



## Quarterly Report on Status of the Beverage Container Recycling Fund

Department of Resources Recycling and Recovery

October 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 June 2010 reporting period.

**Summary of FY 2010-2011:** The provisions of AB 7 (8X) (Chapter 5 of Eighth Extraordinary Session, Statutes of 2010) suspending certain programs and limiting 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 a result of statutorily-set expenditures that the Recycling Fund cannot support as long as the program experiences high recycling rates. This quarterly statement assumes the repayment of \$68.4 million from the General Fund to the Beverage Container Recycling Fund, as approved by the Joint Legislative Budget Conference Committee.

This review notes further issues relating to the repayment of loans made for AB 32 implementation. Pending ballot measure Proposition 23 would, if approved by voters in November, impact the state's ability to repay approximately \$21 million in both FY 2010-2011 and FY 2011-2012. However, regardless of the outcome of the ballot initiative, the continuing delay in resolving the 2010-2011 budget may result in revenue

from the pending AB 32 fee being unavailable until the latter part of the fiscal year. As such, revenue from the repayment of this loan is not considered in determining the adequacy of available funds for this quarter. While the loan repayment is shown in the Fund Condition statement, if the monies are not eventually available for transfer, the ending Fund Balance would still be sufficient to maintain a prudent reserve.

This quarterly statement suggests that the expenditures authorized by PRC 14575 and 14581 can be made through FY2010-2011 with the anticipated receipt of \$68.4 million in General Fund loan repayment to the Recycling Fund. However, should unexpected economic conditions arise, CalRecycle must note the possibility of a return to proportionate reduction in FY 2010-2011. Proportionate reduction is to be implemented whenever CalRecycle anticipates that there will be insufficient funds available in the Recycling Fund to make all of the payments specified under Public Resources Code section 14575 and 14581.

The provisions of AB 7(8X) require that CalRecycle provide 90 days advance notice of the proportionate reductions. To accommodate that advance notice requirement, CalRecycle would need to consider making the announcement of proportionate reduction as early as November 1, 2010, with the timing of the notice directly affecting the depth of the reduction for the remaining part of the fiscal year. CalRecycle makes note of this circumstance to ensure that all interested parties are aware of the timing of events that may be necessary between this report and the next quarterly report in January, 2011.

**Summary of FY 2011-2012:** Current projections of sales and returns through the end of FY 2011-2012 indicate an on-going need to continue with loan repayments to the Recycling Fund if all obligations of the Recycling Fund are to be paid. This report assumes that the minimum amount required to be repaid from the General Fund is repaid in FY 2011-2012. This amount -- \$64.4 million -- is included in the Fund Condition as an estimate of that need at this time in October, 2010 and does not make a commitment or preclude any other proposed amount of loan repayment in the Governor's actual proposed FY2011-2012 budget, to be released in January 2011.

**Projections:** The Department has acknowledged the need for a revised projections methodology. The Bureau of State Audits June 2010 report on the Beverage Container Recycling Program also acknowledged the need to improve the projections methodology. The Department has developed a new methodology for this quarterly report. The methodology, described below, has been evaluated as a projection tool against past data and will continue to be tested monthly as actual sales and returns data are received. The methodology may continue to be used for subsequent quarterly reports or may be revised, depending on the reliability of projections compared to observed actual values.

The methodology used for this projection departs from the prior month-over-month methodology. After significant consultation with economic experts now available in the CalRecycle organization, CalRecycle has determined that for the current economic circumstances, a trend line analysis is best for making projections. This methodology first identifies trends for sales and returns. These trends are identified by examining each individual month's sales/returns values with neighboring months' values (two months of data on either side of the target month) to "flatten" seasonal and monthly variations. For sales, the trend line used for this projection reaches back 48 months to project forward the next 12 months. For returns, this model uses a 12 month trend line, reflecting uncertainty of the economy. Once a trend line is identified, monthly fluctuations are restored based upon historical differences in actual reported data away from the trend line. Values for each month's sales and returns are developed for the entire projection period, leading to ending values for sales, returns and fund balance. Projected payments to program participants are similarly calculated on the projected containers sold/returned and then included as expenditures (i.e., the container-based payments such as Processing Fee Offsets and Handling Fees).

