



Quarterly Report on the Status of the Beverage Container Recycling Fund

Department of Resources Recycling and Recovery

February 14, 2014



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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 Jan. 1, 2014.

CalRecycle projects that the cash balance of the Recycling Fund will permanently fall below the prudent reserve in January 2016 without additional reforms to the Beverage Container Recycling Program (Program), beyond the measures shown on Table 2. The projected date of this event is four months later than the date indicated in the projection in the October 2013 Quarterly Report. 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 October 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 \$58 million. This would require CalRecycle to implement a minimum 70 percent proportional reduction for two years beginning in FY 2015-2016, and beyond the current forecast horizon, proportional reduction would likely continue indefinitely in order to maintain the solvency of the Recycling Fund. The fiscal impact of a 70 percent proportional reduction is detailed in Table 4. 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 84 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 submitted and the Legislature approved a FY 2013-2014 Spring Finance Letter as the first phase of reform that includes the measures summarized in Table 2. Furthermore, CalRecycle developed three Budget Change Proposals (BCPs) which directly address the structural deficit, increase the number of auditors to improve the monitoring of beverage manufacturers and distributors, and provide for the transition of maintenance and operations of the Division of Recycling Integrated Information System (DORIIS) from contractor to CalRecycle staff. In addition, CalRecycle developed a Greenhouse Gas Emission Reductions BCP which decreases Program administration costs but has no other impacts on the Recycling Fund. The Recycling Fund fiscal impacts from all four BCPs are detailed in Table 1 below. More information about the BCPs may be found in this report and at <http://www.calrecycle.ca.gov/Temp/201415BCPs/>.

Table 1: Fiscal Impacts of the BCPs on the Recycling Fund

	Current Law FY 2016-17 <i>[Note 1]</i>	BCPs FY 2016-17 <i>[Note 2]</i>	Savings (Cost)
REVENUE			
Redemption Fees	\$1,173,118,000	\$1,173,118,000	\$0
TOTAL REVENUE	\$1,173,118,000	\$1,173,118,000	\$0
EXPENDITURES			
California Refund Value <i>[Note 3]</i>	\$1,086,173,000	\$1,059,681,000	\$26,492,000
Beverage Container Recycling Program Administration <i>[Note 4]</i>	\$45,771,000	\$45,771,000	\$0
Reform Phase II BCP	\$0	\$1,209,000	(\$1,209,000)
Audit Coverage BCP <i>[Note 5]</i>	\$0	\$557,000	(\$557,000)
DORIIS BCP <i>[Note 6]</i>	\$0	\$0	\$0
Greenhouse Gas Emission Reductions BCP	\$0	(\$24,000)	\$24,000
Glass Processing Fee Offsets	\$56,365,000	\$0	\$56,365,000
Plastic Processing Fee Offsets	\$25,733,000	\$0	\$25,733,000
Handling Fees	\$42,391,000	\$33,000,000	\$9,391,000
Curbside Supplemental Payments	\$15,000,000	\$0	\$15,000,000
Local Conservation Corps Grants <i>[Note 7]</i>	\$21,651,000	\$6,651,000	\$15,000,000
City/County Payments	\$10,500,000	\$0	\$10,500,000
Quality Incentive Payments	\$10,000,000	\$10,000,000	\$0
Public Education and Information	\$2,500,000	\$2,500,000	\$0
Beverage Container Recycling Grants	\$1,500,000	\$5,000,000	(\$3,500,000)
Plastic Market Development	\$10,000,000	\$10,000,000	\$0
Recycling Enforcement Agency Grants	\$0	\$7,000,000	(\$7,000,000)
TOTAL EXPENDITURES	\$1,327,584,000	\$1,181,345,000	
STRUCTURAL DEFICIT <i>[Note 8]</i>	(\$154,466,000)	(\$8,227,000)	
[Note 1] - Does not include the impacts of proportional reduction			
[Note 2] - FY 2016-17 is the first fiscal year of full implementation			
[Note 3] - Savings due to the elimination of the Administrative Fee paid to Processors and Recyclers			
[Note 4] - The amount shown is the baseline amount which does not reflect the impact of any of the BCPs			
[Note 5] - The potential impact of increased net revenue from additional audits is not included in the projections			
[Note 6] - The impact of the DORIIS BCP is \$258,000 for FY 2014-15 only			
[Note 7] - Total projected funding for FY 2016-17 is \$21,651,000 including the COLA with \$15 million provided from other CalRecycle funds			
[Note 8] - The structural deficit amount under the current law scenario ties to the amount in Table 12, and the amount under the BCP scenario ties to the amount in Table 13.			

In addition, 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 2: Program Reform Measures

Category	Measure	Rulemaking Authority <i>[Note 1]</i>	Implementation Date
Improve Integrity	Develop a more robust certification application review and probationary process <i>[Note 2]</i>	Emergency	Regulations effective 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 <i>[Note 2]</i>	Emergency	Regulations effective Jan 1, 2014
	Mandate program participants use the Division of Recycling Integrated Information System (DORIIS) <i>[Note 2]</i>	Regular	Anticipated effective date of regulations Oct 1, 2014 <i>[Note 3]</i>
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 <i>[Note 4]</i>	Emergency	Regulations Effective Jan 13, 2014
	Discontinue beverage container redemption of consumer loads based on the commingled rate at certified recycling centers <i>[Note 2]</i>	Regular <i>[Note 5]</i>	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	Regulations effective 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 a 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] - To date, approximately 96% of certified recyclers and processors are using DORIIS

[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 begin in Spring 2014

Because of data variability, the projected timing of proportional reduction is subject to shift in either direction. The report dated Jan. 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. Both the report dated Nov.

18, 2013 and this report indicate that the timing of proportional reduction will be placed back to the beginning of FY 2015-2016.

However, projections indicate that proportional reduction will not need to be implemented if the BCPs developed by CalRecycle are approved by the Legislature. The BCPs retain the most cost-effective Program investments and continue to maintain the infrastructure necessary to support recycling rates that exceed the legislative goal of 80 percent.

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), based on current law and the provisions under the BCPs published in the Governor's Proposed Budget for FY 2014-2015, 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 October 2013 Report.

As of Jan. 1, 2014, CalRecycle is projecting that the cash balance of the Recycling Fund will permanently fall below the prudent reserve in January 2016, which is four months later than the date based on the projection in the October 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 Jan. 1, 2014.

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 12-17.

Table 3: Projected Fund Balances in FYs 2012-2013 and 2016-2017

Projected Balances for all Program Funds in FY 2016-17 as of January 1, 2014			
	Actual Assets	Projected Assets	Projected Assets
	End of FY 2012-13	End of FY 2016-17	End of FY 2016-17
Fund Balances		Current Law	BCPs
Beverage Container Recycling Fund (0133)	\$ 107,087,000	\$ (221,694,000)	\$ 130,480,000
Glass Processing Fee Fund (0269)	\$ 4,598,000	\$ 4,583,000	\$ 3,940,000
Plastic Processing Fee Fund (0278)	\$ 9,211,000	\$ 7,040,000	\$ 1,542,000
Bi-Metal Processing Fee Fund (0277)	\$ 15,306,000	\$ 18,882,000	\$ 16,092,000
Penalty Account Fund (0276)	\$ 5,965,000	\$ 3,928,000	\$ 3,928,000
	\$ 142,167,000	\$ (187,261,000)	\$ 155,982,000
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	\$ 392,844,000	\$ (187,261,000)	\$ 155,982,000
Less, Prudent Reserves [Note 1]			
Beverage Container Recycling Fund (0133)	\$ 56,458,000	\$ 59,216,000	\$ 57,887,000
Glass Processing Fee Fund (0269)	\$ 2,941,000	\$ 3,191,000	\$ 3,191,000
Plastic Processing Fee (0278)	\$ 502,000	\$ 1,521,000	\$ 1,521,000
Bimetal Processing Fee Fund (0277)	\$ 17,000	\$ 14,000	\$ 14,000
Penalty Account Fund (0276)	\$ -	\$ -	\$ -
Reserve Requirement	\$ 59,918,000	\$ 63,942,000	\$ 62,613,000
Assets Available, All Funds	\$ 332,926,000	\$ (251,203,000)	\$ 93,369,000
[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. 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 2014 is approximately \$58 million.

