



Quarterly Report on Status of the Beverage Container Recycling Fund

Department of Resources Recycling and Recovery

July 1, 2010



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OVERVIEW

As required by Public Resource Code (PRC) Section 14581(c)(1), the Department of Resources Recycling and Recovery (CalRecycle) has completed a quarterly review of actual and projected revenues and expenditures for the Beverage Container Recycling Fund (Recycling Fund). This review reports on the expected adequacy of funds in the Recycling Fund to make the payments specified in PRC 14581 as well as the processing fee reductions required by PRC 14575. The review also provides information about handling fees, processing fees, processing payments, and projections of sales and returns of beverage containers.

This report is based upon sales of beverage containers and recycling (or “returns”) of beverage containers in California. Any assessment of the Recycling Fund’s ability to support program activities must rest on both actual observed sales/returns activity and on projections of those sales and returns. For this report, actual sales, and actual returns data are current through the March 2010 reporting period. Data after that reporting period are projections and the methodology used for the projections in this report is described on the CalRecycle website

at: <http://www.calrecycle.ca.gov/BevContainer/Notices/2010/FundModeling.pdf>

Summary of remaining months of FY 2009-2010: While Fiscal Year (FY) 2009-2010 technically ends on June 30, 2010, claims for payment for the last months in that fiscal year will continue through the beginning months of FY 2010-2011. Continuous appropriation language in PRC 14581 contains statutory expenditure authority which, by its very terms, is continued into the following fiscal year. Chapter 5 of the Eighth Extraordinary Session, Statutes of 2010 (AB 7(8X)) increased revenues for FY 2009-2010 by accelerating distributor payment due dates. That added amount is combined with approximately \$28 million in repayment of prior loans from the Recycling Fund to the General Fund. It appears that the accelerated payments and the level of General Fund loan repayment (reduced from the amount envisioned in the April 1, 2010 report) will be sufficient to make the expenditures authorized under AB 7 (8X) in full.

Summary of FY 2010-2011: The provisions of AB 7 (8X) that suspend certain programs and limit the amount that can be used to reduce processing fee offsets continue through FY 2010-2011 (see discussion on Page 13). Continued repayment of prior year loans will be required to maintain a prudent reserve and make all of the payments authorized by AB 7(8X). The need for loan repayment revenues is largely the ongoing product of statutorily-set expenditures that the Recycling Fund cannot support as long as the program enjoys high recycling rates. The anticipated loan repayment of \$98.2 million in FY 2010-2011 remains subject to legislative action in Conference Committee. With this repayment, it appears likely that the expenditures authorized in AB 7(8X) can be made.

Summary of FY 2011-2012: At this point, CalRecycle cannot predict sales and returns with any degree of confidence past the coming 2010-2011 fiscal year. Nonetheless, absent a significant increase in sales or decrease in recycling (or combination of the two), the current level of expenditure likely cannot be met in FY 2011-2012 absent continued loan repayment.

This report is divided into four main sections:

- A detailed *Fund Condition Statement* with certain entries that require explanation, and are labeled to correspond with specific notations that follow the chart.
- *Sales and Returns Estimates* that display actual and projected numbers of containers sold and returned, and associated revenues and expenditures, by material type and container size.
- *Handling Fees* and associated assumptions.
- *Processing Fees and Processing Payments* that includes the amount used for actual and projected processing fees, and processing fee offsets, by material type.

FUND CONDITION STATEMENT

The following Fund Condition Statement shows three columns of fiscal data, one column per fiscal year. Data for FY 2008-2009 are actual values and are provided as a point of comparison. Data for FY 2009-2010 are largely actual data; however, as noted earlier, the last few months of that fiscal year remain projections as actual sales (California Refund Value (“CRV In”)) and actual returns (“CRV Out”) are only known through March 2010. The remaining data for FY 2009-2010 are projections. All of the data in the FY 2010-2011 column are based on projections of sales and returns. Those projections are based upon the month-over-month model referenced on Page 3.

Several of the line items in the Revenues and Transfers section and the Expenditures section are notated for further description. Those descriptions immediately follow the Fund Condition Statement in this report. The Fund Condition Statement presented here also is available in Excel format on the CalRecycle website:

<http://www.calrecycle.ca.gov/BevContainer/RecycleFund/2010/JulCondition.xls>

Notes:

[Note 1] – “CRV In” is derived from projections of beverage container sales, added to known actual sales volumes. Actual sales are current through the March 2010 reporting period; all subsequent sales are projections. Projections are made using the month-over-month projection methodology, described in addendum to April 2010 quarterly report and referenced on Page 3.

