



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

Department of Resources Recycling and Recovery

November 18, 2013

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## **Executive Summary**

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) as of October 1, 2013.

CalRecycle projects that the cash balance of the Recycling Fund will permanently fall below the prudent reserve in September 2015 without additional reforms to the Beverage Container Recycling Program (Program), beyond the measures shown on Table 1. The projected date of this event is six months later than the date indicated in the projection in the July 2013 Quarterly Report due to a combination of lower expenditures and higher revenues. This projection is based on the assumption that the remaining balance of all General Fund and Air Pollution Control Fund loans made from the Recycling Fund, currently amounting to \$145 million, will be completely repaid by the end of FY 2014-2015, including a \$5 million loan made to the Department of Conservation. This projection is also based on the assumption that proceeds from General Fund loan repayments to the Processing Fee Funds scheduled in FY 2013-2014 will minimize Processing Fee Offsets paid from the Recycling Fund. These same assumptions also applied to the projection in the July 2013 Quarterly Report.

Based on this cash balance projection of the Recycling Fund, CalRecycle would be required to implement proportional reduction at the beginning of FY 2015-2016 in order to maintain fund solvency. The reduction in expenditures would be set at a level to maintain a cash balance that is at least equal to or greater than the prudent reserve, currently amounting to approximately \$56 million. This would require CalRecycle to implement a 100-percent proportional reduction in FY 2015-2016, and proportional reduction would likely continue to FY 2016-2017 and beyond in order to maintain the solvency of the Recycling Fund. The timing and percentage of proportional reduction is based on the cash balance projection presented in this Quarterly Report and may change based on more current information presented in future Reports.

The Program has been operating under an annual structural deficit averaging about \$100 million since FY 2008-2009 when the recycling rate rose to 78 percent, exceeding the breakeven recycling rate of approximately 70 percent. In the years following, the recycling rate has continued a gradual climb reaching 85 percent in FY 2012-2013. CalRecycle projects that the recycling rate will remain at the current level even with continued economic recovery based on recycling rates which experienced sharp growth during the period of economic slowdown occurring in the early 1990s and remained at the same level during the period of prosperity that followed.

To address the structural deficit, CalRecycle held a series of Program reform workshops conducted from July 2012 to October 2012. Based on the workshops, stakeholders shared common key goals including the following:

- Postponing or eliminating the implementation of proportional reduction.
- Encouraging the continued growth in the recycling of empty beverage containers sold in California.
- Significantly reducing the fraudulent redemption of beverage container material
- Supporting the legitimate transport, trade, and transshipment of beverage container material within the state of California.

In response, CalRecycle is implementing reform measures to improve Program integrity, reduce loss, and enhance revenue. The measures intended to improve

integrity focus on certified recyclers by promoting higher standards of performance, accountability, and service to the public. The measures intended to reduce loss focus on counteracting fraud. The measures intended to enhance revenue focus on closing possible gaps in the collection of Redemption Fees and Processing Fees. Key reform measures being adopted include the following:

Table 1: Program Reform Measures under Current Development

Category	Measure	Rulemaking Authority <b>[Note 1]</b>	Planned Implementation Date
Improve Integrity	Develop a more robust certification application review and probationary process <b>[Note 2]</b>	Emergency	Jan 1, 2014
	Require the completion of pre-certification training and a passing score on an examination in order to promote best practices and improve compliance <b>[Note 2]</b>	Emergency	Jan 1, 2014
	Mandate program participants use the Division of Recycling Integrated Information System (DORIIS) <b>[Note 2]</b>	Regular	Apr 1, 2014 <b>[Note 3]</b>
Reduce Loss	Mandate reporting and inspection of loads of empty beverage containers at Dept. of Food and Agriculture plant quarantine inspection stations upon entry into California <b>[Note 4]</b>	Emergency	Jan 1, 2014
	Discontinue beverage container redemption of consumer loads based on the commingled rate at certified recycling centers <b>[Note 2]</b>	Regular <b>[Note 5]</b>	Nov 1, 2013
	Reduce the consumer load limit of empty beverage containers redeemed at recycling centers from 500 to 100 lbs. for aluminum and plastic and 2,500 to 1,000 lbs. for glass	Regular	Jan 1, 2014
Enhance Revenue	Identify previously unknown beverage distributors, manufacturers, and applicable products sold in California using point-of-sale data and industry guidebook sources	Implemented under existing statute and regulation	In progress
	Conduct more frequent retailer shelf surveys to identify products sold in California where Redemption Fees have not been paid	Implemented under existing statute and regulation	In progress
	Create a web-based system for registering new distributors and beverage manufacturers to increase participation and expedite the initiation of payments	Implemented under existing statute and regulation	Completed July 2013
	Mandate distributor and beverage manufacturer notification if another company has agreed to make payments on its behalf to improve identification of non-payers	Emergency	Completed Sept 2012

[Note 1] - The authority to adopt emergency regulations, which has shorter public notice period than the regular process, is generally specified in PRC Sec. 14536

[Note 2] - Statutory Authority: SB 96 (Chapter 356, Statutes of 2013)

[Note 3] - Date is when regulations are anticipated to be effective. The goal is to have 100% of Processors and Recyclers using DORIIS by Jan 1, 2014

[Note 4] - Statutory Authority: AB 1933 (Chapter 540, Statutes of 2012)

[Note 5] - Amending existing regulations in order to clarify the provisions of SB 96 is anticipated to occur in Spring 2014

Because of data variability, the projected timing of proportional reduction is subject to shift in either direction. The report dated January 31, 2013 indicated that proportional reduction would be implemented at the beginning of FY 2015-2016. The reports that followed, dated April 24, 2013 and July 24, 2013, indicated that proportional reduction would be implemented at the beginning of FY 2014-2015. This report indicates that the timing of proportional reduction will be placed back to the beginning of FY 2015-2016. The reform measures undertaken by CalRecycle have the potential to alter the projections which will require ongoing monitoring and possible policy actions. However, if the projections continue to indicate a declining trend in the cash balance of the Recycling Fund, then CalRecycle will be compelled to consider more urgent action to maintain the fiscal integrity of the Program.

## Introduction

This *Quarterly Report on the Status of the Beverage Container Recycling Fund* (Report) is a review of the adequacy of resources in the Beverage Container Recycling Fund (Recycling Fund) to make the payments specified in Public Resources Code (PRC) Section 14581 and the Processing Fee Offsets specified in PRC Section 14575. This Report provides the updated Fund Condition Statements for all funds in the Beverage Container Recycling Program (Program) and the updated cash balance projection of the Recycling Fund by month. This Report also provides projections for sales, recycling volumes (returns), Processing Payments, Processing Fees, and Processing Fee Offsets, by material type, and Handling Fees. Finally, this Report provides an explanation of significant changes between the current projections and the projections presented in the July 2013 Report.

As of October 1, 2013, CalRecycle is projecting that the cash balance of the Recycling Fund will permanently fall below the prudent reserve in September 2015, which is six months later than the date based on the projection in the July 2013 Report. This projection is based on the following assumptions:

- Projections are based on current appropriations and sunset dates specified in PRC Section 14581.
- All General Fund and Air Pollution Control Fund loans made from the Recycling Fund, currently amounting to \$140 million, will be completely repaid by the end of FY 2014-2015.
- The \$5 million loan made to the Department of Conservation will be repaid in FY 2013-2014.
- General Fund loans made from the Processing Fee Funds will be repaid in full in FY 2013-2014 as scheduled in the Budget Act as follows: \$39 million to the Glass Processing Fee Fund and \$27 million to the Plastic Processing Fee Fund.
- Proceeds from loan repayments to the Processing Fee Funds will be used to reduce Processing Fee Offsets paid from the Recycling Fund.

- Projections for Processing Fees, Processing Payments, and Processing Fee Offsets are based on current rates effective January 1, 2013 and amended rates effective August 1, 2013.

The Program is funded from a main account, the Recycling Fund, and four related funds. To determine the assets that are available for appropriation in any one year, it is important to evaluate the resources in all Program funds because the statutory purpose common to all funds is to support the activities and policy goals of the Program as specified in the Beverage Container Recycling and Litter Reduction Act. The table below shows assets of all Program funds as of the end of FY 2012-2013 and the projected assets as of the end of FY 2016-2017. Additional detail showing five-year displays of the Recycling Fund, Glass Processing Fee Fund, and the Plastic Processing Fee Fund can be found in the Fund Condition Summary Statements in Tables 9-11.