These projections are being used for the first time for this October 2010 report. The model was used to develop projections for July 2010 sales and revenues through the end of FY2011-2012, as shown in the fund condition statement. The January 2011 report will include a comparison of this new methodology to actual observed sales and returns and potentially will result in a revision to the methodology.

**Report Content:** 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 2009-2010 are estimates until the accounting cycle is completed for FY 2009-2010. All values of sales, returns, revenues and expenditures for FY 2010-2011 and 2011-2012 are projections.

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 at the following URL on the CalRecycle website:

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

<b>Beverage Container Recycling Fund Condition Statement</b>				
<b>Projected Revenues and Expenditures as of October 1, 2010</b>				
		<b>FY 2009-10</b>	<b>FY 2010-11</b>	<b>FY 2011-12</b>
<b>Balance Forward (A)</b>		158,063,304	76,954,805	85,735,420
<b>Revenues and Transfers</b>				
<b>Receipts</b>				
	CRV In <i>[Note 1]</i>	1,173,851,594	1,064,618,925	1,028,543,162
	Other Income	3,644,610	3,305,461	3,193,452
	<b>Total Receipts (B)</b>	<b>1,177,496,204</b>	<b>1,067,924,386</b>	<b>1,031,736,614</b>
<b>Transfers</b>				
	Loans for AB 32 Implementation <i>[Note 2]</i>	(35,000,000)		
	Loans to General Fund	(99,400,000)		
	Repayment of AB 32 Implementation Loan		21,300,000	21,500,000
	Repayment of General Fund Loan <i>[Note 3]</i>	29,853,000	68,400,000	64,418,389
	Transfers to Glass Processing Fee Account <i>[Note 4]</i>	(27,461,205)	(46,965,781)	(46,965,781)
	Transfers to Plastic Processing Fee Account <i>[Note 4]</i>	(18,176,736)	(32,774,121)	(32,774,121)
	Loan from Alternative Renewable Fuel & Vehicle Technology Fund <i>[Note 5]</i>	8,250,000		
	<b>Total Transfers (C)</b>	<b>(141,934,941)</b>	<b>9,960,098</b>	<b>6,178,487</b>
	<b>Total Transfers and Receipts (B+C)</b>	<b>1,035,561,263</b>	<b>1,077,884,484</b>	<b>1,037,915,101</b>
	<b>Total Resources (D) = (A+B+C)</b>	<b>1,193,624,567</b>	<b>1,154,839,289</b>	<b>1,123,650,521</b>
<b>Expenditures <i>[Note 6]</i></b>				
<b>Disbursements</b>				
	CRV Out <i>[Note 7]</i>	989,243,132	911,411,746	911,411,746
	Division of Recycling Administration	47,631,475	49,788,000	49,788,000
	Handling Fees <i>[Note 8]</i>	24,475,147	37,786,660	37,786,660
	Curbside Supplemental Payments	8,250,000	15,000,000	15,000,000
	Local Conservation Corps Grants <i>[Note 9]</i>	10,702,827	19,543,673	19,543,673
	Local Assistance - Local Conservation Corps (one-time) <i>[Note 10]</i>	8,250,000		
	City/County Payments	5,775,000	10,500,000	10,500,000
	Competitive Grants <i>[Note 11]</i>	75,000		750,000
	Public Education and Information <i>[Note 12]</i>	250,000		2,500,000
	Quality Incentive Payments	5,750,000	10,000,000	10,000,000
	Market Development Grants <i>[Note 11]</i>	1,000,000		
	Recycler Incentive Program	5,500,000		
	Plastic Market Development	5,250,000	10,000,000	10,000,000
	<b>State Ops/Board of Control/Pro Rata</b>	<b>4,517,181</b>	<b>5,073,790</b>	<b>5,073,790</b>
	<b>Total Expenditures (E)</b>	<b>1,116,669,762</b>	<b>1,069,103,869</b>	<b>1,072,353,869</b>
	<b>FUND BALANCE (D-E) <i>[Note 13]</i></b>	<b>76,954,805</b>	<b>85,735,420</b>	<b>51,296,652</b>



**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 June 2010 reporting period; all subsequent sales are projections. Sales for FY 2009-2010 include the “13<sup>th</sup> distributor payment” that occurred as a result of the one-month acceleration of beverage distributor reporting and payment enacted by AB 7(8X).

