

Quarterly Report on the Status of the Beverage Container Recycling Fund

(FY 2014-15 – 4th Quarter)



California Department of Resources Recycling and Recovery

January 22, 2016

STATE OF CALIFORNIA

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This Quarterly Report on the Status of the Beverage Container Recycling Fund¹ is a review of the adequacy of resources in the Beverage Container Recycling Fund to make payments specified in Public Resources Code (PRC) Section 14581 and the processing fee offsets specified in PRC Section 14575. This statutorily required report provides updates on the status of all five funds in the Beverage Container Recycling Program. This report also provides projections for sales, recycling volumes (returns), processing payments, processing fees, and processing fee offsets, by material type, and handling fees. Finally, this report provides an explanation of significant changes between the current projections and the projections presented in the April 2015 report.

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

Executive Summary

Since its passage nearly 30 years ago, California's beverage container recycling law has successfully diverted more than 300 billion used bottles and cans from wasteful landfilling in California. While recycling rates remain high, around 82 percent, expenditures from the Beverage Container Recycling Fund continue to outpace revenues, creating an ongoing structural deficit that threatens the program's continued viability.

This report projects an average structural deficit in the recycling fund of \$74.7 million for fiscal years 2015-2016 to 2017-2018. This is a significant increase in the projected deficit from the average of \$27.9 million estimated in the April 2015 quarterly report for the same period. This change results from several economic and programmatic factors, including a projected increase in processing fee offsets resulting from declining scrap values, and increased redemption. However, at this time the department estimates proportional reductions in payments made to program participants will not occur before Fiscal Year 2017-18. Proportional reductions are delayed because of an adequate, albeit dwindling, fund balance.

The structural deficit's sharp increase reflects the fund's volatility and the substantial impact to the fund from minor revenue or expenditure changes. For example, a one percent expenditure increase equates to \$12 million. The structural deficit poses a significant risk to the fund, the program, and the economy associated with, and dependent upon, the beverage container recycling industry. Failure to close the structural deficit will result in proportional reductions.

Over the last several years the department has instituted several efforts to combat and deter fraud, and increase financial and programmatic accountability among operators. Eliminating the commingled rate at buy-back centers, instituting imported materials reports, decreasing daily load limits, and professionalizing recycling center operators via a more rigorous certification process have had a positive effect on managing the program. Additionally, the department is confident that increased processor oversight and handling fee desk audits (positions authorized in the 2015 Budget Act) will provide additional benefits and fraud deterrence.

However, these measures will not fully resolve the structural deficit, and while CalRecycle does not anticipate the need to impose proportional reductions before Fiscal Year 2017-2018, fluctuations in market conditions and the full impact of the aforementioned program reform measures may change the projected date for proportional reductions in the future.

For example, international commodity prices (e.g., virgin PET) are declining and competing with recycled materials, and scrap prices of PET and glass are declining.

Factors such as these will result in future increased expenditures for processing payments.

Absent policy changes to eliminate the structural deficit and secure the recycling fund's financial future, proportional reductions remain the only remedy available to the program. CalRecycle is committed to exploring efforts and opportunities to support a stable recycling infrastructure in California.

Information used in preparation of this report is derived primarily from two sources: 1) historical data on sales and revenues by material type, recycling rates, handling fees, and processing fees; and, 2) payments extracted from the Division of Recycling Integrated Information System (DORIIS). DORIIS data is also used in preparing the projections by material type. Appendix I. Updated Fund Condition Statements includes an updated (adjusted) Fund Condition Statement. Numbers included in the Fund Condition Statements will differ from the reports from CalRecycle's fiscal book of record as well as the Governor's Budget² due to year-end adjustments.

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

² California's Governor's Budget 3-Yr Expenditures & Positions. 3970 Resources Recycling and Recovery. Program 3715 Beverage Container Recycling and Litter Reduction. Available at <http://www.ebudget.ca.gov/2015-16/StateAgencyBudgets/3890/3970/spr.html#Fund>

I. Adequate Funds Determination

In accordance with Section 14556 of the Public Resources Code (PRC), this section determines whether there are sufficient funds to make all program payments. If CalRecycle determines the Fund (all five accounts within the Beverage Container Recycling Program) will fall below the required 5 percent prudent reserve, the department shall proportionally reduce³ specified program expenditures to ensure the program is able to provide consumers their California Redemption Value (CRV) refunds. For a brief description of each account, see Appendix 1.

As of October 1, 2015, CalRecycle projects the balance of the Fund will not permanently fall below the prudent reserve⁴ before FY 2017-18. This projection time frame is unchanged from the April 2015 report. However, the average structural deficits for FYs 2014-15 to 2017-18 are projected to increase, on average, to \$74.7 million per year as compared to the \$27.9 million annual estimate cited in the April 2015 report.

Because of the continuing structural deficit, the fund balance declines in each of the successive years from a projected \$310 million at the end of FY 2014-15 to a projected \$156 million at the end of FY 2016-17.⁵ Since the current prudent reserve is estimated at \$59 million (see Table 30), proportional reduction measures are not projected before FY 2017-18.

Given the state's high recycling rate, netted against the program's cumulative expenditures (e.g., operational costs, redemption, and mandated payments (PRC 14581]), it is the current fund balance that allows for ongoing program payments and

Adequate Funds Determination

Pursuant to PRC Section 14556(c), CalRecycle must review the fund condition statement and determine whether adequate funds exist to pay the disbursements required pursuant to PRC Division 12.1, and PRC Sections 14581 and 14575. If the department determines there are insufficient funds, the department shall reduce all payments proportionally¹ after providing the Legislature with at least 80 days' advance notice.

No reduction in payments proportionally, as defined in PRC Section 14581(c), is required at this time.

³ PRC Section 14581 (C)

⁴ Section 14580 (a) (2) establish a reserve for contingencies (prudent reserve) equal to 5 percent of the total amount paid to processors.

⁵ For additional information, the full fund condition statements, which contain line-item detail covering FY 2013-2014 to FY 2015-2016 for all five program funds with accompanying notes, can be found in Appendix I of this report.

operations. Once this fund balance is depleted, the program, absent policy changes, runs the risk of proportional reductions.

Total assets versus fund balance

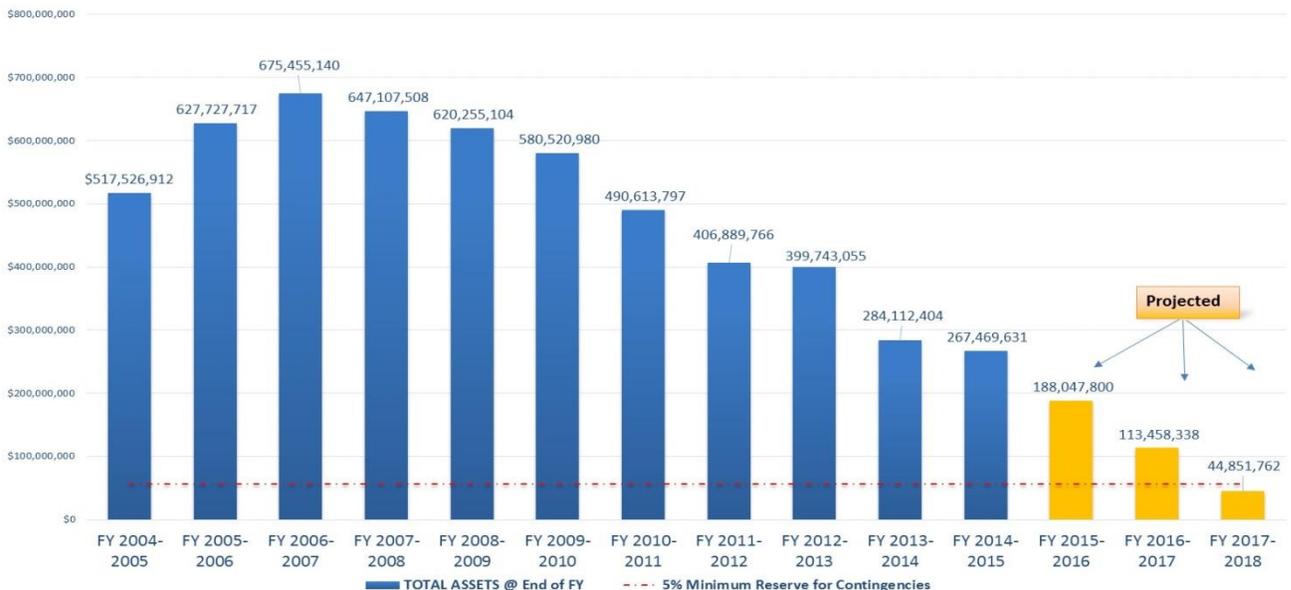
Tracking the available assets (cash) and fund balance is necessary to accurately determine the need to implement proportional reduction measures. As of June 30, 2015, the combined balance of the five Beverage Container Recycling Program accounts⁶ is \$267,469,630 and is all available for current operations.

Table 1: Cash Position Summary (Assets as of June 30, 2015)

FUND/ACCOUNT	Cash in State Treasury (1140)	Surplus Money Investment Fund (1210)	Loans - Legislative (2170)	Loans - Non-Legislative (1410)	Total Assets
Beverage Container Recycling Fund - 0133	\$132	\$238,100,000	\$0	\$0	\$238,100,132
Glass Processing Fee Account - 0269	\$380	\$5,742,000	\$0	\$0	\$5,742,380
Bimetal Processing Fee Account - 0277	\$850	\$17,116,000	\$0	\$0	\$17,116,850
Plastic Processing Fee Account - 0278	\$233	\$1,061,000	\$0	\$0	\$1,061,233
Penalty Account - 0276	\$35	\$5,449,000	\$0	\$0	\$5,449,035
TOTAL	\$1,630	\$267,468,000	\$0	\$0	\$267,469,630

Figure 1 shows the total assets at the end of each fiscal year from FY 2004-2005 to FY 2015-2015 and projected assets for FY 2015-2016 to FY 2017-2018.

Figure 1: Assets at end of Fiscal Year. FY 2004-2005 to FY 2014-2015 and projected FYs 2015-2016 to FY 2017-2018.



⁶ See Appendix 1 for a description of the five program funds and their condition statements.

Projected fund condition statements in this report are very sensitive to the timing and amounts of actual receipts and disbursements. The fund condition statements in this report include accrued revenues (revenue is recognized before cash is received) and accrued expenses (expense is recognized before cash is paid out) at end of each fiscal year (Fund Balance) but the amounts in Table 1 show the value of assets as of the last day of FY 2014-2015.

By law, the fund's estimated contingency reserve (or "prudent reserve") must be maintained at 5 percent of the total amount paid to processors during the preceding calendar year⁷. This report identifies that amount to be approximately \$59 million. Proportional reductions are triggered if the reserve will drop below this level.

Figure 1 shows a clear downward trend in the total amount of assets available at the end of each fiscal year since FY 2007-2008. The value of assets that would fall below the reserve for contingencies is projected to occur sometime in the middle of FY 2017-2018.

⁷ Section 14580(a)(2) of California Public Resources Code.

II. Fund Condition Statement

This section provides an updated fund condition statement including revenues, transfers, and expenditures into and out of the Fund. As shown in Table 1 above, there are five accounts in the BCRP.⁸ Table 2 shows the updated consolidated fund condition statements for all five accounts for FYs 2013-2014 and FY 2014-2015, and projections for current FY 2015-2016 and for FY 2016-17.

Table 2: Consolidated Fund Condition Statement FY 2013-2014 and FY 2014-2015. Projections for FY 2015-2016 and FY 2016-2017 (Dollars in Thousands)

Consolidated Fund Condition Statement	FY 2013-2014 (Adjusted)	FY 2014-2015 (Adjusted)	FY 2015-2016 (Projected)	FY 2016-2017 (Projected)
Beginning Reserve	\$153,015	\$271,464	\$310,061	\$230,640
Transfers	\$168,400	\$82,277		
Net Redemption Fees ⁹	\$1,207,802	\$1,240,685	\$1,252,305	\$1,252,305
Processing Fees	\$13,530	\$13,154	\$14,126	\$14,126
Receivables and other Revenues ¹⁰	\$15,193	\$13,503	\$572	\$572
Total Revenues and Net Transfers	\$1,404,925	\$1,349,619	\$1,267,003	\$1,267,003
Refund Value Plus Admin Fees	(\$1,046,417)	(\$1,066,514)	(\$1,091,215)	(\$1,091,215)
Processing Payments	(\$83,466)	(\$90,245)	(\$97,515)	(\$97,515)
Handling Fees	(\$41,883)	(\$50,782)	(\$52,510)	(\$52,510)
Program Expenditures	(\$61,468)	(\$59,229)	(\$55,914)	(\$51,257)
Program Administration	(\$53,242)	(\$44,448)	(\$49,270)	(\$49,095)
Adjustments	\$0	\$196	\$0	\$0
Total Expenditures	(\$1,286,476)	(\$1,311,022)	(\$1,346,424)	(\$1,341,592)
Annual Surplus/(Deficit)	(\$49,951)	(\$43,680)	(\$79,421)	(\$74,589)
Ending Reserve	\$271,464	\$310,061	\$230,640	\$156,051

⁸ See Appendix 1 for a brief description of the accounts and a detailed fund condition statement.

⁹ CRV-IN net revenue after deduction of the 1.5% administrative fees held by beverage distributors.

¹⁰ Includes revenues from interest earned and penalties assessed.

A. Historical Revenues and Sales

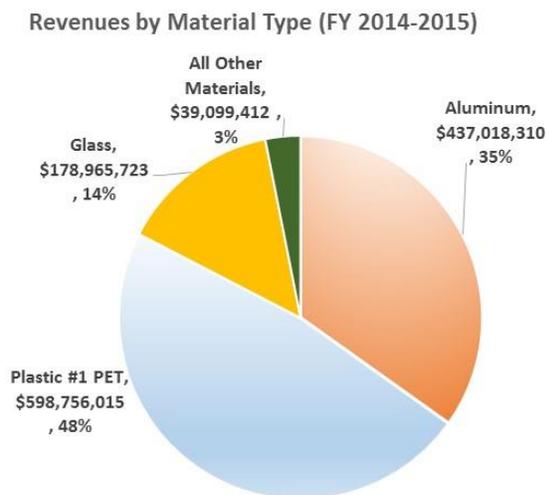
Tracking revenues over time is necessary because fluctuations make it difficult to accurately project future fund balances and the associated timing for proportional reductions. Revenues have fluctuated over the previous six fiscal years, as shown in Table 3. By material type, polyethylene terephthalate plastic (PET) represented, in FY 2014-2015, 48% of total revenues followed by aluminum with 35% of total revenues.