The tables below compare the fiscal impacts of implementing an anticipated 70 percent proportional reduction and the impact of the BCPs in FY 2015-2016.

Table 4: Recycling Fund Expenditures under Proportional Reduction and BCP Scenarios

Expenditures Subject to Proportional Reduction [Note 1]	FY 2014-15 Current Law	FY 2015-16 70% Prop. Reduction	FY 2015-16 BCPs
Glass Processing Fee Offsets	\$56,365,000	\$16,909,500	\$11,098,000
Plastic Processing Fee Offsets [Note 2]	\$1,939,000	\$7,719,900	\$0
Handling Fees	\$42,391,000	\$12,717,300	\$33,000,000
Curbside Supplemental Payments	\$15,000,000	\$4,500,000	\$0
Local Conservation Corps [Note 3]	\$20,974,000	\$6,292,200	\$6,310,000
City/County Payments	\$10,500,000	\$3,150,000	\$0
Competitive Grants	\$1,500,000	\$450,000	\$5,000,000
Recycling Enforcement Agency Grants	\$0	\$0	\$7,000,000
Public Education and Information	\$2,500,000	\$750,000	\$2,500,000
Quality Incentive Payments	\$10,000,000	\$3,000,000	\$10,000,000
Plastic Market Development	\$10,000,000	\$3,000,000	\$10,000,000
Total	\$171,169,000	\$51,350,700	\$84,908,000

[Note 1] - Expenditures not subject to proportional reduction are California Refund Value, Administrative Fees paid to processors and recyclers, Beverage Container Recycling Program Administration, Administrative Fees retained by distributors, and payments to control agencies

[Note 2] - Estimated Plastic Processing Fee Offset for FY 2015-16 without proportional reduction is \$25,733,000

[Note 3] - Under the BCP scenario, the total funding provided by CalRecycle in FY 2015-16 is projected to be \$21,310,000; the amount shown is the funding provided by the Recycling Fund.

The tables below show the impacts of the proportional reduction and BCP scenarios on Processing Fees and Processing Payments. As the rate of proportional reduction increases, the Processing Fee per container approaches the maximum 65 percent of the processing payment per container pursuant to PRC Section 14575(d), and the Processing Payment decreases for material types having a recycling rate above 65 percent.

Table 5: Impact of Proportional Reduction and BCP Scenarios on Processing Fees

Material Type	FY 2014-15 Current Law	FY 2015-16 70% Prop. Reduction	FY 2015-16 BCPs
Glass	\$5,478,000	\$36,195,000	\$51,762,000
PET	\$1,467,000	\$15,341,000	\$19,271,000
HDPE	\$750,000	\$3,631,000	\$5,989,000

Table 6: Impact of Proportional Reduction and BCP Scenarios on Processing Payments

Material Type	FY 2014-15 Current Law	FY 2015-16 70% Prop. Reduction	FY 2015-16 BCPs
Glass	\$63,829,000	\$53,105,000	\$63,829,000
PET	\$22,862,000	\$21,162,000	\$22,862,000
HDPE	\$7,105,000	\$5,538,000	\$7,105,000

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. 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.

Under current law, 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 7: Stakeholder Groups and Program Payments

Type	Stakeholder Group	Number	Payment	Amount (FY 2012-13)
Generate Revenue	Beverage Distributors	1,709	Redemption Fees [Note 1]	\$1,179,964,000
	Beverage Manufacturers	1,473	Processing Fees	\$13,208,000
	Total Revenue			\$1,193,172,000
Receive Payments	Beverage Distributors	1,709	Administrative Fees [Note 1]	\$17,699,000
	Certified Processors	233	Administrative Fees	\$18,347,000
	Certified Recycling Centers	2,400	Processing Payments	\$54,876,000
			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	\$11,594,000
			Administrative Fees	\$525,000
	Dropoff, Collection, and Community Service Programs [Note 2]	341	California Refund Value	\$27,330,000
			Processing Payments	\$2,235,000
	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 [Note 3]	\$42,805,000	
Total Expenditure			\$1,302,764,000	
Net (Structural Deficit)			(\$109,592,000)	

[Note 1] - Beverage distributors receive Administrative Fees by retaining 1.5% of the total Redemption Fee. The net Redemption Fee revenue for FY 2012-13 with the inclusion of the distributor's Administrative Fee amounts to \$1,162,265,000.

[Note 2] - Not eligible to receive Administrative Fees pursuant to PRC Sec 14573.6

[Note 3] - Includes Pro Rata

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 that has been successfully implemented by CalRecycle. 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. The efforts implemented to date 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, testing, and review of certified recyclers.

The second phase of reform addresses the structural deficit in order to avoid proportional reduction through a set of BCPs that retain the most cost-effective Program investments and continue to maintain the infrastructure necessary to support recycling rates that exceed the legislative goal of 80 percent.

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. 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. During 2012-2013, CalRecycle conducted a series of public workshops that resulted in proposed 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) and the California Department of Justice (DOJ). The regulations, effective Jan. 13, 2014, require anyone importing 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 declare they are importing empty beverage containers, complete a form under penalty of perjury, and submit to an inspection conducted by CDFA personnel. Failure to 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. The information collected about individuals importing

empty beverage containers into California will be compiled by CalRecycle and provided to state and local law enforcement for potential follow-up.

Furthermore, after conducting several public workshops, CalRecycle developed daily load limit regulations that 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. Daily load limit regulations were effective on Jan. 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. New certification regulations were effective on Jan. 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 of 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. A summary of the findings to date can be found at a December 2013 CalRecycle presentation on [Revenue Opportunities](#).

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 implemented, the need for active enforcement becomes more critical. CalRecycle, along with our agency partners

at CDFR, DOJ, and the Attorney General's Office have been actively enforcing the laws and regulations as currently authorized. Finally, CalRecycle is implementing a sustained effort to more broadly publicize criminal arrests, prosecutions, and administrative judgments and remedies 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 has 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 8: 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 84 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 breakeven 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 9: Historical Structural Deficits for all Program Funds

Fiscal Year	Revenue [Note 1]	Expenditure [Note 2]	Surplus/(Deficit) [Note 3]
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 [Note 4]	\$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	\$1,175,473,000	\$1,285,065,000	(\$109,592,000)
[Note 1] - Redemption Fees and Processing Fees			
[Note 2] - From Governor's Budget, Detail of Appropriations and Adjustments			
[Note 3] - Reflects ongoing operations only and excludes non-reoccurring revenues and expenditures such as loan repayments and payments for Fi\$cal			
[Note 4] - Surplus due to implementing proportional reduction pursuant to PRC Sec. 14581(d)			

Table 10: 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	\$1,173,118,000	100%	\$1,173,118,000	100%
Program Administration [Note 1]	\$56,130,000	5%	\$56,130,000	5%
14581 Programs - Fixed [Note 2]	\$67,643,000	6%	\$67,643,000	6%
California Refund Value	\$1,086,173,000	93%	\$997,864,000	85%
Processing Fee Offsets [Note 3]	\$13,645,000	1%	\$12,536,000	1%
Handling Fees	\$42,391,000	4%	\$38,945,000	3%
Total Expenditure [Note 4]	\$1,265,982,000	108%	\$1,173,118,000	100%
Structural Deficit	(\$92,864,000)	-8%	\$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 86% 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 \$24 million.

Fraud Prevention

Successful fraud deterrence, prevention, and mitigation result 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 toward fraud prevention, increasing fines and penalties, tightening the barrier to entry through the requirement of precertification training and passing an examination, and policy changes such as the implementation of lower consumer load limits and increased monitoring of the movement of out-of-state material have 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 and our agency partners to mitigate fraud related fund losses. 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 October 2013 Report. Finally, the chart shows the prudent reserve which functions as the threshold for implementing proportional reduction.