**[Note 2]** – Loan repayment from AB 32 implementation loans is scheduled for FY 2010-2011 and FY 2011-2012. These amounts could change if Proposition 23 is approved in November 2010.

**[Note 3]** – The “Repayment of General Fund” amount for FY 2010-2011 is based upon the amount approved as of this report date by the Joint Legislative Budget Conference Committee; that amount is \$68.4 million. For cash flow purposes, this amount will need to be transferred over the course of the year and not as a one-time payment at the end of the fiscal year. Also, the amount shown as loan repayment for FY 2011-2012 is an estimate only of expected need and is not intended to serve as a commitment to a specific loan repayment. The amount shown is only enough to ensure that a prudent reserve can be maintained for FY 2011-2012 and remains at the end of that fiscal year.

**[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). Please see discussion of Processing Fees found later in this report regarding FY 2011-2012 Processing Fee, Payment, and Processing Fee Offset amounts displayed in this report.

**[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 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). FY 2011-2012 amounts include the mid-year reinstatement of certain programs suspended by AB 7(8X) until January 1, 2012. All values are estimates until the accounting cycle for FY 2009-2010 is completed.

**[Note 7]** – “CRV Out” is derived from projections of recycling volumes, combined with actual recycling volumes. Actual recycling volumes are known through the June 2010 reporting period. As actual data are received, this value will change, to next be revised in January 2011.

**[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 FY 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 at the following web-site:

<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](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. However, the Department has neither solicited nor awarded grants against these funds, since the fund levels are too low to justify a full solicitation. The “Market Development Grants” program is sunset as of January 1, 2012. However, the competitive grant program was only suspended by AB 7(8X) through the end of CY 2011. This fund condition shows a half-year of funding available in FY 2011-2012, reflecting the end of the 2-calendar-year suspension AB 7(8X) established for that program. CalRecycle is evaluating the reasonability and potential effectiveness of offering these grants in that 6-month period at the beginning of CY 2012 / end of FY 2011-2012.

**[Note 12]** – The amount authorized in FY 2009-2010 for “Public Education and Information” was 5% of the total authorized for the full fiscal year, which equates to the 85% proportionate reduction level for three months applied to all program expenditures prior to passage of AB 7 (8X). The fund condition indicates a half-year of funding available in FY 2011-2012, reflecting the end of the 2-calendar-year suspension AB 7(8X) established for that program.

**[Note 13]** – Fund Balance does not include any prudent reserve calculation. The prudent reserve pursuant to PRC 14580(a)(2) would be five percent of the total amount paid to processors. For FY 2011-2012 that amount would be approximately \$51.3 million. The projected ending balance of \$51.296 million for FY 2011-2012 meets that prudent reserve. As explained above in Note 4, the amount of General Fund loan repayment directly influences the demonstrated prudent reserve. Without loan repayment, the Recycling Fund does not have a prudent reserve, as required by law, and must implement proportionate reduction.

## **SALES AND RETURNS ESTIMATES**

The tables below show projections of sales and returns for FY 2009-2010 through FY 2011-12. The table for FY 2009-2010 shows actual values for both sales and

returns. Data regarding sales and returns for FY 2010-2011 and 2011-2012 include only projections for sales and returns.

