts to \$1,194,017,000.

[Note 2] - Not eligible to receive Administrative Fees pursuant to PRC Sec 14573.6

[Note 3] - Includes Pro Rata

Table 3 displays the projected structural deficit for FY 2014-15 for the recycling fund, showing a simplified list of expenditures based on projected and break-even scenarios. The projected break-even recycling rate for FY 2014-15 increased to 79 percent because of reduced obligations from the recycling fund to pay processing fee offsets, resulting from General Fund loan repayments to the processing fee funds and reduced expenditures for the Local Conservation Corps, pursuant to PRC Section 14581.1. CalRecycle does not anticipate the actual recycling rate will decrease below the break-even recycling rate in the foreseeable future.

Table 3: Recycling Fund Expenditures under Projected and Breakeven Scenarios

	FY 2014-15 (Projected)	% of Revenue	FY 2014-15 (Projected) at Breakeven	% of Revenue
Redemption Fee Revenue	\$1,235,098,000	100%	\$1,235,098,000	100%
Program Administration [Note 1]	\$47,745,000	4%	\$47,745,000	4%
14581 Programs - Fixed [Note 2]	\$62,974,000	5%	\$62,974,000	5%
California Refund Value	\$1,046,219,000	85%	\$1,016,648,000	82%
Processing Fee Offsets [Note 3]	\$56,409,000	5%	\$54,815,000	4%
Handling Fees	\$54,455,000	4%	\$52,916,000	4%
Total Expenditure [Note 4]	\$1,267,802,000	103%	\$1,235,098,000	100%
Structural Deficit	(\$32,704,000)	-3%	\$0	0%
[Note 1] - Includes Pro Rata, Fiscal, and payments to the State Controller				
[Note 2] - Curbside Supplemental Payments, Local Conservation Corps Grants, City/County Payments, Competitive Grants, Quality Incentive Payments, and Plastic Market Development				
[Note 3] - Used for Processing Payments which are paid based on volume recycled				
[Note 4] - Total Expenditure based on projected recycling rate of 81% and breakeven recycling rate of 79%				

The structural deficit has generally been financed by repayments of historical loans made by the recycling fund. To date, loan repayments to the recycling fund have totaled \$376.4 million plus interest with a balance of outstanding loans to date of \$82.3 million. All loans made from the processing fee funds have been paid in full.

Long-Term Projections

The projections in this report are based on the following assumptions:

- Projections are based on current appropriations and sunset dates specified in PRC Sections 14581 and 14581.1.
- All outstanding loans made from the recycling fund, currently amounting to \$82.3 million, will be completely repaid by the end of FY 2014-15.
- Proceeds from loan repayments made to the processing fee funds will be used to reduce processing fee offsets paid from the recycling fund.
- Projections for processing fees, processing payments, and processing fee offsets are based on current processing payment rates effective January 1, 2015.

Overall, refund value expenditures have declined further from the level shown in the previous report. CalRecycle believes the primary reason for the expenditure reduction is due to the impacts from recently implemented reform measures,⁵ most notably the discontinuance of the commingled redemption of beverage containers at recycling centers, lower consumer load limits, and increased monitoring of the importation of out-of-state beverage container material. These three key reform measures were implemented between November 2013 and January 2014. While CalRecycle cannot directly isolate the impacts of the reform measures due to their compacted implementation dates, their presumed effect began to appear in mature volume data covering the first quarter of 2014 in the form of declining volumes of beverage container material returned for recycling. Recycling volumes continued to decline during the third quarter of 2014.

Additionally, expenditures for Local Conservation Corps Grants from the recycling fund have been reduced by \$7.5 million in FY 2014-15 and \$15 million beginning in FY 2015-16 pursuant to SB 861 (Chapter 35, Statutes of 2014). Total funding for Local

⁵ See Appendix 4 for a description of key reform measures.

Conservation Corps Grants generally remains unchanged, as the remainder of support will come from other CalRecycle funds.

The combined effect of declining returns and increasing sales, and the timing of the implementation of key reform measures, is displayed in Figure 1 below, showing sales and returns on an annualized trailing 12-month basis to avoid monthly distortion due to seasonality.

Figure 1: Sales Revenue and Returns Expenditure by Reporting Month



Despite the apparent early successes of the recently implemented reform measures, the program is projected to continue operating under a structural deficit indefinitely, resulting in the eventual need to implement proportional reduction pursuant to PRC Section 14581(d). Under current projections, the timing of proportional reduction is expected to occur outside the current forecasting horizon, after FY 2017-18. Because of

this extended outlook, the timing and the percentage of expenditure reductions, needed to maintain the cash balance of the recycling fund above the prudent reserve, cannot be reliably forecast at this time.

Current projections are based on conditions observed over a relatively short period of time that are subject to change. The potential changes to current observations that could impact future forecasts include:

- Circumvention of existing fraud prevention measures that reverses the decline in fraudulent expenditures
- Adjustment of consumer behavior in response to segregated-only redemption and lower load limits resulting in higher volumes of beverage containers recycled
- Stagnation or reversal of economic growth encouraging more recycling above current levels

In addition to potential changes in conditions that could counteract the positive effects of the reform measures, the program faces additional challenges. Implementation of the reform measures has occurred within a short period of time, and while the collective impacts have so far been positive, the impact of each individual measure is not known.