The Recycling Fund Condition Summary Statements shown in Tables 12 and 13 are 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. Table 12 is based on current law, and Table 13 is based on the provisions in the BCPs.

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 11: 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 14-17 to show the long-term effect of General Fund loan repayments on Fund Balances. Tables 12 and 14 are based on current law, and Tables 13 and 15 are based on the provisions in the BCPs.

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

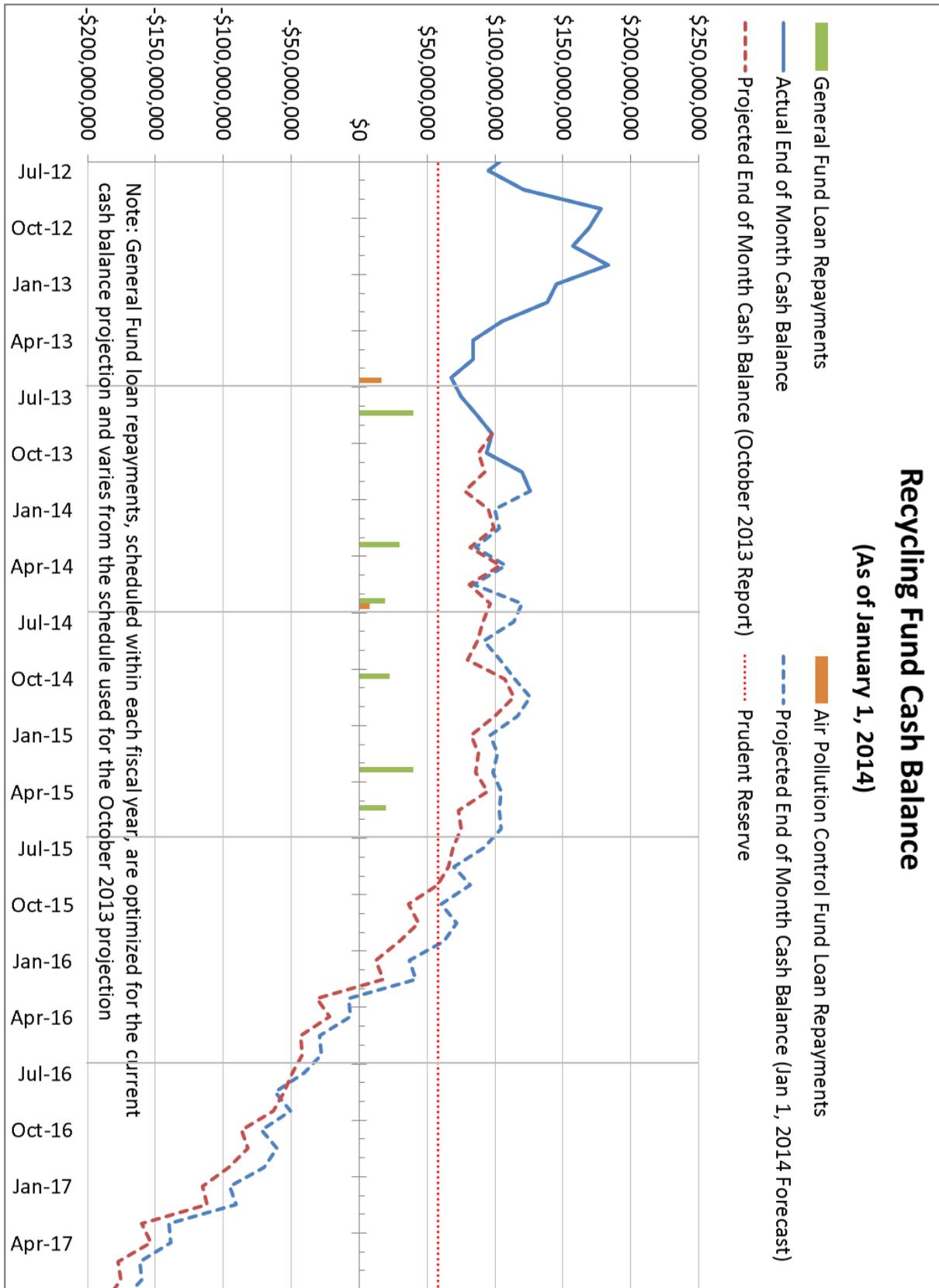


Table 12: Recycling Fund Condition Summary Statement under Current Law

Recycling Fund Condition Summary Statement - Current Law [Note 1]						
	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	
	Actual	Projected	Projected	Projected	Projected	
BEGINNING OUTSTANDING LOANS (A)	201,077,000	184,677,000	82,277,000	0	0	0
RESOURCES						
Adjusted Beginning Balance	221,767,000	107,087,000	121,506,000	86,443,000	(67,455,000)	
Redemption Fees (B)	1,162,265,000	1,173,118,000	1,173,118,000	1,173,118,000	1,173,118,000	
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 [Note 3]	952,000	4,883,000	12,696,000	227,000	227,000	
TOTAL RESOURCES (D) [Note 4]	1,393,134,000	1,387,488,000	1,389,597,000	1,259,788,000	1,105,890,000	
EXPENDITURES						
California Refund Value	1,058,096,000	1,086,173,000	1,086,173,000	1,086,173,000	1,086,173,000	
Beverage Container Recycling Program Administration [Note 5]	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	56,365,000	56,365,000	56,365,000	
Plastic Processing Fee Offsets	8,458,000	0	1,939,000	25,733,000	25,733,000	
Section 14581 Payments	115,130,000	110,034,000	112,865,000	113,201,000	113,542,000	
Other Expenditures [Note 6]	2,321,000	5,329,000	41,000			
TOTAL EXPENDITURES (E) [Note 7]	1,286,047,000	1,265,982,000	1,303,154,000	1,327,243,000	1,327,584,000	
FUND BALANCE (D)-(E) [Note 8]	107,087,000	121,506,000	86,443,000	(67,455,000)	(221,694,000)	
STRUCTURAL DEFICIT (NET INCOME) (B)-(E) [Note 9]	(123,782,000)	(92,864,000)	(130,036,000)	(154,125,000)	(154,466,000)	
OUTSTANDING LOANS AT YEAR-END (A)-(C)	184,677,000	82,277,000	0	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] - Other Income includes interest from loan repayments						
[Note 4] - Total Resources does not include Beginning Outstanding Loans						
[Note 5] - Includes Pro Rata which is detailed in the Fund Condition Statement in Appendix 2. Pro Rata for fiscal years after FY 2014-15 is estimated to equal FY 2014-15.						
[Note 6] - Other Expenditures includes payments for the Financial Information System for California (FISCal)						
[Note 7] - Total Expenditures do not match totals in Governor's Budget due to the inclusion of Glass and Plastic Processing Fee Offsets						
[Note 8] - 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 9] - 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 13: Recycling Fund Condition Summary Statement Based on BCPs