[Note 2] – Revenues from “Accelerated CRV Payment” remain an estimated amount, since the Department is still working to ensure compliance with the new reporting provisions. In the October quarterly report, the total “CRV In” for FY 2009-2010 will be known and will be attributed as a single reported value.

[Note 3] – “Repayment of General Fund” amounts are based upon current (as of June 27, 2010) proposals for repayment. While approximately \$54 million was proposed for repayment in FY 2009-2010, only \$27.853 million was actually repaid, and full program payments have been ensured for the fiscal year. The Governor’s Budget proposes \$98.2 million for repayment in FY 2010-2011. Action in the Senate Budget Subcommittee #5 directed the Administration to reduce the anticipated repayment of General Fund to the Recycling Fund by \$30 million (i.e., \$68 million General Fund) in FY 2010-2011. This action is currently in Conference Committee. In addition, CalRecycle received \$2 million as repayment from the General Fund for loans made in FY 2008-2009 to the Department of Conservation.

[Note 4] – “Transfers to Glass/Plastic Processing Fee Accounts” are the expenditures for the Processing Fee Offsets authorized in PRC 14581 and PRC 14575. They are capped per AB 7(8X) for calendar years 2010, and 2011 at the level expended, by material type, in the 2008 calendar year. The total amount for FY 2009-2010 reflects half-year appropriation under proportionate reduction and half-year appropriation under the terms of AB 7(8X).

[Note 5] – “Loan from Alternative Renewable Fuel and Vehicle Technology Fund” is a one-time loan to the Recycling Fund enacted in the FY 2009-2010 budget. The amount

matches the “Local Assistance -- Local Conservation Corps” expenditure shown in the Fund Condition Statement.**[See Note 10]**.

[Note 6] – “Expenditures” section is derived primarily from the list of appropriations found in PRC 14581. Fiscal Year 2008-2009 expenditures are as appropriated. Fiscal Year 2009-2010 expenditures list the amounts authorized for six months under proportionate reduction and six months for full funding of programs authorized under AB 7(8X). Some items authorized will not have been expended and will revert to the Recycling Fund after the close of FY 2009-2010 (to be subsequently listed as “Other Income” for FY 2010-2011).

[Note 7] – “CRV Out” is derived from projections of recycling volumes, combined with actual recycling volumes. Actual recycling volumes are known through the March 2010 reporting period; all subsequent “CRV Out” payments are based on the assumption that recycling rates will be about 85 percent and that payments out will not exceed 90 percent of “CRV In”. This projection appears to be consistent with initial observations of actual consumer behavior, recycling at about 85 percent and not higher. This cap differs from historic practice. In the past, the Department would conduct a month-over-month projection of returns (see link above on Page 3 regarding the methodology discussion). However, this methodology now predicts recycling rates above 100 percent because the recent history (last two years) shows falling sales and rising returns. Notwithstanding the possibility of fraud, the Department believes it is illogical to assume that more containers will be recycled in California than are sold in California in a given year. If consumer behavior changes and the 85 percent recycling rate estimate proves unreliable, the Department will revise it in subsequent quarterly reporting.

[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 amount and the number of containers recycled. Handling Fee rates change annually on July 1. For FY 2010-2011, the per-container Handling Fee is \$0.00859, down from \$0.0098 in FY 2009-2010. For Fiscal Year 2009-2010, the per-container handling fee rates were affected by proportionate reduction.

For more information regarding handling fees, see the Processing Fee and Handling Fee Cost Surveys, Handling Fee Final Report:

<http://www.calrecycle.ca.gov/BevContainer/Fees/Handling/FinalReport.pdf>.

[Note 9] – Local Conservation Corp grants are annually adjusted for the cost of living from a baseline of \$15 million, which began in the 2000 calendar year. Source for adjustment rate is: http://www.dof.ca.gov/html/fs_data/latestEconData/fs_price.htm.

[Note 10] – As stated in **[Note 5]** above, this \$8.25 million expenditure amount is a one-time authorization in FY 2009-2010 for local community conservation corps, with funds coming from a loan to the Recycling Fund from the Alternative Renewable Fuel and Vehicle Technology Fund. The loan is rescheduled for repayment in FY 2012-2013.

