



Quarterly Report on the Status of the Beverage Container Recycling Fund

Department of Resources Recycling and Recovery

May 9, 2014



Contents

| | |
|--|----|
| Executive Summary | 4 |
| Table 1: Recycling Fund Expenditures under Proportional Reduction..... | 5 |
| Table 2: Processing Fee Revenues under Proportional Reduction | 5 |
| Table 3: Processing Payment Expenditures under Proportional Reduction..... | 5 |
| Table 4: Fiscal Impacts of the BCPs on the Recycling Fund | 8 |
| Table 5: Program Reform Measures..... | 9 |
| Introduction | 12 |
| Structural Deficit | 13 |
| Table 6: CRV per Container since Enactment of SB 332 | 14 |
| Table 7: Historical Structural Deficits for all Program Funds..... | 16 |
| Table 8: Stakeholder Groups and Program Payments | 16 |
| Table 9: Recycling Fund Expenditures under Projected and Breakeven Scenarios .. | 17 |
| Fraud Prevention..... | 18 |
| Long-Term Projections | 18 |
| Table 10: Recycling Fund Loan Repayments | 19 |
| Chart 1: Recycling Fund Cash Balance Projection | 21 |
| Table 11: Recycling Fund Condition Summary Statement under Current Law | 22 |
| Table 12: Recycling Fund Condition Summary Statement Based on BCPs | 23 |
| Table 13: Glass Processing Fee Fund Condition Summary Statement under Current Law | 24 |
| Table 14: Glass Processing Fee Fund Condition Summary Statement Based on BCPs | 25 |
| Table 15: Plastic Processing Fee Fund Condition Summary Statement under Current Law | 26 |
| Table 16: Plastic Processing Fee Fund Condition Summary Statement Based on BCPs | 27 |
| Charts 2-4: Governor’s Budget Projections for FY 2010-2011 to FY 2012-2013 | 29 |
| Implementation of Proportional Reduction | 31 |
| Conclusion | 34 |
| Appendix 1 – Short-Term Projections..... | 35 |

Appendix 1 Notes 37
Appendix 2 - Fund Condition Statements..... 40
Appendix 2 Notes 48

Executive Summary

The Department of Resources Recycling and Recovery (CalRecycle) has completed a quarterly review of actual and projected revenues and expenditures for the Beverage Container Recycling Fund (Recycling Fund) as of April 1, 2014.

CalRecycle projects that the cash balance of the Recycling Fund will permanently fall below the prudent reserve in February 2016 without additional reforms to the Beverage Container Recycling Program (Program), beyond the measures shown in Table 5. The projected date of this event is one month later than the date indicated in the projection in the January 2014 Quarterly Report.

As a consequence of continued projected deficit spending, CalRecycle would be required to implement proportional reduction at the beginning of FY 2015-2016 in order to maintain fund solvency. The reduction in expenditures would be set at a level to maintain a cash balance that is at least equal to or greater than the prudent reserve, currently amounting to approximately \$58 million. CalRecycle would be required to implement a 40 percent proportional reduction in FY 2015-2016 and a 90 percent proportional reduction in FY 2016-2017. Prior to implementing proportional reduction, CalRecycle would be required to formally notify the Legislature as early as January 2015, and expenditure reductions would begin on July 1, 2015.

The fiscal impacts of the proportional reduction scenario presented in this report on Recycling Fund expenditures, Processing Fee revenues, and Processing Payment expenditures are shown in the tables below. For Processing Fees and Payments, as the percentage of proportional reduction increases, the Processing Fee per container approaches the maximum Processing Payment per container pursuant to PRC Section 14575(d), and the Processing Payment decreases for material types having a recycling rate above 65 percent.

Table 1: Recycling Fund Expenditures under Proportional Reduction

| Expenditures Subject to Proportional Reduction [Note 1] | FY 2014-15 Current Law | FY 2015-16 40% Prop. Reduction | FY 2016-17 90% Prop. Reduction |
|---|---------------------------|-----------------------------------|-----------------------------------|
| Glass Processing Fee Offsets | \$56,365,000 | \$33,819,000 | \$5,637,000 |
| Plastic Processing Fee Offsets [Note 2] | \$1,939,000 | \$15,440,000 | \$2,573,000 |
| Handling Fees | \$42,385,000 | \$25,431,000 | \$4,239,000 |
| Curbside Supplemental Payments | \$15,000,000 | \$9,000,000 | \$1,500,000 |
| Local Conservation Corps [Note 3] | \$20,974,000 | \$12,786,000 | \$2,131,000 |
| City/County Payments | \$10,500,000 | \$6,300,000 | \$1,050,000 |
| Competitive Grants | \$1,500,000 | \$900,000 | \$150,000 |
| Public Education and Information | \$2,500,000 | \$1,500,000 | \$250,000 |
| Quality Incentive Payments | \$10,000,000 | \$6,000,000 | \$1,000,000 |
| Plastic Market Development | \$10,000,000 | \$6,000,000 | \$1,000,000 |
| Total | \$171,163,000 | \$117,176,000 | \$19,530,000 |
| [Note 1] - Expenditures not subject to proportional reduction are California Refund Value, Administrative Fees paid to processors and recyclers, Beverage Container Recycling Program Administration, Administrative Fees retained by distributors, and payments to control agencies | | | |
| [Note 2] - Estimated Plastic Processing Fee Offset for FYs 2015-16 and 2016-17 without proportional reduction is \$25,733,000 | | | |
| [Note 3] - Local Conservation Corps amounts based on annual COLA of 1.6% | | | |

Table 2: Processing Fee Revenues under Proportional Reduction

| Material Type | FY 2014-15 Current Law | FY 2015-16 40% Prop. Reduction | FY 2016-17 90% Prop. Reduction |
|---------------|---------------------------|-----------------------------------|-----------------------------------|
| Glass | \$5,478,000 | \$23,992,000 | \$44,610,000 |
| PET | \$1,467,000 | \$10,249,000 | \$18,736,000 |
| HDPE | \$750,000 | \$2,396,000 | \$4,455,000 |

Table 3: Processing Payment Expenditures under Proportional Reduction

| Material Type | FY 2014-15 Current Law | FY 2015-16 40% Prop. Reduction | FY 2016-17 90% Prop. Reduction |
|---------------|---------------------------|-----------------------------------|-----------------------------------|
| Glass | \$64,112,000 | \$57,961,000 | \$50,272,000 |
| PET | \$22,862,000 | \$21,891,000 | \$20,676,000 |
| HDPE | \$7,105,000 | \$6,210,000 | \$5,091,000 |

Please be advised that all projected monthly cash balances in this report are very sensitive to the timing and amounts of actual receipts and disbursements. The timing

and percentage of proportional reduction may change based on more current information presented in future reports.

The projections are based on the assumption that the remaining balance of all General Fund and Air Pollution Control Fund loans made from the Recycling Fund, currently amounting to \$115 million, will be completely repaid by the end of FY 2014-2015, including a \$5 million loan made to the Department of Conservation. The projections are also based on the assumption that proceeds from General Fund loan repayments to the Processing Fee Funds scheduled in FY 2013-2014 will minimize Processing Fee Offsets paid from the Recycling Fund. These same assumptions also applied to the projection in the January 2014 Quarterly Report.

The Program has been operating under an annual structural deficit averaging about \$100 million since FY 2008-2009 when the recycling rate rose to 78 percent, exceeding the breakeven recycling rate of approximately 70 percent. In the years following, the recycling rate has continued a gradual climb, reaching 84 percent in FY 2012-2013. CalRecycle projects that the recycling rate will remain at the current level even with continued economic recovery, based on recycling rates which experienced sharp growth during the period of economic slowdown occurring in the early 1990s and remained at the same level during the period of prosperity that followed.

To address the structural deficit, CalRecycle held a series of Program reform workshops conducted from July 2012 to October 2012. Based on the workshops, stakeholders shared common key goals including the following:

- Postponing or eliminating the implementation of proportional reduction
- Encouraging the continued growth in the recycling of empty beverage containers sold in California
- Significantly reducing the fraudulent redemption of beverage container material
- Supporting the legitimate transport, trade, and transshipment of beverage container material within the state of California

In response, CalRecycle submitted and the Legislature approved a FY 2013-2014 Spring Finance Letter as the first phase of reform that includes the measures summarized in Table 5. Furthermore, CalRecycle developed three Budget Change Proposals (BCPs) which directly address the structural deficit, increase the number of auditors to improve the monitoring of beverage manufacturers and distributors, and provide for the transition of maintenance and operations of the Division of Recycling Integrated Information System (DORIIS) from contractor to CalRecycle staff. In addition, CalRecycle developed a Greenhouse Gas Emission Reductions BCP which decreases Program administration costs but has no other impacts on the Recycling Fund. The Recycling Fund fiscal impacts from all four BCPs are detailed in Table 4 below. More information about the BCPs may be found in this report and at <http://www.calrecycle.ca.gov/Temp/201415BCPs/>.

Table 4: Fiscal Impacts of the BCPs on the Recycling Fund

| | Current Law FY 2016-17 [Note 1] | BCPs FY 2016-17 [Note 2] | Savings (Cost) |
|---|---|------------------------------------|----------------|
| REVENUE | | | |
| Redemption Fees | \$1,185,294,000 | \$1,185,294,000 | \$0 |
| TOTAL REVENUE | \$1,185,294,000 | \$1,185,294,000 | |
| EXPENDITURES | | | |
| California Refund Value [Note 3] | \$1,086,020,000 | \$1,059,532,000 | \$26,488,000 |
| Beverage Container Recycling Program Administration [Note 4] | \$45,771,000 | \$45,771,000 | \$0 |
| Reform Phase II BCP | \$0 | \$1,209,000 | (\$1,209,000) |
| Audit Coverage BCP [Note 5] | \$0 | \$557,000 | (\$557,000) |
| DORIIS BCP [Note 6] | \$0 | \$0 | \$0 |
| Greenhouse Gas Emission Reductions BCP | \$0 | (\$24,000) | \$24,000 |
| Glass Processing Fee Offsets | \$56,365,000 | \$0 | \$56,365,000 |
| Plastic Processing Fee Offsets | \$25,733,000 | \$0 | \$25,733,000 |
| Handling Fees | \$42,385,000 | \$33,000,000 | \$9,385,000 |
| Curbside Supplemental Payments | \$15,000,000 | \$0 | \$15,000,000 |
| Local Conservation Corps Grants [Note 7] | \$21,651,000 | \$6,651,000 | \$15,000,000 |
| City/County Payments | \$10,500,000 | \$0 | \$10,500,000 |
| Quality Incentive Payments | \$10,000,000 | \$10,000,000 | \$0 |
| Public Education and Information | \$2,500,000 | \$2,500,000 | \$0 |
| Beverage Container Recycling Grants | \$1,500,000 | \$5,000,000 | (\$3,500,000) |
| Plastic Market Development | \$10,000,000 | \$10,000,000 | \$0 |
| Recycling Enforcement Agency Grants | \$0 | \$7,000,000 | (\$7,000,000) |
| TOTAL EXPENDITURES | \$1,327,425,000 | \$1,181,196,000 | |
| STRUCTURAL DEFICIT [Note 8] | (\$142,131,000) | \$4,098,000 | |
| [Note 1] - Does not include the impacts of proportional reduction | | | |
| [Note 2] - FY 2016-17 is the first fiscal year of full implementation | | | |
| [Note 3] - Savings due to the elimination of the Administrative Fee paid to Processors and Recyclers | | | |
| [Note 4] - The amount shown is the baseline amount which does not reflect the impact of any of the BCPs | | | |
| [Note 5] - The potential impact of increased net revenue from additional audits is not included in the projections | | | |
| [Note 6] - The impact of the DORIIS BCP is \$258,000 for FY 2014-15 only | | | |
| [Note 7] - Total projected funding for FY 2016-17 is \$21,651,000 including the COLA with \$15 million provided from other CalRecycle funds | | | |
| [Note 8] - The structural deficit amount under the current law scenario ties to the amount in Table 11, and the amount under the BCP scenario ties to the amount in Table 12. | | | |

In addition, CalRecycle is implementing reform measures to improve Program integrity, reduce loss, and enhance revenue. The measures intended to improve integrity focus on certified recyclers by promoting higher standards of performance, accountability, and service to the public. The measures intended to reduce loss focus on counteracting fraud. The measures intended to enhance revenue focus on closing possible gaps in the collection of Redemption Fees and Processing Fees. Key reform measures being adopted include the following:

Table 5: 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 Jan 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 | 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 |
| | Conduct more frequent retailer shelf surveys to identify products sold in California where Redemption Fees have not been paid | 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 97% 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 | | | |

Even with the reform measures outlined above, if deficit spending continues, proportional reduction will be implemented in FY 2015-2016, the fiscal year following the completion of General Fund loan repayments to the Recycling Fund. Once implemented, the percentage of proportional reduction will increase beyond original

estimates if more expenditure reductions are required to maintain the solvency of the Recycling Fund.