Table 2: Projected Fund Balances in FYs 2012-2013 and 2016-2017

Fund Balances	Actual Assets	Projected Assets
	End of FY 2012-13	End of FY 2016-17
Beverage Container Recycling Fund (0133)	\$ 107,938,000	\$ (101,808,000)
Glass Processing Fee Fund (0269)	\$ 4,598,000	\$ 4,970,000
Plastic Processing Fee Fund (0278)	\$ 9,210,000	\$ 5,884,856
Bi-Metal Processing Fee Fund (0277)	\$ 15,213,000	\$ 18,789,000
Penalty Account Fund (0276)	\$ 5,918,000	\$ 3,866,000
	\$ 142,877,000	\$ (68,298,144)
Loan Repayment Balances		
Beverage Container Recycling Fund (0133)	\$ 184,677,000	\$ -
Glass Processing Fee Fund (0269)	\$ 39,000,000	\$ -
Plastic Processing Fee Fund (0278)	\$ 27,000,000	\$ -
	\$ 250,677,000	\$ -
Total Assets	\$ 393,554,000	\$ (68,298,144)
Less, Prudent Reserves <b>[Note 1]</b>		
Beverage Container Recycling Fund (0133)	\$ 56,458,000	\$ 55,830,000
Glass Processing Fee Fund (0269)	\$ 2,941,000	\$ 2,984,000
Plastic Processing Fee (0278)	\$ 504,000	\$ 928,000
Bimetal Processing Fee Fund (0277)	\$ 17,000	\$ 14,000
Penalty Account Fund (0276)	\$ -	\$ -
Reserve Requirement	\$ 59,920,000	\$ 59,756,000
Assets Available, All Funds	\$ 333,634,000	\$ (128,054,144)
[Note 1] - 0133 based on PRC Section 14580(a)(2); all other funds based on 5% of expenditure		

Based on the cash balance projection presented on Chart 1, CalRecycle anticipates that FY 2014-2015 will be the last year that the Recycling Fund will have adequate resources to meet current demands without additional Program reform measures. For FY 2015-2016 the Recycling Fund will not have adequate resources to meet current demands, and CalRecycle would be required to implement proportional reduction pursuant to PRC Section 14581(d). Under this scenario, CalRecycle would be required to notify the Legislature pursuant to PRC Section 14581(c)(2) at least 80 days prior to implementing proportional reduction, which is anticipated to begin on July 1, 2015. The reduction in expenditures would be set at level to maintain a cash balance that is at least equal to or greater than the prudent reserve defined by PRC Section 14580(a)(2).

The prudent reserve is adjusted annually at the beginning of the calendar year, and the amount established for 2013 is approximately \$56 million.

Below is a complete list of expenditures from the Recycling Fund that are subject to and not subject to proportional reduction:

Table 3: Recycling Fund Expenditures Impacted by Proportional Reduction

<b>Subject to Proportional Reduction</b>	<b>Not Subject to Proportional Reduction</b>
Processing Fee Offsets	California Refund Value
Handling Fees	Beverage Container Recycling Program Administration
Curbside Supplemental Payments	Payments to Control Agencies
Local Conservation Corps Grants	
City/County Payments	
Competitive Grants	
Public Education and Information	
Quality Incentive Payments	
Plastic Market Development	

## **Background**

The Program was created by AB 2020 (Chapter 1290, Statutes of 1986). Since inception about 65 bills have been enacted changing specific aspects of the Program although the basic structure has remained intact. Based on the most recent recycling rates and innovations in developing markets for beverage container material, the Program has been successful in meeting the goals mandated by the legislature. However, the program is currently operating under an unsustainable structural deficit.

During the 26-year history of the Program, various reports and studies have been produced including two known graduate theses. One thesis provides a rationale for creating and maintaining the Program, shown in the excerpt below:

Until the 1950s, beverage manufacturers sold beverages in refillable glass bottles that could be returned for deposit refunds at local grocery stores. These bottles were collected from stores by the local beverage manufacturer and distributor, then refilled and sold. However, after World War II, when urban populations began shifting to the suburbs and neighborhood grocery stores gave way to supermarkets, the beverage industry began a nationwide consolidation of its distribution system. It was no longer profitable to maintain beverage manufacturing and distribution plants (bottlers) in all locales. As a result of this regional consolidation, the infrastructure for collecting bottles at the retail site for eventual return to the bottler was no longer economical and the returnable glass bottle, therefore, all but disappeared by the mid-1960s.

The introduction of the aluminum can in the 1950s, and later the plastic bottle in the 1980s, also added to the market shift away from the refillable glass container. Unlike the returnable glass bottle, California's aluminum and plastic beverages did not require a deposit. Their light weight, unbreakable features soon became a favorite of retailers and consumers alike. By 1988, the percentage of California's beverage sales in glass bottles had slipped to just 3.5%. Without a recycling infrastructure in place, bottles and cans across the nation became one-way containers, often landing on the roadside or in the local landfill. **[Note 1]**

[Note 1] - Nelson, C. (2002). *Improving California's Beverage Container Recycling Rates: A Case for Structural Program Changes* (Master's thesis)

According to the Container Recycling Institute, a beverage container is about 2.6 times more likely to get recycled in a state with a deposit program than a state without a deposit program. In California statute sets an 80-percent beverage container recycling rate as the Program's primary goal. Statute also intends the Program to "make redemption and recycling convenient to consumers" and to "create and maintain a marketplace where it is profitable to establish sufficient recycling centers...to provide consumers with convenient recycling opportunities," pursuant to PRC Section 14501.

The Program uses three inter-related tools to achieve its goals:

- Providing a financial incentive for consumers to recycle their beverage containers by requiring beverage distributors to pay Redemption Fees on all containers sold and by offering Refund Value to consumers for every beverage container delivered to a recycling center.

- Ensuring the profitability of beverage container recycling by requiring beverage manufacturers to pay Processing Fees to cover the costs of recycling and by using those funds to make Processing Payments to certified recyclers.
- Developing and maintaining an economically viable recycling infrastructure consisting of buyback centers, curbside programs, collection programs and end-users by using surplus resources to pay Handling Fees for recycling centers operating in supermarket –based convenience zones, grants, Curbside Supplemental Payments, Payments to Cities and Counties, Quality Incentive Payments for glass, and Plastic Market Development Payments.

Program stakeholders can be roughly divided into two groups: those who generate revenue for the Program and those who receive payments from the Program. The table below shows each stakeholder group and their associated Program payments:

Table 4: Stakeholder Groups and Program Payments

Type	Stakeholder Group	Number	Payment	Amount (FY 2012-13)
Generate Revenue	Beverage Distributors	1,709	Redemption Fees	\$1,167,884,000
	Beverage Manufacturers	1,473	Processing Fees	\$13,254,000
	Total Revenue			\$1,181,138,000
Receive Payments	Certified Processors	233	Administrative Fees	\$18,347,000
	Certified Recycling Centers	2,400	Processing Payments	\$54,824,000
			Administrative Fees	\$6,935,000
	Certified Recycling Centers in Convenience Zones	1,200	Handling Fees	\$40,144,000
	Curbside Programs	588	Curbside Supplemental Payments	\$14,997,000
			California Refund Value	\$81,355,000
			Processing Payments	\$11,583,000
	Dropoff, Collection, and Community Service Programs <b>[Note 1]</b>	341	Administrative Fees	\$525,000
			California Refund Value	\$27,330,000
			Processing Payments	\$2,233,000
	Local Governments	512	City and County Payments	\$10,500,000
	Local Community Conservation Corps	13	Local Conservation Corps Grants	\$19,457,000
	Competitive Grantees	13	Beverage Container Recycling Grants	\$1,483,000
	Glass Color Sorters	64	Quality Incentive Payments	\$9,689,000
	Plastic Processors and Plastic Product Manufacturers	42	Plastics Market Development	\$19,189,000
	Consumers Redeeming at Recycling Centers		California Refund Value	\$923,604,000
CalRecycle		Program Administration <b>[Note 2]</b>	\$43,911,000	
Total Expenditure			\$1,286,106,000	
Net (Structural Deficit)			(\$104,968,000)	

[Note 1] - Dropoff, Collection & Community Service Programs are not eligible to receive Administrative Fees pursuant to PRC Sec. 14573.6

[Note 2] - Program Administration includes Pro Rata and control agency payments from all five Program Funds

CalRecycle currently faces two major challenges that can potentially undermine the integrity of the Program. First, under current statute, Program payments exceed revenues as indicated in this Report. If this structural deficit is not addressed in the near future, CalRecycle will be required to reduce Program payments to most stakeholders. The Legislature and Governor have approved a number of Program changes as the first phase of Program reform, and additional proposals will likely be coming forward in the next few months. Second, the Program is potentially subject to various kinds of fraud including the illegal redemption of beverage containers sold outside of California, inflation of Handling Fee claims, and the under-reporting and under-payment of Redemption Fees by beverage distributors. CalRecycle has initiated a series of efforts to aggressively deter and punish fraud through current or pending regulatory changes. These efforts include redemption of segregated loads only, monitoring the importation of out-of-state containers, reducing daily weight limits of consumer loads delivered to recycling centers, ongoing enforcement contracts with the Departments of Justice and Food and Agriculture, and more extensive training and review of certified recyclers.

While the Program has achieved the legislative goals with an 82 percent recycling rate in 2012, CalRecycle has been actively engaging stakeholders as it seeks to sustainably reform the Program without compromising the recycling volumes, infrastructure, job creation, and environmental benefits attained to date.

The Bureau of State Audits highlighted a number of operational challenges that CalRecycle has largely addressed and continues to build upon. That includes developing more robust forecasting tools, implementing a risk based audit plan, utilizing the data captured in the Division of Recycling's Integrated Information System (DORIIS) to more effectively identify and prevent fraud, and completing more effective grant oversight.

In addition, AB 1933 (Chapter 540, Statutes of 2012) provided CalRecycle additional authority to monitor the importation of empty beverage containers from outside of California. Over the last year CalRecycle has conducted a series of public workshops that resulted in draft regulations that are supplemented by reporting tools and inspection

procedures that CalRecycle has developed with the cooperation of the California Department of Food and Agriculture (CDFA). The regulations will soon be released for public comments in the near future, and CalRecycle is planning to implement the regulations on January 1, 2014. The regulations will require anyone transporting a load of empty beverage containers into California of 25 pounds or more of aluminum and plastic or 250 pounds or more of glass to complete a form under penalty of perjury that must be submitted to a CDFA agent. Failure to accurately complete the form or refusal to allow CDFA personnel to inspect the load of empty beverage containers will result in a fine or restriction from entering California.

