

**Report to the Legislature:
Effect of Ending the
Bi-Monthly Redemption Fee
Payment on the Beverage Container
Recycling Fund**



California Department of Resources Recycling and Recovery

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Overview

The Department of Resources Recycling and Recovery (CalRecycle) completed its assessment of the effect of ending bimonthly Redemption Payment on the solvency of the Beverage Container Recycling Fund (Recycling Fund), pursuant to Public Resources Code (PRC) Section 14574(c). CalRecycle's assessment found that reverting to a trimonthly payment requirement would further delay Recycling Fund revenues, increasing the Recycling Fund's revenue lag, cash flow challenges, and possibly resulting in significant delays in payments to program participants.

Redemption Payments have been traditionally due at the end of the third month following the month that beverages are sold. To provide a temporary increase in cash available for current operations, AB 7 (X8) (Chapter 5, Statutes of 2010) shortened the due date for Redemption Payments to the end of the second month following the sale—a bimonthly due date rather than a trimonthly due date. When first enacted, two months of Redemption Payments, for January 2010 and February 2010, were both due at the end of April 2010. The due date for Redemption Payments is scheduled to be restored to a trimonthly basis beginning July 2012. As a result, no Redemption Payments will be due in September 2012. The last month for bimonthly payments for June 2012 will be due at the end of August 2012, and the first month of the resumption of trimonthly payments for July 2012 will be due at the end of October 2012.

In the meantime, there will be no interruption in the normal demands on the Recycling Fund. CalRecycle is required to pay ongoing claims for California Refund Value, Administrative Fees, and Processing Payments, as well as Beverage Container Recycling Program (Program) administration costs and other appropriations mandated in PRC Section 14581.

Although the Recycling Fund remains solvent on a budgetary basis through 2012-13 due to loan repayments due from other funds, cash flow problems exist at various times throughout the year. The cash flow challenges are primarily attributable to three factors: revenue lag, a structural deficit (program expenditures exceed program revenue), and the status of the General Fund loan repayments. Revenue lag represents the total amount of expenditures paid prior to the corresponding collection of revenues for the same reporting period. Delaying remittance of redemption payments by one month will increase revenue lag, and as a result, fewer resources will be available to ensure timely payments.