[Note 11] – Both the “Competitive Grants” and “Market Development Grants” expenditure entries indicate amounts authorized in FY 2009-2010, notwithstanding provisions in AB 7 (8X) suspending these programs in calendar years 2010 and 2011. This is because the programs were authorized at the levels specified for FY 2009-2010 based upon proportionate reduction. For accounting purposes, the authorization is shown on the fund condition. However, the Department will not solicit nor award grants at these fund levels, since the fund levels are too low to justify a full solicitation. These funds will be shown as reversions to Other Income in the Recycling Fund in FY 2010-2011 and in subsequent fund condition statements, once FY 2009-2010 is closed.

[Note 12] – The amount authorized in FY 2009-2010 for “Public Education and Information” was 5 percent of the total authorized for the full fiscal year, which equates to the 85 percent proportionate reduction level for three months applied to all program expenditures prior to passage of AB 7 (8X).

[Note 13] – Fund Balance does not include any prudent reserve calculation. The prudent reserve pursuant to PRC 14580(a)(2) would be 5 percent of the total amount paid to processors. For FY 2010-2011 that amount would be approximately \$56.1 million. The projected ending balance of \$93,818,798 exceeds that prudent reserve.

SALES AND RETURNS ESTIMATES

The tables below show projections of sales and returns for FY 2008-2009 through FY 2010-2011. The table for FY 2008-09 shows actual values for both sales and returns. Data regarding sales and returns for FY 2009-2010 include actual sales and returns through March 2010, and projected values for the months of April, May, and June 2010. Sales and returns data for FY 2010-2011 are projected values.

In regard to sales, distributors are now required to report sales at the end of the second month following the month of beverage container sales. While the table for FY 2009-2010 largely reflects actual reporting from distributors of containers sold, the actual data are only current through the end of the March reporting period (which was due at the end of May). April reporting volumes are not due until the end of June and are not available for inclusion in this report. Thus, sales volumes for the last three months of FY 2009-2010 and all of FY 2010-2011 are projections.

Regarding returns, processors make claims for CRV based upon the weight of material they receive from recyclers. The Department converts these reported weights to containers for purposes of reporting recycling rates. The most recent actual data for returns used in these tables are for March 2010; all subsequent data are projections.

Sales and Returns Estimates FY 2008-09 (Actual)					
	Over 24 oz.	Under 24 oz.	Container Sales (\$)	Containers Returned	Containers Returned (\$)
AL	476,580,520	8,955,135,958	\$487,983,627	8,153,794,759	\$484,756,359
GL	289,030,150	2,981,439,948	\$175,305,387	2,550,805,561	\$151,649,539
PET	1,413,890,706	7,018,579,475	\$484,933,274	5,765,928,821	\$342,793,845
HDPE	174,920,121	163,855,750	\$25,299,528	350,385,998	\$20,831,017
Total	2,354,421,497	19,119,011,131	\$1,190,562,461	16,820,915,139	\$1,000,514,713

Sales and Returns Estimates FY 2009-10 (Actual and Projected)					
	Over 24 oz.	Under 24 oz.	Container Sales (\$)	Containers Returned	Containers Returned (\$)
AL	522,493,599	9,310,914,307	\$510,028,157	8,206,317,489	\$435,225,297
GL	315,513,810	3,005,622,533	\$179,105,023	2,883,818,597	\$158,390,699
PET	1,443,821,242	7,352,365,117	\$504,320,382	5,883,243,285	\$360,242,884
HDPE	180,652,334	180,915,281	\$26,704,333	689,169,586	\$59,810,756
Total	2,462,480,985	19,849,817,238	\$1,220,157,895	17,662,548,957	\$1,013,669,636

Sales and Returns Estimates FY 2010-11 (Projected)					
	Over 24 oz.	Under 24 oz.	Container Sales (\$)	Containers Returned	Containers Returned (\$)
AL	486,988,083	8,332,363,295	\$458,337,225	7,548,271,242	\$404,463,690
GL	339,242,950	2,567,188,148	\$159,849,449	2,850,368,960	\$157,520,390
PET	1,249,964,262	6,563,035,721	\$446,350,996	5,230,684,980	\$324,302,469
HDPE	159,428,416	172,986,046	\$24,223,262	1,082,803,865	\$93,598,300
Total	2,235,623,711	17,635,573,210	\$1,088,760,932	16,712,129,047	\$979,884,849

Reported recycling rates will not match exactly to a formula of “returns divided by sales” for a given year. This is because the dollar amounts include reduced payment from distributors and extra payments to processors and recyclers for administrative fees, as well as accrual considerations. The Department can provide further information upon request.