Furthermore, after conducting several public workshops, CalRecycle has finalized daily load limit regulations that will prohibit CRV payment for loads of empty beverage containers in excess of 100 pounds of plastic or aluminum and 1,000 pounds of glass, per person, per day. Final approval from the Office of Administrative Law is pending, and CalRecycle plans to implement the regulations on January 1, 2014.

With the enactment of SB 96 (Chapter 356, Statutes of 2013), buyback centers are now required to pay consumers for segregated loads only. SB 96 also authorizes CalRecycle to implement a new certification process that will require the training and testing of applicants before they can become certified recyclers in the Program. CalRecycle expects the regulations will be implemented on January 1, 2014.

During the past year CalRecycle successfully implemented regulations that require beverage distributors and manufacturers to register with the department and to notify CalRecycle if another entity has agreed to report and make payments on behalf of that beverage distributor. To facilitate registration, CalRecycle has also developed an online electronic registration tool that makes it easier for manufacturers and distributors to become recognized participants in the program.

Moreover, CalRecycle analyzed point of sale data that revealed 735 beverage distributors and manufacturers that were not registered in California to sell beverages in CRV labeled containers. CalRecycle is in the process of contacting these businesses to

educate them of the registration requirements and to determine if Redemption Fees are due.

Overall, the activities highlighted above and those that have recently been authorized in SB 96 are part of a broader effort to identify and address elements of financial and operational risk to the Program. As the new regulations are adopted, the need for active enforcement becomes more critical. CalRecycle has been actively enforcing the laws and regulations as currently authorized. As additional authority is granted, CalRecycle will implement the new laws and regulations with equal resolve. Finally CalRecycle is implementing a sustained effort to more broadly publicize arrests and judgments to provide both assurance and deterrence to stakeholders of the department's commitment to uphold its fiduciary responsibility of the Program.

### **Structural Deficit**

The Program is unique in that it is designed to use surplus resources to fund policy goals. The Program had traditionally had a problem of an excess of revenue due to high sales and relatively low recycling rates. Currently the Program is operating under an annual \$100 million structural deficit due to excess demands on the Recycling Fund.

For the first eight years following the expansion of the Program under SB 332 (Chapter 815, Statutes of 1999), the recycling rate ranged from 55 percent to 67 percent, falling short of the legislative policy goal of 80 percent. Program activities have been traditionally funded by unredeemed Redemption Fees, and with low recycling rates, the Program was operating under a significant year-over-year surplus. To meet policy goals following the enactment of SB 332, Redemption Fees and Refund Value (CRV, collectively) were twice increased as shown in the table below. Each increase in CRV initially resulted in higher year-over-year surpluses, but recycling rates initially did not increase as sharply as anticipated due to increases in sales.

Table 5: CRV per Container since Enactment of SB 332

Year Enacted	CRV per Container	
	Under 24 Oz.	24 Oz. or More
1992	\$0.025	\$0.05
2004	\$0.04	\$0.08
2007	\$0.05	\$0.10

In the meantime, interfund loans have been made from the Recycling Fund in order to meet critical statewide needs by transferring money mostly to the General Fund. Between FY 2002-2003 and FY 2009-2010, loans made from the Recycling Fund have totaled \$458.7 million. Additionally, in FY 2003-2004 loans totaling \$66 million were made from the Processing Fee Funds to the General Fund.

To further policy goals, the legislature passed AB 3056 (Chapter 907, Statutes of 2006) which created or supplemented programs to improve the quality of and to promote in-state markets for recycled beverage container material. The combination of incentives through higher CRV and the investments made in recycling infrastructure and technologies converged to raise recycling rates above the policy goal of 80 percent and to expand markets for higher volumes of recycled beverage containers. However, the measures that have contributed to the success of the Program have also resulted in unsustainable demands on the Recycling Fund.

The Program has been operating under an annual structural deficit currently averaging about \$100 million since FY 2008-2009 when the actual recycling rate rose to 78 percent, exceeding the breakeven recycling rate of approximately 70 percent. The breakeven recycling rate is the estimated recycling rate, the quotient of containers recycled over the containers sold, where Redemption Fee revenue equals total expenditures. In the years following, the recycling rate has continued a gradual climb reaching 85 percent in FY 2012-2013 for all material types, and the breakeven recycling rate increased to about 75 percent due to the reduction of fixed expenditures for various incentive programs and a decrease in the Plastic Processing Fee Offset. CalRecycle projects that the recycling rate will remain at the current level at least through FY 2014-2015. From a longer term perspective, the recycling rate could remain above the break-

even recycling rate indefinitely based on sustained high recycling rates that occurred during the economic prosperity experienced in the 1990s.

The tables below show the actual structural deficits since FY 2007-2008 for all Program funds and the projected structural deficit for FY 2013-2014 for the Recycling Fund showing a simplified list of expenditures based on projected and breakeven scenarios. The projected breakeven recycling rate for FY 2013-2014 increased to 79 percent because of reduced Processing Fee Offsets from the Recycling Fund resulting from General Fund loan repayments to the Processing Fee Funds. This is a one-time event, and for FY 2014-2015 the breakeven recycling rate is anticipated to decrease to the recent historical average of about 75 percent.

Table 6: Historical Structural Deficits for all Program Funds

Fiscal Year	Revenue <i>[Note 1]</i>	Expenditure <i>[Note 2]</i>	Surplus/(Deficit)
2007-08	\$1,225,962,000	\$1,215,731,000	\$10,231,000
2008-09	\$1,177,316,000	\$1,330,618,000	(\$153,302,000)
2009-10 <i>[Note 3]</i>	\$1,199,887,000	\$1,121,379,000	\$78,508,000
2010-11	\$1,150,101,000	\$1,337,230,000	(\$187,129,000)
2011-12	\$1,154,039,000	\$1,262,965,000	(\$108,926,000)
2012-13	\$1,181,138,000	\$1,286,106,000	(\$104,968,000)

[Note 1] - Redemption Fees and Processing Fees

[Note 2] - From Governor's Budget, Detail of Appropriations and Adjustments except for FY 2012-13 which is from the Fund Condition Statements in Appendix 2

[Note 3] - Surplus due to implementing proportional reduction pursuant to PRC Sec. 14581(d)

Table 7: Recycling Fund Expenditures under Projected and Breakeven Scenarios

	FY 2013-14 (Projected)	% of Revenue	FY 2013-14 (Projected) at Breakeven	% of Revenue
Redemption Fee Revenue	\$1,131,347,000	100%	\$1,131,347,000	100%
Program Administration <i>[Note 1]</i>	\$56,128,000	5%	\$56,128,000	5%
14581 Programs - Fixed <i>[Note 2]</i>	\$67,643,000	6%	\$67,643,000	6%
<b>California Refund Value</b>	<b>\$1,034,649,000</b>	<b>91%</b>	<b>\$957,575,000</b>	<b>85%</b>
Processing Fee Offsets <i>[Note 3]</i>	\$13,645,000	1%	\$12,629,000	1%
Handling Fees	\$40,380,000	4%	\$37,372,000	3%
Total Expenditure <i>[Note 4]</i>	\$1,212,445,000	107%	\$1,131,347,000	100%
Structural Deficit	(\$81,098,000)	-7%	\$0	0%

[Note 1] - Includes Pro Rata, Fiscal, and payments to the State Controller

[Note 2] - Curbside Supplemental Payments, Local Conservation Corps Grants, City/County Payments, Competitive Grants, Quality Incentive Payments, and Plastic Market Development

[Note 3] - Used for Processing Payments which are paid based on volume recycled

[Note 4] - Total Expenditure based on projected recycling rate of 85% and breakeven recycling rate of 79%

The structural deficit has generally been financed by repayments of historical loans made by the Recycling Fund. To date loan repayments to the Recycling Fund have totaled \$314 million plus interest with a balance of outstanding loans to date of \$145 million. The balance of outstanding loans made from the Processing Fee Funds stands at \$59 million.

## **Fraud Prevention**

Successful fraud prevention results in lower expenditures and higher revenues. It is extremely difficult to reliably estimate the fiscal impact of fraud. The Department of Justice estimates that the fiscal impact of fraud is approximately \$40 million per year. Recent measures such as allocating more resources towards fraud prevention, increasing fines and penalties, tightening the barrier to entry such as the implementation of lower consumer load limits, and increased monitoring of the movement of out-of-state material has a high probability of reducing the structural deficit in the future.

The actual data used for projections reflects both the ongoing existence of fraud and the counteracting effort undertaken by CalRecycle to suppress fraud. In favor of a more conservative approach, no direct modeling of the impact of increased fraud prevention is applied to the projections.

## **Long Term Projections**

The horizon of the cash balance projection extends to FY 2016-2017 to cover the projected date that the cash balance of the Recycling Fund is projected to permanently fall below the prudent reserve without Program reform. The assumptions behind the cash balance projection are supported by the Recycling Fund Condition Summary Statement. The horizon of the Recycling Fund Condition Summary Statement is the same as the cash balance projection.