Table 3: Revenues by Type, FY 2009-2010 to FY 2014-2015 (in Thousands)

Material Type	Revenue Type	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Aluminum	CRV-IN*	\$468,583	\$450,613	\$444,074	\$440,595	\$440,534	\$437,018
Plastic #1 PET	CRV-IN*	\$464,538	\$482,003	\$496,986	\$527,661	\$567,318	\$596,908
	Processing Fees	\$30,376	\$14,142	\$2,464	\$452	\$1,439	\$1,848
Glass	CRV-IN*	\$164,938	\$156,702	\$162,159	\$166,843	\$165,464	\$172,572
	Processing Fees	\$27,985	\$6,492	\$6,879	\$7,431	\$6,915	\$6,393
All Other Materials	CRV-IN*	\$34,482	\$33,032	\$36,654	\$36,854	\$34,486	\$34,187
	Processing Fees	\$9,194	\$7,537	\$5,841	\$5,385	\$5,177	\$4,913
TOTAL		\$1,200,095	\$1,150,522	\$1,155,058	\$1,185,221	\$1,221,333	\$1,253,839

* CRV-IN net revenue from redemption fees after deduction of the 1.5% administrative fees held by beverage distributors.

Figure 2: Revenues by Material Type FY 2014-2015



Revenues from processing fees for FY 2014-2015 represented 1% of all net revenues for that fiscal year. In FY 2009-2010, that percentage was 5.6%. In addition to the regular revenues, in FY 2014-2015, the Fund received other income in an amount of \$13,503,296 associated with interest received from loan repayments and penalties.

B. Historical Expenditures and Returns

The three primary factors that determine the program expenditures are: 1) recycling rates; 2) the cost of recycling and; 3) scrap prices. Table 4 includes expenditures and disbursements by type for FY 2009-2010 to FY 2014-2015.

Table 4: Expenditures by Type, FY 2009-2010 to FY 2014-2015 (in Thousands)

Material Type	Expenditure Type	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Aluminum	CRV-Paid	\$460,826	\$452,783	\$441,951	\$448,278	\$436,621	\$428,260
	Admin Fee	\$11,521	\$11,320	\$11,049	\$11,207	\$10,916	\$10,707
Plastic #1 PET	CRV-Paid	\$363,081	\$356,216	\$380,400	\$423,754	\$427,312	\$462,705
	Admin Fee	\$9,077	\$8,905	\$9,510	\$10,594	\$10,683	\$11,568
	Processing Payments	\$44,394	\$38,645	\$13,958	\$2,458	\$17,311	\$24,224
Glass	CRV-Paid	\$139,664	\$136,353	\$140,428	\$143,448	\$135,271	\$131,684
	Admin Fee	\$3,492	\$3,409	\$3,511	\$3,586	\$3,382	\$3,292
	Processing Payments	\$53,089	\$52,345	\$56,696	\$61,041	\$60,032	\$61,097
All Other Materials	CRV-Paid	\$30,549	\$26,795	\$29,107	\$29,238	\$21,691	\$17,853
	Admin Fee	\$764	\$670	\$728	\$731	\$542	\$446
	Processing Payments	\$6,904	\$7,602	\$7,406	\$7,976	\$6,123	\$4,924
Handling Fees		\$24,829	\$38,760	\$37,744	\$39,562	\$41,469	\$50,551
TOTAL		\$1,148,189	\$1,133,801	\$1,132,487	\$1,181,873	\$1,171,353	\$1,207,312

Other fund expenditures for FY 2014-2015 are displayed in Table 5.

Figure 3: Expenditures by Material Type FY 2014-2015

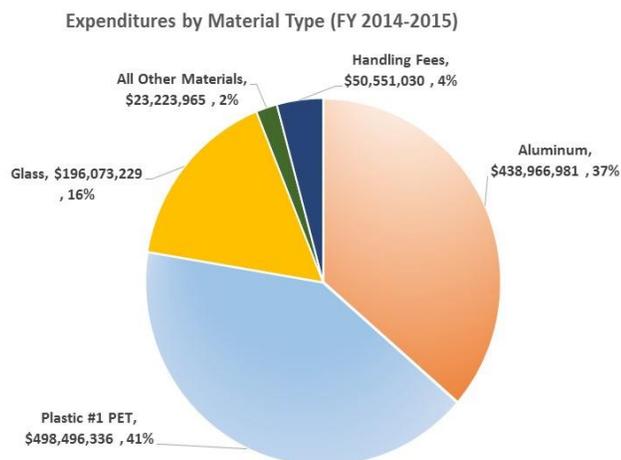


Table 5: Other Fund Expenditures, FY 2014-2015

Other Fund Expenditures	FY 2014-2015 (Actual)
Fixed Cost -14581 Program	\$59,229,943
Beverage Container Recycling Grants	\$1,347,593
City/County Payments	\$10,500,000
Curbside Supplemental Payments	\$15,000,000
Local Conservation Corps Grants	\$13,526,396
Plastic Market Development	\$9,999,723
Public Information and Education	\$0
Quality Incentive Payment	\$8,856,231
Fixed Cost-Administration	\$44,448,886
Fiscal	\$85,000
Pro Rata	\$0
State Operations SB 96	\$609,432
Program Administration	\$42,739,454
State Controller Expenses	\$1,015,000
TOTAL	\$103,678,829

C. Historical Transfers

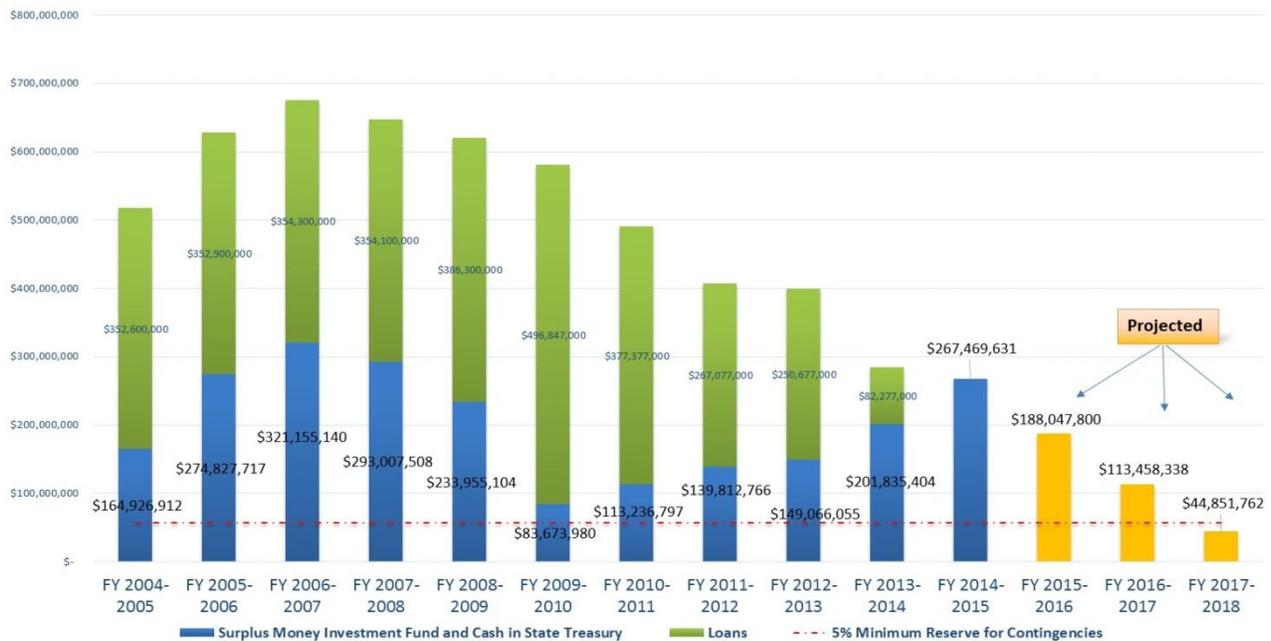
The structural deficit has generally been offset by repayments of historical loans made by the recycling fund. To date, loan repayments to the BCRF have totaled \$458.7 million plus interest.

Table 6: FY Transfers In to and Out of the Fund, FY 2010-2011 to FY 2015-2016

Transfers	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016 (Projected)
Beginning Balance Out of Fund	\$496,847,000	\$377,377,000	\$267,077,000	\$250,677,000	\$82,277,000	\$0
Transfers In to Fund	\$119,470,000	\$110,300,000	\$16,400,000	\$168,400,000	\$82,277,000	
Transfers Out of Fund	\$0	\$0	\$0	\$0	\$0	\$0
End Balance Out of Fund	\$377,377,000	\$267,077,000	\$250,677,000	\$82,277,000	\$0	\$0

Based on increased reserves during years of surpluses, inter-fund loans were authorized from the recycling fund, mostly to the General Fund, to meet statewide needs. Between FY 2002-2003 and FY 2009-2010, loans made from the recycling fund totaled \$458.7 million. Additionally, in FY 2003-2004, loans totaling \$66 million were made from the processing fee funds to the General Fund.

Figure 4: Loans and Cash at FY end. FY 2004-2005 to FY 2014-2015 and projected FY 2015-2016, 2016-2017 and 2017-2018.



D. Fiscal Year 2014-2015 Results

The operational result for FY 2014-2015 is a deficit of \$57.2 million. The net result for FY 2014-2015, including revenues earned from interest on the loans and collected penalties, is a deficit of \$43.68 million. Because of this deficit the fund balance at the end of FY 2014-2015 is approximately \$310 million and proportional reductions are not necessary at this time because this amount is above the estimated \$59 million prudent reserve.

Table 7: Revenues and Costs FY 2014-2015

Fiscal Year 2014-15	1Q (July-Sept)	2Q (Oct-Dec)	3Q (Jan-March)	4Q (Apr-June) ¹¹	TOTAL FY 14-15	April 2015 PROJECTION
CRV IN	\$339,670,491	\$295,840,700	\$276,305,831	\$328,868,370	\$1,240,685,392	\$1,253,099,344
Processing Fees	\$3,448,726	\$3,473,517	\$2,862,009	\$3,369,815	\$13,154,067	\$13,729,184
Other Income ¹²	\$41,641	\$140,434	\$259,003	\$13,062,218	\$13,503,296	\$13,503,296
TOTAL REVENUES	\$343,160,858	\$299,454,651	\$279,426,843	\$345,300,403	\$1,267,342,755	\$1,279,872,605
CRV OUT	\$288,574,416	\$249,335,428	\$238,111,197	\$264,481,151	\$1,040,502,193	\$1,026,129,619
Admin Fees	\$7,214,362	\$6,233,387	\$5,952,781	\$6,612,030	\$26,012,562	\$25,653,246
Processing Payments	\$25,202,487	\$21,718,608	\$20,891,585	\$22,433,076	\$90,245,755	\$89,498,753
Handling Fees	\$13,682,633	\$12,141,189	\$11,870,188	\$13,088,184	\$50,782,194	\$51,053,958
14581 Costs	\$4,480,399	\$6,812,372	\$3,385,470	\$44,551,701	\$59,229,942	\$59,178,000
Admin Costs ¹³	\$8,003,526	\$9,604,412	\$9,690,610	\$16,954,338	\$44,252,886	\$48,398,000
TOTAL COSTS	\$347,157,824	\$305,845,397	\$289,901,832	\$368,120,480	\$1,311,025,532	\$1,304,113,575
Surplus/(Deficit)	(\$3,996,966)	(\$6,390,745)	(\$10,474,989)	(\$22,820,077)	(\$43,682,777)	(\$24,240,970)
RETURN RATE	83.68%	83.02%	84.88%	79.22%	82.61%	80.66%
Rate of Growth CRV-IN	2.91%	3.38%	5.22%	-0.03%	2.72%	3.71%
Rate of Growth Returns	-1.46%	-1.47%	6.59%	5.12%	1.92%	0.51%

The final year-end deficit was \$19.4 million higher than projected due, in part, to unexpected lower sales in the month of May combined with a higher recycling rate that grew at an unexpected 5.12 percent for the 4th quarter of FY 2014-2015. Overall the sales grew at lower than projected rate of only 2.72 percent (projected at 3.71 percent) and returns grew at a much higher rate of 1.92 percent (projected at 0.51 percent).

¹¹ 4th Q numbers include accruals pending for FY 2014-2015.

¹² "Other Income" includes atypical interest revenue.

¹³ Administrative costs includes an adjustment of -\$196,000 in expenditures from previous year.

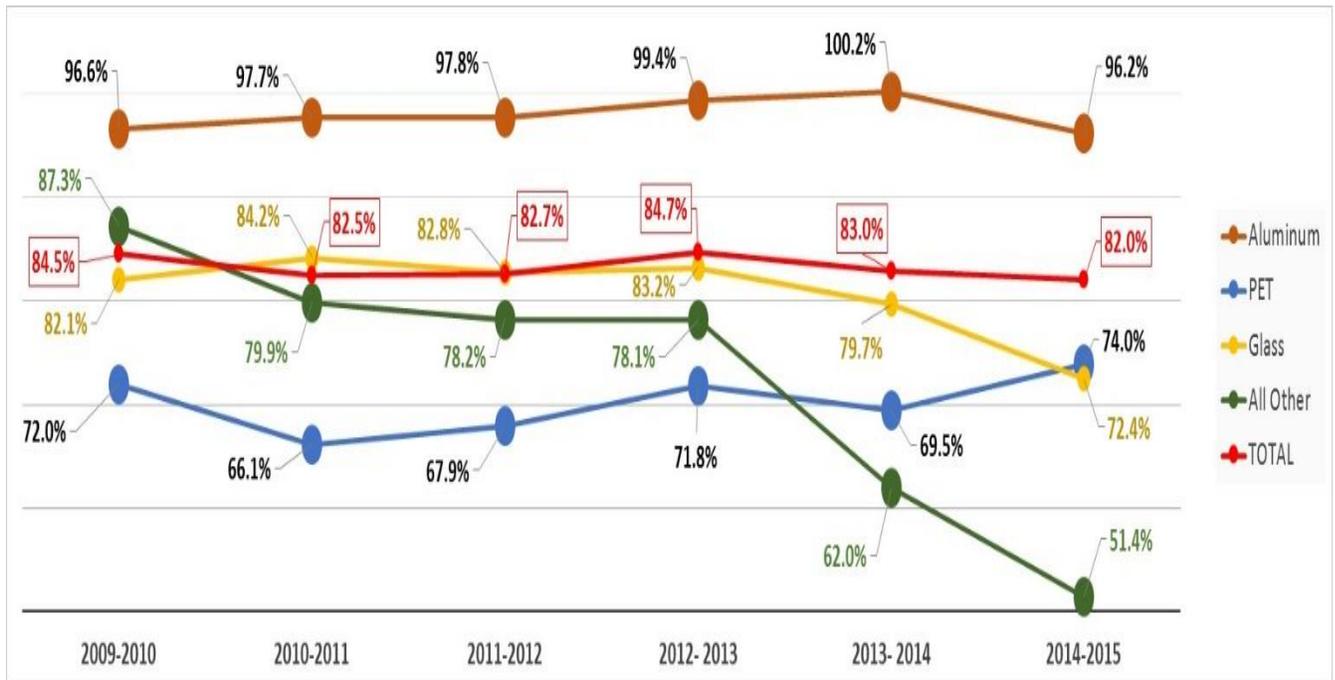
III. Recycling and Return Rates

This section provides information regarding the recycling rate, by beverage container material type, that is inferred from revenues. The recycling rate for all beverage container material types combined for FY 2014-2015, is 82 percent. This recycling rate inferred using revenues is different from the 84 percent recycling rate reported in the biannual report for all materials during the January through June 2014 period¹⁴.