CalRecycle is targeting efforts and taking actions designed to detect, prevent, and mitigate fraud to achieve the greatest fiscal impact in the most effective and efficient manner possible. Although we have been successful, the CY 2014 implementation of the Imported Empty Beverage Container Reporting & Inspection Program has revealed that significant amounts of previously unidentified single-stream curbside material, and other unsorted loads of recyclables containing empty beverage containers, are being imported into California and processed with beverage container materials collected in the state. Once imported, out-of-state beverage containers are sorted and processed within various facilities in California, and there is a risk of those imported empty beverage containers being illegally claimed for CRV.

Another challenge is managing the ongoing structural deficit without relying on significant growth in revenue. In response to stakeholder concerns of the potential of a significant under-collection of redemption fees, CalRecycle conducted an extensive

examination of business practices, analyzed third-party point-of-sale data, and conducted retailer shelf surveys. The findings have indicated that there are no significant gaps in the collection of revenues for redemption fees and processing fees.

CalRecycle is committed to collecting all revenue owed to the recycling program. CalRecycle has recently reached out to the State of California's Drinking Water Program and the Board of Equalization to identify companies that should be paying redemption fees but do not appear to be registered under the recycling program. In addition, CalRecycle has been contacting Internet-based marketers of beverages to ensure that they and their associated companies are paying redemption fees. While these efforts have not resulted in significant new revenue sources, CalRecycle continues to explore all feasible sources of uncollected or under-collected recycling revenue.

Proportional reduction⁶ is implemented when the cash balance of the recycling fund falls below the prudent reserve⁷ of \$59.4 million (see Table 16). Without adequate cash on hand, CalRecycle cannot pay its bills. The current forecasting horizon of the fund condition projection extends to FY 2017-18, after which making reliable estimates is extremely difficult. The assumptions behind the current projection are supported by the recycling fund condition summary statement.

The recycling fund condition summary statement shown in Table 4 that follows is an abbreviated form of the fund condition statement organized by fiscal year displaying actual data for FY 2013-14 and projections for FYs 2014-15 to 2017-18. The recycling fund condition summary statement shows the relationship among the fund balance, the structural deficit, and the outstanding loans. Because of the continuing structural deficit, the fund balance declines in each of the successive years from a projected \$282 million at the end of FY 2014-15 to \$102 million at the end of FY 2017-18.

⁶ California Public Resources Code section 14581(c) requires a proportional reduction of all payments once the department has determined that funds are insufficient to make the payments established in sections 14581 and 14575.

⁷ California Public Resources Code Section 14580(a)(2) requires a minimum reserve for contingencies of 5% of previous calendar year payments to processors.

Fund condition summary statements for the glass processing fee and the plastic processing fee funds are included in Table 5 and Table 6 to show the long-term effect of General Fund loan repayments on fund balances.

For additional information, the full fund condition statements, which contain line-item detail covering FY 2013-14 to FY 2015-16 for all five program funds with accompanying notes, can be found in Appendix 2 of this report.

Table 4: Recycling Fund Condition Summary Statement

Recycling Fund Condition Summary Statement						
	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	
	Actual	Projected	Projected	Projected	Projected	
BEGINNING OUTSTANDING LOANS (A)	184,677,000	82,277,000	0	0	0	0
RESOURCES						
Adjusted Beginning Balance	120,453,000	219,350,000	281,619,000	220,340,000	158,695,000	
Redemption Fees (B)	1,194,017,000	1,235,098,000	1,235,098,000	1,235,098,000	1,235,098,000	
Loan Repayments to Recycling Fund (C)	102,400,000	82,277,000	227,000	227,000	227,000	
Other Income [Note 1]	4,750,000	12,696,000				
TOTAL RESOURCES (D) [Note 2]	1,421,620,000	1,549,421,000	1,516,944,000	1,455,665,000	1,394,020,000	
EXPENDITURES						
California Refund Value	1,023,373,000	1,046,219,000	1,062,405,000	1,062,405,000	1,062,405,000	
Beverage Container Recycling Program Administration [Note 3]	44,951,000	47,704,000	47,457,000	47,457,000	47,457,000	
Glass Processing Fee Offsets	14,721,000	56,409,000	55,293,000	55,293,000	55,293,000	
Plastic Processing Fee Offsets	336,000	0	20,154,000	20,154,000	20,154,000	
Section 14581 Payments excl. Local Conservation Corps Grants	92,918,000	103,955,000	104,797,000	104,797,000	99,797,000	
Local Conservation Corps Grants	20,643,000	13,474,000	6,414,000	6,864,000	7,323,000	
Other Expenditures [Note 4]	5,328,000	41,000	84,000	0	0	
TOTAL EXPENDITURES (E) [Note 5]	1,202,270,000	1,267,802,000	1,296,604,000	1,296,970,000	1,292,429,000	
FUND BALANCE (D)-(E) [Note 6]	219,350,000	281,619,000	220,340,000	158,695,000	101,591,000	
STRUCTURAL DEFICIT (NET INCOME) (B)-(E) [Note 7]	(8,253,000)	(32,704,000)	(61,506,000)	(61,872,000)	(57,331,000)	
OUTSTANDING LOANS AT YEAR-END (A)-(C)	82,277,000	0	0	0	0	0
Notes:						
[Note 1] - Other Income includes interest from loan repayments						
[Note 2] - Total Resources does not include Beginning Outstanding Loans						
[Note 3] - FY 2013-14 includes Pro Rata which is detailed in the Fund Condition Statement in Appendix 2. Pro Rata for FY 2014-15 and beyond is projected to be zero.						
[Note 4] - Other Expenditures includes payments for the Financial Information System for California (FISCal)						
[Note 5] - Total Expenditures do not match totals in Governor's Budget due to the inclusion of Glass and Plastic Processing Fee Offsets						
[Note 6] - Fund Balance includes year-end accruals that are not reflected in the cash balance projection until the receipt or expenditure is projected to occur						
[Note 7] - Structural Deficit in FY 2013-14 reflects the reduction in Processing Fee Offsets due to General Fund loan repayments to the Processing Fee funds						