Because of data variability, the projected timing of proportional reduction is subject to shift in either direction. The report dated January 31, 2013 indicated that proportional reduction would be implemented at the beginning of FY 2015-2016. The reports that followed, dated April 24, 2013 and July 24, 2013, indicated that proportional reduction would be implemented at the beginning of FY 2014-2015. Moving forward, the reports dated November 18, 2013, February 14, 2014, and this report indicate that the timing of proportional reduction will be placed back to the beginning of FY 2015-2016.

However, projections indicate that proportional reduction will not need to be implemented if the BCPs developed by CalRecycle are approved by the Legislature. The BCPs retain the most cost-effective Program investments and continue to maintain the infrastructure necessary to sustain recycling rates that exceed the legislative goal of 80 percent.

If proportional reduction becomes necessary, CalRecycle will provide complete information on the impacts and implementation plans for reducing expenditures. The greatest impact will be an anticipated reduction in funding to generally 10 percent of current funding levels in FY 2016-2017. Proportional reduction has only been implemented once previously. In FY 2009-2010, proportional reduction was required for a limited period of time and is not a good indicator of what will occur in the future. When proportional reduction was implemented during FY 2009-2010, outstanding loans from the Recycling Fund totaled \$458.7 million. When proportional reduction is anticipated to begin in FY 2015-2016, all outstanding loans made from the Recycling Fund will be paid in full.

CalRecycle anticipates that if proportional reduction is implemented beginning in FY 2015-2016, expenditure reductions will continue indefinitely. As a result, the recycling infrastructure that has been created over the past quarter century will be compromised, and the 80 percent recycling goal will become unsustainable. The number of recycling centers, the jobs, and the economic activity carried out by certified recyclers and processors will almost certainly decline. In addition, consumers will be impacted by the

loss of convenient redemption opportunities. Furthermore, plastic and glass remanufacturing will be undermined as current supplies of recycled material and incentives diminish. More information on the impacts of proportional reduction and anticipated implementation plans is included in the Implementation of Proportional Reduction section in this report.

Introduction

This *Quarterly Report on the Status of the Beverage Container Recycling Fund* (Report) is a review of the adequacy of resources in the Beverage Container Recycling Fund (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 Report provides the updated Fund Condition Statements for all funds in the Beverage Container Recycling Program (Program), based on current law and the provisions under the BCPs published in the Governor's Proposed Budget for FY 2014-2015, and the updated cash balance projection of the Recycling Fund by month. 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 January 2014 Report.

As of April 1, 2014, CalRecycle is projecting that the cash balance of the Recycling Fund will permanently fall below the prudent reserve in February 2016, which is one month later than the date based on the projection in the January 2014 Report. This projection is based on the following assumptions:

- Projections are based on current appropriations and sunset dates specified in PRC Section 14581.
- All General Fund and Air Pollution Control Fund loans made from the Recycling Fund, currently amounting to \$110 million, will be completely repaid by the end of FY 2014-2015.
- The \$5 million loan made to the Department of Conservation will be repaid in FY 2013-2014.
- General Fund loans made from the Processing Fee Funds will be repaid in full in FY 2013-2014 as scheduled in the Budget Act as follows: \$39 million to the Glass Processing Fee Fund and \$27 million to the Plastic Processing Fee Fund.
- Proceeds from loan repayments 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 rates effective January 1, 2014.

Based on the cash balance projection presented in Chart 1, CalRecycle anticipates that FY 2014-2015 will be the last year that the Recycling Fund will have adequate resources to meet current demands. For FY 2015-2016 the Recycling Fund will not have adequate resources to meet current demands, and CalRecycle would be required to implement proportional reduction pursuant to PRC Section 14581(d). Under this scenario, CalRecycle would be required to notify the Legislature pursuant to PRC Section 14581(c)(2) by April 10, 2015 or at least 80 days prior to implementing proportional reduction, which is anticipated to begin on July 1, 2015. Given the level of public interest and the potential impacts to the Program's stakeholders, CalRecycle may formally notify the Legislature as early as January 2015. The reduction in expenditures would be set at level to maintain a cash balance that is at least equal to or greater than the prudent reserve defined by PRC Section 14580(a)(2). The prudent reserve is adjusted annually at the beginning of the calendar year, and the amount established for 2014 is approximately \$58 million.

CalRecycle anticipates implementing a minimum 40 percent proportional reduction in FY 2015-2016 and a minimum 90 percent proportional reduction in FY 2016-2017. If proportional reduction is implemented in FY 2015-2016, and those expenditure reductions are found to be insufficient to keep the cash balance at or above the \$58 million prudent reserve, then CalRecycle will be required to implement a higher proportional reduction in order maintain the solvency of the Recycling Fund.

Structural Deficit

The Program is unique in that it is designed to use surplus resources to fund policy goals. The Program has traditionally had a problem of an excess of revenue due to high sales and relatively low recycling rates. Currently the Program is operating under an annual \$100 million structural deficit due to excess demands on the Recycling Fund.

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 under a significant year-over-year surplus. To meet policy goals following the enactment of SB 332, Redemption Fees and Refund Value (CRV, collectively) were twice increased as shown in the table below. Each increase in CRV initially resulted in higher year-over-year surpluses, but recycling rates initially did not increase as sharply as anticipated due to increases in sales.

Table 6: CRV per Container since Enactment of SB 332

| Year Enacted | CRV per Container | |
|--------------|-------------------|----------------|
| | Under 24 Oz. | 24 Oz. or More |
| 1992 | \$0.025 | \$0.05 |
| 2004 | \$0.04 | \$0.08 |
| 2007 | \$0.05 | \$0.10 |

In the meantime, interfund loans have been made from the Recycling Fund in order to meet critical statewide needs by transferring money mostly to the General Fund. Between FY 2002-2003 and FY 2009-2010, loans made from the Recycling Fund have totaled \$458.7 million. Additionally, in FY 2003-2004, 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 to promote in-state markets for recycled beverage container material. 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 Program have also resulted in unsustainable demands on the Recycling Fund.

The Program has been operating under an annual structural deficit currently averaging about \$100 million since FY 2008-2009 when the actual recycling rate rose to 78 percent, exceeding the breakeven recycling rate of approximately 70 percent. The breakeven recycling rate is the estimated recycling rate, the quotient of containers recycled over the containers sold, where Redemption Fee revenue equals total expenditures. In the years following, the recycling rate has continued a gradual climb, reaching 84 percent in FY 2012-2013 for all material types, and the breakeven 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. CalRecycle projects that the recycling rate will remain at the current level at least through FY 2014-2015. From a longer-term perspective, the recycling rate could remain above the breakeven recycling rate indefinitely based on sustained high recycling rates that occurred during the economic prosperity experienced in the 1990s.

The following tables illustrate the structural deficit in three different displays. The first table shows the actual structural deficits from FY 2007-2008 to FY 2012-2013 for all Program funds. The second table details the structural deficit for FY 2012-2013 by showing Program payments by stakeholder group. The third table displays the projected structural deficit for FY 2013-2014 for the Recycling Fund showing a simplified list of expenditures based on projected and breakeven scenarios. The projected breakeven recycling rate for FY 2013-2014 increased to 79 percent because of reduced Processing Fee Offsets from the Recycling Fund resulting from General Fund loan repayments to the Processing Fee Funds. This is a one-time event, and for FY 2014-2015 the breakeven recycling rate is anticipated to decrease to the recent historical average of about 75 percent.

Table 7: Historical Structural Deficits for all Program Funds

| Fiscal Year | Revenue [Note 1] | Expenditure [Note 2] | Surplus/(Deficit) [Note 3] |
|-------------------------|-------------------------|-----------------------------|-----------------------------------|
| 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 [Note 4] | \$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) |

[Note 1] - Redemption Fees and Processing Fees

[Note 2] - From Governor's Budget, Detail of Appropriations and Adjustments

[Note 3] - Reflects ongoing operations only and excludes non-reoccurring revenues and expenditures such as loan repayments and payments for Fi\$cal

[Note 4] - Surplus due to implementing proportional reduction pursuant to PRC Sec. 14581(d)

Table 8: Stakeholder Groups and Program Payments

| Type | Stakeholder Group | Number | Payment | Amount (FY 2012-13) |
|--|---|--|-------------------------------------|---------------------|
| Revenue | Beverage Distributors | 1,709 | Redemption Fees [Note 1] | \$1,179,964,000 |
| | Beverage Manufacturers | 1,473 | Processing Fees | \$13,208,000 |
| | Total Revenue | | | \$1,193,172,000 |
| Expenditures | Beverage Distributors | 1,709 | Administrative Fees [Note 1] | \$17,699,000 |
| | Certified Processors | 233 | Administrative Fees | \$18,347,000 |
| | Certified Recycling Centers | 2,400 | Processing Payments | \$54,876,000 |
| | | | Administrative Fees | \$6,935,000 |
| | Certified Recycling Centers in Convenience Zones | 1,200 | Handling Fees | \$40,144,000 |
| | Curbside Programs | 588 | Curbside Supplemental Payments | \$14,997,000 |
| | | | California Refund Value | \$81,355,000 |
| | | | Processing Payments | \$11,594,000 |
| | | | Administrative Fees | \$525,000 |
| | Dropoff, Collection, and Community Service Programs [Note 2] | 341 | California Refund Value | \$27,330,000 |
| | | | Processing Payments | \$2,235,000 |
| | Local Governments | 512 | City and County Payments | \$10,500,000 |
| | Local Community Conservation Corps | 13 | Local Conservation Corps Grants | \$19,457,000 |
| | Competitive Grantees | 13 | Beverage Container Recycling Grants | \$1,483,000 |
| | Glass Color Sorters | 64 | Quality Incentive Payments | \$9,689,000 |
| | Plastic Processors and Plastic Product Manufacturers | 42 | Plastics Market Development | \$19,189,000 |
| Consumers Redeeming at Recycling Centers | | California Refund Value | \$923,604,000 | |
| CalRecycle | | Program Administration [Note 3] | \$42,805,000 | |
| Total Expenditure | | | \$1,302,764,000 | |
| Net (Structural Deficit) | | | (\$109,592,000) | |

[Note 1] - Beverage distributors receive Administrative Fees by retaining 1.5% of the total Redemption Fee. The net Redemption Fee revenue for FY 2012-13 with the inclusion of the distributor's Administrative Fee amounts to \$1,162,265,000.

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

[Note 3] - Includes Pro Rata

Table 9: Recycling Fund Expenditures under Projected and Breakeven Scenarios

| | FY 2013-14 (Projected) | % of Revenue | FY 2013-14 (Projected) at Breakeven | % of Revenue |
|--|------------------------|--------------|-------------------------------------|--------------|
| Redemption Fee Revenue | \$1,185,294,000 | 100% | \$1,185,294,000 | 100% |
| Program Administration [Note 1] | \$56,130,000 | 5% | \$56,130,000 | 5% |
| 14581 Programs - Fixed [Note 2] | \$67,643,000 | 6% | \$67,643,000 | 6% |
| California Refund Value | \$1,086,020,000 | 92% | \$1,008,195,000 | 85% |
| Processing Fee Offsets [Note 3] | \$15,057,000 | 1% | \$13,978,000 | 1% |
| Handling Fees | \$42,385,000 | 4% | \$39,348,000 | 3% |
| Total Expenditure [Note 4] | \$1,267,235,000 | 107% | \$1,185,294,000 | 100% |
| Structural Deficit | (\$81,941,000) | -7% | \$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 85% 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 \$334 million plus interest with a balance of outstanding loans to date of \$115 million. The balance of outstanding loans made from the Processing Fee Funds stands at \$24 million.

The January 2014 Quarterly Report highlighted a set of reform measures that are being implemented which address financial and operational risk to the program. More recently, CalRecycle reported that the all-material recycling rate for calendar year 2013 was 85 percent, the highest rate in the history of the Program. In the meantime, CalRecycle is monitoring the data to assess if the measures are having the expected outcomes. To date, the effects of recently implemented reform measures are not reflected in the mature volume data through December 2013 used in forecasting. Consequently it is premature at this time to conclude what impacts, if any, the measures may have on implementing proportional reduction.

