



Quarterly Report on Status of the Beverage Container Recycling Fund

Department of Resources Recycling and Recovery

July 11, 2011



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OVERVIEW

As required by Public Resource Code (PRC) Sections 14556 and 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 FY2011-2012. However, that assessment is entirely dependent upon continued repayment of historic loans made from the Recycling Fund. All FY2010-2011 anticipated loan repayments of \$98M from the General Fund and \$21M from the Air Pollution Control Fund have been transferred into the Recycling Fund as of this report. For FY2011-2012, the Governor's Budget provides for loan repayments of \$88M from the General Fund and \$21M from the Air Pollution Control Fund.

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 February 2011 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 subject to change, given changes in costs of recycling and scrap values.

This report is divided into five main sections:

- A *Recycling Fund Condition Summary* that 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.
- *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 welcome feedback from stakeholders and interested parties. One suggestion implemented is a Fund Condition Summary. This summary combines minute details of a Fund Condition to allow the reader to focus on high-level points. The CRV In and CRV Out are shown as stand-alone details. Similarly, the individual expenditures specified in Public Resources Code section 14581 are itemized, but other categories of revenues and expenditures are summarized. The full Fund Condition Statement can be found in the Appendix with all of the requisite notations.

Recycling Fund Condition Summary Statement				
		FY 2009-10	FY 2010-11	FY 2011-12
RESOURCES	RESOURCES			
	Balance Forward	160,347,000	119,285,484	128,691,584
	CRV Revenues	1,137,694,171	1,115,352,086	1,117,235,452
	Transfers (Loans Made/Repaid)	(102,297,000)	119,470,000	109,300,000
	Adjustments	113,069,581	15,425,288	811,889
	TOTAL RESOURCES	1,308,813,752	1,369,532,858	1,356,038,925
EXPENDITURES	EXPENDITURES			
	CRV Out	1,023,847,963	1,002,242,661	1,004,107,861
	Beverage Container Recycling Program Administration	51,361,687	49,788,000	49,788,000
	Handling Fees	24,102,392	41,552,463	41,629,793
	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	5,000,000
	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	1,240,841,274	1,238,716,956	
FUND BALANCE	119,285,484	128,691,584	117,321,969	
NET INCOME	61,235,483	(110,063,900)	(120,669,615)	

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).			9,221,584	8,021,969
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.				

The Summary indicates positive fund balances due to the continued expectation of loan repayment. If the loan repayments do not proceed as planned, the Fund Balance will be affected, as shown in the Notes section of that Summary.

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, the prudent reserve is approximately \$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 \$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, due to peak consumer recycling of beverage containers resulting from summer-time consumption patterns. However, payments from distributors in August and September decrease because distributors are reducing shipment amounts from the summer-time high sales volumes in preparation for slower traditional autumn sales. A 5 percent prudent reserve does not provide a sufficient account balance to accommodate seasonal consumption patterns that affect the Fund. At times payment to processors may be slowed 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 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, expire in the middle of the fiscal year.

PROJECTIONS

CalRecycle's projections for sales and returns for this quarterly reporting period are slightly downward for sales and steady for returns for the next 12-18 months as compared to sales and returns for FY2009-2010. 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 FY2007-2008 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. Given these factors, this quarterly projection shows a slight decrease in sales volumes.

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 a slight decline in returns to date. Overall, this quarterly projection shows returns generally holding steady.

If these projections are matched by actual sales and returns values, recycling rates will increase slightly to about 83 percent for FY2010-2011 overall and grow slightly to 84 percent for FY2011-2012. This projected growth in recycling rate results from a slight decrease in sales with steady returns.

As with the April 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	Dec-10	Jan-11	Feb-11
April 2011 Projection	\$88,268,475	\$81,265,298	\$91,977,093
Actual	\$97,359,576	\$72,607,621	\$70,071,198
% Difference	-10.3%	10.7%	23.8%

Returns	Dec-10	Jan-11	Feb-11
April 2011 Projection	\$80,202,136	\$78,252,397	\$78,270,952
Actual	\$79,232,006	\$79,734,743	\$68,305,568
% Difference	1.2%	-1.9%	12.7%

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			
	Sales Over 24 oz.	Sales Under 24 oz.	Containers Returned
AL	481,208,053	8,526,576,852	8,339,870,030
GL	295,325,548	2,737,863,488	2,501,708,411
PET	1,331,346,958	6,739,383,517	5,758,653,961
HDPE	169,441,266	165,217,243	336,151,981
Total	2,277,321,825	18,169,041,100	16,936,384,383

Sales and Returns FY 2010-11 (Projected)			
	Sales Over 24 oz.	Sales Under 24 oz.	Containers Returned
AL	492,936,816	8,262,755,744	8,599,465,283
GL	284,815,790	2,603,828,177	2,513,974,137
PET	1,350,284,285	7,030,983,606	5,505,492,576
HDPE	170,091,525	152,917,829	310,802,813
Total	2,298,128,415	18,050,485,356	16,929,734,809

Sales and Returns FY 2011-12 (Projected)			
	Sales Over 24 oz.	Sales Under 24 oz.	Containers Returned
AL	514,344,917	8,215,713,846	8,823,636,457
GL	258,415,704	2,539,446,763	2,501,154,564
PET	1,348,299,197	7,198,464,874	5,431,698,099
HDPE	173,440,477	142,357,059	288,774,301
Total	2,294,500,295	18,095,982,543	17,045,263,421

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)	\$41,552,463	4,837,306,519
2011-12 (Projected)	\$41,629,793	4,846,308,847

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 at <http://www.calrecycle.ca.gov/BevContainer/RecycleFund/2011/JulCondition.xls> on the CalRecycle website.