Table 5: Glass Processing Fee Fund Condition Summary Statement

Glass Processing Fee Fund Condition Summary Statement						
	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	
BEGINNING OUTSTANDING LOANS (A)	Actual 39,000,000	Projected 0	Projected 0	Projected 0	Projected 0	Projected 0
RESOURCES						
Adjusted Beginning Balance	3,103,000	8,140,000	6,044,000	4,078,000	3,112,000	
Processing Fees (B)	6,177,000	5,699,000	5,935,000	6,935,000	7,935,000	
Glass Processing Fee Offsets	14,721,000	56,409,000	55,293,000	55,293,000	55,293,000	
Loan Repayments to Glass Processing Fee Fund (C)	39,000,000	0	0	0	0	
Other Income [Note 1]	5,733,000	34,000	34,000	34,000	34,000	
TOTAL RESOURCES (D) [Note 2]	68,734,000	70,282,000	67,306,000	66,340,000	66,374,000	
EXPENDITURES						
Processing Payments	60,346,000	64,194,000	63,228,000	63,228,000	63,228,000	
Other Expenditures [Note 3]	248,000	44,000	0	0	0	
TOTAL EXPENDITURES (E)	60,594,000	64,238,000	63,228,000	63,228,000	63,228,000	
FUND BALANCE (D)-(E)	8,140,000	6,044,000	4,078,000	3,112,000	3,146,000	
OUTSTANDING LOANS AT YEAR-END (A)-(C)	0	0	0	0	0	
Notes:						
[Note 1] - Other Income includes interest from loan repayments						
[Note 2] - Total Resources does not include Beginning Outstanding Loans						
[Note 3] - Other Expenditures includes payments for the Financial Information System for California (Fi\$cal)						

Table 6: Plastic Processing Fee Fund Condition Summary Statement

Plastic Processing Fee Fund Condition Summary Statement						
	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	
BEGINNING OUTSTANDING LOANS (A)	27,000,000	0	0	0	0	0
RESOURCES						
Adjusted Beginning Balance	8,412,000	24,841,000	5,019,000	8,058,000	11,097,000	
Processing Fees (B)	4,646,000	7,269,000	7,095,000	7,095,000	7,095,000	
Plastic Processing Fee Offsets	336,000	0	20,154,000	20,154,000	20,154,000	
Loan Repayments to Plastic Processing Fee Fund (C)	27,000,000	0	0	0	0	
Other Income [Note 1]	3,969,000	21,000	21,000	21,000	21,000	
TOTAL RESOURCES (D) [Note 2]	44,363,000	32,131,000	32,289,000	35,328,000	38,367,000	
EXPENDITURES						
Processing Payments	19,371,000	27,112,000	24,231,000	24,231,000	24,231,000	
Other Expenditures [Note 3]	151,000	0	0	0	0	
TOTAL EXPENDITURES (E)	19,522,000	27,112,000	24,231,000	24,231,000	24,231,000	
FUND BALANCE (D)-(E)	24,841,000	5,019,000	8,058,000	11,097,000	14,136,000	
OUTSTANDING LOANS AT YEAR-END (A)-(C)	0	0	0	0	0	
Notes:						
[Note 1] - Other Income includes interest from loan repayments						
[Note 2] - Total Resources does not include Beginning Outstanding Loans						
[Note 3] - Other Expenditures includes payments for the Financial Information System for California (Fi\$cal)						

CalRecycle believes the anticipated date of proportional reduction is beyond FY 2017-18 because of lower California Refund Value expenditures, primarily due to the implementation of three key reform measures⁸—segregated-only redemption at recycling centers, lower consumer load limits, and increased monitoring of the out-of-state importation of empty beverage containers—all of which were implemented between November 2013 and January 2014. The secondary reason is a moderately sharp increase in redemption fee revenue. The combined effects appear to be evident in the comparison of pre-implementation and post-implementation cash flow, shown in the table below.

Table 7: Redemption Fee and California Refund Value Cash Flow

	Jan-Dec 2014	Jan-Dec 2013	Change
Redemption Fee Revenue	\$1,257,900,821	\$1,187,153,906	6.0%
California Refund Value Expenditure	\$1,057,931,987	\$1,082,993,152	-2.3%

As a cautionary note, the direct measurement of the impacts of each of the anti-fraud reform measures is not possible to isolate, due to the implementation of multiple reforms over a compressed time period.

⁸ See Appendix 4 for a summary of key reform measures.

Appendix 1 – Short-Term Projections

The short-term projections provide detail on the actual and projected amounts and beverage container volumes by material type from FY 2013-14 to FY 2015-16. The projections are based on extrapolations of actual volumes through the September 2014 reporting period. No direct modeling on the impacts of recently implemented anti-fraud reform measures is applied to the projections. This section covers sales, returns, processing fees, processing payments, processing fee offsets, and handling fees.

Several of the line items are notated for further description. Those descriptions immediately follow the volume tables. The volume tables presented here are also available in Excel format at

<http://www.calrecycle.ca.gov/BevContainer/RecycleFund/2015/JanCondition.xls>

on the CalRecycle webpage.