Fraud Prevention

Successful fraud deterrence, prevention, and mitigation result in lower expenditures and higher revenues. It is extremely difficult to reliably estimate the fiscal impact of fraud. The Department of Justice estimates that the fiscal impact of fraud is approximately \$40 million per year. Recent measures such as allocating more resources towards fraud prevention, increasing fines and penalties, tightening the barrier to entry through the requirement of precertification training and passing an examination, and policy changes such as the implementation of lower consumer load limits and increased monitoring of the movement of out-of-state material have a high probability of reducing the structural deficit in the future.

The actual data used for projections reflects both the ongoing existence of fraud and the counteracting effort undertaken by CalRecycle and our agency partners to mitigate fraud related fund losses. No direct modeling of the impact of increased fraud prevention is applied to the projections.

Long-Term Projections

The horizon of the cash balance projection extends to FY 2016-2017 to cover the projected date that the cash balance of the Recycling Fund is projected to permanently fall below the prudent reserve without Program reform. The assumptions behind the cash balance projection are supported by the Recycling Fund Condition Summary Statement. The horizon of the Recycling Fund Condition Summary Statement is the same as the cash balance projection.

The cash balance tends to lead the Fund Balance as an indicator of insolvency because of differences in timing and the methods of reporting. The primary differences are:

- Refund Value and Processing Fee Offsets, the two largest expenditures from the Recycling Fund, are paid in advance of the receipt of revenues for the corresponding reporting period, resulting in a lag that is not reflected in the Fund Balance.

- The cash balance projection reflects the impact of the structural deficit at monthly intervals whereas the Fund Balance is reported at one point in time as of the end of the fiscal year.
- The Fund Balance reflects the completion of all loan repayments scheduled for the entire fiscal year whereas the cash balance will not reflect the impact of loan repayments until the actual receipt has occurred.

The Recycling Fund Cash Balance shown on Chart 1 includes actual and projected month-end cash balances of the Recycling Fund through the end of FY 2016-2017 with loan repayments by month. For comparison, the chart also shows the previous cash balance projection in the January 2014 Report. Finally, the chart shows the prudent reserve which functions as the threshold for implementing proportional reduction.

The Recycling Fund Condition Summary Statements shown in Tables 11 and 12 are an abbreviated form of the Fund Condition Statement organized by fiscal year displaying actual data for FY 2012-2013 and projections for FY 2013-2014 to FY 2016-2017. The Recycling Fund Condition Summary Statement shows the relationship among the Fund Balance, the structural deficit, and the outstanding loans. Table 11 is based on current law, and Table 12 is based on the provisions in the BCPs.

The Recycling Fund Cash Balance chart and the Recycling Fund Condition Summary Statement reflect loan repayments scheduled in the Budget Act, which are detailed in the table below.

Table 10: Recycling Fund Loan Repayments

| Fiscal Year | General Fund | Air Pollution Control Fund | Dept. of Conservation | Total |
|-------------|---------------|----------------------------|-----------------------|---------------|
| 2013-14 | \$89,400,000 | \$8,000,000 | \$5,000,000 | \$102,400,000 |
| 2014-15 | \$82,277,000 | \$0 | \$0 | \$82,277,000 |
| Total | \$171,677,000 | \$8,000,000 | \$5,000,000 | \$184,677,000 |

In addition, Fund Condition Summary Statements for the Glass Processing Fee and the Plastic Processing Fee Funds are included in Tables 13-16 to show the long-term effect

of General Fund loan repayments on Fund Balances. Tables 13 and 15 are based on current law, and Tables 14 and 16 are based on the provisions in the BCPs.

For additional information, the full Fund Condition Statements, containing line-item detail covering FY 2012-2013 to FY 2014-2015 for all five Program funds with accompanying notes, can be found in Appendix 2 of this Report.

Chart 1: Recycling Fund Cash Balance Projection

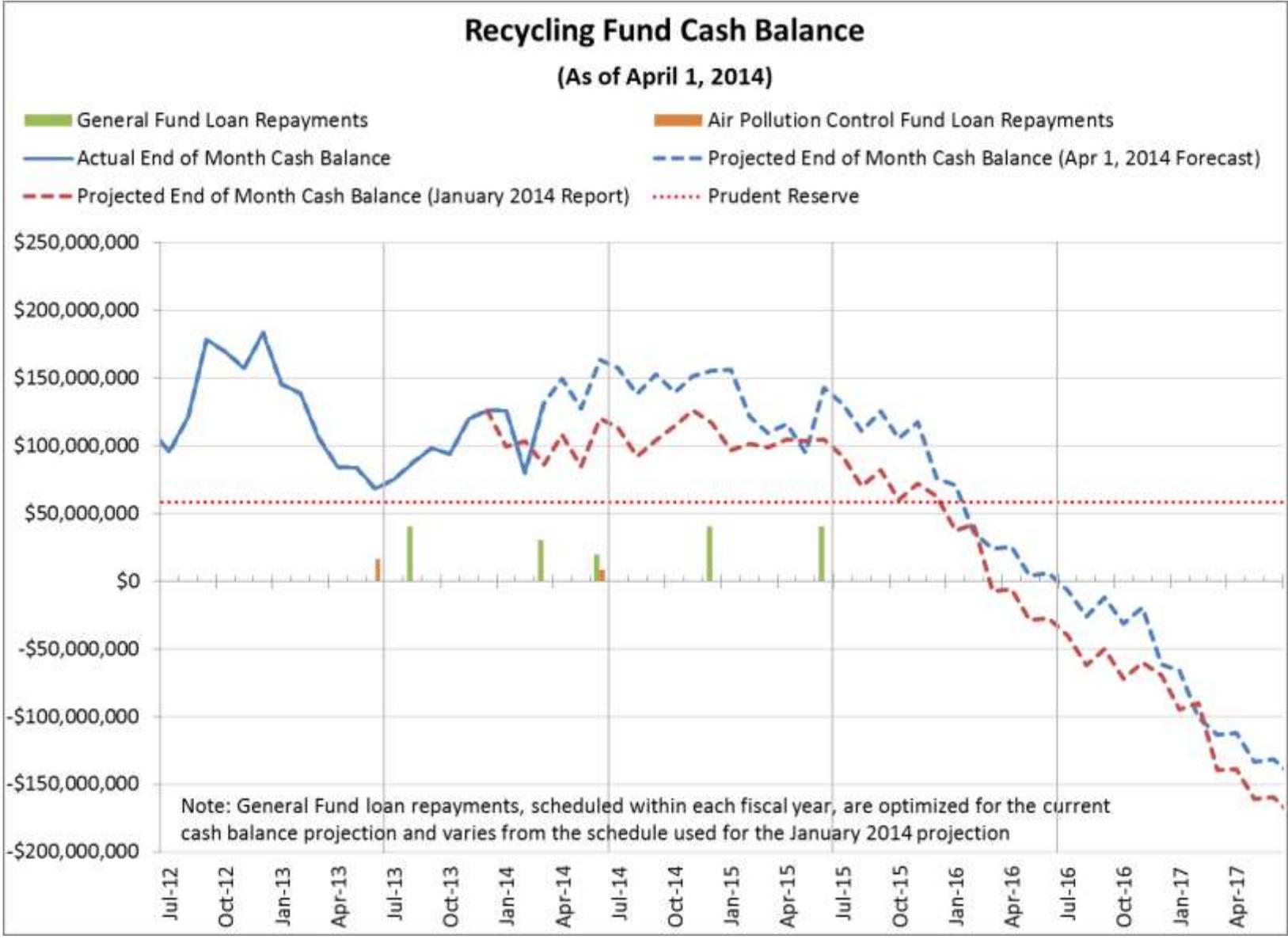


Table 11: Recycling Fund Condition Summary Statement under Current Law

| Recycling Fund Condition Summary Statement - Current Law [Note 1] | | | | | | |
|--|---------------|---------------|---------------|---------------|---------------|--|
| | FY 2012-13 | FY 2013-14 | FY 2014-15 | FY 2015-16 | FY 2016-17 | |
| | Actual | Projected | Projected | Projected | Projected | |
| BEGINNING OUTSTANDING LOANS (A) | 201,077,000 | 184,677,000 | 82,277,000 | 0 | 0 | |
| RESOURCES | | | | | | |
| Adjusted Beginning Balance | 221,767,000 | 107,087,000 | 132,429,000 | 109,701,000 | (31,862,000) | |
| Redemption Fees (B) | 1,162,265,000 | 1,185,294,000 | 1,185,294,000 | 1,185,294,000 | 1,185,294,000 | |
| Loan Repayments to Recycling Fund (C) [Note 2] | 16,400,000 | 102,400,000 | 82,277,000 | | | |
| Loan Repayments From Recycling Fund | (8,250,000) | | | | | |
| Other Income [Note 3] | 951,000 | 4,883,000 | 12,696,000 | 227,000 | 227,000 | |
| TOTAL RESOURCES (D) [Note 4] | 1,393,133,000 | 1,399,664,000 | 1,412,696,000 | 1,295,222,000 | 1,153,659,000 | |
| EXPENDITURES | | | | | | |
| California Refund Value | 1,058,096,000 | 1,086,020,000 | 1,086,020,000 | 1,086,020,000 | 1,086,020,000 | |
| Beverage Container Recycling Program Administration [Note 5] | 43,070,000 | 50,801,000 | 45,771,000 | 45,771,000 | 45,771,000 | |
| Glass Processing Fee Offsets | 58,972,000 | 14,721,000 | 56,365,000 | 56,365,000 | 56,365,000 | |
| Plastic Processing Fee Offsets | 8,458,000 | 336,000 | 1,939,000 | 25,733,000 | 25,733,000 | |
| Section 14581 Payments | 115,129,000 | 110,028,000 | 112,859,000 | 113,195,000 | 113,536,000 | |
| Other Expenditures [Note 6] | 2,321,000 | 5,329,000 | 41,000 | | | |
| TOTAL EXPENDITURES (E) [Note 7] | 1,286,046,000 | 1,267,235,000 | 1,302,995,000 | 1,327,084,000 | 1,327,425,000 | |
| FUND BALANCE (D)-(E) [Note 8] | 107,087,000 | 132,429,000 | 109,701,000 | (31,862,000) | (173,766,000) | |
| STRUCTURAL DEFICIT (NET INCOME) (B)-(E) [Note 9] | (123,781,000) | (81,941,000) | (117,701,000) | (141,790,000) | (142,131,000) | |
| OUTSTANDING LOANS AT YEAR-END (A)-(C) | 184,677,000 | 82,277,000 | 0 | 0 | 0 | |
| Notes: | | | | | | |
| [Note 1] - This table does not reflect the impacts of proportional reduction | | | | | | |
| [Note 2] - Loan repayments are scheduled in the Budget Act | | | | | | |
| [Note 3] - Other Income includes interest from loan repayments | | | | | | |
| [Note 4] - Total Resources does not include Beginning Outstanding Loans | | | | | | |
| [Note 5] - Includes Pro Rata which is detailed in the Fund Condition Statement in Appendix 2. Pro Rata for fiscal years after FY 2014-15 is estimated to equal FY 2014-15. | | | | | | |
| [Note 6] - Other Expenditures includes payments for the Financial Information System for California (Fi\$cal) | | | | | | |
| [Note 7] - Total Expenditures do not match totals in Governor's Budget due to the inclusion of Glass and Plastic Processing Fee Offsets | | | | | | |
| [Note 8] - 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 9] - 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 12: Recycling Fund Condition Summary Statement Based on BCPs

