



Quarterly Report on Status of the Beverage Container Recycling Fund

Department of Resources Recycling and Recovery

April 8, 2011



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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.

In general terms, the Recycling Fund Condition Summary indicates that the Fund will be solvent as long as expected loan repayments to the Recycling Fund continue. The Recycling Fund Balance is not projected to reach a level that would require proportionate reduction in FY2010-11 or FY2011-2012. However, assessment is entirely dependent upon continued repayment of historic loans made from the Recycling Fund. The Governor's proposed FY2011-2012 Budget includes General Fund loan repayments of \$98M in FY2010-2011 (of which, \$68M has already been transferred to the Recycling Fund) and \$88M in FY2011-2012. It also includes repayments of approximately \$21M in each of those fiscal years for loans made from the Recycling Fund to the Air Resources Board. If those loan repayments—beyond the \$68M already repaid in the current year—are not made in FY2010-2011 and FY2011-2012, CalRecycle will need to revisit the question of proportionate reduction for the FY2011-2012 period.

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 November 2010 reporting period. Data after that reporting period are projections.

The report again includes sections discussing beverage container sales and returns estimates, as well as handling fee and processing fee/payment estimates. Those handling fees and processing fees/payments estimates rely upon projections of sales and returns and make no assumptions about changes in the actual fee or payment rate. Current handling fee and processing fee/payment rates were used and, thus, the estimates are highly speculative, given changes in costs of recycling and scrap values.

The January 2011 Quarterly Status report reflected information available for the Governor's Budget, to be released on January 10, 2011. At that time, revenues and expenditures were incomplete for FY 2009-2010. Since that time, the accounting records of CalRecycle and the Department of Conservation have become much more closely reconciled, such that this report is deemed a complete and accurate representation of the Recycling Fund for FY2009-10. Any subsequent changes are expected to be minor.

This report is divided into five main sections:

- *A Recycling Fund Condition Summary*, which is a slightly revised summary version of the entire fund condition. At the request of many interested parties, it has been re-formatted for ease of reference, but all data on the chart can be tied directly to the detailed Quarterly Status Report.
- A discussion of the *Projections* used in this report and also a comparison of past projections to actual observed values.
- *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.
- Finally, the detailed *Quarterly Status Report* is shown as an Appendix, with annotations to corresponding entries in the Fund Condition.

RECYCLING FUND CONDITION SUMMARY

As CalRecycle continues to prepare and present these quarterly statements regarding the Recycling Fund, we have welcomed feedback from stakeholders and interested parties. One suggestion we implement with this report is a Fund Condition Summary. This summary combines many minute details of a Fund Condition to allow the reader to focus more on what we understand are the high-level points. Thus, all the CRV In and CRV Out are still shown as stand-alone details. Similarly, the individual expenditures specified in Public Resources Code section 14581 are also itemized. However, other categories of revenues and expenditures are summarized in this form. The full Fund Condition Statement can be found in the Appendix with all of the requisite notations.

Recycling Fund Condition Summary Statement

Status of Beverage Container Recycling Fund
April 8, 2011

		FY 2009-10	FY 2010-11	FY 2011-12
RESOURCES	RESOURCES			
	Balance Forward	160,347,000	119,285,483	132,615,050
	CRV Revenues	1,137,694,171	1,135,816,216	1,127,915,019
	Transfers (Loans Made/Repaid)	(102,297,000)	119,470,000	109,300,000
	Adjustments	113,069,581	825,391	819,648
	TOTAL RESOURCES	1,308,813,752	1,375,397,090	1,370,649,717
EXPENDITURES	EXPENDITURES			
	CRV Out	1,023,847,963	1,004,106,167	1,016,860,078
	Beverage Container Recycling Program Administration	51,361,687	49,788,000	49,788,000
	Handling Fees	24,102,392	41,629,723	42,158,494
	Curbside Supplemental Payments	8,250,000	15,000,000	15,000,000
	Local Conservation Corps Grants	10,702,824	19,543,673	19,501,680
	Local Conservation Corps Grants (one-time)	1,011,533		
	City/County Payments	5,543,226	10,500,000	10,500,000
	Competitive Grants	3,118		750,000
	Glass Processing Fee Offsets	32,635,099	47,188,190	47,410,000
	Plastic Processing Fee Offsets	20,580,178	29,954,497	27,616,000
	Public Education and Information	177,831		2,500,000
	Quality Incentive Payments	6,584,757	10,000,000	10,000,000
	Market Development Grants	(4,958,375)		
	Recycler Incentive Program	5,499,282		
	Plastic Market Development Payments	4,352,119	10,000,000	10,000,000
	Grants Multi-family Housing	406,921		
	Grants Multi-family Housing (low income)	(100,463)		
	State Parks Recycling and Litter Reduction	(4,989,005)		
	Other Disbursements	4,517,182	5,071,790	4,913,622
TOTAL EXPENDITURES	1,189,528,269	1,242,782,040	1,256,997,874	
FUND BALANCE	119,285,483	132,615,050	113,651,843	
NET INCOME	61,235,483	(106,140,433)	(128,263,207)	

