



Informational Workshop on How Proportional Reduction Would Work

December 1, 2016
9 AM - 12 noon
Sierra Hearing Room
1001 I Street
Sacramento

Agenda

1. Introduction
2. Law Governing Proportional Reduction
3. Proportional Reduction Implementation
4. Hypothetical Scenarios
5. Discussion
6. Conclusion

1. Introduction

Scope of discussion:

Proportional reduction as prescribed by statute.

Objectives:

- Explain what *proportional reduction* means.
- Receive input on proportional reduction approaches.
- Receive input on possible impacts of proportional reduction.

2. Law Governing Proportional Reduction

PRC §
14581(b)(1)

If the department determines, pursuant to a review made pursuant to Section 14556 [*that section describes requirements for quarterly reports on fund condition*], that there may be inadequate funds to pay the payments required by this division [*described in later slides*], the department shall immediately notify the appropriate policy and fiscal committees of the Legislature regarding the inadequacy.

PRC §
14581(b)(2)

On or before 180 days, but not less than 80 days, after the notice is sent pursuant to paragraph 1 [*above*], the department may reduce or eliminate expenditures, or both, from the funds as necessary, according to the procedure set forth in subdivision c [*below*].

PRC §
14581(c)

If the department determines that there are insufficient funds to make the payments specified pursuant to this section and Section 14575 [*described in later slides*], the department shall reduce all payments proportionally.

Role of Proportional Reduction

- Proportional reduction is the statutory mechanism to ensure fiscal solvency of the program.
- The Beverage Container Recycling Fund (BCRF) has an ongoing structural deficit. Expenditures will continue to exceed revenues.
- As shown in the Q4 FY 2015-16 Quarterly Report, over FY 2017-18, the structural deficit is projected to be \$27 million.

Principles we seek to follow:

- Minimize adverse impacts on stakeholders.
- Manage reduction to avoid projected deficits and surpluses.
- Restrict changes in level of reduction to quarterly or less often.

Notification of Initial Reduction

Initial reduction in expenditure levels cannot be made until 80 days after a formal notification to Legislature.

PRC § 14581(b)(2)

Expenditures Subject to Reduction

- Handling Fees.
- Curbside Supplemental Payments.
- City/County Payments.
- Quality Incentive Payments.
- Plastic Market Development Payments.
- Beverage Container Recycling Grants.
- Processing Fee Offsets.
- Processing Payments.

PRC § 14581

Expenditures Exempt from Reduction

- Refund Value.
- Administrative Fees.
- Local Conservation Corps Grants.
- Program Administration.

PRC §§ 14580 and 14581.1

Handling-Fee Recycling Centers

	2015 Statewide Cash Flows (millions of dollars)	Percent Revenue by Source
Handling Fee Revenue (reducible)	\$ 51	33%
Processing Payment Revenue (reducible)	29	19%
Administrative Fee Revenue (not reducible)	3	2%
Estimated Scrap Value Revenue (not reducible, not paid by CalRecycle)	73	47%
Total	157	100%

Non-Handling-Fee Recycling Centers

	2015 Statewide Cash Flows (millions of dollars)	Percent Revenue by Source
Processing Payment Revenue (reducible)	\$ 42	26%
Administrative Fee Revenue (not reducible)	4	3%
Estimated Scrap Value Revenue (not reducible, not paid by CalRecycle)	115	71%
Total	161	100%

Processing Payments, Processing Fees, and Processing Fee Offset

	2015 Statewide Cash Flows (millions of dollars)
Processing Payments we pay to recycling centers and curbside programs—via processors—to cover costs of recycling materials not economic to recycle without subsidy	\$ 94.2
Processing Fees we collect from beverage manufacturers to pay <i>part</i> of Processing Payments	13.2
Processing Fee Offset we transfer from BCRF to Processing Fee Accounts to subsidize <i>part</i> of Processing Payments	80.5

Note: Funding used for Processing Payments is sum of Processing Fee, Processing Fee Offset (and \$2 million PRC § 14575(j) reductions, if there is available funding in Processing Fee Accounts).

3. Proportional Reduction Implementation

Why and when do we enter reduction or change the level of reduction?

- PRC § 14581(c): “If the department determines that there are *insufficient funds* to make the payments specified pursuant to this section and Section 14575, the department shall reduce all payments proportionally.”
- A level of cash in BCRF forecast to be *insufficient* would be the main basis for implementing reductions or changing the level of reduction.