Table 8: Sales and Returns Estimates by Material Type

SALES AND RETURNS ESTIMATES <i>[Note 1]</i>				
FY 2013-2014 (Actual)				
	Containers Sold		Containers Returned	Recycling Rate
	Over 24 oz.	Under 24 oz.		
Aluminum	562,954,149	7,802,107,366	8,120,074,373	97%
Glass	234,117,118	2,853,292,431	2,461,177,763	80%
PET	1,539,953,671	8,281,399,308	6,825,298,860	69%
HDPE	122,968,388	158,623,850	243,464,528	86%
Total	2,459,993,326	19,095,422,955	17,650,015,524	82%
FY 2014-2015 (Projected)				
	Containers Sold		Containers Returned	Recycling Rate
	Over 24 oz.	Under 24 oz.		
Aluminum	614,685,486	7,694,103,516	7,858,792,849	95%
Glass	217,884,712	2,982,669,739	2,394,265,175	75%
PET	1,597,444,090	9,156,385,064	7,844,208,029	73%
HDPE	124,796,021	135,352,479	110,023,680	42%
Total	2,554,810,309	19,968,510,798	18,207,289,734	81%
FY 2015-2016 (Projected)				
	Containers Sold		Containers Returned	Recycling Rate
	Over 24 oz.	Under 24 oz.		
Aluminum	614,685,486	7,694,103,516	7,769,955,621	94%
Glass	217,884,712	2,982,669,739	2,400,359,004	75%
PET	1,597,444,090	9,156,385,064	8,177,058,285	76%
HDPE	124,796,021	135,352,479	127,337,226	49%
Total	2,554,810,309	19,968,510,798	18,474,710,137	82%

Table 9: Processing Fee/Payment Estimates by Material Type

PROCESSING FEE/PAYMENT ESTIMATES [Note 2]			
FY 2013-2014 (Actual)			
	Processing Fees	Processing Fee Offsets	Processing Payments
Glass [Note 3]	\$6,177,000	\$14,721,000	\$60,346,000
PET [Note 4]	\$1,434,000	\$256,000	\$14,534,000
HDPE [Note 5]	\$700,000	\$80,000	\$4,469,000
Total	\$8,311,000	\$15,057,000	\$79,349,000
FY 2014-2015 (Projected)			
	Processing Fees	Processing Fee Offsets	Processing Payments
Glass	\$5,699,000	\$56,406,000	\$64,194,000
PET	\$1,314,000	\$0	\$21,225,000
HDPE	\$617,000	\$4,864,000	\$5,439,000
Total	\$7,630,000	\$61,270,000	\$90,858,000
FY 2015-2016 (Projected)			
	Processing Fees	Processing Fee Offsets	Processing Payments
Glass	\$5,935,000	\$55,293,000	\$63,228,000
PET	\$1,143,000	\$16,446,000	\$19,589,000
HDPE	\$484,000	\$3,708,000	\$4,192,000
Total	\$7,562,000	\$75,447,000	\$87,009,000

Table 10: Handling Fee Estimates and Projections

HANDLING FEE ESTIMATES		
Fiscal Year	Handling Fee	Containers
2013-14 (Actual) [Note 6]	\$46,318,000	5,146,444,444
2014-15 (Projected) [Note 7]	\$54,455,000	5,261,352,657
2015-16 (Projected) [Note 7]	\$55,297,000	5,342,705,314

Appendix 1 Notes

[Note 1] – Total volumes exclude bimetal and plastics #3–#7 due to their low sales and returns volumes. In calendar year 2013, their proportion of sales to all material types was 1 percent, and their proportion of returns to all material types was 0.15 percent.

[Note 2] – For processing fees, the processing fee reduction pursuant to PRC Section 14575(j) equals \$2 million per year and applies to glass for calendar years 2014- 2016 and PET for calendar years 2014-2018. For processing fee offsets, amounts are reduced by loan repayments of \$39 million to the Glass Processing Fee Fund and \$27 million to the Plastic Processing Fee Fund, both of which were completed in FY 2013-14. Glass and HDPE processing payment projections reflect rates effective January 1, 2015.

[Note 3] – The glass processing fee offset for FY 2013-14 includes a \$1.1 million transfer to cover processing payment expenditure in excess of the processing fee offset and processing fee revenue from January to June 2013.

[Note 4] – The PET processing fee offset for FY 2013-14 includes a \$0.2 million transfer to cover processing payment expenditure in excess of the processing fee offset and processing fee revenue from January to June 2013.

[Note 5] – The HDPE processing fee offset for FY 2013-14 includes a \$0.1 million transfer to cover processing payment expenditure in excess of the processing fee offset and processing fee revenue from January to June 2013.

[Note 6] – The handling fee per container rate was \$0.0089 for the reporting months of July 2012 through February 2013 pursuant to PRC Section 14585(g)(1). For the reporting months of March 2013 through June 2014, the handling fee per container rate was \$0.0090.

[Note 7] – The projected handling fees for FYs 2014-15 and 2015-16 are based on a handling fee per container rate of \$0.01035 derived from the latest cost survey. The Handling Fee Cost Survey Final Report can be found on the CalRecycle website at <http://www.calrecycle.ca.gov/Publications/Documents/1494/20141494.pdf>.

Appendix 2 – Fund Condition Statements

This section contains two sets of fund condition statements for all five program funds based on projections completed on October 1, 2014, preceded by a brief description of each fund. Each fund condition statement shows one column per fiscal year. Amounts for FY 2014-15 and FY 2015-16 are projections, and the projections are based on actual volumes through the September 2014 reporting period.