NOTES:			
1. "Transfers" in FY10-11 and 11-12 are entirely repayment of General Fund and ARB Implementation loans in FY10-11 and FY11-12. Absent those payments, the Fund Balance changes significantly (as shown at right).		13,145,050	4,351,843
2. "Processing Fee Offsets" are shown in Expenditures for ease of reference and to provide consistency with the statutory listing of PRC 14581-authorized expenditures.			
3. "Adjustments" includes Prior Year Adjustments and Other Income.			
4. "Other Disbursements" includes Pro Rata and other required payments to control agencies, as required of all special funds.			
5. "Net Income" is CRV Income and Adjustments, less Annual Expenditures. It does not include balances carried forward or any loans or loan repayments. The measure is intended to help convey the actual difference in annual revenues and costs.			

CalRecycle notes that the Summary indicates positive fund balances due to the continued expectation of loan repayment. If the loan repayments do proceed as planned, the Fund Balance will be affected, as shown in the Notes section of that Summary.

CalRecycle also notes that, by statute, the amount of the prudent reserve in the Recycling Fund should equal 5 percent of the prior year's expenditures to processors. Including CRV payments and processing payments to processors yields prudent reserve expectations of at least \$55 million. However, due to the seasonality of the Recycling Fund's revenues and expenditures, planning for an end-of-year Recycling Fund balance of just \$55 million results in insufficient funds in certain months throughout the year. For instance, August and September are traditionally months when CRV Out payments are high from consumer recycling beverage containers resulting from of summer-time consumption patterns. However, payments from distributors in August and September are usually waning because distributors are already slowing shipments from the summer-time high sales volumes in preparation for slower traditional autumn sales. When the end-of-year balance planning is for only the 5 percent allowed by statute, there can very easily be times when CalRecycle must slow the payment processes on claims to ensure that sufficient resources exist in the Fund to make the claimed payments. This translates to delayed payments to processors, recyclers, grantees, and anyone else receiving payments from the Recycling Fund.

This Summary also includes a "Net Income" reference. This value considers the amount of CRV revenue and interest/adjustments in a given year and then the projection of CRV expenditure to consumers who recycle and other expenditures in that given year; it is a snapshot of a given year and is additive from one year to the next. The value for FY2009-2010 is positive because of a one-time adjustment. The Net Income values for FY2010-2011 and FY2011-2012 are negative, reflecting the fact that the Recycling Program is solvent solely based upon loan repayments. The FY2011-2012 value is somewhat more negative given that provisions of AB 7(8x) (Assembly Committee on Budget, Chapter 5, Statutes of 2009-10 Eighth Extraordinary

Session), which capped and suspended certain payments, sunset in the middle of the fiscal year.

PROJECTIONS

CalRecycle's projections for sales and returns for this quarterly reporting period are essentially flat for the next 12-18 months. The Sales Projections balance between a trend line analysis of 36 months and 24 months. Actual sales observed by the Recycling Program have been in decline since FY2008-2009 and revenues received to date for this report suggest that the Recycling Fund is receiving slightly less revenue as of now than at the same time last year. One month ago, revenues were trending slightly less than 1 percent higher than last year at the same time. Given the relatively static trend in sales both to date and over the 36 and 24 month periods, CalRecycle is modeling little change in expected CRV revenues.