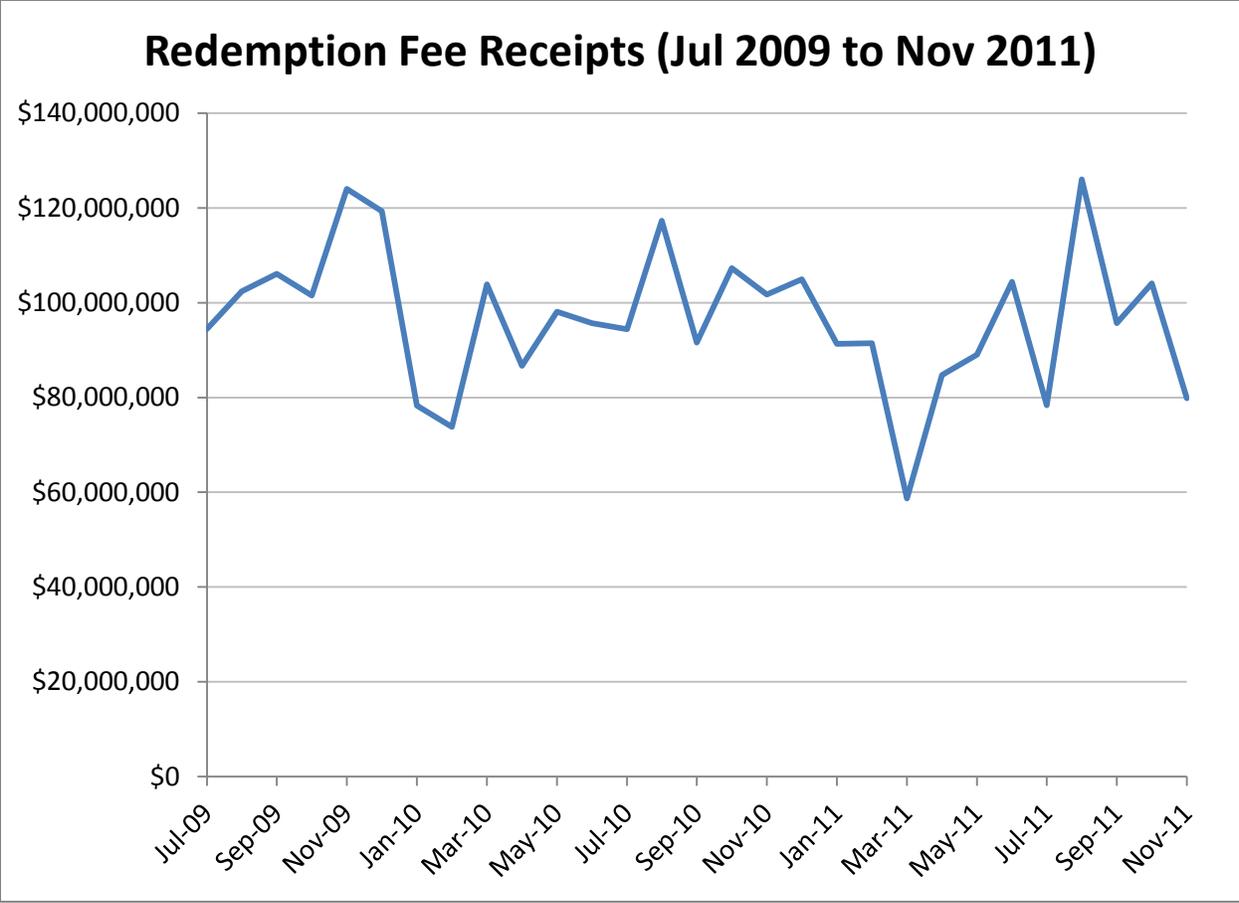
Background

The goals of the Beverage Container Recycling Program are to achieve, pursuant to Public Resources Code section 14501 (c), a sustained 80 percent recycling rate for glass, aluminum, and plastic beverage containers sold in California, and promote the establishment of viable markets for beverage container material. To accomplish the goals, CalRecycle ensures that: (1) the California Redemption Value (CRV) is paid by beverage distributors for each beverage sold in California; (2) consumers are refunded CRV for recycled beverage containers; (3) recycling centers are conveniently located; (4) grants are made to encourage recycling and development of markets for recycled materials; (5) strong oversight and enforcement programs are in place to protect the integrity of the Recycling Fund; and (6) public outreach and private partnerships are promoted.

Redemption Payments are paid by beverage distributors monthly and are the primary revenue source for the Program. Program operations are traditionally funded by unclaimed Redemption Payments. The percentage of containers recycled over total containers sold is referred to as the recycling rate. Since the beginning of the current economic slowdown, recycling rates increased sharply from 63 percent in FY 2006-07 to 82 percent in FY 2009-10 and FY 2010-11. As the recycling rate increased, the amount of unclaimed Redemption Payments that fund Program operations decreased. As a result, the Program has been operating under a structural budgetary deficit of approximately \$120 million annually. The Recycling Fund has remained solvent generally due to the receipt of General Fund loan repayments. Analysis of FY 2010-2011 data indicates that under the current Program structure, a maximum recycling rate of 70 percent would maintain fund solvency. In other words, recycling rates in excess of 70 percent aggravate the Recycling Fund structural imbalance under the current Program parameters.

The impact of the cash flow delay on meeting all demands on the Recycling Fund will depend the timing of future loan repayments and on the recycling rate moving forward.

Since January 1, 2010, the Recycling Fund has received three sets of loan repayments. Following each set of loan repayments, the available cash balance has generally followed an oscillating and downward trending pattern until the next loan repayment is made. All outstanding General Fund loans, currently amounting to \$261 million excluding interest, are expected to be repaid by June 30, 2013 with installments of \$89 million scheduled in FY 2011-12 and \$172 million scheduled in FY 2012-13.



The chart above shows actual Redemption Payment receipts by month. Redemption Payment revenue averages approximately \$97 million per month. The monthly range of payments from low sales in the winter to high sales in the summer is about \$60 million. When bimonthly payments began, receipts of February 2010 Redemption Payments during April 2010 amounted to about \$29 million of the \$87 million total Redemption Payment receipts for April 2010. The amount of cash flow increase from beginning bimonthly Redemption Payments was less than the average monthly revenue because many distributors consistently made Redemption Payments early, and others did not immediately comply with the accelerated due date.

In the short term, it is anticipated that normal cash flow for September 2012 could be delayed in an amount ranging from \$29 million to \$97 million. The low end of the range is the observed effect when bimonthly payments began. The high end of the range is the average monthly receipts of Redemption Payment revenue, an amount representing the effect of every distributor delaying payment until the extended due date. In general, the effect of extending the due date for July payments when sales are higher is anticipated to be higher than the observed effect of shortening the due date for February payments when sales are lower. This delay in payments may necessitate the acceleration of a portion of General Fund loan repayments currently scheduled for June 30, 2013. CalRecycle is developing a cash flow model for the April 2012 Quarterly Report that will provide an estimate of the accelerated loan payment needed.

Returning to trimonthly payments has the potential for an ongoing impact as well. Given the nature of the Redemption Payment requirements, CalRecycle experiences delays in receiving the corresponding Recycling Fund revenue. This, in turn, creates a revenue lag. Revenue lag represents the total amount of expenditures paid prior to the corresponding collection of revenues for the same reporting period, and can have a significant impact on cash flow available for ongoing operations. For example, routine program expenditures such as processors' claims for refund value and processing payments are generally paid within 20 days after the end of the reporting month; on the other hand, Redemption Payments from distributors, a primary source of revenue for the fund, are currently due 60 days after the end of the corresponding reporting month. This results in a revenue lag of approximately 40 days. Beginning July 1, 2012, the Redemption Payment schedule reverts to payments being due three months after the end of the reporting period, increasing the revenue lag to 70 days. This increase in revenue lag could ultimately result in significant delays in payments to program participants, given the strain on the fund from a cash flow perspective.

As a result, CalRecycle recommends preserving the existing bimonthly redemption Payment schedule going forward and amending Public Resources Code Section 14574 to remove the July 1, 2012 sunset provision. Additionally, further consideration should be given to adjusting reporting periods toward concurrent posting of revenue and expenditures.