The cash balance tends to lead the Fund Balance as an indicator of insolvency because of differences in timing and the methods of reporting. The primary differences are:

- Refund Value and Processing Fee Offsets, the two largest expenditures from the Recycling Fund, are paid in advance of the receipt of revenues for the corresponding reporting period resulting in a lag that is not reflected in the Fund Balance.
- The cash balance projection reflects the impact of the structural deficit at monthly intervals whereas the Fund Balance is reported at one point in time as of the end of the fiscal year.

- The Fund Balance reflects the completion of all loan repayments scheduled for the entire fiscal year whereas the cash balance will not reflect the impact of loan repayments until the actual receipt has occurred.

The Recycling Fund Cash Balance shown on Chart 1 includes actual and projected month-end cash balances of the Recycling Fund through the end of FY 2016-2017 with loan repayments by month. For comparison, the chart also shows the previous cash balance projection in the July 2013 Report. Finally, the chart shows the prudent reserve which functions as the threshold for implementing proportional reduction.

The Recycling Fund Condition Summary Statement shown in Table 9 is an abbreviated form of the Fund Condition Statement organized by fiscal year displaying actual data for FY 2012-2013 and projections for FY 2013-2014 to FY 2016-2017. The Recycling Fund Condition Summary Statement shows the relationship among the Fund Balance, the structural deficit, and the outstanding loans.

The Recycling Fund Cash Balance chart and the Recycling Fund Condition Summary Statement reflect loan repayments scheduled in the Budget Act, which are detailed in the table below.

Table 8: Recycling Fund Loan Repayments

Fiscal Year	General Fund	Air Pollution Control Fund	Dept. of Conservation	Total
2013-14	\$89,400,000	\$8,000,000	\$5,000,000	\$102,400,000
2014-15	\$82,277,000	\$0	\$0	\$82,277,000
Total	\$171,677,000	\$8,000,000	\$5,000,000	\$184,677,000

In addition Fund Condition Summary Statements for the Glass Processing Fee and the Plastic Processing Fee Funds are included in Tables 10 and 11 to show the long-term effect of General Fund loan repayments on Fund Balances.

For additional information, the full Fund Condition Statements, containing line-item detail covering FY 2012-2013 to FY 2014-2015 for all five Program funds with accompanying notes, can be found in Appendix 2 of this Report.

Chart 1: Recycling Fund Cash Balance Projection

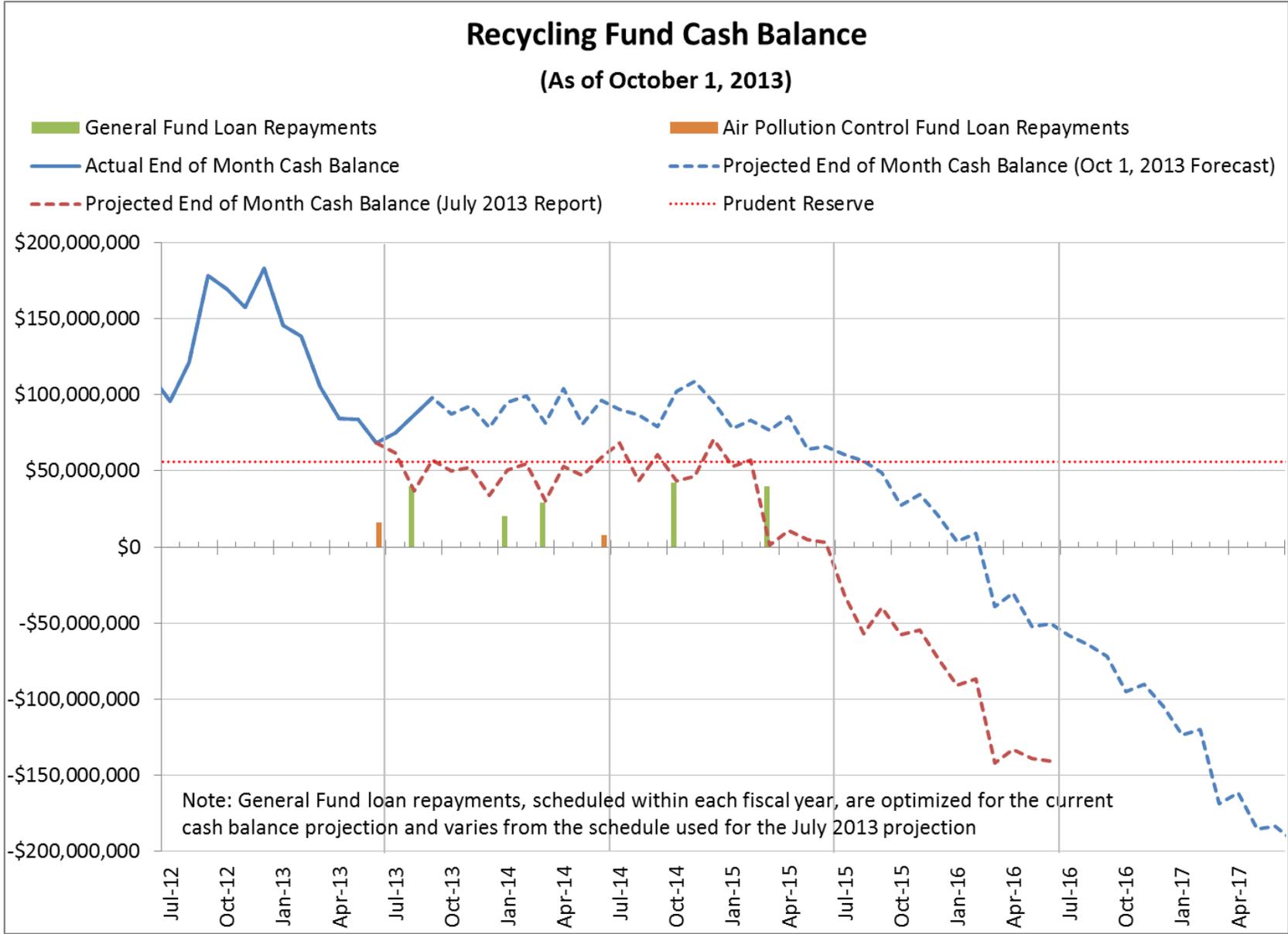


Table 9: Recycling Fund Condition Summary Statement

Recycling Fund Condition Summary Statement [Note1]						
	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	
<b>BEGINNING OUTSTANDING LOANS (A)</b>	201,077,000	184,677,000	82,277,000	0	0	
<b>RESOURCES</b>						
Adjusted Beginning Balance	220,907,000	107,938,000	134,123,000	118,955,000	8,747,000	
Redemption Fees (B)	1,162,265,000	1,131,347,000	1,131,347,000	1,131,347,000	1,131,347,000	
Loan Repayments to Recycling Fund (C) [Note 2]	16,400,000	102,400,000	82,277,000			
Loan Repayments From Recycling Fund	(8,250,000)					
Other Income	952,000	4,883,000	12,696,000	227,000	227,000	
<b>TOTAL RESOURCES (D) [Note 3]</b>	1,392,274,000	1,346,568,000	1,360,443,000	1,250,529,000	1,140,321,000	
<b>EXPENDITURES</b>						
California Refund Value	1,058,096,000	1,034,649,000	1,034,649,000	1,034,649,000	1,034,649,000	
Beverage Container Recycling Program Administration [Note 4]	43,070,000	50,801,000	45,771,000	45,771,000	45,771,000	
Glass Processing Fee Offsets	58,972,000	13,645,000	52,669,000	52,669,000	52,669,000	
Plastic Processing Fee Offsets	8,458,000	0	0	0	15,635,856	
Section 14581 Payments	114,270,000	108,023,000	108,354,000	108,693,000	109,040,000	
Other Expenditures	1,470,000	5,327,000	45,000			
<b>TOTAL EXPENDITURES (E) [Note 5]</b>	1,284,336,000	1,212,445,000	1,241,488,000	1,241,782,000	1,257,764,856	
<b>FUND BALANCE (D)-(E) [Note 6]</b>	107,938,000	134,123,000	118,955,000	8,747,000	(117,443,856)	
<b>STRUCTURAL DEFICIT (NET INCOME) (B)-(E) [Note 7]</b>	(122,071,000)	(81,098,000)	(110,141,000)	(110,435,000)	(126,417,856)	
<b>OUTSTANDING LOANS AT YEAR-END (A)-(C)</b>	184,677,000	82,277,000	0	0	0	
Notes:						
[Note 1] - This table does not reflect the impacts of proportional reduction						
[Note 2] - Loan repayments are scheduled in the Budget Act						
[Note 3] - Total Resources does not include Beginning Outstanding Loans						
[Note 4] - Includes Pro Rata which generally amounts to about \$5 million per year except for FY 2014-15 where Pro Rata is anticipated to be zero						
[Note 5] - Total Expenditures do not match totals in Governor's Budget due to the inclusion of Glass and Plastic Processing Fee Offsets						
[Note 6] - Fund Balance includes year-end accruals that are not reflected in the cash balance projection until the receipt or expenditure is projected to occur						
[Note 7] - Structural Deficit in FY 2013-14 reflects the reduction in Processing Fee Offsets due to General Fund loan repayments to the Processing Fee funds						