The Returns Projections follow a month-over-month projection that is much more reflective of recent historical changes. Longer-term trend line analyses are influenced by years of heavy growth in recycling volumes. These years followed the increase in CRV and witnessed 10 percent growth in total recycling volumes for three consecutive fiscal years (FY2006-07 through FY2008-09). Growth from FY2008-09 through FY2009-10, however, radically slowed to 1 percent growth. Again, examining returns volumes to date and comparing to last year, CalRecycle saw an actual decline in returns to date. Given these factors, this quarterly projection envisions little change in returns volumes.

If these projections are matched by actual sales and returns values, recycling rates will remain flat at about 82 percent for FY2010-11 overall and grow slightly to 84 percent for FY2011-2012. This projected growth in recycling rate would result from slight growth in total returns combined with slight decreases in sales.

As with the January, 2011 Report, this report includes a comparison of how well the prior projections predicted the three additional months of actuals sales and returns data. The following chart shows the comparison.

Sales	Sep-10	Oct-10	Nov-10
January 2011 Projection	\$81,971,011	\$73,262,678	\$84,218,258
Actual	\$101,845,344	\$86,852,234	\$83,212,348
% Difference	-24.2%	-18.5%	1.2%

Returns	Sep-10	Oct-10	Nov-10
January 2011 Projection	\$73,350,797	\$75,874,343	\$67,650,704
Actual	\$83,903,451	\$82,339,333	\$78,889,424
% Difference	-14.4%	-8.5%	-16.6%

SALES AND RETURNS ESTIMATES

The tables below show projections of sales and returns for FY 2009-2010 through FY2011-12. The table for FY2009-2010 shows actual values for both container sales and container returns. Data regarding sales and returns for FY2010-2011 and FY2011-2012 include only projections for sales and returns.

Sales and Returns FY 2009-10					
	Over 24 oz.	Under 24 oz.	Container Sales (\$)	Containers Returned	Containers Returned (\$)
AL	481,208,053	8,526,576,852	\$475,080,168	8,339,870,030	\$472,919,761
GL	295,325,548	2,737,863,488	\$166,646,901	2,501,708,411	\$144,300,819
PET	1,331,346,958	6,739,383,517	\$470,728,617	5,758,653,961	\$375,446,410
HDPE	169,441,266	165,217,243	\$25,238,485	336,151,981	\$31,180,974
Total	2,277,321,825	18,169,041,100	\$1,137,694,171	16,936,384,383	\$1,023,847,963

Sales and Returns FY 2010-11 (Projected)					
	Over 24 oz.	Under 24 oz.	Container Sales (\$)	Containers Returned	Containers Returned (\$)
AL	501,908,543	8,482,356,386	\$467,194,057	8,647,293,894	\$475,873,861
GL	295,314,169	2,665,881,775	\$160,383,128	2,510,792,937	\$143,069,531
PET	1,351,808,502	7,165,227,322	\$486,040,597	5,492,817,404	\$357,777,932
HDPE	161,781,614	127,166,386	\$22,198,434	314,451,990	\$27,384,844
Total	2,310,812,828	18,440,631,868	\$1,135,816,216	16,965,356,225	\$1,004,106,167

Sales and Returns FY 2011-12 (Projected)					
	Over 24 oz.	Under 24 oz.	Container Sales (\$)	Containers Returned	Containers Returned (\$)
AL	528,536,069	8,415,011,415	\$466,500,129	9,009,083,394	\$488,688,566
GL	247,022,548	2,574,450,894	\$151,123,432	2,513,180,484	\$144,034,966
PET	1,325,308,028	7,188,819,714	\$484,592,226	5,447,975,447	\$358,157,415

HDPE	183,396,612	155,018,591	\$25,699,233	299,537,656	\$25,979,131
Total	2,284,263,257	18,333,300,614	\$1,127,915,019	17,269,776,981	\$1,016,860,078

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. 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. All Handling Fees for FY2009-2010 have been paid and actuals are shown. For the FY2010-2011 and FY2011-2012 periods, the total amount is based on projections with some actuals included for FY2010-2011. 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 of the Appendix.

Fiscal Year	Handling Fee	Containers
2009-10	\$24,102,392	4,069,142,200
2010-11 (Projected)	\$41,629,723	4,846,300,698
2011-12 (Projected)	\$42,158,494	4,907,857,276

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 FY2010-2011 Processing Fees and Processing Payments are 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. At this point, however, the observed changes in scrap values and inflation adjustments to costs of recycling, coupled with projections in recycling volumes, have resulted in Processing Payment levels that require less offset for glass and PET plastic than was used in the 2008 baseline year. Processing Payments for HDPE would otherwise require more Processing Fee Offset than the law allows and, as such, Processing Fees for HDPE are higher than they would be if there was no cap on offsets.