| Recycling Fund Condition Summary Statement - Budget Change Proposals [Note 1] | | | | | | |
|--|---------------|---------------|------------------|------------------|------------------|--|
| | FY 2012-13 | FY 2013-14 | FY 2014-15 | FY 2015-16 | FY 2016-17 | |
| | Actual | Projected | Projected - BCPs | Projected - BCPs | Projected - BCPs | |
| BEGINNING OUTSTANDING LOANS (A) | 201,077,000 | 184,677,000 | 82,277,000 | 0 | 0 | |
| RESOURCES | | | | | | |
| Adjusted Beginning Balance | 221,767,000 | 107,087,000 | 132,429,000 | 180,487,000 | 174,055,000 | |
| Redemption Fees (B) | 1,162,265,000 | 1,185,294,000 | 1,185,294,000 | 1,185,294,000 | 1,185,294,000 | |
| Loan Repayments to Recycling Fund (C) [Note 2] | 16,400,000 | 102,400,000 | 82,277,000 | | | |
| Loan Repayments From Recycling Fund | (8,250,000) | | | | | |
| Other Income [Note 3] | 951,000 | 4,883,000 | 12,696,000 | 227,000 | 227,000 | |
| TOTAL RESOURCES (D) [Note 4] | 1,393,133,000 | 1,399,664,000 | 1,412,696,000 | 1,366,008,000 | 1,359,576,000 | |
| EXPENDITURES | | | | | | |
| California Refund Value | 1,058,096,000 | 1,086,020,000 | 1,072,776,000 | 1,059,532,000 | 1,059,532,000 | |
| Beverage Container Recycling Program Administration [Note 5] | 43,070,000 | 50,801,000 | 48,053,000 | 47,513,000 | 47,513,000 | |
| Glass Processing Fee Offsets | 58,972,000 | 14,721,000 | 37,865,000 | 11,098,000 | 0 | |
| Plastic Processing Fee Offsets | 8,458,000 | 336,000 | 0 | 0 | 0 | |
| Section 14581 Payments | 115,129,000 | 110,028,000 | 73,474,000 | 73,810,000 | 74,151,000 | |
| Other Expenditures [Note 6] | 2,321,000 | 5,329,000 | 41,000 | | | |
| TOTAL EXPENDITURES (E) [Note 7] | 1,286,046,000 | 1,267,235,000 | 1,232,209,000 | 1,191,953,000 | 1,181,196,000 | |
| FUND BALANCE (D)-(E) [Note 8] | 107,087,000 | 132,429,000 | 180,487,000 | 174,055,000 | 178,380,000 | |
| STRUCTURAL DEFICIT (NET INCOME) (B)-(E) [Note 9] | (123,781,000) | (81,941,000) | (46,915,000) | (6,659,000) | 4,098,000 | |
| OUTSTANDING LOANS AT YEAR-END (A)-(C) | 184,677,000 | 82,277,000 | 0 | 0 | 0 | |
| Notes: | | | | | | |
| [Note 1] - This table does not reflect the impacts of proportional reduction | | | | | | |
| [Note 2] - Loan repayments are scheduled in the Budget Act | | | | | | |
| [Note 3] - Other Income includes interest from loan repayments | | | | | | |
| [Note 4] - Total Resources does not include Beginning Outstanding Loans | | | | | | |
| [Note 5] - Includes Pro Rata which is detailed in the Fund Condition Statement in Appendix 2. Pro Rata for fiscal years after FY 2014-15 is estimated to equal FY 2014-15. | | | | | | |
| [Note 6] - Other Expenditures includes payments for the Financial Information System for California (Fi\$cal) | | | | | | |
| [Note 7] - Total Expenditures do not match totals in Governor's Budget due to the inclusion of Glass and Plastic Processing Fee Offsets | | | | | | |
| [Note 8] - 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 9] - 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 13: Glass Processing Fee Fund Condition Summary Statement under Current Law

Law

| Glass Processing Fee Fund Condition Summary Statement - Current Law | | | | | | |
|---|-------------|------------|------------|------------|------------|--|
| | FY 2012-13 | FY 2013-14 | FY 2014-15 | FY 2015-16 | FY 2016-17 | |
| | Actual | Projected | Projected | Projected | Projected | |
| BEGINNING OUTSTANDING LOANS (A) | 39,000,000 | 39,000,000 | 0 | 0 | 0 | |
| RESOURCES | | | | | | |
| Adjusted Beginning Balance | (2,053,000) | 4,598,000 | 8,511,000 | 6,232,000 | 4,989,000 | |
| Processing Fees (B) | 6,459,000 | 6,231,000 | 5,478,000 | 6,471,000 | 7,464,000 | |
| Glass Processing Fee Offsets | 58,972,000 | 14,721,000 | 56,365,000 | 56,365,000 | 56,365,000 | |
| Loan Repayments to Glass Processing Fee Fund (C) [Note 1] | 0 | 39,000,000 | 0 | 0 | 0 | |
| Other Income [Note 2] | 32,000 | 6,035,000 | 34,000 | 33,000 | 33,000 | |
| TOTAL RESOURCES (D) [Note 3] | 63,410,000 | 70,585,000 | 70,388,000 | 69,101,000 | 68,851,000 | |
| EXPENDITURES | | | | | | |
| Processing Payments | 58,481,000 | 61,826,000 | 64,112,000 | 64,112,000 | 64,112,000 | |
| Other Expenditures [Note 4] | 331,000 | 248,000 | 44,000 | | | |
| TOTAL EXPENDITURES (E) | 58,812,000 | 62,074,000 | 64,156,000 | 64,112,000 | 64,112,000 | |
| FUND BALANCE (D)-(E) | 4,598,000 | 8,511,000 | 6,232,000 | 4,989,000 | 4,739,000 | |
| OUTSTANDING LOANS AT YEAR-END (A)-(C) | 39,000,000 | 0 | 0 | 0 | 0 | |
| Notes: | | | | | | |
| [Note 1] - Loan repayments are scheduled in the Budget Act | | | | | | |
| [Note 2] - Other Income includes interest from loan repayments | | | | | | |
| [Note 3] - Total Resources does not include Beginning Outstanding Loans | | | | | | |
| [Note 4] - Other Expenditures includes payments for the Financial Information System for California (Fi\$cal) | | | | | | |

Table 14: Glass Processing Fee Fund Condition Summary Statement Based on BCPs

| Glass Processing Fee Fund Condition Summary Statement - Budget Change Proposals | | | | | | |
|---|-------------|------------|------------------|------------------|------------------|--|
| | FY 2012-13 | FY 2013-14 | FY 2014-15 | FY 2015-16 | FY 2016-17 | |
| | Actual | Projected | Projected - BCPs | Projected - BCPs | Projected - BCPs | |
| BEGINNING OUTSTANDING LOANS (A) | 39,000,000 | 39,000,000 | 0 | 0 | 0 | |
| RESOURCES | | | | | | |
| Adjusted Beginning Balance | (2,053,000) | 4,598,000 | 8,511,000 | 5,565,000 | 4,346,000 | |
| Processing Fees (B) | 6,459,000 | 6,231,000 | 23,311,000 | 51,762,000 | 63,829,000 | |
| Glass Processing Fee Offsets | 58,972,000 | 14,721,000 | 37,865,000 | 11,098,000 | 0 | |
| Loan Repayments to Glass Processing Fee Fund (C) [Note 1] | 0 | 39,000,000 | 0 | 0 | 0 | |
| Other Income [Note 2] | 32,000 | 6,035,000 | 34,000 | 33,000 | 33,000 | |
| TOTAL RESOURCES (D) [Note 3] | 63,410,000 | 70,585,000 | 69,721,000 | 68,458,000 | 68,208,000 | |
| EXPENDITURES | | | | | | |
| Processing Payments | 58,481,000 | 61,826,000 | 64,112,000 | 64,112,000 | 64,112,000 | |
| Other Expenditures [Note 4] | 331,000 | 248,000 | 44,000 | | | |
| TOTAL EXPENDITURES (E) | 58,812,000 | 62,074,000 | 64,156,000 | 64,112,000 | 64,112,000 | |
| FUND BALANCE (D)-(E) | 4,598,000 | 8,511,000 | 5,565,000 | 4,346,000 | 4,096,000 | |
| OUTSTANDING LOANS AT YEAR-END (A)-(C) | 39,000,000 | 0 | 0 | 0 | 0 | |
| Notes: | | | | | | |
| [Note 1] - Loan repayments are scheduled in the Budget Act | | | | | | |
| [Note 2] - Other Income includes interest from loan repayments | | | | | | |
| [Note 3] - Total Resources does not include Beginning Outstanding Loans | | | | | | |
| [Note 4] - Other Expenditures includes payments for the Financial Information System for California (Fi\$cal) | | | | | | |

Table 15: Plastic Processing Fee Fund Condition Summary Statement under Current Law

Law

| Plastic Processing Fee Fund Condition Summary Statement - Current Law | | | | | | |
|---|------------|------------|------------|------------|------------|--|
| | FY 2012-13 | FY 2013-14 | FY 2014-15 | FY 2015-16 | FY 2016-17 | |
| | Actual | Projected | Projected | Projected | Projected | |
| BEGINNING OUTSTANDING LOANS (A) | 27,000,000 | 27,000,000 | 0 | 0 | 0 | |
| RESOURCES | | | | | | |
| Adjusted Beginning Balance | 5,566,000 | 9,211,000 | 22,886,000 | 1,858,000 | 4,616,000 | |
| Processing Fees (B) | 5,216,000 | 6,856,000 | 7,425,000 | 7,425,000 | 7,425,000 | |
| Plastic Processing Fee Offsets | 8,458,000 | 336,000 | 1,939,000 | 25,733,000 | 25,733,000 | |
| Loan Repayments to Plastic Processing Fee Fund (C) [Note 1] | 0 | 27,000,000 | 0 | 0 | 0 | |
| Other Income [Note 2] | 12,000 | 4,121,000 | 21,000 | 13,000 | 15,000 | |
| TOTAL RESOURCES (D) [Note 3] | 19,252,000 | 47,524,000 | 32,271,000 | 35,029,000 | 37,789,000 | |
| EXPENDITURES | | | | | | |
| Processing Payments | 9,879,000 | 24,487,000 | 30,413,000 | 30,413,000 | 30,413,000 | |
| Other Expenditures [Note 4] | 162,000 | 151,000 | | | | |
| TOTAL EXPENDITURES (E) | 10,041,000 | 24,638,000 | 30,413,000 | 30,413,000 | 30,413,000 | |
| FUND BALANCE (D)-(E) | 9,211,000 | 22,886,000 | 1,858,000 | 4,616,000 | 7,376,000 | |
| OUTSTANDING LOANS AT YEAR-END (A)-(C) | 27,000,000 | 0 | 0 | 0 | 0 | |
| Notes: | | | | | | |
| [Note 1] - Loan repayments are scheduled in the Budget Act | | | | | | |
| [Note 2] - Other Income includes interest from loan repayments | | | | | | |
| [Note 3] - Total Resources does not include Beginning Outstanding Loans | | | | | | |
| [Note 4] - Other Expenditures includes payments for the Financial Information System for California (Fi\$cal) | | | | | | |