Table 10: Glass Processing Fee Fund Condition Summary Statement

Glass Processing Fee Fund Condition Summary Statement					
	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
<b>BEGINNING OUTSTANDING LOANS (A)</b>	39,000,000	39,000,000	0	0	0
<b>RESOURCES</b>					
Adjusted Beginning Balance	(2,053,000)	4,598,000	9,873,000	7,906,000	5,938,000
Processing Fees (B)	6,459,000	6,498,000	5,012,000	5,012,000	6,012,000
Glass Processing Fee Offsets	58,972,000	13,645,000	52,669,000	52,669,000	52,669,000
Loan Repayments to Glass Processing Fee Fund (C) [Note 1]	0	39,000,000	0	0	0
Other Income	32,000	6,035,000	34,000	33,000	33,000
<b>TOTAL RESOURCES (D) [Note 2]</b>	63,410,000	69,776,000	67,588,000	65,620,000	64,652,000
<b>EXPENDITURES</b>					
Processing Payments	58,481,000	59,655,000	59,682,000	59,682,000	59,682,000
Other Expenditures	331,000	248,000			
<b>TOTAL EXPENDITURES (E)</b>	58,812,000	59,903,000	59,682,000	59,682,000	59,682,000
<b>FUND BALANCE (D)-(E)</b>	4,598,000	9,873,000	7,906,000	5,938,000	4,970,000
<b>OUTSTANDING LOANS AT YEAR-END (A)-(C)</b>	39,000,000	0	0	0	0
Notes:					
[Note 1] - Loan repayments are scheduled in the Budget Act					
[Note 2] - Total Resources does not include Beginning Outstanding Loans					

Table 11: Plastic Processing Fee Fund Condition Summary Statement

Plastic Processing Fee Fund Condition Summary Statement						
	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	
<b>BEGINNING OUTSTANDING LOANS (A)</b>	27,000,000	27,000,000	0	0	0	
<b>RESOURCES</b>						
Adjusted Beginning Balance	5,599,000	9,210,000	28,282,000	15,344,000	2,398,000	
Processing Fees (B)	5,216,000	6,071,000	5,602,000	5,602,000	6,397,000	
Plastic Processing Fee Offsets	8,458,000	0	0	0	15,635,856	
Loan Repayments to Plastic Processing Fee Fund (C) [Note 1]	0	27,000,000	0	0	0	
Other Income	12,000	4,121,000	21,000	13,000	15,000	
<b>TOTAL RESOURCES (D) [Note 2]</b>	19,285,000	46,402,000	33,905,000	20,959,000	24,445,856	
<b>EXPENDITURES</b>						
Processing Payments	9,848,000	17,969,000	18,561,000	18,561,000	18,561,000	
Other Expenditures	227,000	151,000				
<b>TOTAL EXPENDITURES (E)</b>	10,075,000	18,120,000	18,561,000	18,561,000	18,561,000	
<b>FUND BALANCE (D)-(E)</b>	9,210,000	28,282,000	15,344,000	2,398,000	5,884,856	
<b>OUTSTANDING LOANS AT YEAR-END (A)-(C)</b>	27,000,000	0	0	0	0	
Notes:						
[Note 1] - Loan repayments are scheduled in the Budget Act						
[Note 2] - Total Resources does not include Beginning Outstanding Loans						

The current cash balance projection has shifted upwards as compared to the previous cash balance projection shown in the July 2013 report. The upward shift reflects lower than projected California Refund Value expenditure and higher than projected Redemption Fee receipts for the quarter ending September 30, 2013.

Based on the cash balance projection, CalRecycle would need to implement a 100-percent proportional reduction in FY 2015-2016. Proportional reduction would likely continue to FY 2016-2017 and beyond to maintain the solvency of the Recycling Fund. This scenario is based on implementing proportional reduction on July 1 at the beginning of each specified fiscal year, in order to differentiate the funding fiscal year for the expenditure that is subject to be reduced. Prior year expenditures incurred but not paid until FY 2015-2016 will not be subject to proportional reduction. The percent of expenditure reductions in this proportional reduction scenario are projections, and if implemented, the actual percent reductions could differ significantly from those presented here.

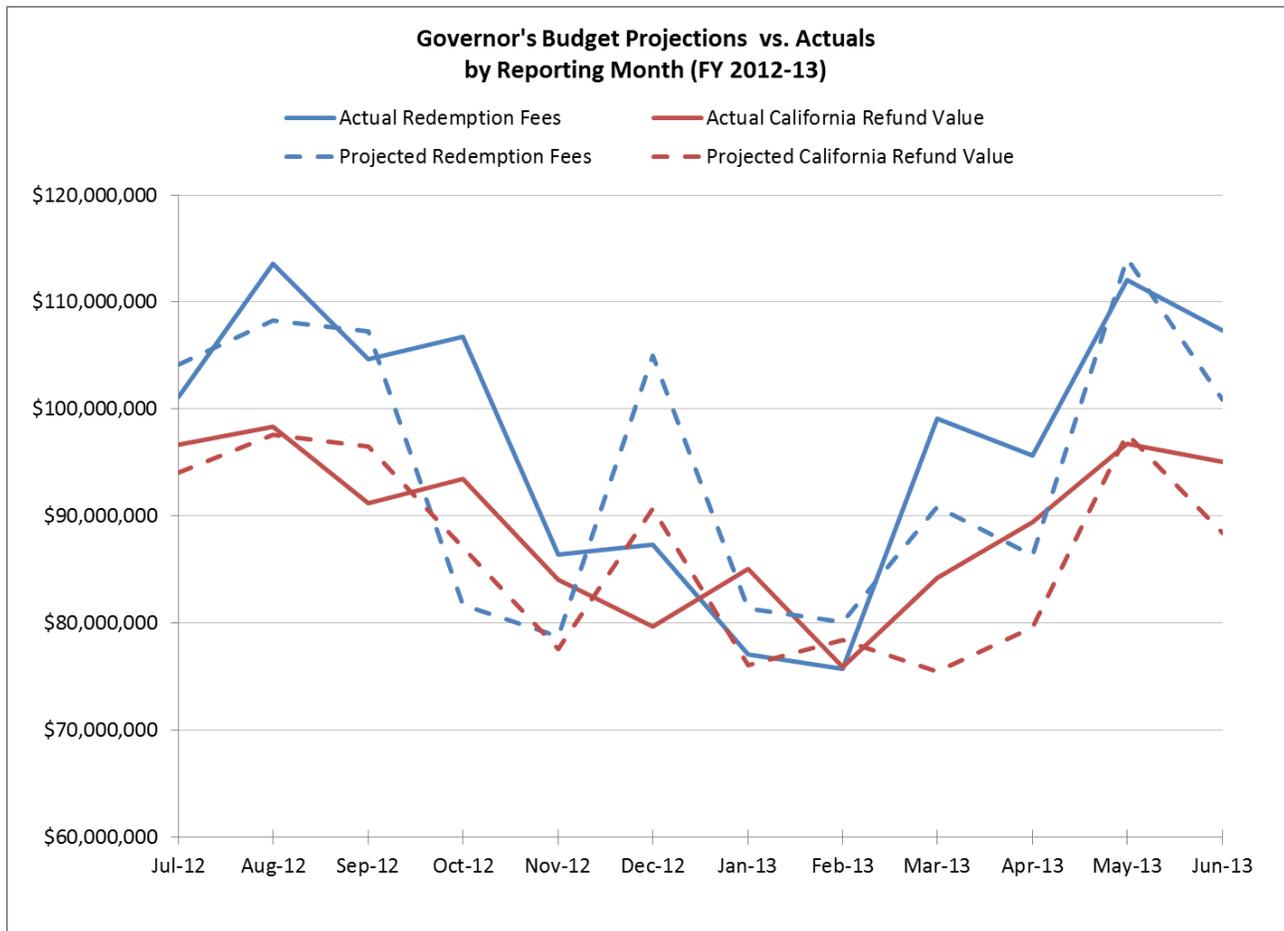
As a note of caution, the cash balance projection covers an extended horizon and is highly variable. All projected monthly cash balances are based on the most recent actual cash balance and are very sensitive to the timing and amounts of actual receipts and disbursements. Over successive projections, the timing of critical events is subject to significant shifts in either direction. To illustrate the variability, the following table and chart show the differences between projections completed for the Governor's budget and the actual data by reporting month for FY 2012-2013.

Table 12: Governor's Budget Projections for FY 2012-2013

Month	Sales			Returns		
	Gov. Budget Projection	Actual <b>[Note 1]</b>	% Difference	Gov. Budget Projection	Actual <b>[Note 1]</b>	% Difference
Jul-12	\$104,136,739	\$101,102,332	-2.9%	\$94,013,066	\$96,642,886	2.8%
Aug-12	\$108,311,278	\$113,583,023	4.9%	\$97,568,247	\$98,313,898	0.8%
Sep-12	\$107,290,842	\$104,661,437	-2.5%	\$96,482,814	\$91,152,164	-5.5%
Oct-12	\$81,651,175	\$106,771,271	30.8%	\$87,100,435	\$93,447,498	7.3%
Nov-12	\$78,709,911	\$86,387,378	9.8%	\$77,563,606	\$84,067,607	8.4%
Dec-12	\$104,960,701	\$87,312,103	-16.8%	\$90,695,398	\$79,633,658	-12.2%
Jan-13	\$81,358,368	\$77,094,989	-5.2%	\$76,026,348	\$85,041,690	11.9%
Feb-13	\$80,079,879	\$75,667,653	-5.5%	\$78,410,654	\$75,858,897	-3.3%
Mar-13	\$90,818,326	\$99,093,102	9.1%	\$75,414,993	\$84,209,209	11.7%
Apr-13	\$86,296,205	\$95,678,929	10.9%	\$79,579,048	\$89,430,657	12.4%
May-13	\$114,082,573	\$112,070,314	-1.8%	\$97,658,136	\$96,729,430	-1.0%
Jun-13	\$100,897,827	\$107,315,565	6.4%	\$88,375,316	\$95,092,641	7.6%
Total	\$1,138,593,824	\$1,166,738,096	2.5%	\$1,038,888,061	\$1,069,620,235	3.0%

[Note 1] - The source for actual sales and returns is the Division of Recycling Integrated Information System (DORIIS) and are based on more recent data than the data used to determine the amounts in the Governor's Budget.