Beverage Container Return Rate

The beverage container return rate is defined as the number of CRV beverage containers redeemed for recycling divided by the number of CRV beverage containers sold. Sold container counts are derived from reports received by CalRecycle directly from beverage distributors, whereas recycled container counts are derived from the redemption weight, from shipping reports, multiplied by the container per pound rate. Because of the delay between containers sold and containers returned for recycling, the return rate is an approximation for the actual recycling rate.

Figure 5: Recycling Rate Trends, Inferred Using Revenues



¹⁴ CalRecycle’s Biannual Report of Beverage Container Sales, Returns, Redemption, and Recycling Rates is available here: <http://www.calrecycle.ca.gov/bevcontainer/Notices/2014/Biannual.pdf>

Table 8: Recycling Rate Trends by Material Type, FY 2009-2010 to FY 2014-2015

Recycling Rate	2009-2010	2010-2011	2011-2012	2012- 2013	2013- 2014	2014-2015
Aluminum	96.6%	97.7%	97.8%	99.4%	100.2%	96.2%
PET	72.0%	66.1%	67.9%	71.8%	69.5%	74.0%
Glass	82.1%	84.2%	82.8%	83.2%	79.7%	72.4%
All Other Material	87.3%	79.9%	78.2%	78.1%	62.0%	51.4%
TOTAL	84.5%	82.5%	82.7%	84.7%	83.0%	82.0%

Table 9, Table 11, and Table 13 include an estimate of the return rate calculated based on the units sold by fiscal year. The sales amounts are the gross values, before the 1.5 percent administrative fee for beverage distributors is deducted from receivables. The refund value (Payments CRV-OUT) does not include the administrative fee of 2.5 percent paid to certified processors.

A. Aluminum Containers

Table 9: Aluminum Containers Sold, FY 2009-2010 to FY 2014-2015

Aluminum	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Units Sold	9,030,537,424	8,656,334,354	8,505,199,176	8,416,283,771	8,376,984,094	8,257,711,955
<i>Under 24 oz.</i>	<i>8,546,708,184</i>	<i>8,163,170,424</i>	<i>7,993,667,378</i>	<i>7,886,477,847</i>	<i>7,809,113,479</i>	<i>7,641,955,688</i>
<i>Over 24 oz.</i>	<i>483,829,240</i>	<i>493,163,930</i>	<i>511,531,798</i>	<i>529,805,924</i>	<i>567,870,615</i>	<i>615,756,267</i>
Units Returned	8,724,472,818	8,460,059,884	8,314,813,747	8,361,984,259	8,392,732,381	7,941,150,508
<i>Units Not Returned</i>	<i>306,064,606</i>	<i>196,274,470</i>	<i>190,385,429</i>	<i>54,299,512</i>	<i>0</i>	<i>316,561,447</i>
<i>Return Rate</i>	<i>96.61%</i>	<i>97.73%</i>	<i>97.76%</i>	<i>99.35%</i>	<i>100.19%</i>	<i>96.17%</i>

Table 10: Redemption Fees and Refund Value for Aluminum. FY 2009-10 to FY 2014-15.

Aluminum	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Sales (CRV IN)	\$475,718,333	\$457,474,914	\$450,836,549	\$447,304,485	\$447,242,735	\$443,673,411
Payments (CRV OUT)	\$460,825,808	\$452,782,759	\$441,951,306	\$448,277,945	\$436,620,647	\$428,260,468
<i>Gross Margin</i>	<i>3.13%</i>	<i>1.03%</i>	<i>1.97%</i>	<i>-0.22%</i>	<i>2.38%</i>	<i>3.47%</i>

B. PET Containers

Table 11: PET Containers Sold, FY 2009-2010 to FY 2014-2015

PET (Plastic #1)	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Units Sold	8,098,740,282	8,409,656,107	8,665,072,533	9,265,175,631	9,973,629,916	10,581,167,959
Under 24 oz.	6,765,246,065	7,032,439,727	7,239,062,450	7,816,422,578	8,428,104,538	9,042,372,786
Over 24 oz.	1,333,494,217	1,377,216,380	1,426,010,083	1,448,753,053	1,545,525,378	1,538,795,173
Units Returned	5,830,791,439	5,562,299,099	5,882,547,442	6,654,794,151	6,931,326,133	7,825,490,346
Units Not Returned	2,267,948,843	2,847,357,008	2,782,525,091	2,610,381,480	3,042,303,783	2,755,677,613
Return Rate	72.00%	66.14%	67.89%	71.83%	69.50%	73.96%

Table 12: Redemption Fees and Refund Value for PET. FY 2009-10 to FY 2014-15.

PET (Plastic #1)	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Sales (CRV IN)	\$471,611,725	\$489,343,624	\$504,554,131	\$535,696,434	\$575,957,765	\$605,998,157
Payments (CRV OUT)	\$363,081,092	\$356,215,857	\$380,400,419	\$423,754,264	\$427,311,888	\$462,704,695
Gross Margin	23.01%	27.21%	24.61%	20.90%	25.81%	23.65%

C. Glass Containers

Table 13: Glass Containers Sold, FY 2009-2010 to FY 2014-2015

Glass	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Units Sold	3,050,619,160	2,910,220,687	3,007,988,094	3,084,612,772	3,125,015,184	3,266,014,944
Under 24 oz.	2,752,247,600	2,638,670,317	2,723,401,741	2,781,558,325	2,890,353,035	3,028,024,121
Over 24 oz.	298,371,560	271,550,370	284,586,353	303,054,447	234,662,149	237,990,823
Units Returned	2,504,933,038	2,450,343,500	2,489,697,566	2,567,337,186	2,490,413,474	2,366,115,769
Units Not Returned	545,686,122	459,877,187	518,290,528	517,275,586	634,601,710	899,899,175
Return Rate	82.11%	84.20%	82.77%	83.23%	79.69%	72.45%

Table 14: Redemption Fees and Refund Value for Glass. FY 2009-10 to FY 2014-15.

Glass	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Sales (CRV IN)	\$167,449,536	\$159,088,553	\$164,628,722	\$169,383,361	\$167,983,867	\$175,200,288
Payments (CRV OUT)	\$139,663,892	\$136,352,561	\$140,427,698	\$143,447,973	\$135,270,909	\$131,683,687
Gross Margin	16.59%	14.29%	14.70%	15.31%	19.47%	24.84%

D. All Other Material Containers

Table 15: Redemption Fees and Refund Value for All Other Material Type. FY 2009-10 to FY 2014-15.

All Other Material Type	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Sales (CRV IN)	\$35,006,828	\$33,535,366	\$37,211,930	\$37,415,259	\$35,010,884	\$34,707,224
Payments (CRV OUT)	\$30,548,765	\$26,794,942	\$29,107,111	\$29,237,953	\$21,690,881	\$17,853,343
Gross Margin	12.73%	20.10%	21.78%	21.86%	38.05%	48.56%

IV. Projections and Estimates

This section provides information for projected sales and returns, handling fee payments, and processing payments for FY 2015-2016. This section also provides a preliminary estimated result for the current fiscal year.

A. Projected End Result for Fiscal Year 2015-2016

Table 16 summarizes revenues and expenditures by fiscal year quarter starting with the July to September quarter. All the information is projected based on the assumptions for sales, recycling rates and other program expenditures. As of October 1, 2015, the projected end result for FY 2015-2016 is a deficit of \$79.4 million.

Table 16: Revenues and Costs and Projected End Result for FY 2015-2016

Fiscal Year 2015-16	1Q (July-Sept) (Projected)	2Q (Oct-Dec) (Projected)	3Q (Jan-March) (Projected)	4Q (Apr-June) (Projected)	TOTAL FY 15-16 (Projected)
CRV IN	\$340,898,180	\$298,271,336	\$281,138,168	\$331,997,800	\$1,252,305,485
Processing Fees	\$3,869,373	\$3,356,110	\$3,360,771	\$3,539,682	\$14,126,115
Other Income¹⁵	\$143,000	\$143,000	\$143,000	\$143,000	\$572,000
TOTAL REVENUES	\$344,910,553	\$301,770,446	\$284,641,940	\$335,680,482	\$1,267,003,420
CRV OUT	\$295,534,515	\$254,107,275	\$244,407,294	\$270,550,721	\$1,064,599,805
Admin Fees	\$7,388,363	\$6,352,682	\$6,110,182	\$6,763,768	\$26,614,995
Processing Payments	\$27,035,035	\$23,063,420	\$22,805,417	\$24,611,793	\$97,515,665
Handling Fees	\$14,576,998	\$12,533,633	\$12,055,189	\$13,344,692	\$52,510,512
14581 Costs	\$4,233,347	\$6,436,733	\$3,198,793	\$42,045,581	\$55,914,454
Fixed Costs	\$9,236,408	\$11,083,899	\$11,183,375	\$17,766,319	\$49,270,000
TOTAL COSTS	\$358,004,665	\$313,577,642	\$299,760,250	\$375,082,874	\$1,346,425,431
Surplus/(Deficit)	(\$13,094,112)	(\$11,807,196)	(\$15,118,310)	(\$39,402,392)	(\$79,422,011)
RETURN RATE	85.39%	83.92%	85.63%	80.27%	83.74%
Rate of Growth CRV-IN	0.36%	0.82%	1.75%	0.95%	0.94%
Rate of Growth Returns	2.41%	1.91%	2.64%	2.29%	2.32%

The projected deficit for FY 2015-2016 is 27 percent greater than the observed deficit for FY 2014-2015. This is, in part, due to an increase of the recycling rate for PET beverage containers combined with an increase in the weight of PET sales to total sales of containers. The projected rate of growth of sales is almost 1 percent while the rate of

¹⁵ “Other Income” includes atypical interest revenue.

returns is expected to growth by 2.3 percent. A higher rate of returns also means an increase of all the costs associated with returns such as the administrative fees, the processing payments and the handling fees. Processing payments also increase significantly because of the increase in the cost of recycling and the lower scrap prices due, in part, to the low prices of oil and other commodities and the slowdown of the international industrial economic activity in countries like China¹⁶. The recycling rate, inferred using the revenues, is projected at 83.74 percent for FY 2015-2016 (80.66 percent in FY 2014-2015).

B. Projected CRV Revenues by Beverage Container Material Type

The projected rate of growth, FY 2015-2016 compared to FY 2014-2015, for CRV revenues is approximately 1 percent. Projections for FY 2015-2016 by quarter are estimated by material type based on sales from the previous five years and adjusted for seasonality and corrected for deviations on a monthly basis. In estimating the rates of growth for projections other factors such as population growth, demographics, economic activity, temperature, precipitation, etc. are also taken into consideration. This rate of growth varies by material type and by quarter as shown in Table 17 and Table 18.

Table 17: Projected CRV Quarterly Revenues by Material Type for FY 2015-2016

PROJECTED CRV-IN* (FY 2015-2016)	1Q (Jul-Sept)	2Q (Oct-Dec)	3Q (Jan-March)	4Q (Apr-June)	Total
Aluminum	\$116,272,847	\$105,613,452	\$95,308,332	\$113,881,942	\$431,076,573
PET	\$170,774,550	\$140,804,555	\$140,984,838	\$159,908,171	\$612,472,114
Glass	\$44,673,073	\$44,290,590	\$36,527,927	\$48,926,771	\$174,418,360
All Other	\$9,177,710	\$7,562,740	\$8,317,071	\$9,280,917	\$34,338,438
Total	\$340,898,180	\$298,271,336	\$281,138,168	\$331,997,800	\$1,252,305,485

*Net revenues after deducting the 1.5% distributor administrative cost.

Table 18: Projected Quarterly Rate of Growth of Revenues for FY 2015-2016

PROJECTED CRV-IN Percentage Growth (FY 2015-2016 Compared to FY 2014-2015)	1Q (Jul-Sept)	2Q (Oct-Dec)	3Q (Jan-March)	4Q (Apr-June)	Total
Aluminum	-1.72%	-1.58%	-0.54%	-1.47%	-1.36%
PET	2.20%	2.61%	3.40%	2.34%	2.61%
Glass	-0.96%	1.37%	1.68%	2.25%	1.07%
All Other	0.05%	-0.73%	1.31%	1.03%	0.44%

¹⁶ See Section VI of the report for a discussion of factors impacting scrap prices and processing payments.

Total	0.36%	0.82%	1.75%	0.95%	0.94%
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Figure 6: CRV Revenues of Aluminum Containers by Calendar Quarter, Rate of Growth and Projections for FY 2015-2016

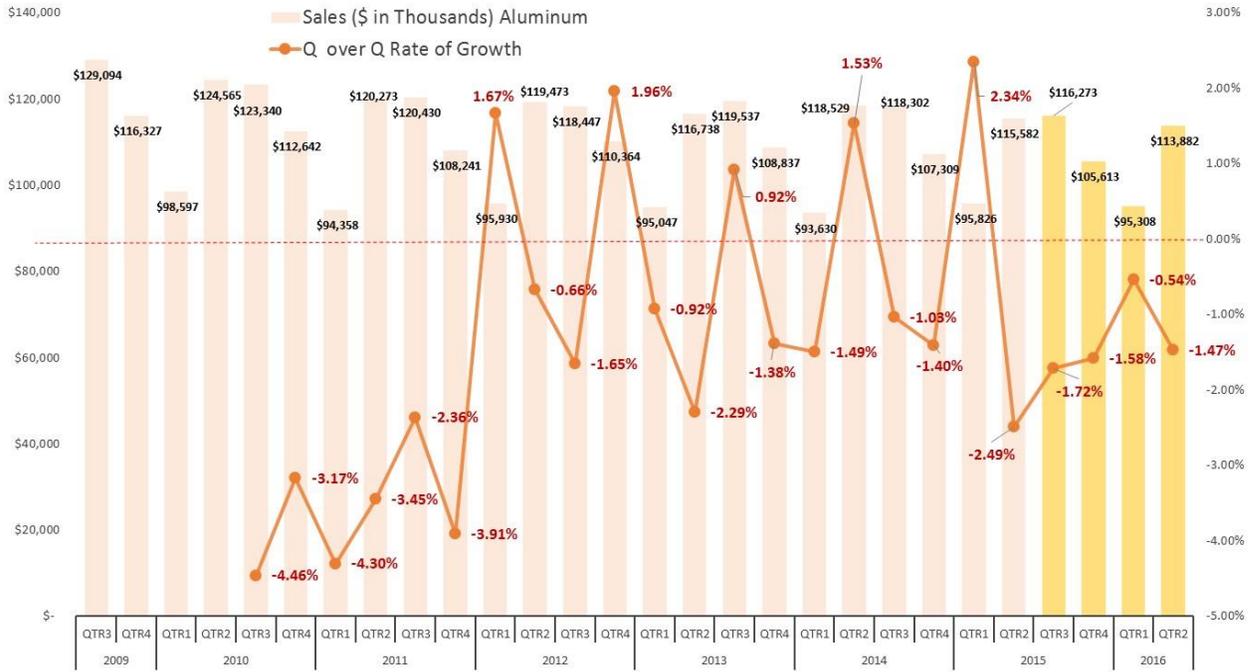


Figure 7: CRV Revenues of PET Containers by Calendar Quarter, Rate of Growth and Projections for FY 2015-2016