Recycling Fund Condition Summary Statement - Budget Change Proposals [Note 1]						
	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	
	Actual	Projected	Projected - BCPs	Projected - BCPs	Projected - BCPs	
BEGINNING OUTSTANDING LOANS (A)	201,077,000	184,677,000	82,277,000	0	0	0
RESOURCES						
Adjusted Beginning Balance	221,767,000	107,087,000	121,506,000	157,237,000	138,480,000	
Redemption Fees (B)	1,162,265,000	1,173,118,000	1,173,118,000	1,173,118,000	1,173,118,000	
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 [Note 3]	951,000	4,883,000	12,696,000	227,000	227,000	
TOTAL RESOURCES (D) [Note 4]	1,393,133,000	1,387,488,000	1,389,597,000	1,330,582,000	1,311,825,000	
EXPENDITURES						
California Refund Value	1,058,096,000	1,086,173,000	1,072,927,000	1,059,681,000	1,059,681,000	
Beverage Container Recycling Program Administration [Note 5]	43,070,000	50,801,000	48,053,000	47,513,000	47,513,000	
Glass Processing Fee Offsets	58,972,000	13,645,000	37,865,000	11,098,000	0	
Plastic Processing Fee Offsets	8,458,000	0	0	0	0	
Section 14581 Payments	115,129,000	110,034,000	73,474,000	73,810,000	74,151,000	
Other Expenditures [Note 6]	2,321,000	5,329,000	41,000			
TOTAL EXPENDITURES (E) [Note 7]	1,286,046,000	1,265,982,000	1,232,360,000	1,192,102,000	1,181,345,000	
FUND BALANCE (D)-(E) [Note 8]	107,087,000	121,506,000	157,237,000	138,480,000	130,480,000	
STRUCTURAL DEFICIT (NET INCOME) (B)-(E) [Note 9]	(123,781,000)	(92,864,000)	(59,242,000)	(18,984,000)	(8,227,000)	
OUTSTANDING LOANS AT YEAR-END (A)-(C)	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] - Other Income includes interest from loan repayments						
[Note 4] - Total Resources does not include Beginning Outstanding Loans						
[Note 5] - Includes Pro Rata which is detailed in the Fund Condition Statement in Appendix 2. Pro Rata for fiscal years after FY 2014-15 is estimated to equal FY 2014-15.						
[Note 6] - Other Expenditures includes payments for the Financial Information System for California (FISCal)						
[Note 7] - Total Expenditures do not match totals in Governor's Budget due to the inclusion of Glass and Plastic Processing Fee Offsets						
[Note 8] - 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 9] - 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 14: Glass Processing Fee Fund Condition Summary Statement under Current Law

Glass Processing Fee Fund Condition Summary Statement - Current Law						
	FY 2012-13 Actual	FY 2013-14 Projected	FY 2014-15 Projected	FY 2015-16 Projected	FY 2016-17 Projected	
BEGINNING OUTSTANDING LOANS (A)	39,000,000	39,000,000	0	0	0	0
RESOURCES						
Adjusted Beginning Balance	(2,053,000)	4,598,000	7,506,000	5,510,000	4,550,000	
Processing Fees (B)	6,459,000	6,231,000	5,478,000	6,471,000	7,464,000	
Glass Processing Fee Offsets	58,972,000	13,645,000	56,365,000	56,365,000	56,365,000	
Loan Repayments to Glass Processing Fee Fund (C) [Note 1]	0	39,000,000	0	0	0	
Other Income [Note 2]	32,000	6,035,000	34,000	33,000	33,000	
TOTAL RESOURCES (D) [Note 3]	63,410,000	69,509,000	69,383,000	68,379,000	68,412,000	
EXPENDITURES						
Processing Payments	58,481,000	61,755,000	63,829,000	63,829,000	63,829,000	
Other Expenditures [Note 4]	331,000	248,000	44,000			
TOTAL EXPENDITURES (E)	58,812,000	62,003,000	63,873,000	63,829,000	63,829,000	
FUND BALANCE (D)-(E)	4,598,000	7,506,000	5,510,000	4,550,000	4,583,000	
OUTSTANDING LOANS AT YEAR-END (A)-(C)	39,000,000	0	0	0	0	0
Notes:						
[Note 1] - Loan repayments are scheduled in the Budget Act						
[Note 2] - Other Income includes interest from loan repayments						
[Note 3] - Total Resources does not include Beginning Outstanding Loans						
[Note 4] - Other Expenditures includes payments for the Financial Information System for California (Fiscal)						

Table 15: Glass Processing Fee Fund Condition Summary Statement Based on BCPs

Glass Processing Fee Fund Condition Summary Statement - Budget Change Proposals						
	FY 2012-13 Actual	FY 2013-14 Projected	FY 2014-15 Projected - BCPs	FY 2015-16 Projected - BCPs	FY 2016-17 Projected - BCPs	
BEGINNING OUTSTANDING LOANS (A)	39,000,000	39,000,000	0	0	0	0
RESOURCES						
Adjusted Beginning Balance	(2,053,000)	4,598,000	7,506,000	4,843,000	3,907,000	
Processing Fees (B)	6,459,000	6,231,000	23,311,000	51,762,000	63,829,000	
Glass Processing Fee Offsets	58,972,000	13,645,000	37,865,000	11,098,000	0	
Loan Repayments to Glass Processing Fee Fund (C) [Note 1]	0	39,000,000	0	0	0	
Other Income [Note 2]	32,000	6,035,000	34,000	33,000	33,000	
TOTAL RESOURCES (D) [Note 3]	63,410,000	69,509,000	68,716,000	67,736,000	67,769,000	
EXPENDITURES						
Processing Payments	58,481,000	61,755,000	63,829,000	63,829,000	63,829,000	
Other Expenditures [Note 4]	331,000	248,000	44,000			
TOTAL EXPENDITURES (E)	58,812,000	62,003,000	63,873,000	63,829,000	63,829,000	
FUND BALANCE (D)-(E)	4,598,000	7,506,000	4,843,000	3,907,000	3,940,000	
OUTSTANDING LOANS AT YEAR-END (A)-(C)	39,000,000	0	0	0	0	
Notes:						
[Note 1] - Loan repayments are scheduled in the Budget Act						
[Note 2] - Other Income includes interest from loan repayments						
[Note 3] - Total Resources does not include Beginning Outstanding Loans						
[Note 4] - Other Expenditures includes payments for the Financial Information System for California (Fi\$cal)						

Table 16: Plastic Processing Fee Fund Condition Summary Statement under Current Law

Plastic Processing Fee Fund Condition Summary Statement - Current Law						
	FY 2012-13 Actual	FY 2013-14 Projected	FY 2014-15 Projected	FY 2015-16 Projected	FY 2016-17 Projected	
BEGINNING OUTSTANDING LOANS (A)	27,000,000	27,000,000	0	0	0	0
RESOURCES						
Adjusted Beginning Balance	5,566,000	9,211,000	22,550,000	1,522,000	4,280,000	
Processing Fees (B)	5,216,000	6,856,000	7,425,000	7,425,000	7,425,000	
Plastic Processing Fee Offsets	8,458,000	0	1,939,000	25,733,000	25,733,000	
Loan Repayments to Plastic Processing Fee Fund (C) [Note 1]	0	27,000,000	0	0	0	
Other Income [Note 2]	12,000	4,121,000	21,000	13,000	15,000	
TOTAL RESOURCES (D) [Note 3]	19,252,000	47,188,000	31,935,000	34,693,000	37,453,000	
EXPENDITURES						
Processing Payments	9,879,000	24,487,000	30,413,000	30,413,000	30,413,000	
Other Expenditures [Note 4]	162,000	151,000				
TOTAL EXPENDITURES (E)	10,041,000	24,638,000	30,413,000	30,413,000	30,413,000	
FUND BALANCE (D)-(E)	9,211,000	22,550,000	1,522,000	4,280,000	7,040,000	
OUTSTANDING LOANS AT YEAR-END (A)-(C)	27,000,000	0	0	0	0	0
Notes:						
[Note 1] - Loan repayments are scheduled in the Budget Act						
[Note 2] - Other Income includes interest from loan repayments						
[Note 3] - Total Resources does not include Beginning Outstanding Loans						
[Note 4] - Other Expenditures includes payments for the Financial Information System for California (Fiscal)						