Timing of Payments and Reductions

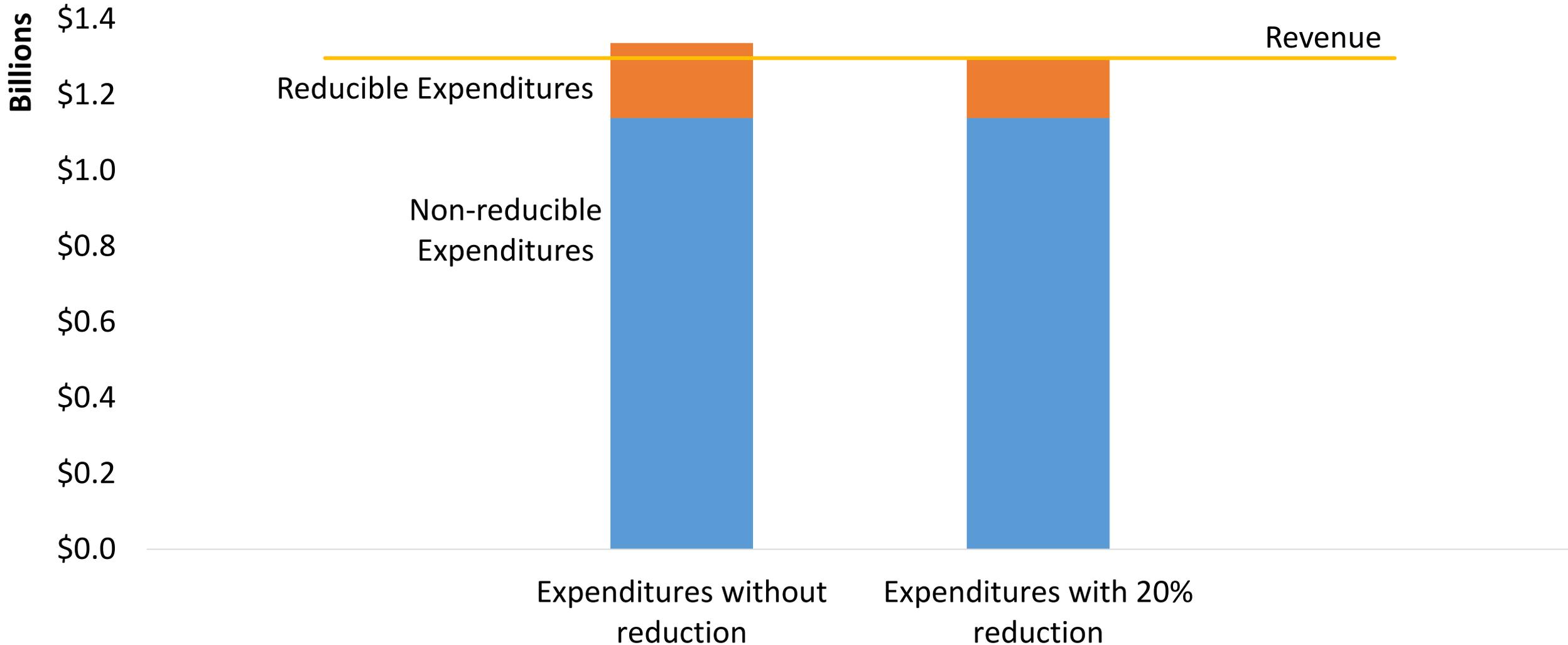
- Payments will be reduced based upon level of reduction in effect during reporting periods in which activity take place.
- We expect to announce reduction levels before periods begin so program participants will know how payments will be affected.

4. Hypothetical Scenarios

- 1) Wait to begin reduction as long as we think is possible to wait and then impose the level of reduction calculated at that time to maintain sufficient funds.
- 2) Begin reduction sooner than in (1) but impose a smaller level of reduction. Over time, impose higher levels of reduction as needed to maintain sufficient funds.

What proportional reduction scenarios will minimize adverse impacts across the recycling sector?

20 Percent Reduction *Could* Be Needed to Balance Expenditures and Transfers with Revenues



Forecast Fiscal Impact of Proportional Reduction at 10 Percent Over a Year

	Annual values without reduction (millions of dollars)	Annual values with 10% reduction (millions of dollars)
Processing Payments (Glass, PET, HDPE)	\$ 112.3	\$ 111.0
Processing Fees (Glass, PET, HDPE)	12.7	20.9
Processing Fee Offset	95.6	86.0
Handling Fees	47.8	43.0
Curbside Supplemental Payments	15.0	13.5
City/County Payments	10.5	9.5
Quality Incentive Payments	10.0	9.0
Plastic Market Development Payments	5.0	4.5
Beverage Container Recycling Grants	1.5	1.4

Note: Amounts based on forecasts for FY 2017-18. Processing Fees and Processing Payments for bimetal and plastic resins 3-7 are not affected by reduction because the Processing Fees are already at 65 percent and provide sufficient funds to make full Processing Payments. Forecast is based on data through the end of FY 2015-16.

Processing Payments, Processing Fees, and Processing Fee Offset

With **10 percent** proportional reduction:

- Processing Fees paid by Beverage Manufacturers increase.
- Processing Fee Offset paid by BCRF is reduced by **10 percent** for each material type.
- Processing Payments are reduced by approximately 1.2 percent for each material type.

5. Discussion

- *Email questions and comments to DORWorkshops@CalRecycle.ca.gov.*
- Workshop participants form small groups and discuss:
 1. What impacts of reduction may be and how stakeholders may respond.
 2. If stakeholders would rather have a gradual increase in the reduction level OR have a delay and then a larger initial reduction level.
 3. What CalRecycle can do, within the law, to support recycling during reduction.
- Each group reports back to whole group.

Your input will be considered, but note CalRecycle has full control over how reduction would be implemented.

6. Conclusion

We will continue to advise of when proportional reduction may become necessary.

We will notify Legislature and regulated parties before implementing any reductions.

We may have a second workshop.

We seek comments, especially on opportunities to minimize the impacts of reductions on stakeholders. Please email comments to DORWorkshops@CalRecycle.ca.gov.