Chart 2: Governor's Budget Projections for FY 2012-2013



## **Conclusion**

This Report is intended to provide updates on the status of all five funds in the Beverage Container Recycling Program and to serve as a guide to formulate and direct policy. The information presented here bears examination. CalRecycle has recently concluded a series of Program reform workshops to modernize the Program for the next 25 years. The workshops revealed the difficult challenges in addressing stakeholder concerns while working to close a \$100 million annual structural deficit. As a result, CalRecycle must shift the balance of its efforts in primarily encouraging recycling to an increased emphasis on Program fiscal integrity under an environment where Californians are enjoying record high recycling rates.

This Report indicates a growing concern about the need to implement proportional reduction. Even though there is a high degree of variability in the data, the size of the structural deficit suggests that reform measures to maintain the Program's financial and operational integrity must be addressed now to avoid more drastic actions later.

CalRecycle welcomes your feedback concerning this quarterly Report. Questions and comments may be sent to [BeverageContainerReform@calrecycle.ca.gov](mailto:BeverageContainerReform@calrecycle.ca.gov) or contact the Division of Recycling at (916) 445-8292.

## Appendix 1 – Short Term Projections

The short term projections provide detail on the actual and projected amounts and beverage container volumes by material type from FY 2012-2013 to FY 2014-2015. The projections are based on actual volumes through the June 2013 reporting period. This section covers sales, returns, Processing Fees, Processing Payments, Processing Fee Offsets, and Handling Fees.

Several of the line items are notated for further description. Those descriptions immediately follow the volume tables. The volume tables presented here are also available in Excel format at <http://www.calrecycle.ca.gov/BevContainer/RecycleFund/2013/OctCondition.xls> on the CalRecycle webpage.

SALES AND RETURNS ESTIMATES <i>[Note 1]</i>				
FY 2012-2013 (Actual)				
	Containers Sold		Containers Returned	Recycling Rate
	Over 24 oz.	Under 24 oz.		
Aluminum	526,809,348	7,913,863,972	8,222,556,278	97%
Glass	247,032,501	2,762,699,862	2,573,755,465	86%
PET	1,493,739,955	7,674,973,278	6,665,395,482	73%
HDPE	133,282,290	215,667,412	331,092,034	95%
<b>Total <i>[Note 2]</i></b>	<b>2,400,864,094</b>	<b>18,567,204,524</b>	<b>17,792,799,259</b>	<b>85%</b>
FY 2013-2014 (Projected)				
	Containers Sold		Containers Returned	Recycling Rate
	Over 24 oz.	Under 24 oz.		
Aluminum	533,407,855	7,499,131,731	7,945,488,512	99%
Glass	310,686,570	2,718,666,188	2,560,033,505	85%
PET	1,457,477,989	7,668,849,051	6,718,335,917	74%
HDPE	119,741,120	242,232,794	329,490,774	91%
<b>Total <i>[Note 2]</i></b>	<b>2,421,313,534</b>	<b>18,128,879,764</b>	<b>17,553,348,709</b>	<b>85%</b>
FY 2014-2015 (Projected)				
	Containers Sold		Containers Returned	Recycling Rate
	Over 24 oz.	Under 24 oz.		
Aluminum	533,407,855	7,499,131,731	7,945,488,512	99%
Glass	310,686,570	2,718,666,188	2,560,033,505	85%
PET	1,457,477,989	7,668,849,051	6,718,335,917	74%
HDPE	119,741,120	242,232,794	329,490,774	91%
<b>Total <i>[Note 2]</i></b>	<b>2,421,313,534</b>	<b>18,128,879,764</b>	<b>17,553,348,709</b>	<b>85%</b>

<b>PROCESSING FEE/PAYMENT ESTIMATES [Note 3]</b>			
FY 2012-2013 (Actual)			
	Processing Fees	Processing Fee Offsets	Processing Payments
Glass [Note 4]	\$6,459,000	\$58,972,000	\$58,481,000
PET	\$447,000	\$1,790,000	\$2,455,000
HDPE [Note 5]	\$735,000	\$6,668,000	\$7,162,000
Total	\$7,641,000	\$67,430,000	\$68,098,000
FY 2013-2014 (Projected)			
	Processing Fees	Processing Fee Offsets	Processing Payments
Glass [Note 6]	\$6,498,000	\$13,645,000	\$59,655,000
PET [Note 7]	\$739,000	\$0	\$10,778,000
HDPE [Note 8]	\$642,000	\$0	\$6,702,000
Total	\$7,879,000	\$13,645,000	\$77,135,000
FY 2014-2015 (Projected)			
	Processing Fees	Processing Fee Offsets	Processing Payments
Glass [Note 9]	\$5,012,000	\$52,669,000	\$59,682,000
PET [Note 7,10]	\$0	\$0	\$11,370,000
HDPE [Note 8]	\$642,000	\$0	\$6,702,000
Total	\$5,654,000	\$52,669,000	\$77,754,000

<b>HANDLING FEE ESTIMATES</b>		
Fiscal Year	Handling Fee	Containers
2012-13 (Actual) [Note 11]	\$40,144,000	4,251,585,275
2013-14 (Projected) [Note 12]	\$40,380,000	4,486,666,667
2014-15 (Projected) [Note 12]	\$40,380,000	4,486,666,667

Appendix 1 Notes:

**[Note 1]** – Actual sales and returns data are current through the June 2013 reporting period. Data after that reporting period are projections

**[Note 2]** – Total volumes exclude bimetal and plastics #3 - #7 due to their extremely low sales and returns volumes. In calendar year 2012 their proportion of sales to all material types was 0.88%, and their proportion of returns to all material types was 0.13%.

**[Note 3]** - For FY 2013-2014, the projected amounts shown are based on Processing Fees and Payments effective January 1, 2013 and August 1, 2013.. For FY 2014-2015, the projected amounts are based exclusively on the Processing Fees, Payments, and Offsets effective August 1, 2013.

**[Note 4]** – The Glass Processing Fee Offset for FY 2012-2013 includes two additional transfers from the Recycling Fund: a one-time \$6 million transfer to cover a shortfall in FY 2011-2012 and a \$1.2 million transfer to cover Processing Payment expenditure in excess of the Processing Fee Offset and Processing Fee revenue during calendar year 2012.

**[Note 5]** – The HDPE Processing Fee Offset for FY 2012-2013 includes an additional \$0.7 million transfer from the Recycling Fund to cover Processing Payment expenditure in excess of the Processing Fee Offset and Processing Fee revenue during calendar year 2012.

**[Note 6]** - The Glass Processing Fee Offset for FY 2013-2014 is projected to be reduced by the scheduled \$39 million loan repayment to the Glass Processing Fee Fund. The resulting amount of Glass Processing Fee Offset in FY 2013-2014 is the difference between the Offset established for Glass in calendar year 2013 and the loan repayment. The Glass Processing Fee for FY 2013-2014 reflects the \$2 million Glass Processing Fee reduction pursuant to PRC Section 14575(j). The projected Glass Processing Fee for FY 2013-2014 are the amounts established for calendar year 2013

less \$1 million since the reduction will be implemented for half of the fiscal year beginning in calendar year 2014. All amounts for FY 2013-2014 reflect the increase in the Glass Processing Payment per pound from \$0.04568 to \$0.04593 effective August 1, 2013.

**[Note 7]** - The PET Processing Fee Offset for FY 2013-2014 and FY 2014-2015 is projected to be reduced to zero by the scheduled \$27 million loan repayment to the Plastic Processing Fee Fund. Based on the Offset amount established for calendar year 2013, the anticipated Fund Balance in the Plastic Processing Fee Fund resulting from the loan repayment should be sufficient to cover the PET Processing Fee Offset in full for FY 2013-2014 and FY 2014-2015. The PET Processing Fee for FY 2013-2014 reflects the \$2 million PET Processing Fee reduction pursuant to PRC Section 14575(j). The projected PET Processing Fee for FY 2013-2014 are the amounts established for calendar year 2013 less \$1 million since the reduction will be implemented for half of the fiscal year beginning in calendar year 2014. The PET Processing Fee and Payment for FY 2013-2014 reflect the increase in the PET Processing Payment per pound from \$0.01226 to \$0.03262 effective August 1, 2013.

**[Note 8]** - The HDPE Processing Fee Offset for FY 2013-2014 and FY 2014-2015 is projected to be reduced to zero by the scheduled \$27 million loan repayment to the Plastic Processing Fee Fund. Based on the Offset amount established for calendar year 2013, the anticipated Fund Balance in the Plastic Processing Fee Fund resulting from the loan repayment should be sufficient to cover the HDPE Processing Fee Offset in full for FY 2013-2014 and FY 2014-2015. The Processing Fee reduction pursuant PRC Section 14575(j) does not apply to HDPE.