Table 16: Plastic Processing Fee Fund Condition Summary Statement Based on BCPs

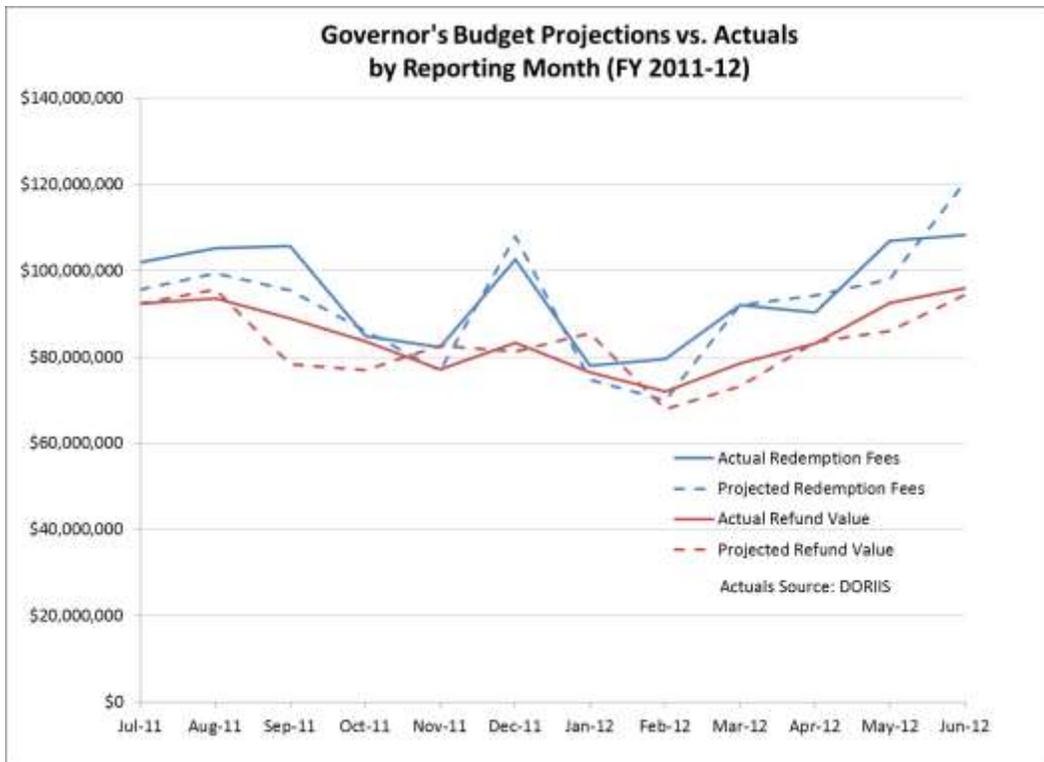
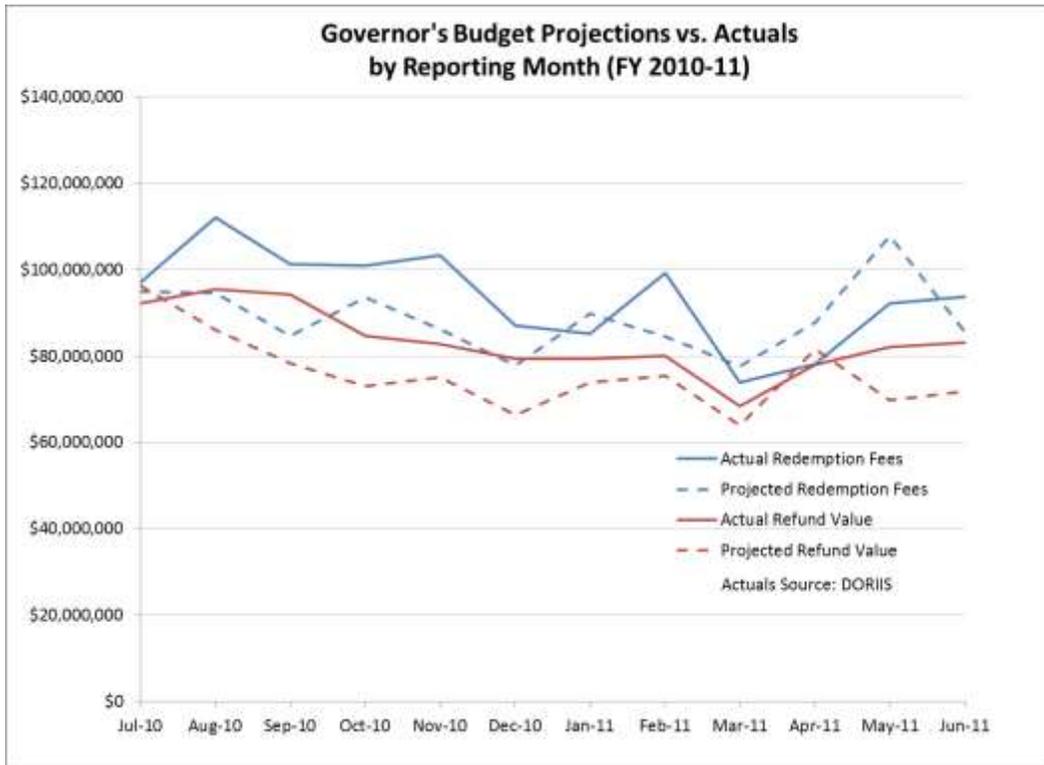
| Plastic Processing Fee Fund Condition Summary Statement - Budget Change Proposals | | | | | | |
|---|------------|------------|------------------|------------------|------------------|--|
| | FY 2012-13 | FY 2013-14 | FY 2014-15 | FY 2015-16 | FY 2016-17 | |
| | Actual | Projected | Projected - BCPs | Projected - BCPs | Projected - BCPs | |
| BEGINNING OUTSTANDING LOANS (A) | 27,000,000 | 27,000,000 | 0 | 0 | 0 | |
| RESOURCES | | | | | | |
| Adjusted Beginning Balance | 5,566,000 | 9,211,000 | 22,886,000 | 6,646,000 | 1,882,000 | |
| Processing Fees (B) | 5,216,000 | 6,856,000 | 14,152,000 | 25,636,000 | 30,394,000 | |
| Plastic Processing Fee Offsets | 8,458,000 | 336,000 | 0 | 0 | 0 | |
| Loan Repayments to Plastic Processing Fee Fund (C) [Note 1] | 0 | 27,000,000 | 0 | 0 | 0 | |
| Other Income [Note 2] | 12,000 | 4,121,000 | 21,000 | 13,000 | 15,000 | |
| TOTAL RESOURCES (D) [Note 3] | 19,252,000 | 47,524,000 | 37,059,000 | 32,295,000 | 32,291,000 | |
| EXPENDITURES | | | | | | |
| Processing Payments | 9,879,000 | 24,487,000 | 30,413,000 | 30,413,000 | 30,413,000 | |
| Other Expenditures [Note 4] | 162,000 | 151,000 | | | | |
| TOTAL EXPENDITURES (E) | 10,041,000 | 24,638,000 | 30,413,000 | 30,413,000 | 30,413,000 | |
| FUND BALANCE (D)-(E) | 9,211,000 | 22,886,000 | 6,646,000 | 1,882,000 | 1,878,000 | |
| OUTSTANDING LOANS AT YEAR-END (A)-(C) | 27,000,000 | 0 | 0 | 0 | 0 | |
| Notes: | | | | | | |
| [Note 1] - Loan repayments are scheduled in the Budget Act | | | | | | |
| [Note 2] - Other Income includes interest from loan repayments | | | | | | |
| [Note 3] - Total Resources does not include Beginning Outstanding Loans | | | | | | |
| [Note 4] - Other Expenditures includes payments for the Financial Information System for California (Fi\$cal) | | | | | | |

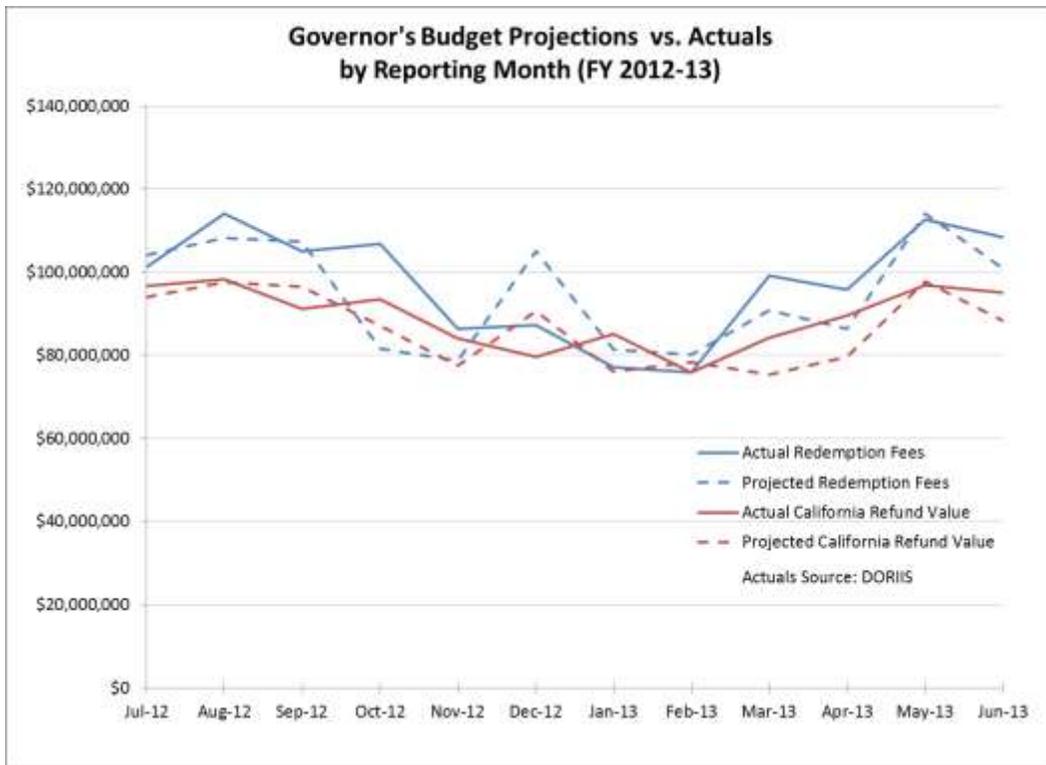
Overall, the current cash balance projection has not changed significantly as compared to the previous cash balance projection shown in the January 2014 report. The cash balance projection, which is based on actual cash flow data through March 2014, may reflect the effect of recently implemented fraud prevention measures that are not reflected in the sales and returns projections, which are based on reported volumes through December 2013 to allow for data maturity.

Based on the cash balance projection, CalRecycle would need to implement a minimum 40 percent proportional reduction in FY 2015-2016 and a minimum 90 percent proportional reduction in FY 2016-2017 in order to maintain the solvency of the Recycling Fund. This scenario is based on implementing proportional reduction on July 1 at the beginning of each specified fiscal year, in order to differentiate the funding fiscal year for the expenditure that is subject to be reduced. Prior year expenditures incurred but not paid until FY 2015-2016 will not be subject to proportional reduction. The percent of expenditure reductions in this proportional reduction scenario are projections, and if implemented, the actual percent reductions could differ significantly from those presented here.

As a cautionary note, the cash balance projection covers an extended horizon and is highly variable. All projected monthly cash balances are based on the most recent actual cash balance and are very sensitive to the timing and amounts of actual receipts and disbursements. Over successive projections, the timing of critical events is subject to significant shifts in either direction. To illustrate the variability, the following charts compare the projections completed for the Governor's budget and actual volumes reporting month for the last three fiscal years.

Charts 2-4: Governor's Budget Projections vs. Actuals for FY 2010-2011 to FY 2012-2013





Implementation of Proportional Reduction

If proportional reduction is implemented, CalRecycle will work with stakeholders to prepare them for the impacts of 40 percent expenditure reductions in FY 2015-2016 and 90 percent in FY 2016-2017. Stakeholders will be informed of the schedule of funding reductions, official notification dates, and possible meetings where CalRecycle has authority over the timing that payments are made.

The following provides additional detail on the impacts of proportional reduction and anticipated implementation plans, expanding on the summary shown in Table 1.

Glass Processing Fee Offset Impacts: CalRecycle anticipates that with the implementation of proportional reduction, the projected \$56.4 million in Offsets scheduled for FY 2014-2015 will be reduced to \$33.8 million in FY 2015-2016, then drop to \$5.6 million in FY 2016-2017. Under proportional reduction, Processing Fees and Payments will be calculated using a different method. The effect is as proportional reduction increases, the Offset decreases, the Processing Fee increases sharply, and the processing payment decreases slightly to moderately depending on the recycling rate where the higher the rate, the greater the decrease. Since the Processing Payment will not fully cover the cost of recycling glass beverage containers, some recycling centers may close -- resulting in a reduced supply of clean cullet. Clean cullet is desirable to glass manufacturers because of minimum content requirements and lower production costs and emissions.

Plastic Processing Fee Offset Impacts: Due to proceeds from General Fund loan repayments, the Plastic Processing Fee Offset has been projected at \$1.9 million for FY 2014-2015, and would be projected at \$25.7 million for FYs 2015-2016 and 2016-2017 without proportional reduction. Under proportional reduction, the projected Plastic Processing Fee Offset for FYs 2015-2016 and 2016-2017 would decrease to \$15.4 million in FY 2015-2016 and \$2.6 million in FY 2016-2017. Processing Fees and Payments for PET and HDPE will be calculated using a different method under proportional reduction. Similar to glass, as proportional reduction increases, the Offset decreases, the processing fee increases sharply, and the processing payment

decreases slightly to moderately depending on the recycling rate where the higher the rate, the greater the decrease. The Processing Payments for PET and HDPE will not fully cover the costs of recycling PET and HDPE beverage containers.

Handling Fee Impacts: Under proportional reduction, Handling Fee payments will decrease from an estimated \$42.4 million in FY 2014-2015 to \$25.4 million in FY 2015-2016, then shrink to \$4.2 million in FY 2016-2017. The Handling Fee per-container rate will be reduced by 40 percent in FY 2015-2016 and 90 percent in FY 2016-2017.

Recyclers will need to determine if they can continue to operate with reduced funding. With potentially fewer recycling centers, consumers will need to travel greater distances to redeem beverage containers. CalRecycle will maintain current information as recycling centers close to direct consumers to the nearest alternative recycler, potentially consisting of more in-store redemption in unserved convenience zones. Curbside programs will likely experience increases in glass and plastic volume. Single stream curbside operations generate dirtier material, which is more expensive to process into clean feedstock, potentially resulting in increased disposal.

Curbside Supplemental Payments: If proportional reduction is implemented, funding will decrease from \$15 million in FY 2014-2015 to \$9 million in FY 2015-2016 to \$1.5 million in FY 2016-2017. CalRecycle will maintain the current annual payment schedule.