Several of the line items are notated for further description. Those descriptions immediately follow the fund condition statements. The fund condition statements presented here are also available in Excel format at

<http://www.calrecycle.ca.gov/BevContainer/RecycleFund/2015/JanCondition.xls>

on the CalRecycle webpage.

Below is a brief description of the each of the program funds:

Beverage Container Recycling Fund, fund 0133 – This fund serves as a depository for redemption payments by beverage distributors. The fund is the source for paying California Refund Value for recycling empty beverage containers and funding programs that (1) develop and maintain an infrastructure for beverage container recycling, and (2) promote markets for recycled beverage container material.

Glass Processing Fee Fund, fund 0269 – This fund serves as a depository for glass processing fees paid by beverage manufacturers who package products in glass bottles. The fund is the source for paying processing payments to certified recyclers for handling empty glass beverage containers.

Plastic Processing Fee Fund, fund 0278 – This fund serves as a depository for plastic processing fees paid by beverage manufacturers who package products in any type of plastic bottle having a scrap value that is less than the cost of recycling. The fund is the source for paying processing payments to certified recyclers for handling empty plastic beverage containers.

Bimetal Processing Fee Fund, fund 0277 – This fund serves as a depository for bimetal processing fees paid by beverage manufacturers who package products in

bimetal cans. The fund is the source for paying processing payments to certified recyclers for handling empty bimetal beverage containers.

Penalty Fund, fund 0276 – The fund serves as a depository for civil penalties and fines. The purpose of the fund is to assist in carrying out the activities specified in the Beverage Container Recycling and Litter Reduction Act as specified in PRC Section 14580(d).

Table 11: Beverage Container Recycling Fund Condition Statement (Fund 0133)

California Department of Resources Recycling and Recovery (CalRecycle)			
Beverage Container Recycling Fund Condition Statement (Fund 0133)			
Projected Revenues and Expenditures as of January 1, 2015			
		FY 2013-14	FY 2014-15
		Actual	Projected
		FY 2015-16	
		Projected	
Balance Forward		107,087,000	219,350,000
Prior Year Adjustments [Note 1]		13,366,000	
Balance Adjusted (A)		120,453,000	219,350,000
Revenues and Transfers			
Receipts			
	Redemption Fees [Note 2]	1,194,017,000	1,235,098,000
	Other Income [Note 3]	4,750,000	12,696,000
	Total Receipts (B)	1,198,767,000	1,247,794,000
Transfers			
	Repayment of Air Pollution Control Fund Loan	8,000,000	
	Repayment of General Fund Loan [Note 4]	89,400,000	82,277,000
	Repayment of Loan to Department of Conservation [Note 4]	5,000,000	
	Transfers to Glass Processing Fee Fund [Note 5]	(14,721,000)	(56,409,000)
	Transfers to Plastic Processing Fee Fund [Note 5]	(336,000)	0
	Total Transfers (C)	87,343,000	25,868,000
	Total Transfers and Receipts (B+C)	1,286,110,000	1,273,662,000
	Total Resources (D) = (A+B+C)	1,406,563,000	1,493,012,000
Expenditures [Note 6]			
Disbursements (CalRecycle)			
	California Refund Value [Note 7]	1,023,373,000	1,046,219,000
	Beverage Container Recycling Program Administration	39,898,000	47,704,000
	Handling Fees [Note 8]	46,318,000	54,455,000
	Curbside Supplemental Payments	15,000,000	15,000,000
	Local Conservation Corps Grants [Note 9]	20,643,000	13,474,000
	City/County Payments	10,500,000	10,500,000
	Beverage Container Recycling Grants	1,500,000	1,500,000
	Public Education and Information [Note 10]		2,500,000
	Quality Incentive Payments	9,600,000	10,000,000
	Plastic Market Development	10,000,000	10,000,000
	Pro Rata	5,053,000	
	Total Disbursements (CalRecycle) (E)	1,181,885,000	1,211,352,000
Disbursements (Other)			
	State Controller	1,000	
	Financial Information System for California (Fi\$cal) [Note 11]	5,327,000	41,000
	Total Disbursements (Other) (F)	5,328,000	41,000
	Total Expenditures (G) = (E+F)	1,187,213,000	1,211,393,000
FUND BALANCE (D-G) [Note 12]		219,350,000	220,340,000

Table 12: Glass Processing Fee Fund Condition Statement (Fund 0269)

California Department of Resources Recycling and Recovery (CalRecycle)			
Glass Processing Fee Fund Condition Statement (Fund 0269)			
Projected Revenues and Expenditures as of January 1, 2015			
		FY 2013-14	FY 2014-15
		Actual	Projected
			FY 2015-16
			Projected
Balance Forward		4,599,000	8,140,000
Prior Year Adjustments		(1,496,000)	
Balance Adjusted (A)		3,103,000	8,140,000
Revenues and Transfers			
Receipts			
	Processing Fees	6,177,000	5,699,000
	Other Income <i>[Note 3]</i>	5,733,000	34,000
	Total Receipts (B)	11,910,000	5,733,000
Transfers			
	Transfers from Beverage Container Recycling Fund <i>[Note 13]</i>	14,721,000	56,409,000
	Repayment of General Fund Loan <i>[Note 14]</i>	39,000,000	
	Total Transfers (C)	53,721,000	56,409,000
	Total Transfers and Receipts (B+C)	65,631,000	62,142,000
	Total Resources (D) = (A+B+C)	68,734,000	70,282,000
Expenditures			
Disbursements (CalRecycle)			
	Processing Payments	60,346,000	64,194,000
	Pro Rata		
	Total Disbursements (CalRecycle) (E)	60,346,000	64,194,000
Disbursements (Other)			
	Financial Information System for California (Fi\$cal) <i>[Note 11]</i>	248,000	44,000
	Total Disbursements (Other) (F)	248,000	44,000
	Total Expenditures (G) = (E+F)	60,594,000	64,238,000
FUND BALANCE (D-G)		8,140,000	6,044,000