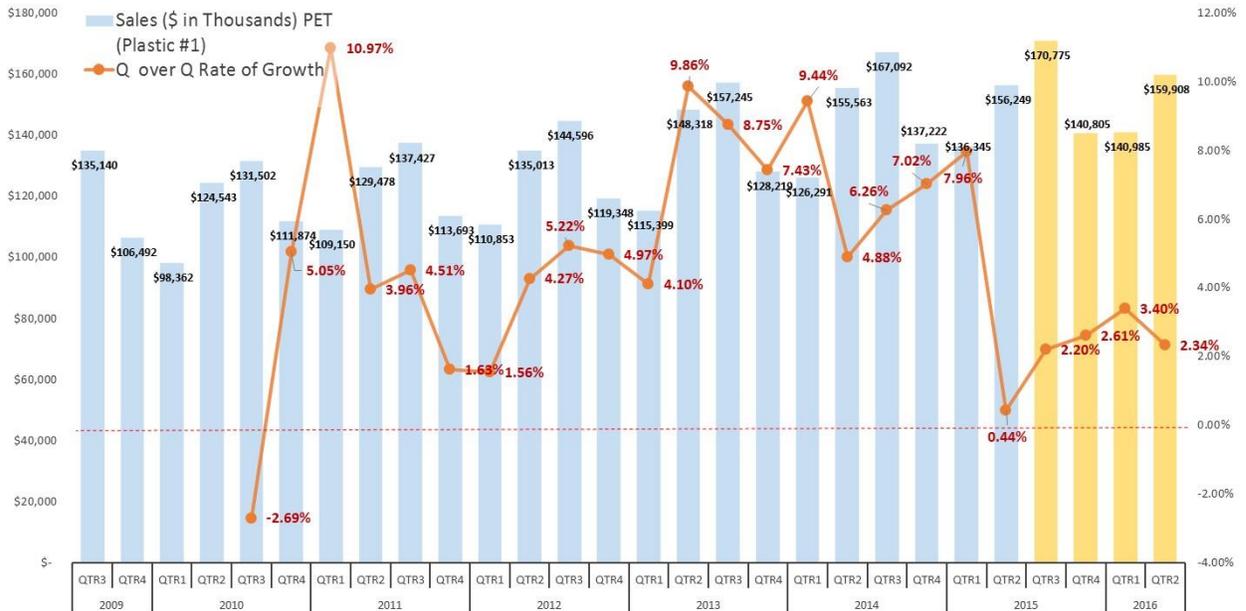
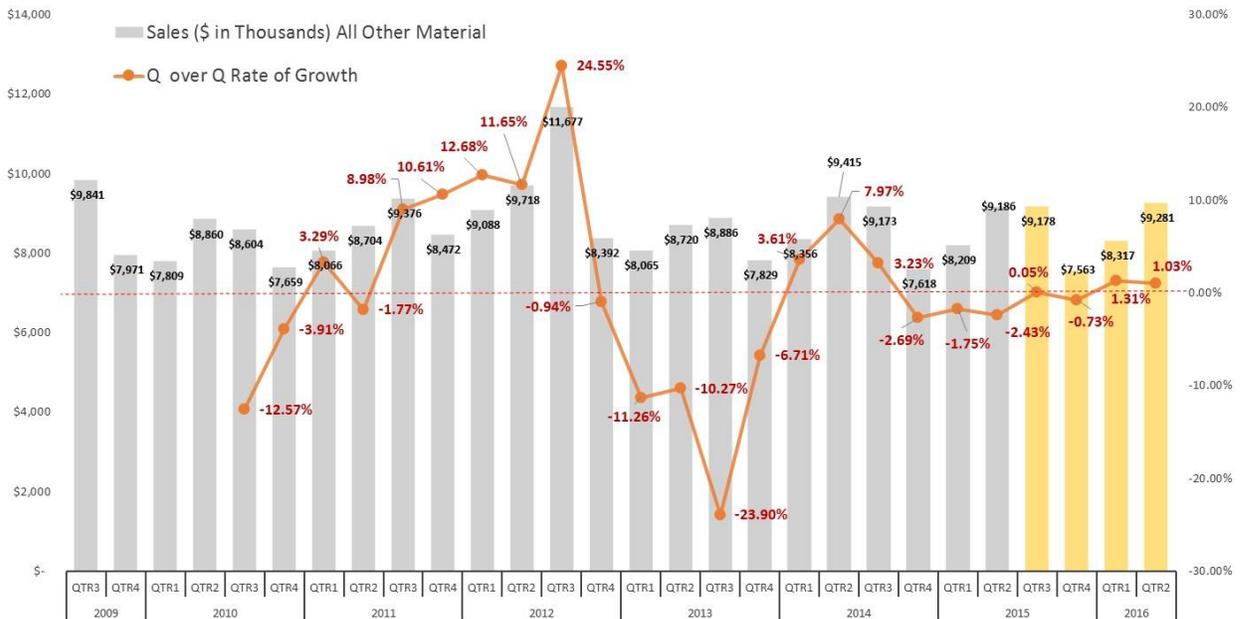


Figure 9: CRV Revenues of Glass Containers by Calendar Quarter, Rate of Growth and Projections for FY 2015-2016



Figure 8: CRV Revenues of All Other Material Containers by Calendar Quarter, Rate of Growth and Projections for FY 2015-2016



C. Projected CRV Returns by Beverage Container Material Type

The projected rate of growth of CRV returns is 2.3 percent for FY 2015-2016 compared to FY 2014-2015 returns.

Table 19: Projected CRV Quarterly Returns by Material Type for FY 2015-2016

PROJECTED CRV-OUT (FY 2015-2016)	1Q (Jul-Sept)	2Q (Oct-Dec)	3Q (Jan-March)	4Q (Apr-June)	Total
Aluminum	\$118,206,345	\$103,274,906	\$95,863,442	\$105,225,442	\$422,570,134
PET	\$136,491,773	\$115,817,521	\$113,743,070	\$128,740,247	\$494,792,610
Glass	\$36,446,334	\$31,046,481	\$30,706,408	\$32,513,438	\$130,712,661
All Other	\$4,390,064	\$3,968,368	\$4,094,374	\$4,071,594	\$16,524,400
Total	\$295,534,515	\$254,107,275	\$244,407,294	\$270,550,721	\$1,064,599,805

Table 20: Projected Quarterly Rate of Growth of Returns for FY 2015-2016

PROJECTED CRV-OUT Percentage Growth (FY 2015-2016)	1Q (Jul-Sept)	2Q (Oct-Dec)	3Q (Jan-March)	4Q (Apr-June)	Total
Aluminum	-1.21%	-1.61%	-1.29%	-1.22%	-1.33%
PET	6.87%	6.53%	7.66%	6.73%	6.93%
Glass	-0.11%	-1.11%	-0.73%	-1.08%	-0.74%
All Other	-6.95%	-6.84%	-7.20%	-8.78%	-7.44%
Total	2.41%	1.91%	2.64%	2.29%	2.32%

For aluminum, glass and all other material types the expected rate of growth of returns is negative ranging by quarter from -0.11 percent to -8.78 percent. But returns of PET material is expected to grow for every quarter in FY 2015-2016 with an annual rate of growth of 6.93 percent.

Quarterly projections for FY 2015-2016 are estimated by material type based on returns data from the previous five years and adjusted for seasonality and corrected for deviations on a monthly basis. In estimating the rates of growth for projections, other factors such as economic activity, unemployment, projected sales of beverage containers, scrap prices, and other economic indicators are also taken into consideration.

All projections assume the amount of the redemption value and the refund value for each beverage container size would remain constant during the projected period.

Figure 11: CRV Returns of Aluminum by Calendar Quarter, Rate of Growth and Projections for FY 2015-2016

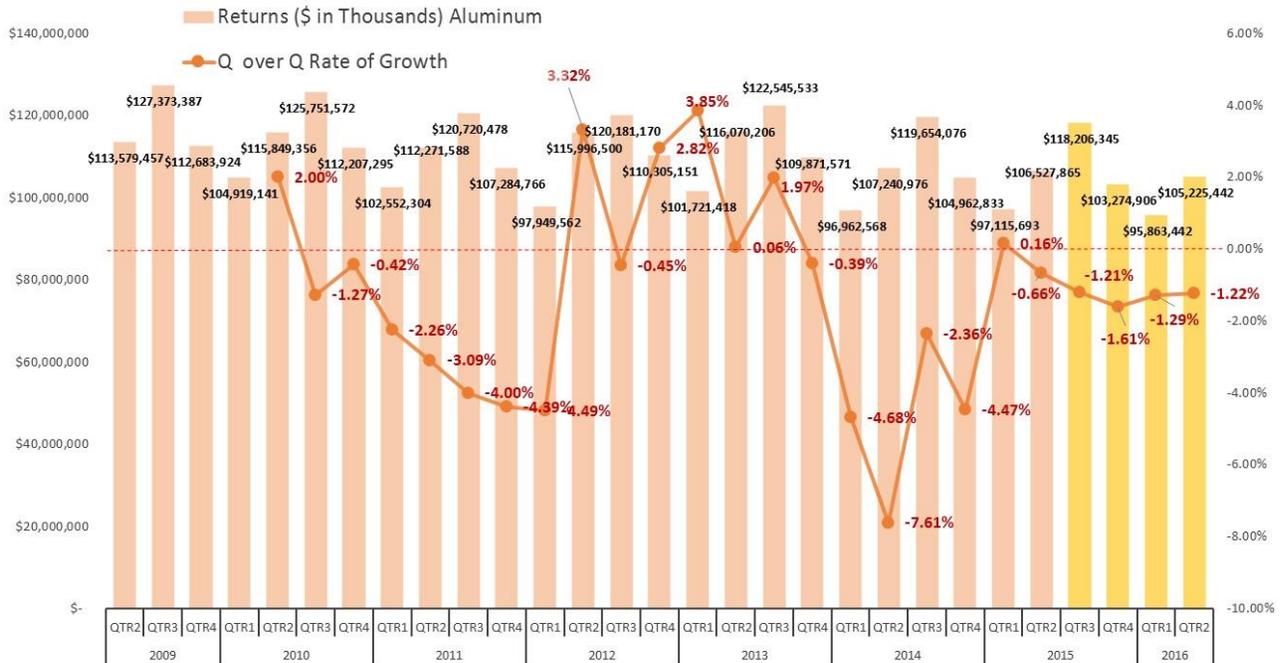


Figure 10: CRV Returns of PET by Calendar Quarter, Rate of Growth and Projections for FY 2015-2016

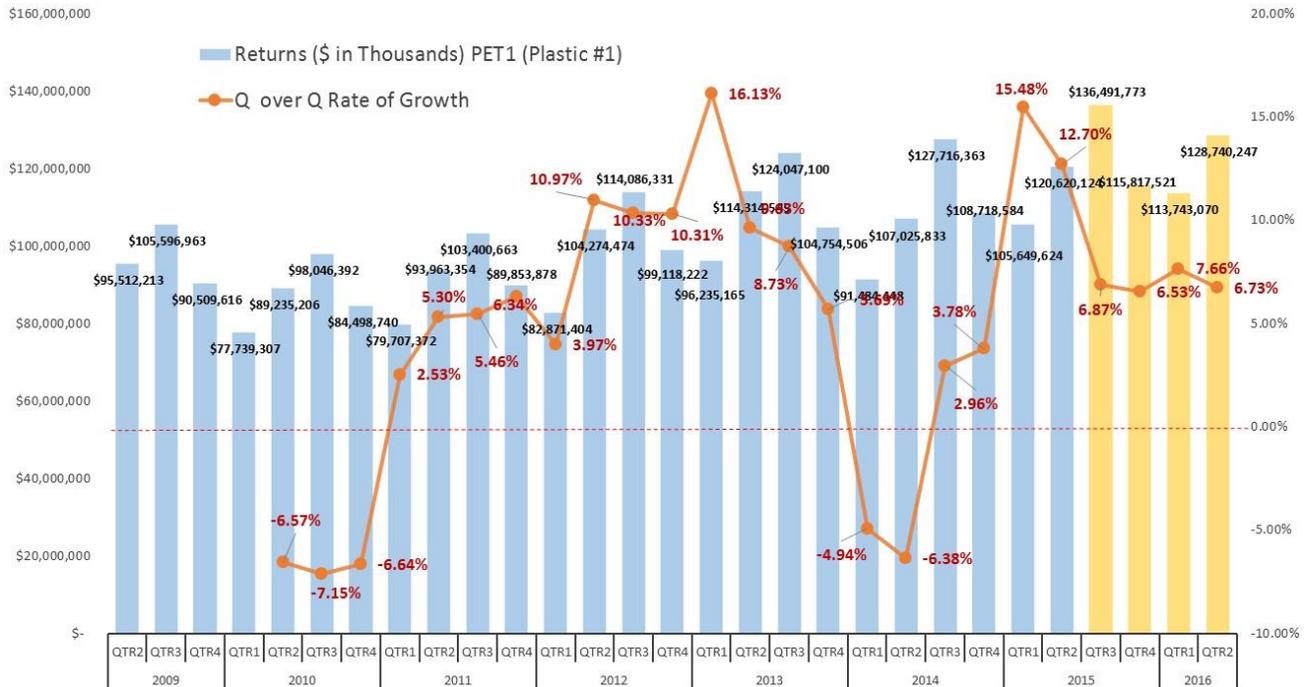


Figure 13: CRV Returns of Glass by Calendar Quarter, Rate of Growth and Projections for FY 2015-2016