Table 17: Plastic Processing Fee Fund Condition Summary Statement Based on BCPs

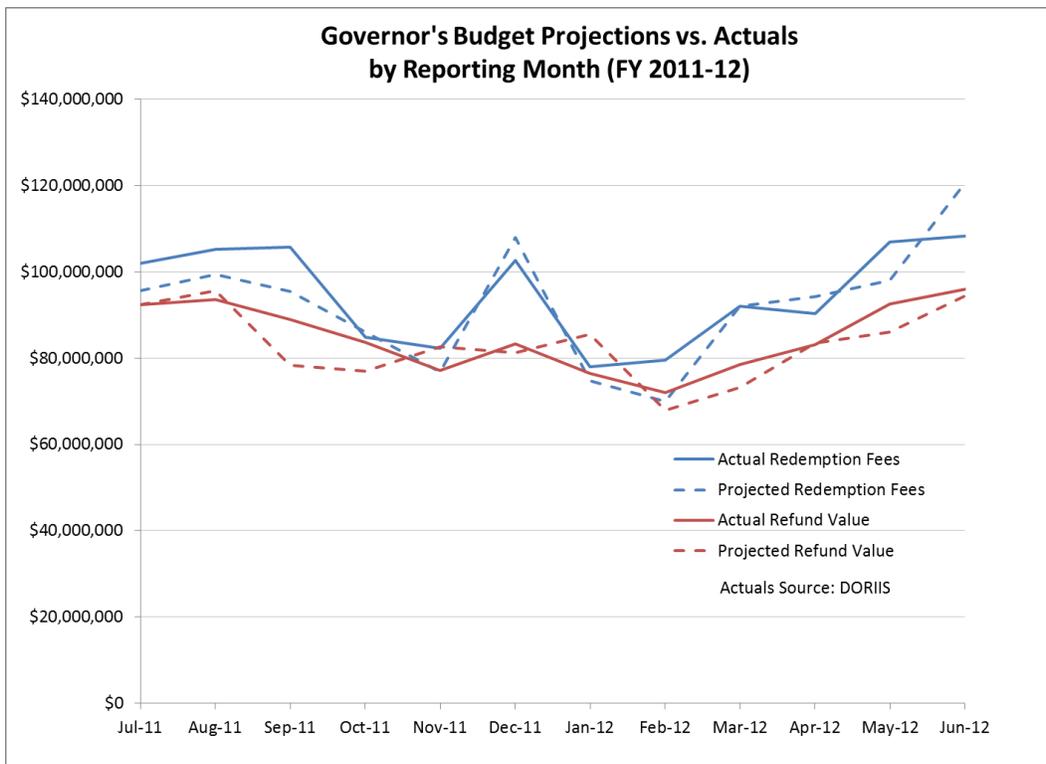
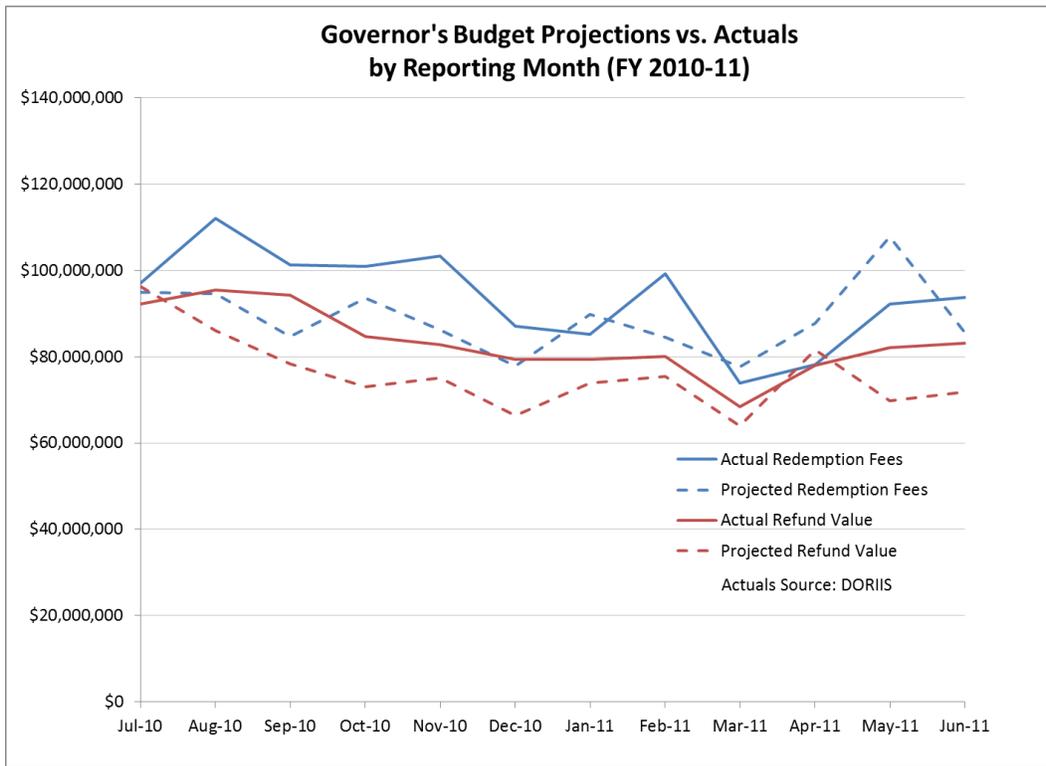
Plastic Processing Fee Fund Condition Summary Statement - Budget Change Proposals						
	FY 2012-13 Actual	FY 2013-14 Projected	FY 2014-15 Projected - BCPs	FY 2015-16 Projected - BCPs	FY 2016-17 Projected - BCPs	
BEGINNING OUTSTANDING LOANS (A)	27,000,000	27,000,000	0	0	0	0
RESOURCES						
Adjusted Beginning Balance	5,566,000	9,211,000	22,550,000	6,310,000	1,546,000	
Processing Fees (B)	5,216,000	6,856,000	14,152,000	25,636,000	30,394,000	
Plastic Processing Fee Offsets	8,458,000	0	0	0	0	
Loan Repayments to Plastic Processing Fee Fund (C) [Note 1]	0	27,000,000	0	0	0	
Other Income [Note 2]	12,000	4,121,000	21,000	13,000	15,000	
TOTAL RESOURCES (D) [Note 3]	19,252,000	47,188,000	36,723,000	31,959,000	31,955,000	
EXPENDITURES						
Processing Payments	9,879,000	24,487,000	30,413,000	30,413,000	30,413,000	
Other Expenditures [Note 4]	162,000	151,000				
TOTAL EXPENDITURES (E)	10,041,000	24,638,000	30,413,000	30,413,000	30,413,000	
FUND BALANCE (D)-(E)	9,211,000	22,550,000	6,310,000	1,546,000	1,542,000	
OUTSTANDING LOANS AT YEAR-END (A)-(C)	27,000,000	0	0	0	0	
Notes:						
[Note 1] - Loan repayments are scheduled in the Budget Act						
[Note 2] - Other Income includes interest from loan repayments						
[Note 3] - Total Resources does not include Beginning Outstanding Loans						
[Note 4] - Other Expenditures includes payments for the Financial Information System for California (Fiscal)						

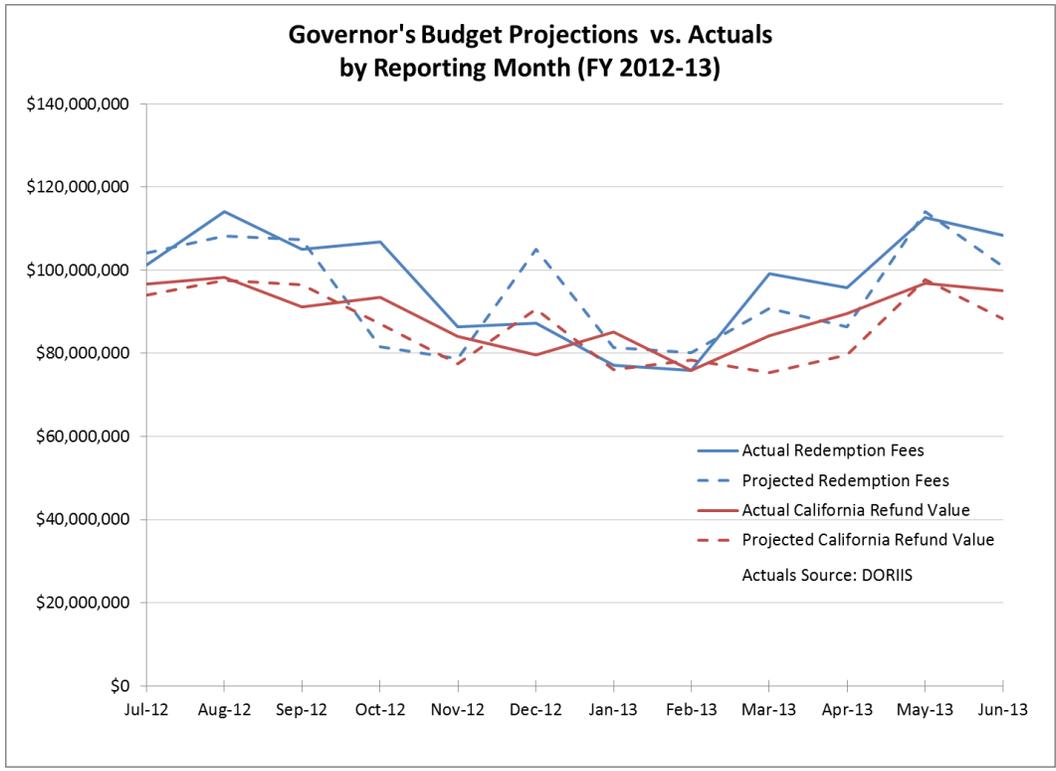
The current cash balance projection has shifted slightly upwards as compared to the previous cash balance projection shown in the October 2013 report. The upward shift is primarily due to delayed Section 14581 program payments that were anticipated to be paid in November and December, but are now scheduled to be paid in January 2014. In addition, the cash balance projection, which is based on actual cash flow data through December 2013, may reflect the effect of recently implemented fraud prevention measures that are not reflected in the sales and returns projections, which are based on reported volumes through September 2013 to allow for data maturity.