Local Conservation Corps: Funding is estimated to decrease under proportional reductions from \$21 million in FY 2014-2015 to \$12.8 million in FY 2015-2016 to \$2.1 million in FY 2016-2017. Given the variety of programs that the Local Conservation Corps operate, the impacts will be extensive. CalRecycle anticipates that current practices will be maintained in making payments although the level of support will be reduced.

City/County Payments: Payments will decrease from \$10.5 million in FY 2014-2015, to \$6.3 million in FY 2015-2016, to about \$1.1 million in FY 2016-2017. CalRecycle will maintain the current annual payment schedule.

Competitive Grants: Funding for new projects will decrease from \$1.5 million in FY 2014-2015, to \$900,000 in FY 2015-2016, to \$150,000 in 2016-17. The lower funding threshold means that more of the meritorious proposals will not be funded in a program even with currently levels of funding is severely oversubscribed.

Public Education and Information: CalRecycle is projected to spend \$2.5 million in FY 2014-2015 with reductions to \$1.5 million in FY 2015-2016 and to \$250,000 in FY 2016-2017. With the ongoing changes to the program, the reduction of this funding will have an impact on the public's understanding of the Program and the benefits of beverage container recycling.

Quality Incentive Payments: Funding will decrease from \$10 million in FY 2014-2015 to \$6 million in FY 2015-2016 and to \$1 million in FY 2016-2017. With the anticipated volume of dirty glass increasing, glass scrap values will likely decrease which will result in a higher glass Processing Fee. In addition, more glass may potentially be disposed. CalRecycle anticipates maintaining the current biannual payment schedule although funding will be reduced.

Plastic Market Development: Funding will decrease from \$10 million in FY 2014-2015 to \$6 million in FY 2015-2016, to \$1 million in FY 2016-2017. It is possible that reductions in incentives to manufacturers will result in a reduced demand for recycled plastic that will in turn result in higher plastic Processing Fees. To the extent that less remanufacturing occurs, more plastic beverage containers may end up in landfills. CalRecycle anticipates maintaining the current quarterly payment schedule subject to the availability of funds.

Conclusion

This Report is intended to provide updates on the status of all five funds in the Beverage Container Recycling Program and to serve as a guide to formulate and direct policy. The information presented here bears examination. CalRecycle concluded a series of Program reform workshops to modernize the Program for the next 25 years. The workshops revealed the difficult challenges in addressing stakeholder concerns while working to close a \$100 million annual structural deficit. As a result, CalRecycle must shift the balance of its efforts in primarily encouraging recycling to an increased emphasis on Program fiscal integrity under an environment where Californians are enjoying record high recycling rates.

CalRecycle projects that proportional reduction must be implemented at the beginning of FY 2015-2016, the fiscal year immediately following the completion of General Fund loan repayments to the Recycling Fund. Under this scenario, CalRecycle will notify the Legislature as required by law by April 10, 2015 of impending proportional reduction, and expenditure reductions will begin on July 1, 2015. Even though there is a high degree of variability in the data, the size of the structural deficit suggests that reform measures to maintain the Program's financial and operational integrity must be addressed now in order to avoid implementing proportional reduction.

To meet those challenges, CalRecycle developed three BCPs to address the structural deficit, to increase audit staff, and to provide continued DORIIS operation using CalRecycle staff. The BCPs can be found on the CalRecycle website at <http://www.calrecycle.ca.gov/Temp/201415BCPs/>.

CalRecycle welcomes your feedback concerning this quarterly Report. Questions and comments may be sent to BeverageContainerReform@calrecycle.ca.gov or contact the Division of Recycling at (916) 445-8292.

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 2012-2013 to FY 2014-2015. The projections are based on actual volumes through the December 2013 reporting period. 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/Notices/2014/AprCondition.xls> on the CalRecycle website.

| SALES AND RETURNS ESTIMATES [Note 1] | | | | |
|---|-----------------|----------------|---------------------|----------------|
| FY 2012-2013 (Actual) | | | | |
| | Containers Sold | | Containers Returned | Recycling Rate |
| | Over 24 oz. | Under 24 oz. | | |
| Aluminum | 526,809,348 | 7,913,863,972 | 8,222,556,278 | 97% |
| Glass | 247,032,501 | 2,762,699,862 | 2,573,755,465 | 86% |
| PET | 1,493,739,955 | 7,674,973,278 | 6,665,395,482 | 73% |
| HDPE | 133,282,290 | 215,667,412 | 331,092,034 | 95% |
| Total | 2,400,864,094 | 18,567,204,524 | 17,792,799,259 | 85% |
| FY 2013-2014 (Projected) | | | | |
| | Containers Sold | | Containers Returned | Recycling Rate |
| | Over 24 oz. | Under 24 oz. | | |
| Aluminum [Note 2] | 557,014,507 | 7,731,409,117 | 8,389,467,295 | 101% |
| Glass | 233,993,098 | 2,841,681,084 | 2,598,520,891 | 84% |
| PET | 1,571,706,239 | 8,389,834,896 | 7,117,701,877 | 71% |
| HDPE [Note 2] | 117,477,773 | 143,581,327 | 308,613,041 | 118% |
| Total | 2,480,191,616 | 19,106,506,423 | 18,414,303,104 | 85% |
| FY 2014-2015 (Projected) | | | | |
| | Containers Sold | | Containers Returned | Recycling Rate |
| | Over 24 oz. | Under 24 oz. | | |
| Aluminum [Note 2] | 557,014,507 | 7,731,409,117 | 8,389,467,295 | 101% |
| Glass | 233,993,098 | 2,841,681,084 | 2,598,520,891 | 84% |
| PET | 1,571,706,239 | 8,389,834,896 | 7,117,701,877 | 71% |
| HDPE [Note 2] | 117,477,773 | 143,581,327 | 308,613,041 | 118% |
| Total | 2,480,191,616 | 19,106,506,423 | 18,414,303,104 | 85% |

| PROCESSING FEE/PAYMENT ESTIMATES | | | |
|---|-----------------|------------------------|---------------------|
| FY 2012-2013 (Actual) | | | |
| | Processing Fees | Processing Fee Offsets | Processing Payments |
| Glass [Note 3] | \$6,459,000 | \$58,972,000 | \$58,481,000 |
| PET | \$447,000 | \$1,790,000 | \$2,455,000 |
| HDPE [Note 4] | \$735,000 | \$6,668,000 | \$7,162,000 |
| Total | \$7,641,000 | \$67,430,000 | \$68,098,000 |
| FY 2013-2014 (Projected) [Note 5] | | | |
| | Processing Fees | Processing Fee Offsets | Processing Payments |
| Glass [Note 6] | \$6,231,000 | \$14,721,000 | \$61,826,000 |
| PET [Note 7] | \$1,076,000 | \$216,000 | \$17,116,000 |
| HDPE [Note 8] | \$696,000 | \$120,000 | \$6,904,000 |
| Total | \$8,003,000 | \$15,057,000 | \$85,846,000 |
| FY 2014-2015 (Projected) [Note 5] | | | |
| | Processing Fees | Processing Fee Offsets | Processing Payments |
| Glass | \$5,478,000 | \$56,365,000 | \$64,112,000 |
| PET | \$1,467,000 | \$1,479,274 | \$22,862,000 |
| HDPE | \$750,000 | \$459,726 | \$7,105,000 |
| Total | \$7,695,000 | \$58,304,000 | \$94,079,000 |
| FY 2014-2015 (Projected - BCPs) [Note 9] | | | |
| | Processing Fees | Processing Fee Offsets | Processing Payments |
| Glass | \$23,311,000 | \$37,865,000 | \$64,112,000 |
| PET | \$8,581,000 | \$0 | \$22,862,000 |
| HDPE | \$2,814,000 | \$0 | \$7,105,000 |
| Total | \$34,706,000 | \$37,865,000 | \$94,079,000 |

| HANDLING FEE ESTIMATES | | |
|---|--------------|---------------|
| Fiscal Year | Handling Fee | Containers |
| 2012-13 (Actual) [Note 10] | \$40,144,000 | 4,251,585,275 |
| 2013-14 (Projected) [Note 11] | \$42,385,000 | 4,709,444,444 |
| 2014-15 (Projected) [Note 11] | \$42,385,000 | 4,709,444,444 |
| 2014-15 (Projected - BCPs) [Note 12] | \$33,000,000 | n/a |

Appendix 1 Notes

[Note 1] – Total volumes exclude bimetal and plastics #3 - #7 due to their extremely low sales and returns volumes. In calendar year 2012 their proportion of sales to all material types was 0.88 percent, and their proportion of returns to all material types was 0.13 percent.

[Note 2] – Projected recycling rates in excess of 100 percent are due to the extrapolation of actual data used in forecasting. Sales and returns are forecasted independently, and as actual recycling rates approach 100 percent, projected recycling rates exceeding 100 percent are subject to occur more frequently. Projected recycling rates exceeding 100 percent are not adjusted in order to allow the projected volumes by material type to tie to the projected amounts for Redemption Fees and California Refund Value. In addition, for HDPE the projected recycling rates exceed 100 percent due to improper inspection and reporting of HDPE loads committed by operators of recycling centers. For example, a commingled HDPE load redeemed and reported as a segregated load inflates the number of CRV containers which impacts the recycling rate. The incidence of improper inspection and reporting and the resulting inflation of CRV container counts is anticipated to diminish due to the implementation of segregated-only redemption effective November 1, 2013. During FY 2012-2013, HDPE CRV containers comprised about 1.9 percent of all CRV containers recycled.

[Note 3] – For FY 2012-2013, the Glass Processing Fee Offset includes two additional transfers from the Recycling Fund: a one-time \$6 million transfer to cover a shortfall in FY 2011-2012 and a \$1.2 million transfer to cover Processing Payment expenditure in excess of the Processing Fee Offset and Processing Fee revenue during calendar year 2012.

[Note 4] – For FY 2012-2013, the HDPE Processing Fee Offset includes an additional \$0.7 million transfer from the Recycling Fund to cover Processing Payment expenditure in excess of the Processing Fee Offset and Processing Fee revenue during calendar year 2012.

[Note 5] – The determination of the projections for Processing Fees, Processing Fee Offsets, and Processing Payments is detailed in the table below. For Processing Fees, the Processing Fee reduction pursuant to PRC Section 14575(j) equals \$2 million per year and applies only to glass and PET. 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 which are scheduled in FY 2013-2014, and a negative result equals a zero Offset except that the Offset will equal the amount needed to provide a Fund Balance of at least 5 percent of expenditure. Glass Processing Payment projections reflect the rate effective April 1, 2014.

| | Fiscal Year | Processing Fee | Processing Fee Offset | Processing Payment |
|-------|-------------|---|--|-------------------------------|
| Glass | 2013-14 | $0.5*PF_{2013}+0.5*PF_{2014}-0.5*14575J_{2014}$ | $(0.5*PP_{2013}-0.5*PF_{2013})+(0.5*PP_{2014}-0.5*PF_{2014})-0.5*14575J_{2014}-39,000,000$ | $0.5*PP_{2013}+0.5*PP_{2014}$ |
| | 2014-15 | $PF_{2014}-0.5*14575J_{2014}$ | $(0.5*PP_{2013}-0.5*PF_{2013})+(0.5*PP_{2014}-0.5*PF_{2014})-0.5*14575J_{2014}$ | PP_{2014} |
| PET | 2013-14 | $0.5*PF_{2013}+0.5*PF_{2014}-0.5*14575J_{2014}$ | $(0.5*PP_{2013}-0.5*PF_{2013})+(0.5*PP_{2014}-0.5*PF_{2014})-0.5*14575J_{2014}-27,000,000$ | $0.5*PP_{2013}+0.5*PP_{2014}$ |
| | 2014-15 | $PF_{2014}-14575J_{2014 \text{ \& } 2015}$ | $(PP_{2014}-PF_{2014})-14575J_{2014 \text{ \& } 2015}-FUND \text{ BALANCE}$ | PP_{2014} |
| HDPE | 2013-14 | $0.5*PF_{2013}+0.5*PF_{2014}$ | $(0.5*PP_{2013}-0.5*PF_{2013})+(0.5*PP_{2014}-0.5*PF_{2014})-27,000,000$ | $0.5*PP_{2013}+0.5*PP_{2014}$ |
| | 2014-15 | PF_{2014} | $(PP_{2014}-PF_{2014})-FUND \text{ BALANCE}$ | PP_{2014} |

[Note 6] – The projected Glass Processing Fee Offset for FY 2013-2014 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 7] – The projected PET Processing Fee Offset for FY 2013-2014 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 8] – The projected HDPE Processing Fee Offset for FY 2013-2014 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 9] – The determination of the projections for Processing Fees, Processing Fee Offsets, and Processing Payments for FY 2014-2015 under the provisions of the BCPs is detailed in the table below. For plastic Processing Fees, the amount of Fund Balance applied to each resin type is proportional to their Processing Payment. For the glass Processing Fee Offset, the amount is the sum of half of the Offset for calendar year

2014, \$28,182,500, and half of the Offset for calendar year 2015, \$9,682,500. Glass Processing Payment projections reflect the rate effective April 1, 2014.

| | Fiscal Year | Processing Fee | Processing Fee Offset | Processing Payment |
|-------|--------------|--|--|--------------------|
| Glass | 2014-15 BCPs | $PP_{2014} - 0.5 * 14575J_{2014} - \text{OFFSET-FUND BALANCE}$ | $(0.5 * PP_{2014} - 0.5 * PF_{2014}) - 0.5 * 14575J_{2014} + 0.5 * 19,365,000$ | PP ₂₀₁₄ |
| PET | 2014-15 BCPs | $PP_{2014} - 0.5 * 14575J_{2014} - \text{FUND BALANCE}$ | \$0 | PP ₂₀₁₄ |
| HDPE | 2014-15 BCPs | $PP_{2014} - \text{FUND BALANCE}$ | \$0 | PP ₂₀₁₄ |

[Note 10] – The Handling Fee per container rate for FY 2012-2013 was \$0.0089 for the reporting months of July 2012 through February 2013 pursuant to PRC Section 14585(g)(1). Beginning with the March 2013 reporting month, the Handling Fee per-container rate is \$0.0090 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/BevContainer/Fees/Handling/FinalReport.pdf>.