**[Note 9]** - The projected Glass Processing Fee for FY 2014-2015 reflects the \$2 million Glass Processing Fee reduction pursuant to PRC Section 14575(j) consisting of \$1 million for the second half of calendar year 2014 and \$1 million for the first half of calendar year 2015.

**[Note 10]** - The projected PET Processing Fee for FY 2014-2015 reflects the \$2 million PET Processing Fee reduction pursuant to PRC Section 14575(j) consisting of \$1 million

for the second half of calendar year 2014 and \$1 million for the first half of calendar year 2015. Since the projected PET Processing Fee amount prior to applying the reduction is less than \$2 million, the resulting amount is zero.

**[Note 11]** - The Handling Fee per container rate for FY 2012-2013 was \$0.0089 for the reporting months of July 2012 through February 2013 pursuant to PRC Section 14585(g)(1). Beginning with the March 2013 reporting month, the Handling Fee per container rate is \$0.0090 derived from the latest cost survey. The Handling Fee Cost Survey Final Report can be found on the CalRecycle website at <http://www.calrecycle.ca.gov/BevContainer/Fees/Handling/FinalReport.pdf>.

**[Note 12]** – The projected Handling Fees for FY 2013-2014 and FY 2014-2015 are based on a the Handling Fee per container rate of \$0.0090.

## Appendix 2 - Fund Condition Statements

This section contains Fund Condition Statements for all five Program funds, preceded by a brief description for each fund. Each Fund Condition Statement shows one column per fiscal year. The column for FY 2012-2013 contains actual amounts and amounts for FY 2013-2014 and FY 2014-2015 are projections. The projections are based on actual volumes through the June 2013 reporting period.

Several of the line items are notated for further description. Those descriptions immediately follow the Fund Condition Statements. The Fund Condition Statements presented here are also available in Excel format at <http://www.calrecycle.ca.gov/BevContainer/RecycleFund/2013/OctCondition.xls> on the CalRecycle webpage.

Below is a brief description of the each of the Program funds:

Beverage Container Recycling Fund (Recycling Fund), fund # 0133 – This fund serves as a depository for Redemption Fees paid by beverage distributors. The fund is the source for paying Refund Value for recycling empty beverage containers and funding programs that develop and maintain an infrastructure for beverage container recycling and promote markets for beverage container material.

Glass Processing Fee Fund, fund # 0269 – This fund serves as a depository for Glass Processing Fees paid by beverages manufacturers who package their product in glass bottles. The fund is the source for paying Processing Payments to certified recyclers for handling empty glass beverage containers.

Plastic Processing Fee Fund, fund # 0278 – This fund serves as a depository for Plastic Processing Fees paid by beverages manufacturers who package their product in any type of plastic bottle having a scrap value that is less than the cost of recycling. The fund is the source for paying Processing Payments to certified recyclers for handling empty plastic beverage containers.

Bimetal Processing Fee Fund, fund # 0277 – This fund serves as a depository for Bimetal Processing Fees paid by beverages manufacturers who package their product in

bi-metal cans. The fund is the source for paying Processing Payments to certified recyclers for handling empty bi-metal beverage containers.

Penalty Fund, fund # 0276 – The fund serves as a depository for civil penalties and fines. The purpose of the fund is to assist in carrying out the activities specified in the Beverage Container Recycling and Litter Reduction Act as specified in PRC Section 14580(d).

<b>California Department of Resources Recycling and Recovery (CalRecycle)</b>				
<b>Beverage Container Recycling Fund Condition Statement (Fund 0133)</b>				
<b>Projected Revenues and Expenditures as of October 1, 2013</b>				
		FY 2012-13	FY 2013-14	FY 2014-15
<b>Balance Forward [Note 1]</b>		205,285,000	107,938,000	134,123,000
<b>Prior Year Adjustments</b>		15,622,000		
<b>Balance Adjusted (A)</b>		220,907,000	107,938,000	134,123,000
<b>Revenues and Transfers</b>				
<b>Receipts</b>				
	Redemption Fees [Note 2]	1,162,265,000	1,131,347,000	1,131,347,000
	Other Income	952,000	4,883,000	12,696,000
	<b>Total Receipts (B)</b>	<b>1,163,217,000</b>	<b>1,136,230,000</b>	<b>1,144,043,000</b>
<b>Transfers</b>				
	Repayment of Air Pollution Control Fund Loan [Note 3]	16,400,000	8,000,000	
	Repayment of General Fund Loan [Note 4]		89,400,000	82,277,000
	Repayment of Loan to Department of Conservation		5,000,000	
	Transfers to Glass Processing Fee Fund [Note 5]	(58,972,000)	(13,645,000)	(52,669,000)
	Transfers to Plastic Processing Fee Fund [Note 5]	(8,458,000)		
	Repayment of Alternative Renewable Fuel & Vehicle Technology Fund Loan [Note 6]	(8,250,000)		
	<b>Total Transfers (C)</b>	<b>(59,280,000)</b>	<b>88,755,000</b>	<b>29,608,000</b>
	<b>Total Transfers and Receipts (B+C)</b>	<b>1,103,937,000</b>	<b>1,224,985,000</b>	<b>1,173,651,000</b>
	<b>Total Resources (D) = (A+B+C)</b>	<b>1,324,844,000</b>	<b>1,332,923,000</b>	<b>1,307,774,000</b>
<b>Expenditures [Note 7]</b>				
<b>Disbursements (CalRecycle)</b>				
	California Refund Value [Note 8]	1,058,096,000	1,034,649,000	1,034,649,000
	Beverage Container Recycling Program Administration	38,855,000	45,748,000	45,771,000
	Handling Fees [Note 9]	40,144,000	40,380,000	40,380,000
	Curbside Supplemental Payments	14,997,000	15,000,000	15,000,000
	Local Conservation Corps Grants [Note 10]	19,457,000	20,643,000	20,974,000
	City/County Payments	10,500,000	10,500,000	10,500,000
	Beverage Container Recycling Grants	1,483,000	1,500,000	1,500,000
	Public Education and Information [Note 11]			
	Quality Incentive Payments	9,689,000	10,000,000	10,000,000
	Market Development Grants [Note 12]	(214,000)		
	Plastic Market Development	19,189,000	10,000,000	10,000,000
	Grants Multi-Family Housing [Note 12]	(860,000)		
	Grants Multi-family Housing (low income) [Note 12]	(115,000)		
	Pro Rata	4,215,000	5,053,000	
	<b>Total Disbursements (CalRecycle) (E)</b>	<b>1,215,436,000</b>	<b>1,193,473,000</b>	<b>1,188,774,000</b>
<b>Disbursements (Other)</b>				
	Interest for Interfund Loan [Note 6]	247,000		
	State Controller	23,000		
	Fi\$cal	1,200,000	5,327,000	45,000
	<b>Total Disbursements (Other) (F)</b>	<b>1,470,000</b>	<b>5,327,000</b>	<b>45,000</b>
	<b>Total Expenditures (G) = (E+F)</b>	<b>1,216,906,000</b>	<b>1,198,800,000</b>	<b>1,188,819,000</b>
<b>FUND BALANCE (D-G) [Note 13]</b>		<b>107,938,000</b>	<b>134,123,000</b>	<b>118,955,000</b>

<b>California Department of Resources Recycling and Recovery (CalRecycle)</b>					
<b>Glass Processing Fee Fund Condition Statement (Fund 0269)</b>					
<b>Projected Revenues and Expenditures as of October 1, 2013</b>					
			FY 2012-13	FY 2013-14	FY 2014-15
<b>Balance Forward</b>			(2,625,000)	4,598,000	9,873,000
<b>Prior Year Adjustments</b>			572,000		
<b>Balance Adjusted (A)</b>			(2,053,000)	4,598,000	9,873,000
<b>Revenues and Transfers</b>					
<b>Receipts</b>					
	Processing Fees		6,459,000	6,498,000	5,012,000
	Other Income		32,000	6,035,000	34,000
	<b>Total Receipts (B)</b>		6,491,000	12,533,000	5,046,000
<b>Transfers</b>					
	Transfers from Beverage Container Recycling Fund <i>[Note 14]</i>		58,972,000	13,645,000	52,669,000
	Repayment of General Fund Loan <i>[Note 15]</i>			39,000,000	
	<b>Total Transfers (C)</b>		58,972,000	52,645,000	52,669,000
	<b>Total Transfers and Receipts (B+C)</b>		65,463,000	65,178,000	57,715,000
	<b>Total Resources (D) = (A+B+C)</b>		63,410,000	69,776,000	67,588,000
<b>Expenditures</b>					
<b>Disbursements (CalRecycle)</b>					
	Processing Payments		58,481,000	59,655,000	59,682,000
	Pro Rata		65,000		
	<b>Total Disbursements (CalRecycle) (E)</b>		58,546,000	59,655,000	59,682,000
<b>Disbursements (Other)</b>					
	Fiscal		266,000	248,000	
	<b>Total Disbursements (Other) (F)</b>		266,000	248,000	
	<b>Total Expenditures (G) = (E+F)</b>		58,812,000	59,903,000	59,682,000
<b>FUND BALANCE (D-G)</b>			4,598,000	9,873,000	7,906,000