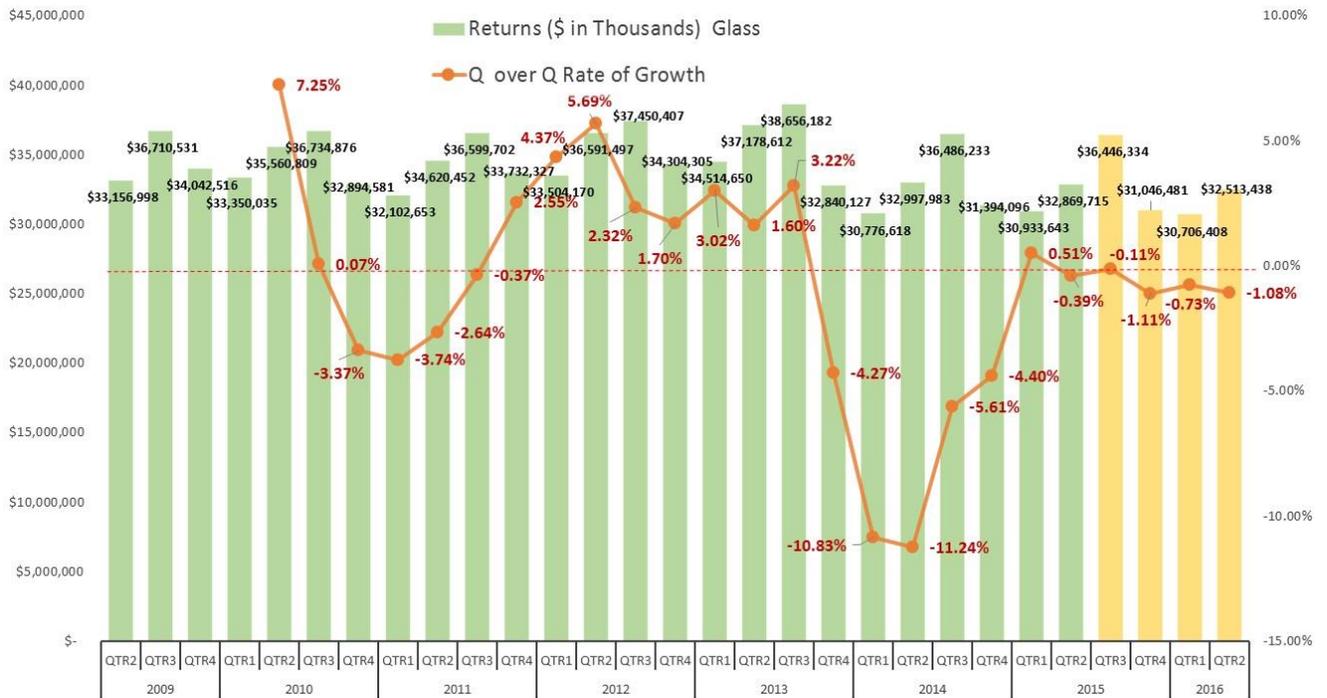
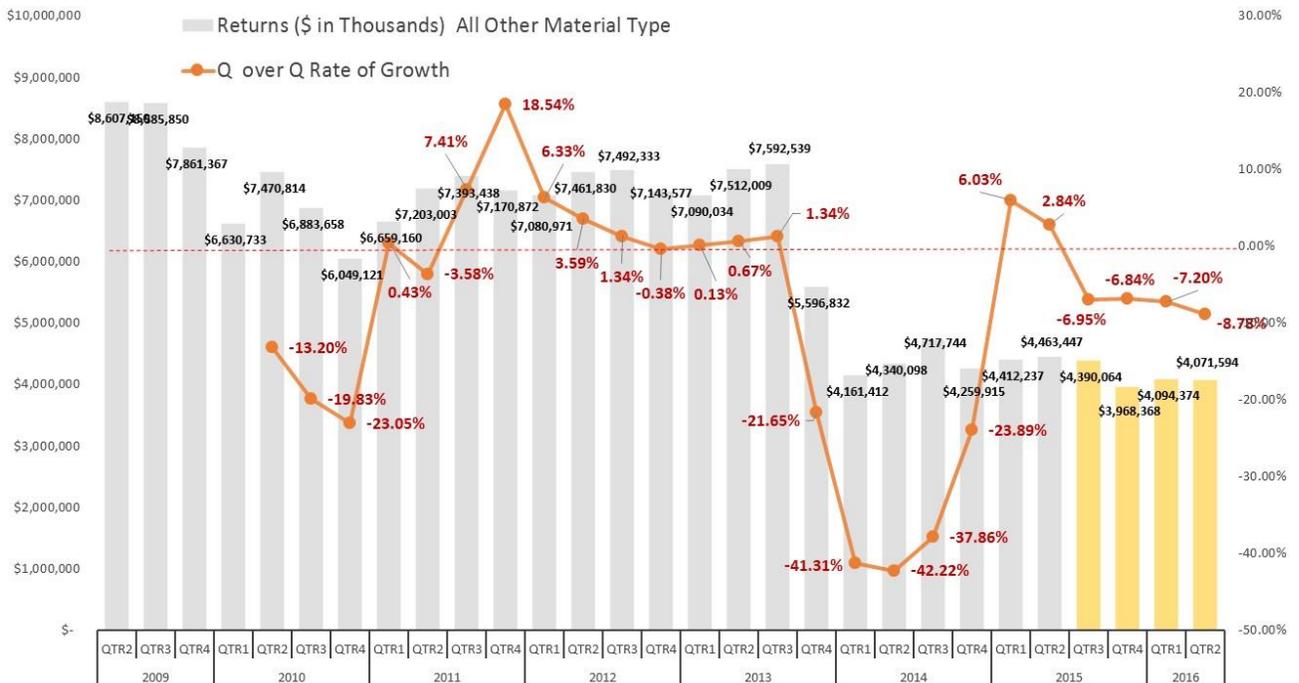


Figure 12: CRV Returns of All Other by Calendar Quarter, Rate of Growth and Projections for FY 2015-2016



D. Projected Handling Fee Payments

This section includes all actual data available for handling fee payments, the per beverage container handling fee amount, and the number of beverage containers projected to be eligible for a handling fee payment.

Table 21: Handling Fee Payments and Containers Eligible

	FY 2010-2011	FY 2011-2012	FY 2012-2013	FY 2013-2014	FY 2014-2015	FY 2015-2016 (Projected)
Handling Fees	\$38,836,181	\$37,914,106	\$40,911,323	\$41,883,185	\$50,782,194	\$52,510,512
Per Beverage Container Handling Fee Amount	\$0.00859	\$0.00890	\$0.0089- \$0.0090	\$0.00900	\$0.01035	\$0.01046
Containers Eligible for Handling Fee Payment	4,521,092,086	4,260,011,963	4,596,777,857	4,653,687,223	4,906,492,146	5,073,479,451

The handling fee per container rate was \$0.0089 for the reporting months of July 2012 through February 2013 pursuant to PRC Section 14585(g)(1). For the reporting months of March 2013 through June 2014, the handling fee per container rate was \$0.0090. For FYs 2014-2015 the handling fee rate was \$0.01035 per container.

The projected handling fees for FY 2015-2016 is calculated based on a handling fee per container rate of \$0.01046 derived from the latest cost survey¹⁷.

Projections for handling fees are based on the previous year ratio of handling fees to returns of beverage containers and increased by the projected rate of growth by material type (see Table 20) combined with the 1 percent rate of growth of the handling fee per container. The result is a projected rate of growth of 3.4 percent for handling fees for FY 2015-2016. Projections for FY 2016-2017 and 2017-2018 are assumed to remain at the same level as FY 2015-2016 until better information to refine the projections is available.

¹⁷ The Handling Fee Cost Survey Final Report can be found on the CalRecycle website at <http://www.calrecycle.ca.gov/BevContainer/Notices/#HandlingFees>.

E. Projected Processing Payments

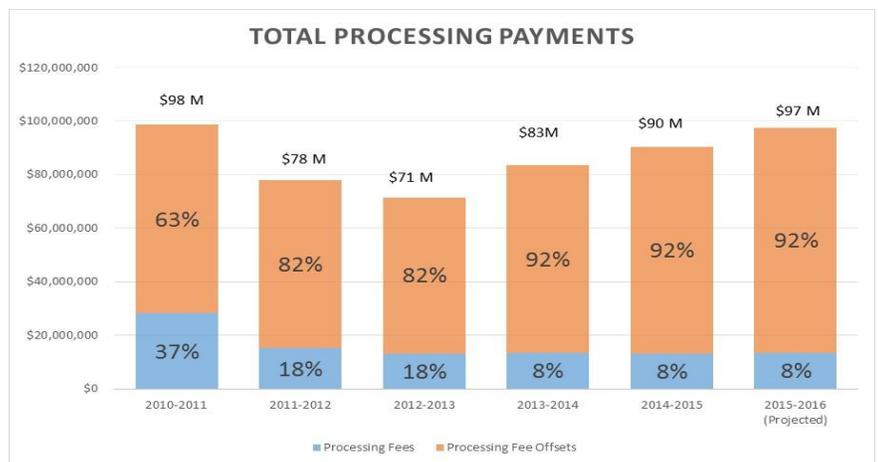
This section includes all data available since last reporting period for processing payments¹⁸ by beverage container material type and includes projections for processing fee offsets, processing fees, and processing payments for the next fiscal year.

Table 22: Processing Fees and Processing Payments by Material Type

PET (Plastic #1)	FY 2010-2011	FY 2011-2012	FY 2012-2013	FY 2013-2014	FY 2014-2015	FY 2015-2016 (Projected)
Processing Fees	\$14,141,670	\$2,464,362	\$452,216	\$1,438,508	\$1,847,831	\$3,200,171
Processing Payments	\$38,644,854	\$13,958,358	\$2,457,953	\$17,311,209	\$24,224,022	\$32,001,708
Processing Fee Offsets	(\$24,503,185)	(\$11,493,996)	(\$2,005,736)	(\$15,872,701)	(\$22,376,191)	(\$28,801,537)
Glass						
Processing Fees	\$6,492,005	\$6,878,843	\$7,431,230	\$6,914,537	\$6,393,439	\$6,378,660
Processing Payments	\$52,344,515	\$56,695,814	\$61,040,687	\$60,032,455	\$61,097,447	\$60,956,219
Processing Fee Offsets	(\$45,852,510)	(\$49,816,971)	(\$53,609,458)	(\$53,117,918)	(\$54,704,009)	(\$54,577,559)
All Other Material						
Processing Fees	\$7,537,237	\$5,841,500	\$5,385,362	\$5,177,197	\$4,912,797	\$4,547,284
Processing Payments	\$7,601,794	\$7,405,872	\$7,976,457	\$6,122,824	\$4,924,286	\$4,557,919
Processing Fee Offsets	(\$64,557)	(\$1,564,372)	(\$2,591,095)	(\$945,627)	(\$11,489)	(\$10,634)
Total						
Processing Fees	\$28,170,912	\$15,184,705	\$13,268,808	\$13,530,242	\$13,154,067	\$14,126,115
Processing Payments	\$98,591,164	\$78,060,044	\$71,475,098	\$83,466,488	\$90,245,755	\$97,515,845
Processing Fee Offsets	(\$70,420,252)	(\$62,875,339)	(\$58,206,290)	(\$69,936,246)	(\$77,091,689)	(\$83,389,729)

Projections for processing fees, processing payments, and processing fee offsets are based on current processing payment rates effective July 1, 2015.

Processing payments for PET are projected to increase by 32 percent in FY 2015-2016 as compared to FY 2014-2015.



¹⁸ Processing Payments are adjusted based on the average scrap value for each beverage container material type. Processing Payment information is available at: <http://www.calrecycle.ca.gov/BevContainer/Notices/#Processing>

There are two reasons for this high rate of growth. One is the projected increase of sales of PET (2.61 percent) that would trigger an increase in the amount of PET recycled (estimated at 6.93 percent). The second factor is the reduction of 7.27 percent in the scrap value per ton for PET that results in a 23.54 percent increase in the processing payment per pound redeemed.

The estimates assume the processing fee and processing payment rates remain constant for the projected period.

F. Projected Other Fund Expenditures

Table 23: Projected Other Fund Expenditures

Other Fund Expenditures	FY 2014-2015 (Actual)	FY 2015-2016 (Budget)	FY 2016-2017 (Projected)	FY 2017-2018 (Projected)
Fixed Cost -14581 Program	\$59,229,942	\$55,914,454	\$51,257,085	\$46,605,199
<i>Beverage Container Recycling Grants</i>	\$1,347,593	\$1,500,000	\$1,500,000	\$1,500,000
<i>City/County Payments</i>	\$10,500,000	\$10,500,000	\$10,500,000	\$10,500,000
<i>Curbside Supplemental Payments</i>	\$15,000,000	\$15,000,000	\$15,000,000	\$15,000,000
<i>Local Conservation Corps Grants</i>	\$13,526,396	\$6,414,454	\$6,757,085	\$7,105,199
<i>Plastic Market Development</i>	\$9,999,723	\$10,000,000	\$5,000,000	\$0
<i>Public Information and Education</i>	\$0	\$2,500,000	\$2,500,000	\$2,500,000
<i>Quality Incentive Payment</i>	\$8,856,231	\$10,000,000	\$10,000,000	\$10,000,000
Fixed Cost-Administration	\$44,448,886	\$49,270,000	\$49,095,000	\$47,764,000
<i>Fi\$Cal</i>	\$85,000	\$84,000		
<i>Pro Rata</i>				
<i>State Operations SB 96</i>	\$609,432	\$1,739,000	\$774,000	
<i>Program Administration</i>	\$42,739,454	\$47,447,000	\$48,321,000	\$47,764,000
<i>State Controller Expenses</i>	1,015,000			
TOTAL	\$103,678,828	\$105,184,454	\$100,352,085	\$94,369,199

Projections are based on current appropriations and sunset dates specified in PRC Sections 14581 and 14581.1. Additionally, expenditures for Local Conservation Corps Grants from the recycling fund have been reduced by \$7.5 million in FY 2014-2015 and \$15 million beginning in FY 2015-2016 pursuant to SB 861 (Chapter 35, Statutes of 2014). Total BCRF funding for Local Conservation Corps Grants generally remains unchanged, as the remainder of support will come from other CalRecycle funds. A table with historical other fund expenditures is also provided in Appendix II.

G. Historical and Projected Fund Balance FY 2009-2010 to FY 2017-2018

The current forecasting horizon of the fund condition projection extends to FY 2017-2018, after which making reliable estimates is extremely difficult.

Receipts from redemption payments and processing fees and other income, refunds, processing payments and handling fees are all assumed to remain at the same level as FY 2015-2016 for FY 2016-2017 and FY 2017-2018. Fixed costs (14581 payments and program administration) are projected based on current budget information available to CalRecycle.

Prior to FY 2007-2008, the Beverage Container Recycling Program maintained an excess of revenue due to high sales and relatively low recycling rates. Since FY 2010-2011, the program experienced an operational structural deficit averaging \$90 million per year due to recycling fund expenditures exceeding revenues. Annual structural deficits are projected to average \$74.7 million from FYs 2015-2016 to 2017-2018. More detail on the historical and projected structural deficits is shown on Table 24 below.

Table 24: Historical and Projected Structural Deficits for all Program Funds

FY	Receipts [1]	Other Income (Adjusted)	Variable Costs [3]	Fixed Costs [4]	Operational Net [2]	Surplus/(Deficit) Net
FY 2009-2010	\$1,200,094,565	\$4,875,828	(\$1,148,232,817)	(\$97,949,449)	(\$46,087,701)	(\$41,211,873)
FY 2010-2011	\$1,150,521,732	\$21,963,070	(\$1,133,877,123)	(\$104,684,045)	(\$88,039,436)	(\$66,076,366)
FY 2011-2012	\$1,155,057,566	\$126,562	(\$1,132,657,852)	(\$117,728,476)	(\$95,328,762)	(\$95,202,200)
FY 2012-2013	\$1,185,221,353	\$865,209	(\$1,183,222,517)	(\$114,789,045)	(\$112,790,209)	(\$111,925,000)
FY 2013-2014	\$1,221,332,563	\$15,193,553	(\$1,171,766,363)	(\$114,711,158)	(\$65,144,958)	(\$49,951,405)
FY 2014-2015	\$1,253,839,460	\$13,503,139	(\$1,207,542,704)	(\$103,678,828)	(\$57,382,072)	(\$43,878,933)
FY 2015-2016 [5]	\$1,266,431,600	\$572,000	(\$1,241,240,977)	(\$105,184,454)	(\$79,993,831)	(\$79,421,831)
FY 2016-2017 [5]	\$1,266,431,600	\$572,000	(\$1,241,240,977)	(\$100,352,085)	(\$75,161,462)	(\$74,589,462)
FY 2017-2018 [5]	\$1,266,431,600	\$572,000	(\$1,241,240,977)	(\$94,369,199)	(\$69,178,576)	(\$68,606,576)

[Note 1] – Reflects ongoing operations only and excludes non-reoccurring revenues and expenditures such as interest on loans or penalties.