Table 13: Plastic Processing Fee Fund Condition Statement (Fund 0278)

California Department of Resources Recycling and Recovery (CalRecycle)			
Plastic Processing Fee Fund Condition Statement (Fund 0278)			
Projected Revenues and Expenditures as of January 1, 2015			
		FY 2013-14	FY 2014-15
		Actual	Projected
			FY 2015-16
			Projected
Balance Forward		9,210,000	24,841,000
Prior Year Adjustments		(798,000)	
Balance Adjusted (A)		8,412,000	24,841,000
Revenues and Transfers			
Receipts			
	Processing Fees <i>[Note 15]</i>	4,646,000	7,269,000
	Other Income <i>[Note 3]</i>	3,969,000	21,000
	Total Receipts (B)	8,615,000	7,290,000
Transfers			
	Transfers from Beverage Container Recycling Fund <i>[Note 13]</i>	336,000	0
	Repayment of General Fund Loan <i>[Note 14]</i>	27,000,000	
	Total Transfers (C)	27,336,000	0
	Total Transfers and Receipts (B+C)	35,951,000	7,290,000
	Total Resources (D) = (A+B+C)	44,363,000	32,131,000
Expenditures			
Disbursements (CalRecycle)			
	Processing Payments <i>[Note 16]</i>	19,371,000	27,112,000
	Pro Rata		
	Total Disbursements (CalRecycle) (E)	19,371,000	27,112,000
Disbursements (Other)			
	Financial Information System for California (Fi\$cal) <i>[Note 11]</i>	151,000	
	Total Disbursements (Other) (F)	151,000	
	Total Expenditures (G) = (E+F)	19,522,000	27,112,000
FUND BALANCE (D-G)		24,841,000	5,019,000
			8,058,000

Table 14: Bimetal Processing Fee Fund Condition Statement (Fund 0277)

California Department of Resources Recycling and Recovery (CalRecycle)				
Bimetal Processing Fee Fund Condition Statement (Fund 0277)				
Projected Revenues and Expenditures as of January 1, 2015				
		FY 2013-14	FY 2014-15	
		Actual	Projected	
		FY 2015-16	Projected	
Balance Forward		15,305,000	16,300,000	17,193,000
Prior Year Adjustments		53,000		
Balance Adjusted (A)		15,358,000	16,300,000	17,193,000
Revenues and Transfers				
Receipts				
	Processing Fees	1,282,000	1,116,000	1,116,000
	Other Income	37,000	60,000	60,000
	Total Receipts (B)	1,319,000	1,176,000	1,176,000
Transfers				
	Transfers from Beverage Container Recycling Fund			
	Total Transfers (C)	0	0	0
	Total Transfers and Receipts (B+C)	1,319,000	1,176,000	1,176,000
	Total Resources (D) = (A+B+C)	16,677,000	17,476,000	18,369,000
Expenditures				
Disbursements (CalRecycle)				
	Processing Payments	375,000	283,000	283,000
	Pro Rata			
	Total Disbursements (CalRecycle) (E)	375,000	283,000	283,000
Disbursements (Other)				
	Financial Information System for California (Fi\$cal) <i>[Note 11]</i>	2,000		
	Total Disbursements (Other) (F)	2,000		
	Total Expenditures (G) = (E+F)	377,000	283,000	283,000
	FUND BALANCE (D-G)	16,300,000	17,193,000	18,086,000

Table 15: Penalty Account Fund Condition Statement (Fund 0276)

California Department of Resources Recycling and Recovery (CalRecycle)			
Penalty Account Fund Condition Statement (Fund 0276)			
Projected Revenues and Expenditures as of January 1, 2015			
		FY 2013-14	FY 2014-15
		Actual	Projected
			FY 2015-16
			Projected
Balance Forward		5,965,000	24,612,000
Prior Year Adjustments		(247,000)	
Balance Adjusted (A)		5,718,000	24,612,000
Revenues and Transfers			
Receipts			
	Penalty Assessments <i>[Note 17]</i>	19,296,000	212,000
	Other Income	13,000	18,000
	Total Receipts (B)	19,309,000	230,000
Transfers			
	Transfers	0	0
	Total Transfers (C)	0	0
	Total Transfers and Receipts (B+C)	19,309,000	230,000
	Total Resources (D) = (A+B+C)	25,027,000	24,842,000
Expenditures			
Disbursements (CalRecycle)			
	State Operations <i>[Note 18]</i>	415,000	1,015,000
	Pro Rata	0	0
	Total Disbursements (CalRecycle) (E)	415,000	1,015,000
Disbursements (Other)			
	Financial Information System for California (Fi\$cal) <i>[Note 11]</i>		
	Total Disbursements (Other) (F)	0	0
	Total Expenditures (G) = (E+F)	415,000	1,015,000
FUND BALANCE (D-G)		24,612,000	23,827,000