Based on the cash balance projection, CalRecycle would need to implement a minimum 70 percent proportional reduction beginning 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 charts compare the projections completed for the Governor's budget and actual volumes reporting month for the last three fiscal years.

Charts 2-4: Governor's Budget Projections vs. Actuals for FY 2010-2011 through 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 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 in order to avoid implementing proportional reduction.

To meet those challenges, CalRecycle developed three BCPs to address the structural deficit, to increase audit staff, and to provide continued DORIIS operation using CalRecycle staff. The BCPs can be found on the CalRecycle website at <http://www.calrecycle.ca.gov/Temp/201415BCPs/>.

CalRecycle welcomes your feedback concerning this Quarterly Report. Questions and comments may be sent to 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 September 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/2014/JanCondition.xls> on the CalRecycle website.

SALES AND RETURNS ESTIMATES [Note 1]				
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%
Total	2,400,864,094	18,567,204,524	17,792,799,259	85%
FY 2013-2014 (Projected)				
	Containers Sold		Containers Returned	Recycling Rate
	Over 24 oz.	Under 24 oz.		
Aluminum	571,882,887	7,565,506,533	8,091,525,262	99%
Glass	277,695,950	2,718,507,424	2,712,273,253	91%
PET	1,536,737,499	8,307,542,824	7,286,919,208	74%
HDPE [Note 2]	118,944,871	217,567,503	344,294,634	102%
Total	2,505,261,207	18,809,124,285	18,435,012,358	86%
FY 2014-2015 (Projected)				
	Containers Sold		Containers Returned	Recycling Rate
	Over 24 oz.	Under 24 oz.		
Aluminum	571,882,887	7,565,506,533	8,091,525,262	99%
Glass	277,695,950	2,718,507,424	2,712,273,253	91%
PET	1,536,737,499	8,307,542,824	7,286,919,208	74%
HDPE [Note 2]	118,944,871	217,567,503	344,294,634	102%
Total	2,505,261,207	18,809,124,285	18,435,012,358	86%

PROCESSING FEE/PAYMENT ESTIMATES			
FY 2012-2013 (Actual)			
	Processing Fees	Processing Fee Offsets	Processing Payments
Glass <i>[Note 3]</i>	\$6,459,000	\$58,972,000	\$58,481,000
PET	\$447,000	\$1,790,000	\$2,455,000
HDPE <i>[Note 4]</i>	\$735,000	\$6,668,000	\$7,162,000
Total	\$7,641,000	\$67,430,000	\$68,098,000
FY 2013-2014 (Projected) <i>[Note 5]</i>			
	Processing Fees	Processing Fee Offsets	Processing Payments
Glass	\$6,231,000	\$13,645,000	\$61,755,000
PET	\$1,076,000	\$0	\$17,116,000
HDPE	\$696,000	\$0	\$6,904,000
Total	\$8,003,000	\$13,645,000	\$85,775,000
FY 2014-2015 (Projected) <i>[Note 5]</i>			
	Processing Fees	Processing Fee Offsets	Processing Payments
Glass	\$5,478,000	\$56,365,000	\$63,829,000
PET	\$1,467,000	\$1,479,274	\$22,862,000
HDPE	\$750,000	\$459,726	\$7,105,000
Total	\$7,695,000	\$58,304,000	\$93,796,000
FY 2014-2015 (Projected - BCPs) <i>[Note 6]</i>			
	Processing Fees	Processing Fee Offsets	Processing Payments
Glass	\$23,311,000	\$37,865,000	\$63,829,000
PET	\$8,581,000	\$0	\$22,862,000
HDPE	\$2,814,000	\$0	\$7,105,000
Total	\$34,706,000	\$37,865,000	\$93,796,000

HANDLING FEE ESTIMATES		
Fiscal Year	Handling Fee	Containers
2012-13 (Actual) <i>[Note 7]</i>	\$40,144,000	4,251,585,275
2013-14 (Projected) <i>[Note 8]</i>	\$42,391,000	4,710,111,111
2014-15 (Projected) <i>[Note 8]</i>	\$42,391,000	4,710,111,111
2014-15 (Projected - BCPs) <i>[Note 9]</i>	\$33,000,000	n/a

Appendix 1 Notes:

[Note 1] 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 percent, and their proportion of returns to all material types was 0.13 percent.

[Note 2] The HDPE recycling rate exceeds 100 percent due to improper inspection and reporting of HDPE loads committed by operators of recycling centers. For example, a commingled HDPE load redeemed and reported as a segregated load inflates the number of CRV containers which impacts the recycling rate. The incidence of improper inspection and reporting and the resulting inflation of CRV container counts is anticipated to diminish due to the implementation of segregated only redemption effective Nov. 1, 2013. During FY 2012-2013, HDPE CRV containers comprised about 1.9 percent of all CRV containers recycled.

[Note 3] 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 expenditures in excess of the Processing Fee Offset and Processing Fee revenue during calendar year 2012.

[Note 4] The HDPE Processing Fee Offset for FY 2012-2013 includes an additional \$0.7 million transfer from the Recycling Fund to cover Processing Payment expenditures in excess of the Processing Fee Offset and Processing Fee revenue during calendar year 2012.

[Note 5] The determination of the projections for Processing Fees, Processing Fee Offsets, and Processing Payments is detailed in the table below. For Processing Fees, the Processing Fee reduction pursuant to PRC Section 14575(j) equals \$2 million per year and applies only to glass and PET. For Processing Fee Offsets, amounts are reduced by loan repayments of \$39 million to the Glass Processing Fee Fund and \$27 million to the Plastic Processing Fee Fund, both which are scheduled in FY 2013-2014,

and a negative result equals a zero offset except that the offset will equal the amount needed to provide a Fund Balance of at least 5 percent of expenditures.