[Note 2] – Operational net results do not include “Other Income” such as interest earned or penalties assessed.

[Note 3] – Variable costs includes redemption value, processing payments and handling fees.

[Note 4] – Fixed costs include payments required under PRC section 14581 and program administration.

[Note 5] – Values are estimated based on current projections.

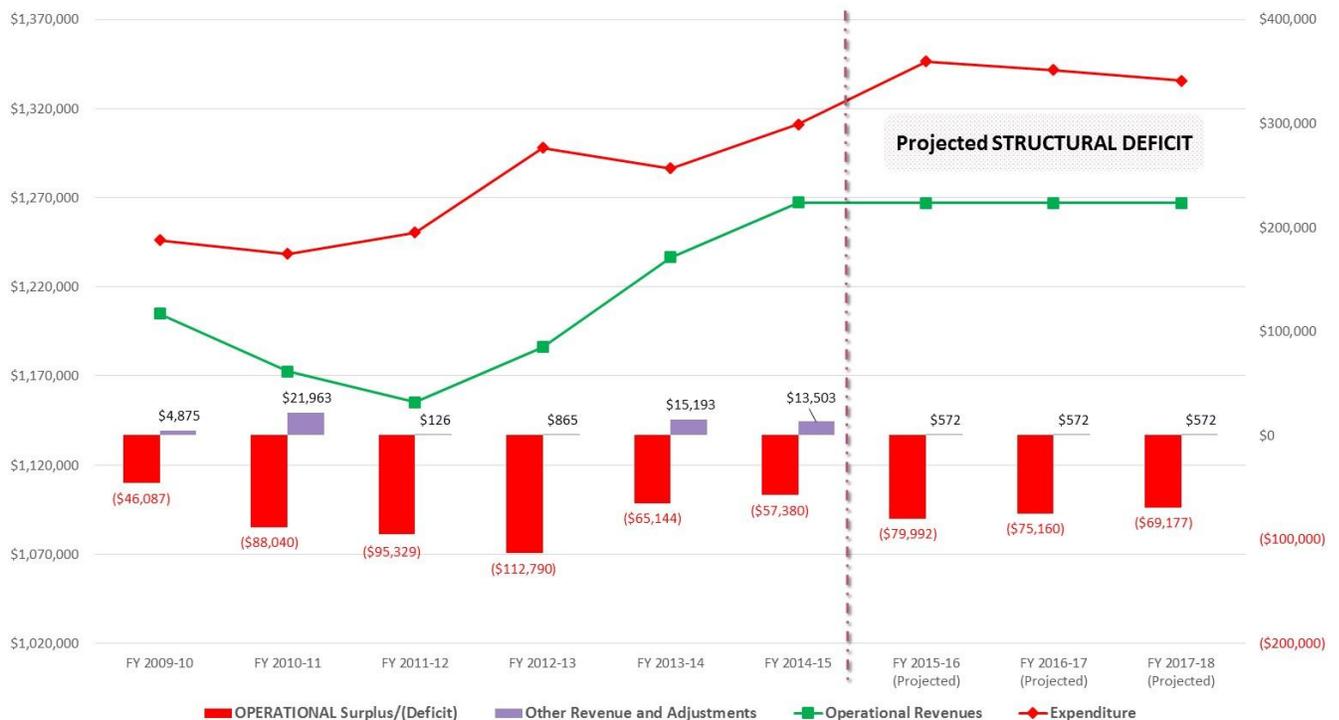
H. Structural Deficit and Program Reform Measures

The Beverage Container Recycling program has been operating under an annual deficit in which the revenue generated has been insufficient to cover the expenditures in each of the last six fiscal years (see Figure 14). This deficit has been temporarily offset with the reserves accumulated from previous years. This deficit persisted even during the positive economic cycles and during a period where the rate of growth of revenues due to the larger sales of beverage containers was greater than the rate of growth of redemptions.

Structural Deficit versus Cyclical Deficit

A cyclical, or temporary, deficit is a deficit that is related to the economic cycles. This cycle can last from several months to many years. A structural deficit, or permanent deficit, differs from a cyclical deficit in that it exists regardless of the point of the economic cycle due to an underlying imbalance of program revenues and expenditures.

Figure 14: Historical and Projected Structural Deficit FY 2009-2010 to FY 2017-2018 (\$ in 000)



The current deficit of the Beverage Container Recycling Program is structural in nature, with the existing level of revenues, high recycling rates and mandatory expenditure commitments. The deficit of the program cannot be considered cyclical because it does not only respond to the economic cycles since the economic activity has remained at

positive rates of growth over the past few years. The deficit is mostly due to high recycling rates combined with high fixed-cost program expenditures.

Since 2006, when the recycling rate was 60 percent, the Legislature has directed CalRecycle to use surplus BCRF funds to support various supplemental programs such as recycling activities and reducing manufacturers' processing fees. AB 3056 (Chapter 907, Statutes of 2006) created or supplemented programs to expand and improve in-state markets for recycled beverage container materials. The combination of incentives through higher CRV and the investments made in recycling infrastructure and technologies converged to raise recycling rates above the policy goal of 80 percent and to expand markets for recycled beverage containers. However, the measures that have contributed to the success of the recycling program have also resulted in unsustainable demands on the recycling fund.

The program has had a history of surpluses followed by a period of deficits, and continues to pay for operational costs based on prior annual surpluses. For the first eight years following the expansion of the program under SB 332 (Chapter 815, Statutes of 1999), the recycling rate ranged from 55 percent to 67 percent, well below the 80 percent goal. Program activities traditionally have been funded by unredeemed redemption fees. With low recycling rates, the program was operating with significant year-over-year surpluses. To meet policy goals following the enactment of SB 332, California redemption payments and refund value (CRV, collectively) were increased from 2½ cents in 1992 to 4 cents in 2004, and 5 cents in 2007 for containers smaller than 24 ounces and from 5 cents in 1992 to 8 cents in 2004, and 10 cents in 2007 for containers larger than 24 ounces. Each increase in CRV initially resulted in higher year-over-year surpluses because recycling rates initially did not increase as sharply as increases in sales.

The program operated under a structural deficit in FY 2007-2008. In FY 2008-2009, the recycling rate rose to 78 percent, exceeding that year's break-even recycling rate of approximately 70 percent.

The break-even recycling rate is the estimated recycling rate—the quotient of containers recycled over containers sold—at which redemption fee revenue equals total expenditures. In the years following, the recycling rate has continued a gradual climb, reaching 84 percent in FY 2012-2013 for all material types. The break-even recycling rate increased to about 75 percent in FY 2012-2013 due to the reduction of fixed expenditures for various incentive programs and a decrease in the plastic processing fee offset. In FY 2013-2014, the recycling rate decreased to 82 percent, possibly due to the effect of recently implemented anti-fraud measures. In the projections for FY 2015-2016 through FY 2017-2018, CalRecycle assumes the recycling rate will remain at the current level through FY 2017-2018.

Until now, the gap between expenditures and revenues has been temporarily bridged through repayments of loans and the interest earned from the loans. The final loan

repayment, amounting to \$82.3 million, was paid in full at the end of FY 2014-15. With the existing revenue structure and the existing level of expenditures, the fund is projected to reach the minimum 5 percent fund reserve by the middle of FY 2017-2018.

Program Reform Measures¹⁹

In order to address the structural deficit, CalRecycle implemented several program reforms, including reduced daily load limits for redemption at recycling centers, increased monitoring of the importation of out-of-state beverage containers, and elimination of the commingled rate at buyback centers, which allowed for slightly lower per-pound refund rates for loads containing a combination of CRV and non-CRV material. These three measures were implemented between November 2013 and January 2014. While early indications of their impact are promising as fewer ineligible containers are being redeemed for payment, CalRecycle projects the combination of all reform measures outlined in Table 33 will not be sufficient to eliminate the ongoing structural deficit. Absent additional measures, proportional reduction remains inevitable in the long run.

In November 2014, the California Bureau of State Audits conducted an [audit](#)²⁰ on the Beverage Container Recycling Program. The audit confirmed the Fund's structural deficit, then approximately \$100 million annually, and recognized that changes such as reducing or eliminating administrative fees for beverage distributors, enacting changes to mandatory payments such as those for curbside programs or quality incentives to beverage program participants, or reducing or eliminating processing fee offsets could improve the program's financial condition.

CalRecycle is continuing to implement key reform measures to improve program integrity, reduce loss, and enhance revenue where possible. The measures are intended to improve program integrity and focus on certified recyclers by promoting higher standards of performance, accountability, and service to the public. The measures are also intended to reduce loss by concentrating on counteracting fraud. Finally, the measures are intended to enhance revenue by closing possible gaps in the collection of redemption fees and processing fees.

¹⁹ See Appendix IV – Program Reform Measures for a more detail description of currently implemented program reform measures.

²⁰ California Bureau of State Audits. “The Beverage Container Recycling Program Continues to Face Deficits and Requires Changes to Become Financially Sustainable”, November 2014.

V. Significant Changes

This section includes an explanation of significant changes since the release of the [April 2015](#) quarterly report, issued in September 2015 including changes to the methodology used for forecasting the fund condition statement.

A. Impact of Program Reform Measures Leveling Off

CalRecycle believes the recently implemented reform measures²¹ have contributed significantly to the expenditure reduction in FY 2014-2015. This is due to the discontinuance of the commingled redemption of beverage containers at recycling centers, lower consumer load limits, and increased monitoring of the importation of out-of-state beverage container material. These three key reform measures were implemented between November 2013 and January 2014. While CalRecycle cannot directly isolate the impacts of the reform measures due to their compacted implementation dates, their presumed effect began to appear in mature volume data covering the first quarter of 2014 in the form of declining volumes of beverage container material returned for recycling. Recycling volumes continued to decline during the first and second quarters of FY 2014-2015 to 1.47 percent and 1.76 percent respectively. The impact of program reform measures on future expenditures is uncertain. Current projections assumed that the impact of program reform measures will level off for FY 2015-2016 to FY 2016-2017.

B. Growth in Refund Value Expenditures Due to Increase in Sales and Recycling Rate for PET

Although we have experienced a decline in refund value expenditures for Aluminum, Glass and All Other material categories, in part due to the implementation of program reform measures, the total refund value expenditures is expected to grow by 2.32 percent due to a projected rate of growth of PET returns of 6.93 percent. PET represents almost 49 percent of the program revenues and 46 percent of the CRV refunded. The recycling rate for PET has seen a significant increase from a rate of 66 percent in FY 2010-2011 to 74 percent in FY 2014-2015. The projected recycling rate for PET for FY 2015-2016 is 80 percent.

C. Increase in Redemption Fee Revenues Mostly Explained by the Growth of Sales of PET Beverage Containers

The projected average rate of growth for sales for FY 2015-2016 is estimated at 1 percent. This represents a lower rate of growth from the 3.71 percent projected for FY 2014-2015 in the 3rd (April 2015) quarterly report. Projections for FY 2015-2016 have been revised based on actual sales and expenditures information for FY 2014-2015. Overall, CRV sales increased only by 2.72 percent (projected 3.71 percent) and returns

²¹ See Appendix IV – Program Reform Measures for a description of key reform measures.

increased by 1.92 percent (projected 0.51 percent). This rate of growth is not uniformly distributed among material type: For the sales of PET containers, the rate of growth (FY 2014-2015 compared to FY 2013-2014) is 5.2 percent, while the rate of growth for the same period for glass was 4.3 percent. Aluminum containers saw a reduction in sales of 0.8 percent.

The increase in PET sales mostly in containers with a capacity of less than 24 fluid ounces may be explained by an increase of sales of bottled water. An increase of sales of beverage containers containing water may be due, in part, to the persisting California drought conditions. The projections reflect the future drought condition scenarios prepared by the California Department of Water Resources and the State Water Resources Control Board.

D. Increase in the Containers per Segregated Pound Rates

Redemption rates are projected based on previous five years of data available and adjusted to the most recent containers per segregated pound²² rates by material type for each quarter. On June 1, 2015, rates for PET increased by 6.4 percent from \$1.10 to \$1.17 per segregated pound.

E. Fraud Prevention and Enforcement

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

In response to stakeholder concerns over the potential significant under-collection of redemption fees, CalRecycle conducted an extensive examination of business practices, analyzed third-party point-of-sale data, and conducted retailer shelf surveys. The findings have indicated that there are no significant gaps in the collection of revenues for redemption fees and processing fees.

CalRecycle is committed to collecting all revenue owed to the recycling program. CalRecycle has recently reached out to the State of California's Drinking Water Program and the Board of Equalization to identify companies that should be paying

²² The June 1, 2015 rates are available at <http://www.calrecycle.ca.gov/BEVCONTAINER/Notices/2015/2015ComRates.htm>

redemption fees but do not appear to be registered under the recycling program. In addition, CalRecycle has been contacting Internet-based marketers of beverages to ensure they and their associated companies are paying redemption fees. While these efforts have not resulted in significant new revenue sources, CalRecycle continues to explore all feasible sources of uncollected or under-collected recycling revenue.

F. Limited Ability to Reduce Expenditures

The ability of the program to reduce expenditures continue to be limited. Although some budgeted expenditures under section 14581 of PRC for FY 2015-2016 have been reduced, the program lacks the flexibility to reduce payments. The ability to reduce expenditures resides in Section 14581 (c), which requires the department to reduce payments proportionally after the department has determined funds are insufficient to make the payments specified pursuant to Sections 14581 and 14575.

G. Changes in Forecasting Methodology

Previous quarterly reports have focused on the historical cash balance of the funds to forecast future cash fund conditions (cash flow forecasting method). The current approach also uses historical data to produce future revenues and expenditures projections but is based on the past accrued revenues²³ and past accrued expenditures²⁴ for each quarter. Because of the cyclical nature of sales and returns of beverage containers rates of growth are now estimated comparing quarter by quarter with the information available from the previous five years. This method improves the accuracy of predictions since it incorporates temperature-related sales of beverage containers and other seasonal and cyclical factors.

The forecasting methodology is now applied independently to each material type and corrected for potential substitution of one material type for another (e.g. a reduction in sales of aluminum containers is substituted with a similar increase in PET containers) The different material types of beverage containers are grouped into four categories, Aluminum, PET, Glass and All Other materials.