HANDLING FEES

Handling fees are a set amount per container, regardless of container type. The table below shows three years of handling fee payments. Note that the total amount of Handling Fees for FY 2009-2010 remains an estimate. Actual Handling Fee claims have been received through the February 2010 reporting period. For the remaining months in FY 2009-2010, estimates of convenience zone recycler volumes are the foundation of the total projected annual expenditure. For the FY 2010-2011 period, the total amount is based entirely on projections of monthly handling fee-eligible, convenience zone recycler volumes. For more information regarding handling fees, see the link to the Processing Fee and Handling Fee Cost Surveys, Handling Fee Final Report contained in Note 8 above.

Fiscal Year	Handling Fee	Containers
2008-09 (Actual)	\$47,323,873	4,538,216,661
2009-10 (Actual and Projected)	\$26,370,352	4,271,758,667
2010-11 (Projected)	\$40,625,519	4,729,396,911

PROCESSING FEES/PAYMENTS

Processing Fees are collected from beverage manufacturers that package their beverages in plastic and glass. Processing Payments are made to recyclers from the Processing Fees paid by manufacturers, plus the Processing Fee Offsets transferred from the unredeemed redemption payments.

For FY 2009-2010 Processing Fees were increased and Processing Payments were reduced from the levels they would otherwise have been because of proportional reductions. Processing Fee Offsets were reduced from July-December (85 percent reduction in offsets for July-October, and 100 percent reduction from October-December). With these reductions, the amount manufacturers were required to pay as a Processing Fee increased. However, the total portion of the Processing Payment a manufacturer can be required to pay is capped (65 percent). Because the offsets were reduced significantly under proportionate reduction, the amount of money needed to pay full Processing Payments was not received from the combined sources of processing fees paid by manufacturers and the offsets transferred from the unredeemed redemption payments. Recyclers were required to take a reduced Processing Payment than was calculated as appropriate.

For FY 2010-2011 Processing Fees and Processing Payments are again influenced by limitations on the amount of Processing Fee Offsets. The offsets for calendar years 2010 and 2011 were capped by AB 7 (8X) at the amount expended per container type in the 2008 calendar year. This cap increases the amount required from manufacturers, when compared to the other statutory provisions establishing Processing Fees. With the reduced amount available for Processing Fee Offsets, manufacturer-paid Processing Fees have been increased. The cap on Processing Fee Offsets and the annual basis for setting Processing Fees may result in the generation of insufficient revenues to pay all Process Payments. The Department will be evaluating whether the amount of Processing Fees collected is sufficient to make all payments over the fiscal year and, if necessary, will adjust the amount of the Processing Fees in January to ensure sufficient funds to pay all Processing Payments through FY 2010-2011.

FY 2008-09 (Actual)			
	Processing Fees	Processing Fee Offsets	Processing Payments
Glass	\$7,774,040	\$55,565,629	\$63,339,669
PET	\$8,030,397	\$28,118,881	\$37,892,678
HDPE	\$1,120,553	\$4,655,240	\$7,630,593
Total	\$16,924,990	\$88,339,750	\$108,862,940

FY 2009-10 (Actual and Projected)			
	Processing Fees	Processing Fee Offsets	Processing Payments
Glass	\$29,601,620	\$27,461,205	\$54,544,493
PET	\$27,560,038	\$15,215,746	\$41,386,220
HDPE	\$5,363,194	\$2,960,990	\$8,053,775
Total	\$62,524,852	\$45,637,941	\$103,984,488

FY 2010-11 (Projected)			
	Processing Fees	Processing Fee Offsets	Processing Payments
Glass	\$6,907,233	\$46,965,781	\$53,873,013
PET	\$22,266,133	\$28,185,74	\$50,451,877
HDPE	\$5,229,439	\$4,588,377	\$9,817,816
Total	\$34,402,805	\$79,739,902	\$114,142,706

Processing Fees plus Processing Fee Offsets may not equal Processing Payments in a given fiscal year. The Department estimates the amount of Processing Fee Offset to be transferred from unredeemed CRV into the Processing Fee Accounts. That estimate is based on past volumes to generate expected future return. Prior to AB 7(8X), the amount of Offset was not capped. When the amount of transferred unredeemed CRV was less than eventually needed, adjustments were made to ensure recyclers received full Processing Payments. If the amount of Offset transferred exceeded what was needed to make Processing Payments, subsequent year transfers of unredeemed CRV were reduced. In neither scenario were the Processing Fee rates affected. Under AB 7(8X), the amount of Processing Fee Offsets is now capped for CY 2010 and 2011, which will require the Department to ensure that the Processing Fee is appropriately set such that sufficient Fee revenues match allowed Offsets.