<b>California Department of Resources Recycling and Recovery (CalRecycle)</b>				
<b>Plastic Processing Fee Fund Condition Statement (Fund 0278)</b>				
<b>Projected Revenues and Expenditures as of October 1, 2013</b>				
		<b>FY 2012-13</b>	<b>FY 2013-14</b>	<b>FY 2014-15</b>
<b>Balance Forward</b>		5,290,000	9,210,000	28,282,000
<b>Prior Year Adjustments</b>		309,000		
<b>Balance Adjusted (A)</b>		5,599,000	9,210,000	28,282,000
<b>Revenues and Transfers</b>				
<b>Receipts</b>				
Processing Fees <i>[Note 16]</i>		5,216,000	6,071,000	5,602,000
Other Income		12,000	4,121,000	21,000
<b>Total Receipts (B)</b>		5,228,000	10,192,000	5,623,000
<b>Transfers</b>				
Transfers from Beverage Container Recycling Fund <i>[Note 14]</i>		8,458,000	0	0
Repayment of General Fund Loan <i>[Note 17]</i>			27,000,000	0
<b>Total Transfers (C)</b>		8,458,000	27,000,000	0
<b>Total Transfers and Receipts (B+C)</b>		13,686,000	37,192,000	5,623,000
<b>Total Resources (D) = (A+B+C)</b>		19,285,000	46,402,000	33,905,000
<b>Expenditures</b>				
<b>Disbursements (CalRecycle)</b>				
Processing Payments <i>[Note 18]</i>		9,848,000	17,969,000	18,561,000
Pro Rata		65,000		
<b>Total Disbursements (CalRecycle) (E)</b>		9,913,000	17,969,000	18,561,000
<b>Disbursements (Other)</b>				
Fiscal		162,000	151,000	
<b>Total Disbursements (Other) (F)</b>		162,000	151,000	
<b>Total Expenditures (G) = (E+F)</b>		10,075,000	18,120,000	18,561,000
<b>FUND BALANCE (D-G)</b>		9,210,000	28,282,000	15,344,000

<b>California Department of Resources Recycling and Recovery (CalRecycle)</b>				
<b>Bimetal Processing Fee Fund Condition Statement (Fund 0277)</b>				
<b>Projected Revenues and Expenditures as of October 1, 2013</b>				
		<b>FY 2012-13</b>	<b>FY 2013-14</b>	<b>FY 2014-15</b>
<b>Balance Forward</b>		13,984,000	15,213,000	16,101,000
<b>Prior Year Adjustments</b>				
<b>Balance Adjusted (A)</b>		13,984,000	15,213,000	16,101,000
<b>Revenues and Transfers</b>				
<b>Receipts</b>				
Processing Fees		1,533,000	1,116,000	1,116,000
Other Income		43,000	57,000	60,000
<b>Total Receipts (B)</b>		1,576,000	1,173,000	1,176,000
<b>Transfers</b>				
Transfers from Beverage Container Recycling Fund		0	0	0
<b>Total Transfers (C)</b>		0	0	0
<b>Total Transfers and Receipts (B+C)</b>		1,576,000	1,173,000	1,176,000
<b>Total Resources (D) = (A+B+C)</b>		15,560,000	16,386,000	17,277,000
<b>Expenditures</b>				
<b>Disbursements (CalRecycle)</b>				
Processing Payments		345,000	283,000	283,000
Pro Rata				
<b>Total Disbursements (CalRecycle) (E)</b>		345,000	283,000	283,000
<b>Disbursements (Other)</b>				
Fi\$cal		2,000	2,000	
<b>Total Disbursements (Other) (F)</b>		2,000	2,000	
<b>Total Expenditures (G) = (E+F)</b>		347,000	285,000	283,000
<b>FUND BALANCE (D-G)</b>		15,213,000	16,101,000	16,994,000

<b>California Department of Resources Recycling and Recovery (CalRecycle)</b>				
<b>Penalty Account Fund Condition Statement (Fund 0276)</b>				
<b>Projected Revenues and Expenditures as of October 1, 2013</b>				
		<b>FY 2012-13</b>	<b>FY 2013-14</b>	<b>FY 2014-15</b>
<b>Balance Forward</b>		5,187,000	5,918,000	5,145,000
<b>Prior Year Adjustments</b>				
<b>Balance Adjusted (A)</b>		5,187,000	5,918,000	5,145,000
<b>Revenues and Transfers</b>				
<b>Receipts</b>				
Penalty Assessments		716,000	194,000	194,000
Other Income		15,000	21,000	18,000
<b>Total Receipts (B)</b>		731,000	215,000	212,000
<b>Transfers</b>				
Transfers		0	0	0
<b>Total Transfers (C)</b>		0	0	0
<b>Total Transfers and Receipts (B+C)</b>		731,000	215,000	212,000
<b>Total Resources (D) = (A+B+C)</b>		5,918,000	6,133,000	5,357,000
<b>Expenditures</b>				
<b>Disbursements (CalRecycle)</b>				
State Operations <i>[Note 19]</i>		0	988,000	957,000
Pro Rata		0	0	0
<b>Total Disbursements (CalRecycle) (E)</b>		0	988,000	957,000
<b>Disbursements (Other)</b>				
Fi\$cal				
<b>Total Disbursements (Other) (F)</b>				
<b>Total Expenditures (G) = (E+F)</b>		0	988,000	957,000
<b>FUND BALANCE (D-G)</b>		5,918,000	5,145,000	4,400,000

Appendix 2 Notes:

**[Note 1]** – The FY 2012-2013 Balance Forward amount ties to the Governor’s Budget.

**[Note 2]** – Redemption Fees, detailed in the table below, exclude the 1.5 percent retention for administrative fees held by beverage distributors.

	FY 2012-13	FY 2013-14	FY 2014-15
Total Redemption Fees	\$1,179,964,000	\$1,148,576,000	\$1,148,576,000
Less 1.5 % Administrative Fee	(\$17,699,000)	(\$17,229,000)	(\$17,229,000)
Net Redemption Fee Revenue	\$1,162,265,000	\$1,131,347,000	\$1,131,347,000

**[Note 3]** – Loan repayments from the Air Pollution Control Fund for the AB 32 implementation loans are completed for FY 2012-2013 and scheduled for FY 2013-2014.

**[Note 4]** – General Fund loan repayments scheduled for FY 2013-2014 amount to \$89.4 million. General Fund loans are scheduled to be paid in full in FY 2014-2015 with repayments amounting to \$82.3 million.

**[Note 5]** – Transfers to Glass/Plastic Processing Fee Funds are the expenditures for the Processing Fee Offsets authorized in PRC Section 14581 and PRC Section 14575.

**[Note 6]** – Repayment of Alternative Renewable Fuel and Vehicle Technology Fund Loan is a repayment for a one-time loan to the Recycling Fund enacted in the FY 2009-2010 budget to provide funding for the Local Conservation Corps. This loan was repaid in FY 2012-2013.

**[Note 7]** – Expenditures section is derived primarily from the list of appropriations found in PRC Section 14581.

**[Note 8]** – California Refund Value, detailed in the table below, includes the 2.5 percent administrative fee paid to certified processors.

	FY 2012-13	FY 2013-14	FY 2014-15
California Refund Value Paid for Empty Beverage Containers	\$1,032,289,000	\$1,009,414,000	\$1,009,414,000
Plus 2.5% Administrative Fee	\$25,807,000	\$25,235,000	\$25,235,000
Total California Refund Value Expenditure	\$1,058,096,000	\$1,034,649,000	\$1,034,649,000

**[Note 9]** – The total annual amount of Handling Fees authorized is not fixed, and the amount expended every year fluctuates based upon the per container rate and the number of containers recycled. For FY 2012-2013, the per-container Handling Fee was \$0.0089 for the July 2012 to February 2013 reporting periods pursuant to PRC Section 14585(g)(1). Beginning in the March 2013 reporting period, the per-container Handling Fee is \$0.0090.

**[Note 10]** – 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. The source for the 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 11]** – CalRecycle is not projected to expend the \$5 million annual appropriation for Public Education and Information due to the priority to reduce the structural deficit.

**[Note 12]** – Amounts in these lines are negative because they reflect cancellations of previously awarded grants.

**[Note 13]** – Fund Balance does not include any prudent reserve calculation. The prudent reserve pursuant to PRC Section 14580(a)(2) would be 5 percent of the total amount paid to processors, currently amounting to approximately \$56 million.

**[Note 14]** – Transfers from Beverage Container Recycling Fund are the expenditures for the Processing Fee Offsets authorized in PRC Section 14581 and PRC Section 14575. In FY 2013-2014, the Processing Fee Offsets are reduced due to scheduled General Fund loan repayments.

**[Note 15]** – Repayment of General Fund Loan, the balance of the outstanding General Fund loan made directly from the Glass Processing Fee Fund, amounts to \$39 million scheduled in the Budget Act in FY 2013-2014.

**[Note 16]** – Processing Fees for plastic include amounts for all types of plastic beverage containers: PET (when applicable), HDPE, and plastics #3 - #7.

**[Note 17]** – Repayment of General Fund Loan, the balance of the outstanding General Fund loans made directly from the Plastic Processing Fee Fund, amounts to \$27 million scheduled in the Budget Act in FY 2013-2014.

**[Note 18]** – Processing Payments for plastic include amounts for all types of plastic beverage containers: PET (when applicable), HDPE, and plastics #3 - #7.

**[Note 19]** – Expenditure from fund 0276 used for eight limited-term positions to implement Program reform activities specified in SB 96.