- Estimates of beverage container sales and redemption are made separately and then a recycling rate is inferred based on revenues and returns.
- Redemption rates are projected based on the previous five years of data available and adjusted to the most recent containers per segregated pound²⁵ rates by material type for each quarter.

²³ Accrued revenue: revenue is recognized before cash is received

²⁴ Accrued expense: expense is recognized before cash is paid out

²⁵ The June 1, 2015 rates are available at

<http://www.calrecycle.ca.gov/BEVCONTAINER/Notices/2015/2015ComRates.htm>

- Number of containers sold by size and material type is estimated based on the previous five years of data. Estimates are developed for each quarter in the fiscal year and adjusted periodically as data is updated to produce an updated annual total sales estimate by material type.
- Processing fees estimates and processing payment estimates are calculated based on the projected number and value of containers returned and adjusted for projected changes in scrap prices and cost of recycling
- Handling fees are estimated based on the handling fee rate and the projected return of containers
- 14581 payments and program expenditure estimates are based on the current available budget information

CalRecycle tracks the cash flow condition on a daily basis and more detailed information will be included in the report as the cash balance approaches the prudent reserve. As mentioned previously in this report, proportional reduction²⁶ would be implemented if the cash balance of the recycling fund falls below the prudent reserve²⁷ of \$59 million (see Table 30).

²⁶ California Public Resources Code Section 14581(c) requires a proportional reduction of all payments once the department has determined that funds are insufficient to make the payments established in Sections 14581 and 14575.

²⁷ California Public Resources Code Section 14580(a)(2) requires a minimum reserve for contingencies of 5% of previous calendar year payments to processors.

VI. Uncertainties and Limitations

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

- Circumvention of existing fraud prevention measures that reverses the decline in fraudulent expenditures.
- Adjustment of consumer behavior in response to segregated-only redemption and lower load limits resulting in higher volumes of beverage containers recycled.
- Stagnation or reversal of economic growth encouraging more recycling above current levels.
- Estimates for Processing Payments for FY 2015-2016, FY 2016-2017, and FY 2017-2018, which are assumed to be the same as the current fiscal year (FY 2014-2015) are impacted by several factors including:
 - International commodity (virgin PET) prices are declining and competing with recycled materials.
 - Scrap prices of PET and glass are declining, which is likely to result in future increased expenditures for processing payments.
 - CalRecycle is currently under contract to conduct the Processing Fee and Processing Payment Cost Survey. CalRecycle cautions that costs for recycling may change, affecting the expenditures and structural deficit.
 - CalRecycle is currently researching methods for forecasting Processing Payments; the new methods will be introduced when they are approved.
- Changes in law that may impact program revenues and expenditures.

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

Updating the forecasting model and method

CalRecycle now has a full time economist in charge of forecasting. The economist's functions and responsibilities include the update and maintenance of the forecasting model and to monitor legislation and market developments.

The current forecasting method relies on historical data to forecast future sales and recycling rates. There are specific market indicators and global trends that may help predict future changes in sales of beverage containers and return rates. For example, data shows a clear upward trend in the use of PET material in beverage containers but a downward trend for aluminum and flat for glass. Despite these changes in the composition of the beverage containers, the total sales of containers have remained at constant rate of growth of 2 percent per year for the last five years.

Economist Role

Determining and tracking the economic variables necessary to produce a model of the fund in order to produce accurate status reports, projections, and notices for the Legislature.

The forecasting model should incorporate key economic indicators that may have an impact on both the sales of beverage containers and on the return rates.

- Sales of beverage containers depend on several factors depending on consumer behavior, economic growth, unemployment, specific events, price of beverages, consumer taste, release of new products, fashion, cyclical patterns and weather related factors such as temperature.
- Recycling rates depend on factors such as CRV value, scrap prices, the proximity of recycling centers, the unemployment rate, the rate of growth of the economic activity by sector, cyclical patterns and the level of sales of beverage containers among others.

The level of sales and returns are also highly impacted by the fraud prevention actions and deterrence created by CalRecycle inspections, audits and enforcement actions.

Processing payments and handling fees are also affected by sales and returns, as well as all the factors related to the cost of recycling such labor, rent, utilities, inflation, etc. Some of these factors are region-specific and difficult to predict. As the data in this report shows, processing payments' share of total program costs is growing and becoming the expenditure most difficult to predict with some level of accuracy.

The projections are adjusted for seasonal variances by material type and container size. Changes in market conditions or any other economic and demographic factors, as well as changes in technology or consumer preferences, could have a significant effect on the projected results. That is why revisions and adjustments to the projections must be done frequently.

Upon completing a forecast an ongoing process of monitoring begins to track the accuracy of the last forecast and to replace the prior estimates with actual receipts as they become available. These updates prep the forecast documents for the forecast ahead. CalRecycle management are kept abreast of revenue collections and expenditures on a regular basis in order that any changes to the forecast resulting from a shortfall or increase in collections or expenditures can be incorporated as early as possible in the decision making process.

CalRecycle relies on limited resources to produce quarterly forecast and fund condition statements. More accurate projections would require a high level of market research and monitoring and better understanding of the factors affecting the recycling industry and consumer behavior. Developing and maintaining more accurate forecasting models would require additional investments in time and resources. a

Reliability of forecasted results

Forecasted projections for sales of beverage containers, redemption rates, handling fee costs and processing payments are required to be reported on a quarterly basis. CalRecycle monitors internally for potential deviations from the actual results more frequently -- at a minimum, on a monthly basis. The main reason for this frequent review and analysis is the volatility of market conditions and changes in the underlying assumptions used in the projections and the changes in the actual versus projected results.

CalRecycle conducts analyses comparing the actual results to the projected figures to gauge model and method reliability and to take steps to adjust the model and method as appropriate. The department compares the forecasted results with the actual figures on a monthly, quarterly and yearly basis and adjusts the projected results based on the most updated information available. This helps provide insights into events that affect recycling revenues and expenditures.

CalRecycle incorporates several controls over the quarterly forecasting methodology before they are released. This includes management review, review by CalRecycle accounting and budgeting departments, and review by the Department of Finance.

Reliability of forecasted results is limited and although projections are currently conservative, the department's forecasting model has generally overstated the balance in the beverage fund by overstating revenues and understating expenditures. Improving the reliability of forecasted results would require an investment in the areas of research and monitoring of market conditions and better understanding of the recycling industry and consumer behavior towards recycling. A refined and peer-reviewed model would need to be developed and data and information would need to be collected, analyzed and incorporated into the new forecasting model.

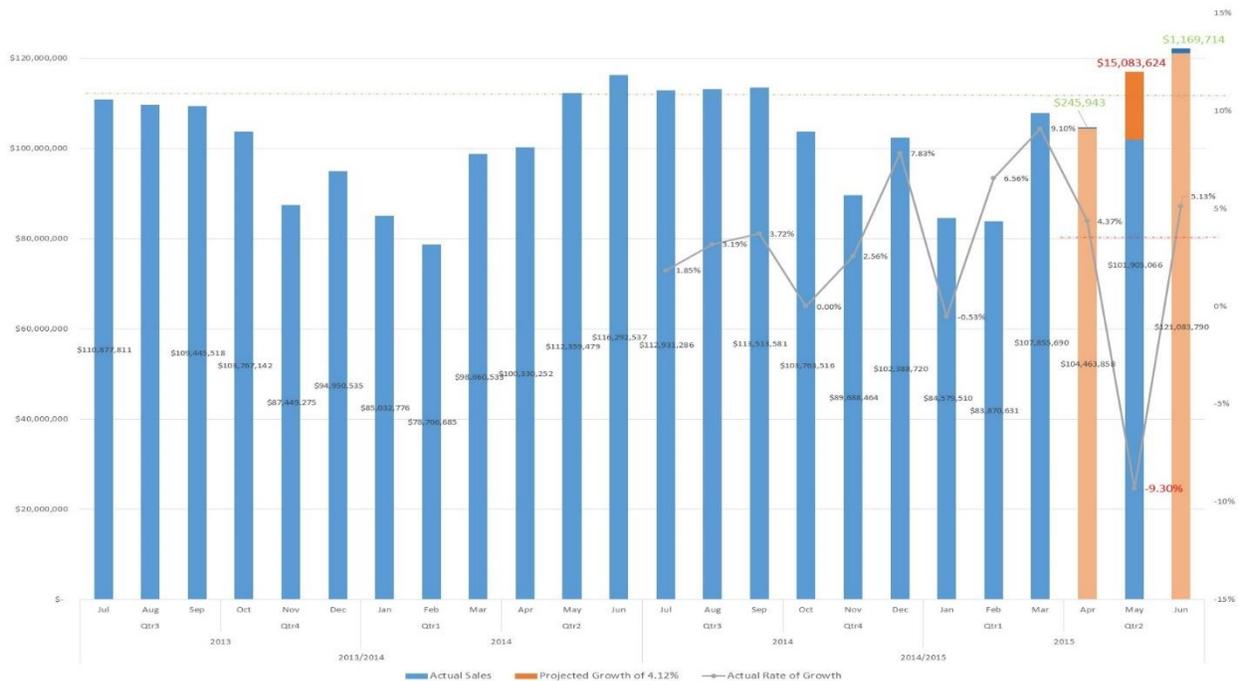
Deviations from projected FY 2014-2015 in the April 2015 report

For the April quarterly report, the projections for the rate of growth of sales for all material types combined for the months of April, May and June was 4.12 percent. This

projected rate of growth was underestimated within 1 percent error for the months of April and May 2015 as compared to April and May 2014. Projected sales for May 2015 were overestimated by \$15 million; the actual rate of growth for the sales in May was a negative -9.3 percent instead of the positive projected value of 4.12 percent. This reduction in the level of containers sold is atypical and could not be predicted by the current forecasting methodology and it could be explained, after the fact, by a colder than usual month of May. CalRecycle is reviewing the information provided for sales in May to verify its validity.

Figure 15 shows the deviations for projected revenues for the months April, May and June of 2015.

Figure 15: Revenues FY 2013-2014 to FY 2015-16 and projections for 4Q FY 2014-2015.



The overestimated revenues from sales of beverage containers for all material types for the fourth quarter of FY 2014-2015 was \$13.7 million. This, combined with a higher recycling rate of 79 percent (estimated at 72.7 percent, resulting in \$14 million higher returns), contributed to an increased deficit from the originally estimated value of \$24.2 million to a final deficit of \$42 million for FY 2014-2015.

Appendix I. Updated Fund Condition Statements

This section contains fund condition statements for all five program funds based on current projections and fund balance at the end of FY 2014-2015. Each fund condition statement shows one column per fiscal year. Amounts for FY 2015-2016 and FY 2016-2017 are projections, and the projections are based on actual volumes.

Several of the line items are notated for further description. Those descriptions immediately follow the fund condition statements. The fund condition statements presented here are also available in Excel format at <http://www.calrecycle.ca.gov/BevContainer/RecycleFund/2015/Qtr4Conditn.xlsx> on the CalRecycle webpage.

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

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

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

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

Bimetal Processing Fee Account, Fund 0277 – This fund serves as a depository for bimetal processing fees paid by beverage manufacturers who package products in bimetal cans. The fund is the source for paying processing payments to certified recyclers for handling empty bimetal beverage containers.

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

Table 25: Beverage Container Recycling Fund Condition Statement (Fund 0133)

California Department of Resources Recycling and Recovery (CalRecycle)					
Updated Beverage Container Recycling Fund Condition Statement (Fund 0133)					
Projected Revenues and Expenditures as of October 1, 2015					
		FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
		Actual (Adjusted*)	Actual (Adjusted*)	Projected	Projected
Balance Forward		102,087,000	218,208,612	274,047,955	195,755,674
Prior Year Adjustments [Note 1]		18,366,000	196,000		
Balance Adjusted (A)		120,453,000	218,404,612	274,047,955	195,755,674
Revenues and Transfers					
Receipts					
	Redemption Fees [Note 2]	1,207,802,321	1,240,685,393	1,252,305,485	1,252,305,485
	Other Income [Note 3]	4,806,293	13,156,296	227,000	227,000
	Total Receipts (B)	1,212,608,614	1,253,841,689	1,252,532,485	1,252,532,485
Transfers					
	Repayment of Air Pollution Control Fund Loan	8,000,000			
	Repayment of General Fund Loan [Note 4]	89,400,000	82,277,000		
	Repayment of Loan to Department of Conservation [Note 4]	5,000,000			
	Transfers to Glass Processing Fee Fund [Note 5]	(14,721,000)	(55,208,000)	(55,886,000)	(55,988,000)
	Transfers to Plastic Processing Fee Fund [Note 5]	(336,000)	(4,945,000)	(27,768,000)	(29,117,000)
	Total Transfers (C)	87,343,000	22,124,000	(83,654,000)	(85,105,000)
	Total Transfers and Receipts (B+C)	1,299,951,614	1,275,965,689	1,168,878,485	1,167,427,485
	Total Resources (D) = (A+B+C)	1,420,404,614	1,494,370,301	1,442,926,440	1,363,183,159
Expenditures [Note 6]					
Disbursements (CalRecycle)					
	California Refund Value [Note 7]	1,046,416,689	1,066,514,755	1,091,214,800	1,091,214,800
	Beverage Container Recycling Program Administration	41,630,713	42,739,454	47,447,000	48,321,000
	Handling Fees [Note 8]	41,883,185	50,782,194	52,510,512	52,510,512
	Curbside Supplemental Payments	15,000,000	15,000,000	15,000,000	15,000,000
	Local Conservation Corps Grants [Note 9]	20,345,344	13,526,396	6,414,454	6,757,085
	City/County Payments	10,500,000	10,500,000	10,500,000	10,500,000
	Beverage Container Recycling Grants	1,500,000	1,347,593	1,500,000	1,500,000
	Public Education and Information [Note 10]		0	2,500,000	2,500,000
	Quality Incentive Payments	9,123,198	8,856,231	10,000,000	10,000,000
	Plastic Market Development	4,999,873	9,999,723	10,000,000	5,000,000
	Pro Rata	5,053,000	0		
	Total Disbursements (CalRecycle) (E)	1,196,452,002	1,219,266,346	1,247,086,766	1,243,303,397
Disbursements (Other)					
	State Controller	417,000	1,015,000		
	Financial Information System for California (Fi\$cal) [Note 11]	5,327,000	41,000	84,000	
	Total Disbursements (Other) (F)	5,744,000	1,056,000	84,000	0
	Total Expenditures (G) = (E+F)	1,202,196,002	1,220,322,346	1,247,170,766	1,243,303,397
FUND BALANCE (D-G) [Note 12]		218,208,612	274,047,955	195,755,674	119,879,762

Table 26: Glass Processing Fee Fund Condition Statement (Fund 0269)