FY 2009-10			
	Processing Fees	Processing Fee Offsets	Processing Payments
Glass	\$28,245,000	\$32,635,000	\$56,367,000
PET	\$25,574,000	\$18,285,812	\$44,384,000
HDPE	\$5,172,000	\$2,294,189	\$6,213,000
Total	\$58,991,000	\$53,215,000	\$106,964,000

FY 2010-11 (Projected)			
	Processing Fees	Processing Fee Offsets	Processing Payments
Glass	\$6,726,000	\$47,188,190	\$53,917,000
PET	\$13,189,000	\$25,366,120	\$38,557,000
HDPE	\$3,405,000	\$4,588,377	\$7,993,000
Total	\$23,320,000	\$77,142,687	\$100,467,000

FY 2011-12 (Projected)			
	Processing Fees	Processing Fee Offsets	Processing Payments
Glass	\$6,552,000	\$47,410,000	\$53,962,000
PET	\$4,116,000	\$22,546,000	\$26,663,000

HDPE	\$1,098,000	\$5,070,000	\$6,168,000
Total	\$11,766,000	\$75,026,000	\$86,793,000

Processing Fees, Payments, and Offsets may all change in the middle of FY2011-2012. 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 unknown at this time, however, for the purpose of this report, CalRecycle has used the calendar year 2011 values as a proxy for FY2011-2012, except that the values for HDPE reflect the lifting of the Offset cap effective January 1, 2012. The actual Processing Payment amount 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 unknown details at this time, result in there being no way of identifying Processing Fees and Payments for FY2011-2012. As CalRecycle is better able to determine those values, they will be reflected in subsequent reports.

APPENDIX 1—QUARTERLY STATUS REPORT DETAILS

The following Quarterly Status Report shows three columns of fiscal data, one column per fiscal year. 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 Quarterly Status Report. The Quarterly Status Report presented here also is available in Excel format on the CalRecycle website

at <http://www.calrecycle.ca.gov/BevContainer/RecycleFund/2011/AprCondition.xls>

California Department of Resources Recycling and Recovery (CalRecycle)			
Beverage Container Recycling Fund Condition Statement			
Projected Revenues and Expenditures as of April 1, 2011			
	FY 2009-10	FY 2010-11	FY 2011-12
Balance Forward	160,347,000	119,285,483	132,615,050
Prior Year Adjustment [Note 1]			
CRV In	105,698,330		
Other Prior Year Adjustments	2,495,423		
Total Prior Year Adjustment	108,193,753		
Balance Adjusted (A)	268,540,753	119,285,483	132,615,050
Revenues and Transfers			
Receipts			
CRV In [Note 2]	1,137,694,171	1,135,816,216	1,127,915,019
Other Income	4,875,828	825,391	819,648
Total Receipts (B)	1,142,569,999	1,136,641,607	1,128,734,667
Transfers			
Loans for AB 32 Implementation [Note 3]	(35,000,000)		
Loans to General Fund	(99,400,000)		
Loan to Department of Conservation	(5,000,000)		
Repayment of AB 32 Implementation Loan		21,300,000	21,300,000
Repayment of General Fund Loan [Note 4]	28,853,000	98,170,000	88,000,000
Transfers to Glass Processing Fee Account [Note 5]	(32,635,099)	(47,188,190)	(47,410,000)
Transfers to Plastic Processing Fee Account [Note 6]	(20,580,178)	(29,954,497)	(27,616,000)
Loan from Alternative Renewable Fuel & Vehicle Technology Fund [Note 7]	8,250,000		
Total Transfers (C)	(155,512,277)	42,327,313	34,274,000
Total Transfers and Receipts (B+C)	987,057,722	1,178,968,920	1,163,008,667
Total Resources (D) = (A+B+C)	1,255,598,475	1,298,254,403	1,295,623,717
Expenditures [Note 6]			
Disbursements (CalRecycle)			
CRV Out [Note 8]	1,023,847,963	1,004,106,167	1,016,860,078
Beverage Container Recycling Program Administration	51,361,687	49,788,000	49,788,000
Handling Fees [Note 9]	24,102,392	41,629,723	42,158,494
Curbside Supplemental Payments	8,250,000	15,000,000	15,000,000
Local Conservation Corps Grants [Note 10]	10,702,824	19,543,673	19,501,680
Local Conservation Corps Grants (one-time)	1,011,533		
City/County Payments	5,543,226	10,500,000	10,500,000
Competitive Grants	3,118		750,000
Public Education and Information [Note 11]	177,831		2,500,000
Quality Incentive Payments	6,584,757	10,000,000	10,000,000
Market Development Grants [Note 12]	(4,958,375)		
Recycler Incentive Program	5,499,282		
Plastic Market Development	4,352,119	10,000,000	10,000,000
Grants Multi-family Housing	406,921		
Grants Multi-family Housing (low income) [Note 12]	(100,463)		
State Parks Recycling and Litter Reduction [Note 12]	(4,989,005)		
Pro Rata	4,460,182	4,933,790	4,913,622
Total Disbursements (CalRecycle) (E)	1,136,255,992	1,165,501,353	1,181,971,874
Disbursements (Other)			
State Controller	57,000	138,000	
California Conservation Corps [Note 10]	8,250,000		
California Conservation Corps Reimbursement	(8,250,000)		
Total Disbursements (Other) (F)	57,000	138,000	
Total Expenditures (G) = (E+F)	1,136,312,992	1,165,639,353	1,181,971,874
FUND BALANCE (D-G) [Note 13]	119,285,483	132,615,050	113,651,843