	Fiscal Year	Processing Fee	Processing Fee Offset	Processing Payment
Glass	2013-14	$0.5*PF_{2013}+0.5*PF_{2014}-0.5*14575J_{2014}$	$(0.5*PP_{2013}-0.5*PF_{2013})+(0.5*PP_{2014}-0.5*PF_{2014})-0.5*14575J_{2014}-39,000,000$	$0.5*PP_{2013}+0.5*PP_{2014}$
	2014-15	$PF_{2014}-0.5*14575J_{2014}$	$(0.5*PP_{2013}-0.5*PF_{2013})+(0.5*PP_{2014}-0.5*PF_{2014})-0.5*14575J_{2014}$	PP_{2014}
PET	2013-14	$0.5*PF_{2013}+0.5*PF_{2014}-0.5*14575J_{2014}$	$(0.5*PP_{2013}-0.5*PF_{2013})+(0.5*PP_{2014}-0.5*PF_{2014})-0.5*14575J_{2014}-27,000,000$	$0.5*PP_{2013}+0.5*PP_{2014}$
	2014-15	$PF_{2014}-14575J_{2014 \& 2015}$	$(PP_{2014}-PF_{2014})-14575J_{2014 \& 2015}-FUND\ BALANCE$	PP_{2014}
HDPE	2013-14	$0.5*PF_{2013}+0.5*PF_{2014}$	$(0.5*PP_{2013}-0.5*PF_{2013})+(0.5*PP_{2014}-0.5*PF_{2014})-27,000,000$	$0.5*PP_{2013}+0.5*PP_{2014}$
	2014-15	PF_{2014}	$(PP_{2014}-PF_{2014})-FUND\ BALANCE$	PP_{2014}

[Note 6] The determination of the projections for Processing Fees, Processing Fee Offsets, and Processing Payments for FY 2014-2015 under the provisions of the BCPs is detailed in the table below. For plastic Processing Fees, the amount of Fund Balance applied to each resin type is proportional to their Processing Payment. For the glass Processing Fee Offset, the amount is the sum of half of the offset for calendar year 2014, \$28,182,500, and half of the offset for calendar year 2015, \$9,682,500.

	Fiscal Year	Processing Fee	Processing Fee Offset	Processing Payment
Glass	2014-15 BCPs	$PP_{2014}-0.5*14575J_{2014}-OFFSET-FUND\ BALANCE$	$(0.5*PP_{2014}-0.5*PF_{2014})-0.5*14575J_{2014}+0.5*19,365,000$	PP_{2014}
PET	2014-15 BCPs	$PP_{2014}-0.5*14575J_{2014}-FUND\ BALANCE$	\$0	PP_{2014}
HDPE	2014-15 BCPs	$PP_{2014}-FUND\ BALANCE$	\$0	PP_{2014}

[Note 7] 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 8] The projected Handling Fees for FY 2013-2014 and FY 2014-2015 are based on a Handling Fee per container rate of \$0.0090.

[Note 9] The projected Handling Fee for FY 2014-2015 under the provisions of the BCPs is based on a fixed monthly payment of \$1700 paid to approximately 1618 eligible recycling centers collectively serving approximately 400 more convenience zones than

is served by recycling centers receiving Handling Fees at present. Handling Fee payments based on a per container rate are proposed for elimination.

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. For FY 2014-2015, the projections for all funds cover both current law and BCP scenarios, except for the Penalty Fund which does not have any direct BCP impacts. The projections are based on actual volumes through the September 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/2014/JanCondition.xls> on the CalRecycle website.

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 Bi-metal 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).

California Department of Resources Recycling and Recovery (CalRecycle)				
Beverage Container Recycling Fund Condition Statement (Fund 0133)				
Projected Revenues and Expenditures as of January 1, 2014				
	FY 2012-13	FY 2013-14	FY 2014-15	FY 2014-15
	Actual	Projected	Projected	Projected - BCPs
Balance Forward [Note 1]	205,285,000	107,087,000	121,506,000	121,506,000
Prior Year Adjustments [Note 1]	16,482,000			
Balance Adjusted (A)	221,767,000	107,087,000	121,506,000	121,506,000
Revenues and Transfers				
Receipts				
Redemption Fees [Note 2]	1,162,265,000	1,173,118,000	1,173,118,000	1,173,118,000
Other Income [Note 3]	952,000	4,883,000	12,696,000	12,696,000
Total Receipts (B)	1,163,217,000	1,178,001,000	1,185,814,000	1,185,814,000
Transfers				
Repayment of Air Pollution Control Fund Loan	16,400,000	8,000,000		
Repayment of General Fund Loan [Note 4]		89,400,000	82,277,000	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)	(56,365,000)	(37,865,000)
Transfers to Plastic Processing Fee Fund [Note 5]	(8,458,000)	0	(1,939,000)	0
Repayment of Alternative Renewable Fuel & Vehicle Technology Fund Loan [Note 6]	(8,250,000)			
Total Transfers (C)	(59,280,000)	88,755,000	23,973,000	44,412,000
Total Transfers and Receipts (B+C)	1,103,937,000	1,266,756,000	1,209,787,000	1,230,226,000
Total Resources (D) = (A+B+C)	1,325,704,000	1,373,843,000	1,331,293,000	1,351,732,000
Expenditures [Note 6]				
Disbursements (CalRecycle)				
California Refund Value [Note 8]	1,058,096,000	1,086,173,000	1,086,173,000	1,072,927,000
Beverage Container Recycling Program Administration	38,855,000	45,748,000	45,771,000	48,053,000
Handling Fees [Note 9]	40,144,000	42,391,000	42,391,000	33,000,000
Curbside Supplemental Payments	14,997,000	15,000,000	15,000,000	0
Local Conservation Corps Grants [Note 10]	19,457,000	20,643,000	20,974,000	5,974,000
City/County Payments	10,500,000	10,500,000	10,500,000	0
Beverage Container Recycling Grants	1,483,000	1,500,000	1,500,000	5,000,000
Public Education and Information [Note 11]			2,500,000	2,500,000
Quality Incentive Payments	9,689,000	10,000,000	10,000,000	10,000,000
Market Development Grants [Note 12]	(214,000)			
Plastic Market Development [Note 13]	19,189,000	10,000,000	10,000,000	10,000,000
Recycling Enforcement Agency Grants				7,000,000
Grants Multi-family Housing (low income) [Note 12]	(115,000)			
Pro Rata	4,215,000	5,053,000	0	0
Total Disbursements (CalRecycle) (E)	1,216,296,000	1,247,008,000	1,244,809,000	1,194,454,000
Disbursements (Other)				
Interest for Interfund Loan [Note 7]	247,000			
State Controller	23,000	2,000		
Financial Information System for California (Fi\$cal)	2,051,000	5,327,000	41,000	41,000
Total Disbursements (Other) (F)	2,321,000	5,329,000	41,000	41,000
Total Expenditures (G) = (E+F)	1,218,617,000	1,252,337,000	1,244,850,000	1,194,495,000
FUND BALANCE (D-G) [Note 14]	107,087,000	121,506,000	86,443,000	157,237,000

California Department of Resources Recycling and Recovery (CalRecycle)					
Glass Processing Fee Fund Condition Statement (Fund 0269)					
Projected Revenues and Expenditures as of January 1, 2014					
		FY 2012-13	FY 2013-14	FY 2014-15	FY 2014-15
		Actual	Projected	Projected	Projected - BCPs
Balance Forward		(2,625,000)	4,598,000	7,506,000	7,506,000
Prior Year Adjustments		572,000			
Balance Adjusted (A)		(2,053,000)	4,598,000	7,506,000	7,506,000
Revenues and Transfers					
Receipts					
Processing Fees		6,459,000	6,231,000	5,478,000	23,311,000
Other Income <i>[Note 3]</i>		32,000	6,035,000	34,000	34,000
Total Receipts (B)		6,491,000	12,266,000	5,512,000	23,345,000
Transfers					
Transfers from Beverage Container Recycling Fund <i>[Note 15]</i>		58,972,000	13,645,000	56,365,000	37,865,000
Repayment of General Fund Loan <i>[Note 16]</i>			39,000,000		
Total Transfers (C)		58,972,000	52,645,000	56,365,000	37,865,000
Total Transfers and Receipts (B+C)		65,463,000	64,911,000	61,877,000	61,210,000
Total Resources (D) = (A+B+C)		63,410,000	69,509,000	69,383,000	68,716,000
Expenditures					
Disbursements (CalRecycle)					
Processing Payments		58,481,000	61,755,000	63,829,000	63,829,000
Pro Rata		65,000			
Total Disbursements (CalRecycle) (E)		58,546,000	61,755,000	63,829,000	63,829,000
Disbursements (Other)					
Financial Information System for California (Fi\$cal)		266,000	248,000	44,000	44,000
Total Disbursements (Other) (F)		266,000	248,000	44,000	44,000
Total Expenditures (G) = (E+F)		58,812,000	62,003,000	63,873,000	63,873,000
FUND BALANCE (D-G)		4,598,000	7,506,000	5,510,000	4,843,000