Table 16: Projected Balances for all Program Funds in FY 2017-18

Projected Balances for all Program Funds in FY 2017-18 as of January 1, 2014		
	Actual Assets	Projected Assets
	End of FY 2013-14	End of FY 2017-18
Fund Balances		
Beverage Container Recycling Fund (0133)	\$ 219,350,000	\$ 101,591,000
Glass Processing Fee Fund (0269)	\$ 8,140,000	\$ 3,146,000
Plastic Processing Fee Fund (0278)	\$ 24,841,000	\$ 14,136,000
Bi-Metal Processing Fee Fund (0277)	\$ 16,300,000	\$ 19,872,000
Penalty Account Fund (0276)	\$ 24,612,000	\$ 23,482,000
	\$ 293,243,000	\$ 162,227,000
Loan Repayment Balances		
Beverage Container Recycling Fund (0133)	\$ 82,277,000	\$ -
Glass Processing Fee Fund (0269)	\$ -	\$ -
Plastic Processing Fee Fund (0278)	\$ -	\$ -
	\$ 82,277,000	\$ -
Total Assets	\$ 375,520,000	\$ 162,227,000
Less, Prudent Reserves [Note 19]		
Beverage Container Recycling Fund (0133)	\$ 55,343,000	\$ 57,651,000
Glass Processing Fee Fund (0269)	\$ 3,030,000	\$ 3,161,000
Plastic Processing Fee (0278)	\$ 976,000	\$ 1,212,000
Bimetal Processing Fee Fund (0277)	\$ 19,000	\$ 14,000
Penalty Account Fund (0276)	\$ 21,000	\$ -
Reserve Requirement	\$ 59,389,000	\$ 62,038,000
Assets Available, All Funds	\$ 316,131,000	\$ 100,189,000

Appendix 2 Notes

[Note 1] – The FY 2013-14 balance forward and prior year adjustment ties to the Governor's Budget published in January 2015.

[Note 2] – Redemption fees, detailed in the table below, exclude the 1.5 percent retention for administrative fees held by beverage distributors.

	FY 2013-14	FY 2014-15	FY 2015-16
Total Redemption Fees	\$1,212,200,000	\$1,253,907,000	\$1,253,907,000
Less 1.5 % Administrative Fee	(\$18,183,000)	(\$18,809,000)	(\$18,809,000)
Net Redemption Fee Revenue	\$1,194,017,000	\$1,235,098,000	\$1,235,098,000

[Note 3] – Other Income includes interest income received from loan repayments.

[Note 4] – General Fund and Department of Conservation loan repayments scheduled for FY 2013-14, totaling \$94.4 million, have been completed. All remaining loans are scheduled to be paid in full in FY 2014-15 with repayments amounting to \$82.3 million.

[Note 5] – Transfers to glass/plastic processing fee funds are the expenditures for the processing fee offsets authorized in PRC Section 14581 and PRC Section 14575.

[Note 6] – Expenditures section is derived primarily from the list of appropriations found in PRC Sections 14581 and 14581.1.

[Note 7] – California Refund Value, detailed in the table below, includes the 2.5 percent administrative fee paid to certified processors.

	FY 2013-14	FY 2014-15	FY 2015-16
California Refund Value Paid for Empty Beverage Containers	\$998,413,000	\$1,020,701,000	\$1,036,493,000
Plus 2.5% Administrative Fee	\$24,960,000	\$25,518,000	\$25,912,000
Total California Refund Value Expenditure	\$1,023,373,000	\$1,046,219,000	\$1,062,405,000

[Note 8] – The total annual amount of handling fees authorized is not fixed, and the amount expended every year fluctuates based upon the per-container rate and the number of containers recycled. For FY 2012-13, the per-container handling fee was \$0.0089 for the July 2012 to February 2013 reporting periods pursuant to PRC Section 14585(g)(1). For the March 2013 to June 2014 reporting periods, the per-container handling fee was \$0.0090. For FYs 2014-15 and 2015-16, the projected handling fee is based on a per-container handling fee of \$0.01035.

[Note 9] – Local Conservation Corps grants are annually adjusted for the cost of living from a baseline of \$20,974,000, which begins in FY 2014-15. The source for the adjustment rate is:

http://www.dof.ca.gov/html/fs_data/latestEconData/fs_price.htm. The amounts shown are from the

recycling fund only. The amount for FY 2015-16 is the actual planned expenditure whereas the amount in the October 2014 report was an estimate. Amounts provided from other CalRecycle funds total \$7.5 million for FY 2014-15 and \$15 million for FYs 2015-16 and beyond.

[Note 10] – CalRecycle anticipates expending \$2.5 million of the \$5 million annual appropriation for public education and information beginning in FY 2014-15 to support program reform outreach.

[Note 11] – Assessments for Fiscal are anticipated to continue for the foreseeable future and are subject to change.

[Note 12] – Fund balance does not include any prudent reserve calculation. The prudent reserve pursuant to PRC Section 14580(a)(2) would be 5 percent of the total amount paid to processors. For 2015, the prudent reserve amounts to approximately \$58 million.

[Note 13] – Transfers from Beverage Container Recycling Fund are the expenditures for the processing fee offsets authorized in PRC Section 14581 and PRC Section 14575. In FY 2013-14, the processing fee offsets are reduced due to scheduled General Fund loan repayments.

[Note 14] – Repayment of General Fund loan, scheduled in the Budget Act in FY 2013-14, has been completed.

[Note 15] – Processing fees for plastic include amounts for all types of plastic beverage containers: PET (when applicable), HDPE, and plastics #3–#7.

[Note 16] – Processing payments for plastic include amounts for all types of plastic beverage containers: PET (when applicable), HDPE, and plastics #3–#7.

[Note 17] – Penalty assessment revenue includes the account receivable due to the department's adoption of the decision of the Mission Fibers/Burbank Recycling case.