California Department of Resources Recycling and Recovery (CalRecycle)			
Beverage Container Recycling Fund Condition Statement			
Projected Revenues and Expenditures as of July 1, 2011			
	FY 2009-10	FY 2010-11	FY 2011-12
Balance Forward	160,347,000	119,285,484	128,691,584
Prior Year Adjustment			
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	119,285,484	128,691,584
Revenues and Transfers			
Receipts			
CRV In <i>[Note 1]</i>	1,137,694,171	1,115,352,086	1,117,235,452
Other Income	4,875,828	15,425,288	811,889
Total Receipts (B)	1,142,569,999	1,130,777,374	1,118,047,341
Transfers			
Loans to Air Pollution Control Fund	(35,000,000)		
Loans to General Fund	(99,400,000)		
Loan to Department of Conservation	(5,000,000)		
Repayment of Air Pollution Control Fund Loan <i>[Note 2]</i>		21,300,000	21,300,000
Repayment of General Fund Loan <i>[Note 3]</i>	28,853,000	98,170,000	88,000,000
Transfers to Glass Processing Fee Account <i>[Note 4]</i>	(32,635,099)	(47,188,190)	(47,410,000)
Transfers to Plastic Processing Fee Account <i>[Note 4]</i>	(20,580,178)	(29,954,497)	(27,616,000)
Loan from Alternative Renewable Fuel & Vehicle Technology Fund <i>[Note 5]</i>	8,250,000		
Total Transfers (C)	(155,512,277)	42,327,313	34,274,000
Total Transfers and Receipts (B+C)	987,057,722	1,173,104,687	1,152,321,341
Total Resources (D) = (A+B+C)	1,255,598,475	1,292,390,171	1,281,012,925
Expenditures <i>[Note 6]</i>			
Disbursements (CalRecycle)			
CRV Out <i>[Note 7]</i>	1,023,847,963	1,002,242,661	1,004,107,861
Beverage Container Recycling Program Administration	51,361,687	49,788,000	49,788,000
Handling Fees <i>[Note 8]</i>	24,102,392	41,552,463	41,629,793
Curbside Supplemental Payments	8,250,000	15,000,000	15,000,000
Local Conservation Corps Grants <i>[Note 9]</i>	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 <i>[Note 11]</i>	177,831		2,500,000
Quality Incentive Payments	6,584,757	10,000,000	10,000,000
Market Development Grants <i>[Note 12]</i>	(4,958,375)		
Recycler Incentive Program	5,499,282		
Plastic Market Development <i>[Note 14]</i>	4,352,119	10,000,000	5,000,000
Grants Multi-family Housing	406,921		
Grants Multi-family Housing (low income) <i>[Note 12]</i>	(100,463)		
State Parks Recycling and Litter Reduction <i>[Note 12]</i>	(4,989,005)		
Pro Rata	4,460,181	4,933,790	4,913,622
Total Disbursements (CalRecycle) (E)	1,136,255,991	1,163,560,587	1,163,690,956
Disbursements (Other)			
State Controller	57,000	138,000	
California Conservation Corps <i>[Note 10]</i>	8,250,000		
California Conservation Corps Reimbursement	(8,250,000)		
Total Disbursements (Other) (F)	57,000	138,000	
Total Expenditures (G) = (E+F)	1,136,312,991	1,163,698,587	1,163,690,956
FUND BALANCE (D-G) <i>[Note 13]</i>	119,285,484	128,691,584	117,321,969

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

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 February 2011 reporting period; all subsequent sales are projections.

[Note 2] – Loan repayment from the Air Pollution Control Fund for the AB 32 implementation loans are completed for FY2010-2011 and scheduled for FY2011-2012.

[Note 3] – The “Repayment of General Fund” amount for FY2010-2011 includes \$98M already repaid. Repayments scheduled for FY2011-2012 amount to \$88M.

[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” expenditure shown in the “disbursements other” section 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.

[Note 7] – "CRV Out" is derived from projections of recycling volumes, combined with actual recycling volumes. Actual recycling volumes are known through the February 2011 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 webpage: <http://www.calrecycle.ca.gov/BevContainer/Fees/Handling/FinalReport.pdf>.

[Note 9] – Local Conservation Corps 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 2-calendar-year suspension AB 7(8X) established for that program

[Note 12] – Amounts 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.

[Note 14] – Plastic Market Development payment was incorrectly cited in the April 2011 Quarterly Report as \$10,000,000. Actual amount allocated for FY 2011-2012 should be \$5,000,000 to reflect the sunset of that Plastic Market Development Payment in the middle of FY2011-2012 (December 31,2011).