[Note 11] – The projected Handling Fees for FY 2013-2014 and FY 2014-2015 are based on a Handling Fee per-container rate of \$0.0090.

[Note 12] – The projected Handling Fee for FY 2014-2015 under the provisions of the BCPs is based on a fixed monthly payment of \$1,700 paid to 1618 eligible recycling centers collectively serving approximately 400 more convenience zones than is served by recycling centers receiving Handling Fees at present. Handling Fee payments based on a per-container rate are proposed for elimination.

Appendix 2 – Fund Condition Statements

This section contains Fund Condition Statements for all five Program funds, preceded by a brief description for each fund. Each Fund Condition Statement shows one column per fiscal year. The column for FY 2012-2013 contains actual amounts and amounts for FY 2013-2014 and FY 2014-2015 are projections. For FY 2014-2015, the projections for all funds cover both current law and BCP scenarios, except for the Penalty Fund which does not have any direct BCP impacts. The projections are based on actual volumes through the December 2013 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/Notices/2014/AprCondition.xls> on the CalRecycle website.

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

Beverage Container Recycling Fund (Recycling Fund), fund # 0133 – This fund serves as a depository for Redemption Fees paid by beverage distributors. The fund is the source for paying Refund Value for recycling empty beverage containers and funding programs that develop and maintain an infrastructure for beverage container recycling and promote markets for 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 their product 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 their product 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 Bi-metal Processing Fees paid by beverage manufacturers who package their product in bi-metal cans. The fund is the source for paying Processing Payments to certified recyclers for handling empty bi-metal 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).

| California Department of Resources Recycling and Recovery (CalRecycle) | | | | | |
|---|---|---------------|---------------|---------------|-----------------|
| Beverage Container Recycling Fund Condition Statement (Fund 0133) | | | | | |
| Projected Revenues and Expenditures as of April 1, 2014 | | | | | |
| | | FY 2012-13 | FY 2013-14 | FY 2014-15 | FY 2014-15 |
| | | Actual | Projected | Projected | Projected - BCs |
| Balance Forward [Note 1] | | 205,285,000 | 107,087,000 | 132,429,000 | 132,429,000 |
| Prior Year Adjustments [Note 1] | | 16,482,000 | | | |
| Balance Adjusted (A) | | 221,767,000 | 107,087,000 | 132,429,000 | 132,429,000 |
| Revenues and Transfers | | | | | |
| Receipts | | | | | |
| | Redemption Fees [Note 2] | 1,162,265,000 | 1,185,294,000 | 1,185,294,000 | 1,185,294,000 |
| | Other Income [Note 3] | 951,000 | 4,883,000 | 12,696,000 | 12,696,000 |
| | Total Receipts (B) | 1,163,216,000 | 1,190,177,000 | 1,197,990,000 | 1,197,990,000 |
| Transfers | | | | | |
| | Repayment of Air Pollution Control Fund Loan | 16,400,000 | 8,000,000 | | |
| | Repayment of General Fund Loan [Note 4] | | 89,400,000 | 82,277,000 | 82,277,000 |
| | Repayment of Loan to Department of Conservation | | 5,000,000 | | |
| | Transfers to Glass Processing Fee Fund [Note 5] | (58,972,000) | (14,721,000) | (56,365,000) | (37,865,000) |
| | Transfers to Plastic Processing Fee Fund [Note 5] | (8,458,000) | (336,000) | (1,939,000) | 0 |
| | Repayment of Alternative Renewable Fuel & Vehicle Technology Fund Loan [Note 6] | (8,250,000) | | | |
| | Total Transfers (C) | (59,280,000) | 87,343,000 | 23,973,000 | 44,412,000 |
| | Total Transfers and Receipts (B+C) | 1,103,936,000 | 1,277,520,000 | 1,221,963,000 | 1,242,402,000 |
| | Total Resources (D) = (A+B+C) | 1,325,703,000 | 1,384,607,000 | 1,354,392,000 | 1,374,831,000 |
| Expenditures [Note 7] | | | | | |
| Disbursements (CalRecycle) | | | | | |
| | California Refund Value [Note 8] | 1,058,096,000 | 1,086,020,000 | 1,086,020,000 | 1,072,776,000 |
| | Beverage Container Recycling Program Administration | 38,855,000 | 45,748,000 | 45,771,000 | 48,053,000 |
| | Handling Fees [Note 9] | 40,144,000 | 42,385,000 | 42,385,000 | 33,000,000 |
| | Curbside Supplemental Payments | 14,997,000 | 15,000,000 | 15,000,000 | 0 |
| | Local Conservation Corps Grants [Note 10] | 19,457,000 | 20,643,000 | 20,974,000 | 5,974,000 |
| | City/County Payments | 10,500,000 | 10,500,000 | 10,500,000 | 0 |
| | Beverage Container Recycling Grants | 1,483,000 | 1,500,000 | 1,500,000 | 5,000,000 |
| | Public Education and Information [Note 11] | | | 2,500,000 | 2,500,000 |
| | Quality Incentive Payments | 9,689,000 | 10,000,000 | 10,000,000 | 10,000,000 |
| | Market Development Grants [Note 12] | (214,000) | | | |
| | Plastic Market Development [Note 13] | 19,188,000 | 10,000,000 | 10,000,000 | 10,000,000 |
| | Recycling Enforcement Agency Grants | | | | 7,000,000 |
| | Grants Multi-family Housing (low income) [Note 12] | (115,000) | | | |
| | Pro Rata | 4,215,000 | 5,053,000 | 0 | 0 |
| | Total Disbursements (CalRecycle) (E) | 1,216,295,000 | 1,246,849,000 | 1,244,650,000 | 1,194,303,000 |
| Disbursements (Other) | | | | | |
| | Interest for Interfund Loan [Note 6] | 247,000 | | | |
| | State Controller | 23,000 | 2,000 | | |
| | Financial Information System for California (Fi\$cal) | 2,051,000 | 5,327,000 | 41,000 | 41,000 |
| | Total Disbursements (Other) (F) | 2,321,000 | 5,329,000 | 41,000 | 41,000 |
| | Total Expenditures (G) = (E+F) | 1,218,616,000 | 1,252,178,000 | 1,244,691,000 | 1,194,344,000 |
| FUND BALANCE (D-G) [Note 14] | | 107,087,000 | 132,429,000 | 109,701,000 | 180,487,000 |

| California Department of Resources Recycling and Recovery (CalRecycle) | | | | | |
|---|--|-------------|------------|------------|------------------|
| Glass Processing Fee Fund Condition Statement (Fund 0269) | | | | | |
| Projected Revenues and Expenditures as of April 1, 2014 | | | | | |
| | | FY 2012-13 | FY 2013-14 | FY 2014-15 | FY 2014-15 |
| | | Actual | Projected | Projected | Projected - BCPS |
| Balance Forward | | (2,625,000) | 4,598,000 | 8,511,000 | 8,511,000 |
| Prior Year Adjustments | | 572,000 | | | |
| Balance Adjusted (A) | | (2,053,000) | 4,598,000 | 8,511,000 | 8,511,000 |
| Revenues and Transfers | | | | | |
| Receipts | | | | | |
| Processing Fees | | 6,459,000 | 6,231,000 | 5,478,000 | 23,311,000 |
| Other Income <i>[Note 3]</i> | | 32,000 | 6,035,000 | 34,000 | 34,000 |
| Total Receipts (B) | | 6,491,000 | 12,266,000 | 5,512,000 | 23,345,000 |
| Transfers | | | | | |
| Transfers from Beverage Container Recycling Fund <i>[Note 15]</i> | | 58,972,000 | 14,721,000 | 56,365,000 | 37,865,000 |
| Repayment of General Fund Loan <i>[Note 16]</i> | | | 39,000,000 | | |
| Total Transfers (C) | | 58,972,000 | 53,721,000 | 56,365,000 | 37,865,000 |
| Total Transfers and Receipts (B+C) | | 65,463,000 | 65,987,000 | 61,877,000 | 61,210,000 |
| Total Resources (D) = (A+B+C) | | 63,410,000 | 70,585,000 | 70,388,000 | 69,721,000 |
| Expenditures | | | | | |
| Disbursements (CalRecycle) | | | | | |
| Processing Payments | | 58,481,000 | 61,826,000 | 64,112,000 | 64,112,000 |
| Pro Rata | | 65,000 | | | |
| Total Disbursements (CalRecycle) (E) | | 58,546,000 | 61,826,000 | 64,112,000 | 64,112,000 |
| Disbursements (Other) | | | | | |
| Financial Information System for California (Fi\$cal) | | 266,000 | 248,000 | 44,000 | 44,000 |
| Total Disbursements (Other) (F) | | 266,000 | 248,000 | 44,000 | 44,000 |
| Total Expenditures (G) = (E+F) | | 58,812,000 | 62,074,000 | 64,156,000 | 64,156,000 |
| FUND BALANCE (D-G) | | 4,598,000 | 8,511,000 | 6,232,000 | 5,565,000 |

| California Department of Resources Recycling and Recovery (CalRecycle) | | | | | |
|---|--|------------|------------|------------|------------------|
| Plastic Processing Fee Fund Condition Statement (Fund 0278) | | | | | |
| Projected Revenues and Expenditures as of April 1, 2014 | | | | | |
| | | FY 2012-13 | FY 2013-14 | FY 2014-15 | FY 2014-15 |
| | | Actual | Projected | Projected | Projected - BCPs |
| Balance Forward | | 5,290,000 | 9,211,000 | 22,886,000 | 22,886,000 |
| Prior Year Adjustments | | 276,000 | | | |
| Balance Adjusted (A) | | 5,566,000 | 9,211,000 | 22,886,000 | 22,886,000 |
| Revenues and Transfers | | | | | |
| Receipts | | | | | |
| Processing Fees <i>[Note 17]</i> | | 5,216,000 | 6,856,000 | 7,425,000 | 14,152,000 |
| Other Income <i>[Note 3]</i> | | 12,000 | 4,121,000 | 21,000 | 21,000 |
| Total Receipts (B) | | 5,228,000 | 10,977,000 | 7,446,000 | 14,173,000 |
| Transfers | | | | | |
| Transfers from Beverage Container Recycling Fund <i>[Note 15]</i> | | 8,458,000 | 336,000 | 1,939,000 | 0 |
| Repayment of General Fund Loan <i>[Note 18]</i> | | | 27,000,000 | | |
| Total Transfers (C) | | 8,458,000 | 27,336,000 | 1,939,000 | 0 |
| Total Transfers and Receipts (B+C) | | 13,686,000 | 38,313,000 | 9,385,000 | 14,173,000 |
| Total Resources (D) = (A+B+C) | | 19,252,000 | 47,524,000 | 32,271,000 | 37,059,000 |
| Expenditures | | | | | |
| Disbursements (CalRecycle) | | | | | |
| Processing Payments <i>[Note 19]</i> | | 9,879,000 | 24,487,000 | 30,413,000 | 30,413,000 |
| Pro Rata | | | | | |
| Total Disbursements (CalRecycle) (E) | | 9,879,000 | 24,487,000 | 30,413,000 | 30,413,000 |
| Disbursements (Other) | | | | | |
| Financial Information System for California (Fi\$cal) | | 162,000 | 151,000 | | |
| Total Disbursements (Other) (F) | | 162,000 | 151,000 | | |
| Total Expenditures (G) = (E+F) | | 10,041,000 | 24,638,000 | 30,413,000 | 30,413,000 |
| FUND BALANCE (D-G) | | 9,211,000 | 22,886,000 | 1,858,000 | 6,646,000 |