[Note 18] – Expenditure from fund 0276 used for eight limited-term positions to implement program reform activities specified in SB 96 (Chapter 356, Statutes of 2013).

[Note 19] – Fund 0133 based on PRC Section 14580(a)(2); all other funds based on 5 percent of expenditure.

Appendix 3 – Definition of Terms

Table 17: Definition of Terms

Term	Basis of Determination [Note 1]	Description
Breakeven Recycling Rate	Modified Accrual	Recycling rate where total expenditures from the Recycling Fund equals Redemption Fee revenue
Cash Balance	Cash	Cash immediately available to pay current operations measured as of the end of the last business day of the month or the beginning of the first business day of the following month
Fund Balance	Modified Accrual	Resources less total expenditures; resources includes all transfers between funds including loan repayments.
Proportional Reduction	Cash	Expenditure reductions for programs included in PRC Section 14581. Proportional Reduction is expressed as a percentage of full expenditure authority, and the reductions are determined based what is needed to maintain a Cash Balance that does not decrease below the Prudent Reserve. Proportional Reduction is scheduled to begin at the beginning of the fiscal year that the cash balance is forecasted to fall below the Prudent Reserve.
Prudent Reserve	Cash	5% of total cash paid to certified processors for California Refund Value and Processing Payments during the most recently completed calendar year plus the interest earned on that amount
Structural Deficit	Modified Accrual	An indicator of fund solvency calculated using one of two methods. For the Recycling fund, the Structural Deficit equals Redemption Fee revenue less the sum of total expenditures including transfers from the Recycling Fund to the Processing Fee Funds, also known as Processing Fee Offsets. For the combined Recycling Fund and Processing Fee Funds, Structural Deficit equals the sum of revenue from Redemption Fees and Processing Fees less total expenditures excluding non-reoccurring payments for Fi\$cal. Structural Deficit does not reflect one-time transfers such as loan repayments

[Note 1] - Modified Accrual is the basis of accounting in which revenues are recognized if the underlying transaction has occurred as of the last day of the fiscal year, and the amount is measurable and available to finance expenditures of the current period (i.e., the actual collection will occur either during the current period or after the end of the current period, to be used to pay current year-end liabilities). Expenditures are recognized when the obligations are created, except for amounts payable from future fiscal year appropriations. This basis is generally used for the General Fund and special funds. Under the cash basis of accounting, revenues and expenditures are recognized only when cash is received or paid.

Appendix 4 – Program Reform Measures

Key reform measures are summarized on Table 18.

Table 18: Program Reform Measures

Category	Measure	Rulemaking Authority <i>[Note 1]</i>	Implementation Date
Improve Integrity	Develop a more robust certification application review and probationary process <i>[Note 2]</i>	Emergency	Regulations effective Jan 1, 2014
	Require the completion of pre-certification training and a passing score on an examination in order to promote best practices and improve compliance <i>[Note 2]</i>	Emergency	Regulations effective Jan 1, 2014
	Mandate program participants use the Division of Recycling Integrated Information System (DORIIS) <i>[Note 2]</i>	Regular	Anticipated effective date of regulations Jul 1, 2015 <i>[Note 3]</i>
Reduce Loss	Mandate reporting and inspection of loads of empty beverage containers at Dept. of Food and Agriculture plant quarantine inspection stations upon entry into California <i>[Note 4]</i>	Emergency	Regulations Effective Jan 13, 2014
	Discontinue beverage container redemption of consumer loads based on the commingled rate at certified recycling centers <i>[Note 2]</i>	Regular <i>[Note 5]</i>	Nov 1, 2013
	Reduce the consumer load limit of empty beverage containers redeemed at recycling centers from 500 to 100 lbs. for aluminum and plastic and 2,500 to 1,000 lbs. for glass	Regular	Regulations effective Jan 1, 2014
Enhance Revenue	Conduct retailer self surveys to identify products sold in California where Redemption Fees have not been paid	Implemented under existing statute and regulation	In progress
	Identify previously unknown beverage distributors and manufacturers from CRV labeled containers sampled during rate determination surveys	Implemented under existing statute and regulation	In progress
	Identify previously unknown beverage distributors, manufacturers, and applicable products sold in California using point-of-sale data and industry guidebook sources	Implemented under existing statute and regulation	In progress
	Create a web-based system for registering new distributors and beverage manufacturers to increase participation and expedite the initiation of payments	Implemented under existing statute and regulation	Completed July 2013
	Mandate distributor and beverage manufacturer notification if another company has agreed to make payments on its behalf to improve identification of non-payers	Emergency	Completed Sept 2012
<i>[Note 1]</i> - The authority to adopt emergency regulations, which has a shorter public notice period than the regular process, is generally specified in PRC Sec. 14536			
<i>[Note 2]</i> - Statutory Authority: SB 96 (Chapter 356, Statutes of 2013)			
<i>[Note 3]</i> - To date, approximately 98% of certified recyclers and processors are using DORIIS			
<i>[Note 4]</i> - Statutory Authority: AB 1933 (Chapter 540, Statutes of 2012)			
<i>[Note 5]</i> - Workshops for amending existing regulations in order to clarify the provisions of SB 96 began in March 2014			

Overall, even if the existing reform measures continue to provide the same level of benefit to the recycling program as has been observed during the recent short period following implementation, CalRecycle believes the combination of all reform measures outlined in Table 1 will not be sufficient to eliminate the existing ongoing structural deficit. Absent additional measures, proportional reduction will be needed in the future to ensure long-term Fund solvency.