<b>Sales and Returns FY 2009-10 (Estimate)</b>					
	Over 24 oz.	Under 24 oz.	Container Sales (\$)	Containers Returned	Containers Returned (\$)
AL	499,658,610	8,907,944,949	\$495,363,109	8,098,623,681	\$430,124,500
GL	302,546,258	2,804,474,679	\$170,478,360	2,882,617,337	\$158,461,642
PET	1,377,851,301	6,881,931,988	\$481,881,730	5,696,366,871	\$349,336,563
HDPE	175,161,592	172,244,739	\$26,128,396	591,373,195	\$51,320,427
Total	2,355,217,762	18,766,596,356	\$1,173,851,594	17,268,981,084	\$989,243,132

<b>Sales and Returns FY 2010-11 (Projected)</b>					
	Over 24 oz.	Under 24 oz.	Container Sales (\$)	Containers Returned	Containers Returned (\$)
AL	489,564,713	8,101,593,336	\$447,225,596	7,051,484,677	\$394,343,614
GL	294,511,035	2,465,081,219	\$150,414,587	3,035,511,853	\$171,945,770
PET	1,193,453,189	6,637,142,595	\$444,434,412	4,527,022,125	\$292,935,932
HDPE	152,699,595	152,353,707	\$22,544,330	597,734,135	\$52,186,430
Total	2,130,228,532	17,356,170,857	\$1,064,618,925	15,211,752,790	\$911,411,746

<b>Sales and Returns FY 2011-12 (Projected)</b>					
	Over 24 oz.	Under 24 oz.	Container Sales (\$)	Containers Returned	Containers Returned (\$)
AL	495,622,740	7,717,539,336	\$428,907,652	7,051,484,677	\$394,343,614
GL	311,603,261	2,222,725,037	\$140,162,129	3,035,511,853	\$171,945,770
PET	1,093,581,888	6,747,131,097	\$440,014,023	4,527,022,125	\$292,935,932
HDPE	135,333,091	124,447,687	\$19,459,358	597,734,135	\$52,186,430
Total	2,036,140,980	16,811,843,158	\$1,028,543,162	15,211,752,790	\$911,411,746

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 until the accounting cycle is completed for FY 2009-2010. Actual Handling Fee claims have been received through the June 2010 reporting period. For the FY 2010-2011 and FY 2011-2012 periods, the total amount is based entirely on projections. 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.

<b>Fiscal Year</b>	<b>Handling Fee</b>	<b>Containers</b>
2009-10 (Estimated)	\$26,370,352	4,078,370,415
2010-11 (Projected)	\$37,786,660	4,398,912,689
2011-2012 (Projected)	\$37,786,660	4,398,912,689

## **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 and, with these reductions, the amount manufacturers were required to pay as a Processing Fee increased.

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 Processing 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.

<b>FY 2009-10 (Estimated)</b>			
	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

<b>FY 2010-11 (Projected)</b>			
	Processing Fees	Processing Fee Offsets	Processing Payments
Glass	\$6,907,233	\$46,965,781	\$53,873,013
PET	\$22,266,133	\$28,185,744	\$50,451,877
HDPE	\$5,229,439	\$4,588,377	\$9,817,816
Total	\$34,402,805	\$79,739,902	\$114,142,706

<b>FY 2011-12 (Projected)</b>			
	Processing Fees	Processing Fee Offsets	Processing Payments
Glass	\$6,907,233	\$46,965,781	\$53,873,013
PET	\$22,266,133	\$28,185,744	\$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.

Processing Fees, Payments, and Offsets will all change in the middle of 2011-2012. The AB 7(8X) cap on total offsets by material type is scheduled to become inoperative on January 1, 2012. The Processing Payment amount is unknowable at this time, as it will result from cost of recycling surveys that have not yet started and scrap values gleaned from market conditions that have not yet occurred. Processing Fees are a function of the Payments, less the amount of allowed Offsets. These inter-relations combined with fundamentally unknowable details at this point, result in there being no way of identifying Processing Fees and Payments for FY 2011-2012. For purposes of this report, however, CalRecycle has used the FY 2010-2011 values as a proxy for FY 2011-2012. As CalRecycle is better able to determine those values, they will be reflected in subsequent reports.