| California Department of Resources Recycling and Recovery (CalRecycle) | | | | | |
|--|--|------------|------------|------------|------------------|
| Bimetal Processing Fee Fund Condition Statement (Fund 0277) | | | | | |
| Projected Revenues and Expenditures as of April 1, 2014 | | | | | |
| | | FY 2012-13 | FY 2013-14 | FY 2014-15 | FY 2014-15 |
| | | Actual | Projected | Projected | Projected - BCPs |
| Balance Forward | | 13,984,000 | 15,306,000 | 16,194,000 | 16,194,000 |
| Prior Year Adjustments | | 93,000 | | | |
| Balance Adjusted (A) | | 14,077,000 | 15,306,000 | 16,194,000 | 16,194,000 |
| Revenues and Transfers | | | | | |
| Receipts | | | | | |
| Processing Fees <i>[Note 20]</i> | | 1,533,000 | 1,116,000 | 1,116,000 | 558,000 |
| Other Income | | 43,000 | 57,000 | 60,000 | 60,000 |
| Total Receipts (B) | | 1,576,000 | 1,173,000 | 1,176,000 | 618,000 |
| Transfers | | | | | |
| Transfers from Beverage Container Recycling Fund | | 0 | 0 | 0 | 0 |
| Total Transfers (C) | | 0 | 0 | 0 | 0 |
| Total Transfers and Receipts (B+C) | | 1,576,000 | 1,173,000 | 1,176,000 | 618,000 |
| Total Resources (D) = (A+B+C) | | 15,653,000 | 16,479,000 | 17,370,000 | 16,812,000 |
| Expenditures | | | | | |
| Disbursements (CalRecycle) | | | | | |
| Processing Payments | | 345,000 | 283,000 | 283,000 | 283,000 |
| Pro Rata | | | | | |
| Total Disbursements (CalRecycle) (E) | | 345,000 | 283,000 | 283,000 | 283,000 |
| Disbursements (Other) | | | | | |
| Financial Information System for California (Fi\$cal) | | 2,000 | 2,000 | | |
| Total Disbursements (Other) (F) | | 2,000 | 2,000 | | |
| Total Expenditures (G) = (E+F) | | 347,000 | 285,000 | 283,000 | 283,000 |
| FUND BALANCE (D-G) | | 15,306,000 | 16,194,000 | 17,087,000 | 16,529,000 |

| California Department of Resources Recycling and Recovery (CalRecycle) | | | |
|---|---|------------|------------|
| Penalty Account Fund Condition Statement (Fund 0276) | | | |
| Projected Revenues and Expenditures as of April 1, 2014 | | | |
| | | FY 2012-13 | FY 2013-14 |
| | | Actual | Projected |
| | | FY 2014-15 | |
| | | Projected | |
| Balance Forward | | 5,187,000 | 5,965,000 |
| | | | 5,192,000 |
| Prior Year Adjustments | | 47,000 | |
| Balance Adjusted (A) | | 5,234,000 | 5,965,000 |
| | | | 5,192,000 |
| Revenues and Transfers | | | |
| Receipts | | | |
| | Penalty Assessments | 716,000 | 194,000 |
| | Other Income | 15,000 | 21,000 |
| | Total Receipts (B) | 731,000 | 215,000 |
| | | | 230,000 |
| Transfers | | | |
| | Transfers | 0 | 0 |
| | Total Transfers (C) | 0 | 0 |
| | Total Transfers and Receipts (B+C) | 731,000 | 215,000 |
| | Total Resources (D) = (A+B+C) | 5,965,000 | 6,180,000 |
| | | | 5,422,000 |
| Expenditures | | | |
| Disbursements (CalRecycle) | | | |
| | State Operations <i>[Note 21]</i> | 0 | 988,000 |
| | Pro Rata | 0 | 0 |
| | Total Disbursements (CalRecycle) (E) | 0 | 988,000 |
| | | | 990,000 |
| Disbursements (Other) | | | |
| | Financial Information System for California (Fi\$cal) | | |
| | Total Disbursements (Other) (F) | | |
| | Total Expenditures (G) = (E+F) | 0 | 988,000 |
| | | | 990,000 |
| FUND BALANCE (D-G) | | 5,965,000 | 5,192,000 |
| | | | 4,432,000 |

Status of Beverage Container Recycling Fund
May 9, 2014

| Projected Balances for all Program Funds in FY 2016-17 as of April 1, 2014 | | | |
|--|-----------------------|-------------------------|-----------------------|
| | Actual Assets | Projected Assets | Projected Assets |
| | End of FY 2012-13 | End of FY 2016-17 | End of FY 2016-17 |
| Fund Balances | | Current Law | BCPs |
| Beverage Container Recycling Fund (0133) | \$ 107,087,000 | \$ (173,766,000) | \$ 178,380,000 |
| Glass Processing Fee Fund (0269) | \$ 4,598,000 | \$ 4,739,000 | \$ 4,096,000 |
| Plastic Processing Fee Fund (0278) | \$ 9,211,000 | \$ 7,376,000 | \$ 1,878,000 |
| Bi-Metal Processing Fee Fund (0277) | \$ 15,306,000 | \$ 18,882,000 | \$ 16,092,000 |
| Penalty Account Fund (0276) | \$ 5,965,000 | \$ 3,928,000 | \$ 3,928,000 |
| | \$ 142,167,000 | \$ (138,841,000) | \$ 204,374,000 |
| | | | |
| Loan Repayment Balances | | | |
| Beverage Container Recycling Fund (0133) | \$ 184,677,000 | \$ - | \$ - |
| Glass Processing Fee Fund (0269) | \$ 39,000,000 | \$ - | \$ - |
| Plastic Processing Fee Fund (0278) | \$ 27,000,000 | \$ - | \$ - |
| | \$ 250,677,000 | \$ - | \$ - |
| | | | |
| Total Assets | \$ 392,844,000 | \$ (138,841,000) | \$ 204,374,000 |
| Less, Prudent Reserves [Note 22] | | | |
| Beverage Container Recycling Fund (0133) | \$ 56,458,000 | \$ 59,223,000 | \$ 57,894,000 |
| Glass Processing Fee Fund (0269) | \$ 2,941,000 | \$ 3,206,000 | \$ 3,206,000 |
| Plastic Processing Fee (0278) | \$ 502,000 | \$ 1,521,000 | \$ 1,521,000 |
| Bimetal Processing Fee Fund (0277) | \$ 17,000 | \$ 14,000 | \$ 14,000 |
| Penalty Account Fund (0276) | \$ - | \$ - | \$ - |
| Reserve Requirement | \$ 59,918,000 | \$ 63,964,000 | \$ 62,635,000 |
| | | | |
| Assets Available, All Funds | \$ 332,926,000 | \$ (202,805,000) | \$ 141,739,000 |

Appendix 2 Notes

[Note 1] – The FY 2012-2013 Balance Forward and Prior Year Adjustment ties to the Governor’s Budget published in January 2014.

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

| | FY 2012-13 | FY 2013-14 | FY 2014-15 |
|-------------------------------|-----------------|-----------------|-----------------|
| Total Redemption Fees | \$1,179,964,000 | \$1,203,344,000 | \$1,203,344,000 |
| Less 1.5 % Administrative Fee | (\$17,699,000) | (\$18,050,000) | (\$18,050,000) |
| Net Redemption Fee Revenue | \$1,162,265,000 | \$1,185,294,000 | \$1,185,294,000 |

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

[Note 4] – General Fund loan repayments scheduled for FY 2013-2014 amount to \$89.4 million. General Fund loans are scheduled to be paid in full in FY 2014-2015 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] – Repayment of Alternative Renewable Fuel and Vehicle Technology Fund Loan is a repayment for a one-time loan to the Recycling Fund enacted in the FY 2009-2010 budget to provide funding for the Local Conservation Corps. This loan was repaid in FY 2012-2013.

[Note 7] – Expenditures section is derived primarily from the list of appropriations found in PRC Section 14581.

[Note 8] – California Refund Value, detailed in the table below, includes the 2.5 percent administrative fee paid to certified processors. For FY 2014-2015 under the provisions of the BCPs, the administrative fee will be discontinued for volumes claimed for reporting periods on or after January 1, 2015.

| | FY 2012-13 | FY 2013-14 | FY 2014-15 | FY 2014-15 BCPs |
|--|-----------------|-----------------|-----------------|-----------------|
| California Refund Value Paid for Empty Beverage Containers | \$1,032,289,000 | \$1,059,532,000 | \$1,059,532,000 | \$1,059,532,000 |
| Plus 2.5% Administrative Fee | \$25,807,000 | \$26,488,000 | \$26,488,000 | \$13,244,000 |
| Total California Refund Value Expenditure | \$1,058,096,000 | \$1,086,020,000 | \$1,086,020,000 | \$1,072,776,000 |

[Note 9] – 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 2012-2013, the per-container Handling Fee was \$0.0089 for the July 2012 to February 2013 reporting periods pursuant to PRC Section 14585(g)(1). Beginning in the March 2013 reporting period, the per-container Handling Fee is \$0.0090. The projected Handling Fee for FY 2014-2015 under the provisions of the BCPs is based on a fixed monthly payment of \$1,700 paid to 1,618 eligible recycling centers; Handling Fee payments per container are proposed for elimination.

[Note 10] – Local Conservation Corps grants are annually adjusted for the cost of living from a baseline of \$15 million, which began in the 2000 calendar year. The source for the adjustment rate is: http://www.dof.ca.gov/html/fs_data/latestEconData/fs_price.htm. Under the BCPs, the total funding is unchanged. The amount shown is from the Recycling Fund only with \$15 million provided from other CalRecycle funds.

[Note 11] – CalRecycle anticipates expending \$2.5 million of the \$5 million annual appropriation for Public Education and Information beginning in FY 2014-2015 to support Program reform outreach.

[Note 12] – Amounts in these lines are negative because they reflect cancellations of previously awarded grants.

[Note 13] – The baseline calendar year appropriation for Plastics Market Development is \$10 million. The higher amount in FY 2012-2013 is due to an additional appropriation equal to 50 percent of the year-over-year difference in the Plastic Processing Fee Offset between 2011 and 2012 pursuant to PRC Section 14581(a)(9)(B). In 2012, the PET scrap value exceeded the PET cost of recycling, so no Processing Fee and Payment was accessed on PET beverage containers. A portion of this additional appropriation was also paid in FY 2011-2012. In addition, payments for the first quarter of 2013 were paid at the maximum rate of \$150 per ton which resulted in spending approximately \$9 million out of the annual \$10 million appropriation at the beginning of the calendar year.

[Note 14] – 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 2014, the prudent reserve amounts to approximately \$58 million.

[Note 15] – 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 2013-2014, the Processing Fee Offsets are reduced due to scheduled General Fund loan repayments.

[Note 16] – Repayment of General Fund Loan, the balance of the outstanding General Fund loan made directly from the Glass Processing Fee Fund, amounts to \$39 million scheduled in the Budget Act in FY 2013-2014.

[Note 17] – Processing Fees for plastic include amounts for all types of plastic beverage containers: PET (when applicable), HDPE, and plastics #3 - #7.

[Note 18] – Repayment of General Fund Loan, the balance of the outstanding General Fund loans made directly from the Plastic Processing Fee Fund, amounts to \$27 million scheduled in the Budget Act in FY 2013-2014.

[Note 19] – Processing Payments for plastic include amounts for all types of plastic beverage containers: PET (when applicable), HDPE, and plastics #3 - #7.

[Note 20] – Under the provisions of the BCPs, the projected Bimetal Processing Fee for volumes reported on or after January 1, 2015 is anticipated to be zero while Fund Balance is sufficient to cover the Processing Payment.

[Note 21] – Expenditure from fund 0276 used for eight limited-term positions to implement Program reform activities specified in SB 96.

[Note 22] – Fund 0133 based on PRC Section 14580(a)(2); all other funds based on 5 percent of expenditures.