Note: Expenditures on Processing Fee Offsets are not shown as "Expenditures" but are shown as "Transfers" from the Recycling Fund. By statute, Offsets are a transfer of money from the Recycling Fund to the respective Processing Fee Accounts. For clarity Offset expenditures per fiscal year are presented in the table below:

Offset	FY 2009-10	FY 2010-11	FY 2011-12
Glass Processing Fee	\$32,635,099	\$47,188,190	\$47,410,000

Plastic Processing Fee	\$20,580,176	\$29,954,497	\$27,616,000
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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 November 2010 reporting period; all subsequent sales are projections.

[Note 2]—Loan repayment from ARB for the AB 32 implementation loans is scheduled for FY2010-2011 and FY2011-2012.

[Note 3]—The “Repayment of General Fund” amount for FY2010-2011 includes both the \$68.2 million already repaid in December 2010 and an additional \$30 million that is now included in the Governor’s Budget. The amount shown as loan repayment for FY2011-2012 is an estimate only of expected need as of this date.

[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 FY2009-2010 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 in the body of this report regarding FY2011-2012 Processing Fee, Payment, and Processing Fee Offset amounts displayed in this report. Note that in the Recycling Fund Condition Summary Statement on page 6 of this report, Processing Fee Offsets are shown as expenditures of unredeemed CRV.

[Note 5]—“Loan from Alternative Renewable Fuel and Vehicle Technology Fund” is a one-time loan to the Recycling Fund enacted in the FY2009-2010 budget. The amount matches the “California Conservation Corps (one-time)” expenditure shown in the Quarterly Status Report. **[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). FY2011-2012 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 FY2009-2010 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 November 2010 reporting period.

[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 FY2010-2011, the per-container Handling Fee is \$0.00859, down from \$0.0098 in FY2009-2010. 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 at the following website:

<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 FY2009-2010 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 FY2012-2013.

[Note 11]—The amount authorized in FY2009-2010 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). The Quarterly Status Report indicates a half-year of funding available in FY2011-2012, reflecting the end of the two-calendar-year suspension AB 7(8X) established for that program

[Note 12]—Amount in these lines are negative because they reflect cancellations of prior year grants. The proportionate reduction of some of these programs (not including the State Parks allocation) reduced the initial amounts that would have been shown for FY2009-2010. Cancellations of prior year grants that are being reflected in this report were significant enough to make these values negative. The amount of cancellations appears significant in this one year because these entries reconcile several prior years of grants.

[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 FY2011-2012 that amount would be approximately \$55 million. As explained above in Note 4, the amount of General Fund loan repayment directly influences the demonstrated prudent reserve. Without loan repayments, the Recycling Fund does not have a prudent reserve, as required by law, and must implement proportionate reduction.