California Department of Resources Recycling and Recovery (CalRecycle)					
Updated Glass Processing Fee Fund Condition Statement (Fund 0269)					
Projected Revenues and Expenditures as of October 1, 2015					
		FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
		Actual (Adjusted*)	Actual (Adjusted*)	Projected	Projected
Balance Forward		4,598,000	9,190,082	9,684,074	11,026,515
Prior Year Adjustments		(1,496,000)			
Balance Adjusted (A)		3,102,000	9,190,082	9,684,074	11,026,515
Revenues and Transfers					
Receipts					
	Processing Fees	6,914,537	6,393,439	6,378,660	6,378,660
	Other Income <i>[Note 3]</i>	5,733,000	34,000	34,000	34,000
	Total Receipts (B)	12,647,537	6,427,439	6,412,660	6,412,660
Transfers					
	Transfers from Beverage Container Recycling Fund <i>[Note 13]</i>	14,721,000	55,208,000	55,886,000	55,988,000
	Repayment of General Fund Loan <i>[Note 14]</i>	39,000,000			
	Total Transfers (C)	53,721,000	55,208,000	55,886,000	55,988,000
	Total Transfers and Receipts (B+C)	66,368,537	61,635,439	62,298,660	62,400,660
	Total Resources (D) = (A+B+C)	69,470,537	70,825,521	71,982,734	73,427,175
Expenditures					
Disbursements (CalRecycle)					
	Processing Payments	60,032,455	61,097,447	60,956,219	60,956,219
	Pro Rata				
	Total Disbursements (CalRecycle) (E)	60,032,455	61,097,447	60,956,219	60,956,219
Disbursements (Other)					
	Financial Information System for California (Fi\$cal) <i>[Note 11]</i>	248,000	44,000		
	Total Disbursements (Other) (F)	248,000	44,000		
	Total Expenditures (G) = (E+F)	60,280,455	61,141,447	60,956,219	60,956,219
FUND BALANCE (D-G)		9,190,082	9,684,074	11,026,515	12,470,956

Table 27: Plastic Processing Fee Fund Condition Statement (Fund 0278)

California Department of Resources Recycling and Recovery (CalRecycle)					
Updated Plastic Processing Fee Fund Condition Statement (Fund 0278)					
Projected Revenues and Expenditures as of October 1, 2015					
		FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
		Actual (Adjusted*)	Actual (Adjusted*)	Projected	Projected
Balance Forward		9,211,000	21,613,546	3,309,877	1,461,080
Prior Year Adjustments		(798,000)			
Balance Adjusted (A)		8,413,000	21,613,546	3,309,877	1,461,080
Revenues and Transfers					
Receipts					
	Processing Fees <i>[Note 15]</i>	5,120,292	5,349,992	6,441,770	6,441,770
	Other Income <i>[Note 3]</i>	3,969,000	31,000	21,000	21,000
	Total Receipts (B)	9,089,292	5,380,992	6,462,770	6,462,770
Transfers					
	Transfers from Beverage Container Recycling Fund <i>[Note 13]</i>	336,000	4,945,000	27,768,000	29,117,000
	Repayment of General Fund Loan <i>[Note 14]</i>	27,000,000			
	Total Transfers (C)	27,336,000	4,945,000	27,768,000	29,117,000
	Total Transfers and Receipts (B+C)	36,425,292	10,325,992	34,230,770	35,579,770
	Total Resources (D) = (A+B+C)	44,838,292	31,939,538	37,540,647	37,040,850
Expenditures					
Disbursements (CalRecycle)					
	Processing Payments <i>[Note 16]</i>	23,073,746	28,629,661	36,079,567	36,079,567
	Pro Rata				
	Total Disbursements (CalRecycle) (E)	23,073,746	28,629,661	36,079,567	36,079,567
Disbursements (Other)					
	Financial Information System for California (Fi\$cal) <i>[Note 11]</i>	151,000	0		
	Total Disbursements (Other) (F)	151,000			
	Total Expenditures (G) = (E+F)	23,224,746	28,629,661	36,079,567	36,079,567
	FUND BALANCE (D-G)	21,613,546	3,309,877	1,461,080	961,283

Table 28: Bimetal Processing Fee Fund Condition Statement (Fund 0277)

California Department of Resources Recycling and Recovery (CalRecycle)					
Updated Bimetal Processing Fee Fund Condition Statement (Fund 0277)					
Projected Revenues and Expenditures as of October 1, 2015					
		FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
		Actual (Adjusted*)	Actual (Adjusted*)	Projected	Projected
Balance Forward		15,306,000	16,529,127	17,464,116	18,349,741
Prior Year Adjustments		53,000			
Balance Adjusted (A)		15,359,000	16,529,127	17,464,116	18,349,741
Revenues and Transfers					
Receipts					
	Processing Fees	1,495,414	1,410,636	1,305,685	1,305,685
	Other Income	37,000	43,000	60,000	60,000
	Total Receipts (B)	1,532,414	1,453,636	1,365,685	1,365,685
Transfers					
	Transfers from Beverage Container Recycling Fund				
	Total Transfers (C)	0	0	0	0
	Total Transfers and Receipts (B+C)	1,532,414	1,453,636	1,365,685	1,365,685
	Total Resources (D) = (A+B+C)	16,891,414	17,982,763	18,829,801	19,715,426
Expenditures					
Disbursements (CalRecycle)					
	Processing Payments	360,287	518,647	480,060	480,060
	Pro Rata				
	Total Disbursements (CalRecycle) (E)	360,287	518,647	480,060	480,060
Disbursements (Other)					
	Financial Information System for California (Fi\$cal) <i>[Note 11]</i>	2,000	0		
	Total Disbursements (Other) (F)	2,000			
	Total Expenditures (G) = (E+F)	362,287	518,647	480,060	480,060
	FUND BALANCE (D-G)	16,529,127	17,464,116	18,349,741	19,235,366

Table 29: Penalty Account Fund Condition Statement (Fund 0276)

California Department of Resources Recycling and Recovery (CalRecycle)					
Updated Penalty Account Fund Condition Statement (Fund 0276)					
Projected Revenues and Expenditures as of October 1, 2015					
		FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
		Actual (Adjusted*)	Actual (Adjusted*)	Projected	Projected
Balance Forward		5,965,000	5,850,936	5,480,504	3,971,504
Prior Year Adjustments		(247,000)			
Balance Adjusted (A)		5,718,000	5,850,936	5,480,504	3,971,504
Revenues and Transfers					
Receipts					
	Penalty Assessments <i>[Note 17]</i>	533,966	225,000	212,000	212,000
	Other Income	13,000	14,000	18,000	18,000
	Total Receipts (B)	546,966	239,000	230,000	230,000
Transfers					
	Transfers	0	0		
	Total Transfers (C)	0	0	0	0
	Total Transfers and Receipts (B+C)	546,966	239,000	230,000	230,000
	Total Resources (D) = (A+B+C)	6,264,966	6,089,936	5,710,504	4,201,504
Expenditures					
Disbursements (CalRecycle)					
	State Operations <i>[Note 18]</i>	414,030	609,432	1,035,000	1,035,000
	Pro Rata	0	0	0	
	Total Disbursements (CalRecycle) (E)	414,030	609,432	1,739,000	774,000
Disbursements (Other)					
	Financial Information System for California (Fi\$cal) <i>[Note 11]</i>		0		
	Total Disbursements (Other) (F)	0	0	0	0
	Total Expenditures (G) = (E+F)	414,030	609,432	1,739,000	774,000
	FUND BALANCE (D-G)	5,850,936	5,480,504	3,971,504	3,427,504

Table 30: Projected Balances for all Program Funds in FY 2015-2016

Projected Balances for all Program Funds in FY 2015-16 as of October 1, 2015		
	Assets	Projected Assets
	End of FY 2014-15	End of FY 2015-16
Fund Balances		
Beverage Container Recycling Fund (0133)	\$ 274,047,955	\$ 195,755,674
Glass Processing Fee Fund (0269)	\$ 9,684,074	\$ 11,026,515
Plastic Processing Fee Fund (0278)	\$ 3,309,877	\$ 1,461,080
Bi-Metal Processing Fee Fund (0277)	\$ 17,464,116	\$ 18,349,741
Penalty Account Fund (0276)	\$ 5,480,504	\$ 3,971,504
	\$ 309,986,526	\$ 230,564,514
Loan Repayment Balances		
Beverage Container Recycling Fund (0133)	\$ -	\$ -
Glass Processing Fee Fund (0269)	\$ -	\$ -
Plastic Processing Fee Fund (0278)	\$ -	\$ -
	\$ -	\$ -
Total Assets	\$ 309,986,526	\$ 230,564,514
Less, Prudent Reserves [Note 19]		
Beverage Container Recycling Fund (0133)	\$ 53,325,738	\$ 54,560,740
Glass Processing Fee Fund (0269)	\$ 3,057,072	\$ 3,047,811
Plastic Processing Fee (0278)	\$ 1,431,483	\$ 1,803,978
Bimetal Processing Fee Fund (0277)	\$ 25,932	\$ 24,003
Penalty Account Fund (0276)	\$ 30,472	\$ 86,950
Reserve Requirement	\$ 57,870,697	\$ 59,523,482
Assets Available, All Funds	\$ 252,115,829	\$ 171,041,032
[Note 21] - 0133 based on PRC Section 14580(a)(2); all other funds based on 5% of expenditure		

Appendix 1 Notes

[Note 1] – The FY 2013-2014 balance forward and prior year adjustment ties to the Governor’s Budget published in January 2015.

[Note 2] – Redemption fees, detailed in the table below, is net revenues after deducting the 1.5 percent retention for administrative fees held by beverage distributors.

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

[Note 4] – General Fund and Department of Conservation loan repayments scheduled for FY 2013-2014, totaling \$94.4 million, have been completed. All remaining loans were paid in full in FY 2015-2016 with repayments amounting to \$82.3 million.

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

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

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

[Note 8] – The total annual amount of handling fees authorized is not fixed, and the amount expended every year fluctuates based upon the per-container rate and the number of containers recycled. For FY 2012-2013, the per-container handling fee was \$0.0089 for the July 2012 to February 2013 reporting periods pursuant to PRC Section 14585(g)(1). For the March 2013 to June 2014 reporting periods, the per-container handling fee was \$0.0090. For FYs 2014-2015, the projected handling fee is based on a per-container handling fee of \$0.01035 and for FY 2015-2016 the rate is \$0.01046.

[Note 9] – Local Conservation Corps grants are annually adjusted for the cost of living from a baseline of \$20,974,000, which begins in FY 2014-2015. The source for the adjustment rate is: http://www.dof.ca.gov/html/fs_data/latestEconData/fs_price.htm. The amounts shown are from the recycling fund only.

[Note 10] – CalRecycle anticipates expending \$2.5 million of the \$5 million annual appropriation for public education and information beginning in FY 2015-2016 to support program reform outreach.

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

[Note 12] – Fund balance does not include any prudent reserve calculation. The prudent reserve pursuant to PRC Section 14580(a)(2) would be 5 percent of the total amount paid to processors. For 2015, the prudent reserve amounts to approximately \$57 million.

[Note 13] – Transfers from Beverage Container Recycling Fund are the expenditures for the processing fee offsets authorized in PRC Section 14581 and PRC Section 14575. In FY 2013-2014, the processing fee offsets are reduced due to scheduled General Fund loan repayments.

[Note 14] – Repayment of General Fund loan, scheduled in the Budget Act in FY 2013-2014, has been completed.

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

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

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

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

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

Appendix II – Other Fund Expenditures

Table 31: Other Fund Expenditures, Trends and Projections.

Other Fund Expenditures	FY 2009-2010	FY 2010-2011	FY 2011-2012	FY 2012-2013	FY 2013-2014	FY 2014-2015	FY 2015-2016 (Estimated)	FY 2016-2017 (Projected)	FY 2017-2018 (Projected)
Fixed Cost -14581 Program	\$43,825,007	\$63,803,416	\$75,649,142	\$70,150,435	\$61,468,415	\$59,229,942	\$55,914,454	\$51,257,085	\$46,605,199
<i>Beverage Container Recycling Grants</i>	\$31,881	(\$281,176)	\$704,122	\$1,271,956	\$1,500,000	\$1,347,593	\$1,500,000	\$1,500,000	\$1,500,000
<i>City/County Payments</i>	\$5,543,226	\$10,500,000	\$10,500,000	\$10,500,000	\$10,500,000	\$10,500,000	\$10,500,000	\$10,500,000	\$10,500,000
<i>Curbside Supplemental Payments</i>	\$8,250,000	\$11,822,627	\$16,038,418	\$15,000,000	\$15,000,000	\$15,000,000	\$15,000,000	\$15,000,000	\$15,000,000
<i>Local Conservation Corps Grants</i>	\$18,952,824	\$19,499,438	\$18,874,068	\$19,971,793	\$20,345,344	\$13,526,396	\$6,414,454	\$6,757,085	\$7,105,199
<i>Plastic Market Development</i>	\$4,033,279	\$12,870,105	\$15,496,946	\$18,974,073	\$4,999,873	\$9,999,723	\$10,000,000	\$5,000,000	\$0
<i>Public Information and Education</i>	\$240,495	(\$133,345)	\$0	\$0	\$0	\$0	\$2,500,000	\$2,500,000	\$2,500,000
<i>Quality Incentive Payment</i>	\$6,274,021	\$9,525,766	\$14,035,588	\$4,432,613	\$9,123,198	\$8,856,231	\$10,000,000	\$10,000,000	\$10,000,000
<i>Recycler Incentive Program</i>	\$499,282	\$0	\$0	\$0	\$0	\$0			
Fixed Cost-Administration	\$54,124,441	\$40,880,630	\$42,079,334	\$44,638,610	\$53,242,743	\$44,448,886	\$49,270,000	\$49,095,000	\$47,764,000
<i>Fiscal</i>	\$0	\$0	\$0	\$2,481,000	\$5,728,000	\$85,000	\$84,000		
<i>Pro Rata</i>	\$4,460,182	\$4,933,790	\$5,627,000	\$4,280,000	\$5,053,000	\$0			
<i>State Operations SB 96</i>	\$0	\$0	\$0	\$0	\$414,030	\$609,432	\$1,739,000	\$774,000	
<i>Program Administration</i>	\$49,607,259	\$35,808,840	\$36,452,334	\$37,854,610	\$41,630,713	\$42,739,454	\$47,447,000	\$48,321,000	\$47,764,000
<i>State Controller Expenses</i>	\$57,000	\$138,000	\$0	\$23,000	\$417,000	\$1,015,000			
TOTAL	\$97,949,449	\$104,684,045	\$117,728,476	\$114,789,045	\$114,711,158	\$103,678,828	\$105,184,454	\$100,352,085	\$94,369,199

Appendix III – Definition of Terms

Table 32: Definition of Terms

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

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

Appendix IV – Program Reform Measures

Key reform measures that have been implemented are summarized on Table 33.

Table 33: Program Reform Measures

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

Overall, even if the existing reform measures continue to provide the same level of benefit to the recycling program as has been observed during the recent short period following implementation, CalRecycle believes the combination of all reform measures outlined in Table 33 will not be sufficient to eliminate the existing ongoing structural deficit. Absent additional measures, proportional reduction will be needed in the future to ensure long-term Fund solvency.