California Department of Resources Recycling and Recovery (CalRecycle)					
Plastic Processing Fee Fund Condition Statement (Fund 0278)					
Projected Revenues and Expenditures as of January 1, 2014					
		FY 2012-13	FY 2013-14	FY 2014-15	FY 2014-15
		Actual	Projected	Projected	Projected - BCPs
Balance Forward		5,290,000	9,211,000	22,550,000	22,550,000
Prior Year Adjustments		276,000			
Balance Adjusted (A)		5,566,000	9,211,000	22,550,000	22,550,000
Revenues and Transfers					
Receipts					
Processing Fees <i>[Note 17]</i>		5,216,000	6,856,000	7,425,000	14,152,000
Other Income <i>[Note 3]</i>		12,000	4,121,000	21,000	21,000
Total Receipts (B)		5,228,000	10,977,000	7,446,000	14,173,000
Transfers					
Transfers from Beverage Container Recycling Fund <i>[Note 15]</i>		8,458,000	0	1,939,000	0
Repayment of General Fund Loan <i>[Note 18]</i>			27,000,000		
Total Transfers (C)		8,458,000	27,000,000	1,939,000	0
Total Transfers and Receipts (B+C)		13,686,000	37,977,000	9,385,000	14,173,000
Total Resources (D) = (A+B+C)		19,252,000	47,188,000	31,935,000	36,723,000
Expenditures					
Disbursements (CalRecycle)					
Processing Payments <i>[Note 19]</i>		9,879,000	24,487,000	30,413,000	30,413,000
Pro Rata					
Total Disbursements (CalRecycle) (E)		9,879,000	24,487,000	30,413,000	30,413,000
Disbursements (Other)					
Financial Information System for California (Fi\$cal)		162,000	151,000		
Total Disbursements (Other) (F)		162,000	151,000		
Total Expenditures (G) = (E+F)		10,041,000	24,638,000	30,413,000	30,413,000
FUND BALANCE (D-G)		9,211,000	22,550,000	1,522,000	6,310,000

California Department of Resources Recycling and Recovery (CalRecycle)					
Bimetal Processing Fee Fund Condition Statement (Fund 0277)					
Projected Revenues and Expenditures as of January 1, 2014					
		FY 2012-13	FY 2013-14	FY 2014-15	FY 2014-15
		Actual	Projected	Projected	Projected - BCPs
Balance Forward		13,984,000	15,306,000	16,194,000	16,194,000
Prior Year Adjustments		93,000			
Balance Adjusted (A)		14,077,000	15,306,000	16,194,000	16,194,000
Revenues and Transfers					
Receipts					
Processing Fees <i>[Note 20]</i>		1,533,000	1,116,000	1,116,000	558,000
Other Income		43,000	57,000	60,000	60,000
Total Receipts (B)		1,576,000	1,173,000	1,176,000	618,000
Transfers					
Transfers from Beverage Container Recycling Fund		0	0	0	0
Total Transfers (C)		0	0	0	0
Total Transfers and Receipts (B+C)		1,576,000	1,173,000	1,176,000	618,000
Total Resources (D) = (A+B+C)		15,653,000	16,479,000	17,370,000	16,812,000
Expenditures					
Disbursements (CalRecycle)					
Processing Payments		345,000	283,000	283,000	283,000
Pro Rata					
Total Disbursements (CalRecycle) (E)		345,000	283,000	283,000	283,000
Disbursements (Other)					
Financial Information System for California (Fi\$cal)		2,000	2,000		
Total Disbursements (Other) (F)		2,000	2,000		
Total Expenditures (G) = (E+F)		347,000	285,000	283,000	283,000
FUND BALANCE (D-G)		15,306,000	16,194,000	17,087,000	16,529,000

California Department of Resources Recycling and Recovery (CalRecycle)				
Penalty Account Fund Condition Statement (Fund 0276)				
Projected Revenues and Expenditures as of January 1, 2014				
		FY 2012-13	FY 2013-14	FY 2014-15
		Actual	Projected	Projected
Balance Forward		5,187,000	5,965,000	5,192,000
Prior Year Adjustments		47,000		
Balance Adjusted (A)		5,234,000	5,965,000	5,192,000
Revenues and Transfers				
Receipts				
Penalty Assessments		716,000	194,000	212,000
Other Income		15,000	21,000	18,000
Total Receipts (B)		731,000	215,000	230,000
Transfers				
Transfers		0	0	0
Total Transfers (C)		0	0	0
Total Transfers and Receipts (B+C)		731,000	215,000	230,000
Total Resources (D) = (A+B+C)		5,965,000	6,180,000	5,422,000
Expenditures				
Disbursements (CalRecycle)				
State Operations <i>[Note 20]</i>		0	988,000	990,000
Pro Rata		0	0	0
Total Disbursements (CalRecycle) (E)		0	988,000	990,000
Disbursements (Other)				
Financial Information System for California (Fi\$cal)				
Total Disbursements (Other) (F)				
Total Expenditures (G) = (E+F)		0	988,000	990,000
FUND BALANCE (D-G)		5,965,000	5,192,000	4,432,000

Appendix 2 Notes:

[Note 1] The FY 2012-2013 Balance Forward and Prior Year Adjustment ties to the Governor's Budget published in January 2014.

[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	\$1,190,983,000	\$1,190,983,000
Less 1.5 % Administrative Fee	(\$17,699,000)	(\$17,865,000)	(\$17,865,000)
Net Redemption Fee Revenue	\$1,162,265,000	\$1,173,118,000	\$1,173,118,000

[Note 3] Other Income includes interest income received from loan repayments.

[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. For FY 2014-2015 under the provisions of the BCPs, the administrative fee will be discontinued for volumes claimed for reporting periods on or after Jan. 1, 2015.

	FY 2012-13	FY 2013-14	FY 2014-15	FY 2014-15 BCPs
California Refund Value Paid for Empty Beverage Containers	\$1,032,289,000	\$1,059,681,000	\$1,059,681,000	\$1,059,681,000
Plus 2.5% Administrative Fee	\$25,807,000	\$26,492,000	\$26,492,000	\$13,246,000
Total California Refund Value Expenditure	\$1,058,096,000	\$1,086,173,000	\$1,086,173,000	\$1,072,927,000

[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. The projected Handling Fee for FY 2014-2015 under the provisions of the BCPs is based on a fixed monthly payment of \$1700 paid to approximately 1618 eligible recycling centers; Handling Fee payments per container are proposed for elimination.

[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. Under the BCPs, cost of living adjustments beyond FY 2014-2015 are proposed to be discontinued.

[Note 11] CalRecycle anticipates expending \$2.5 million of the \$5 million annual appropriation for Public Education and Information beginning in FY 2014-2015 to support Program reform outreach.

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

[Note 13] The baseline calendar year appropriation for Plastics Market Development is \$10 million. The higher amount in FY 2012-2013 is due to an additional appropriation equal to 50 percent of the year-over-year difference in the Plastic Processing Fee Offset between 2011 and 2012 pursuant to PRC Section 14581(a)(9)(B). In 2012, the PET scrap value exceeded the PET cost of recycling, so no Processing Fee and Payment was assessed on PET beverage containers. A portion of this additional appropriation was also paid in FY 2011-2012. In addition, payments for the first quarter of 2013 were paid at the maximum rate of \$150 per ton, which resulted in spending approximately \$9 million out of the annual \$10 million appropriation at the beginning of the calendar year.

[Note 14] 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. For 2014, the prudent reserve amounts to approximately \$58 million.

[Note 15] 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 16] 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 17] Processing Fees for plastic include amounts for all types of plastic beverage containers: PET (when applicable), HDPE, and plastics #3 - #7.

[Note 18] 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 19] Processing Payments for plastic include amounts for all types of plastic beverage containers: PET (when applicable), HDPE, and plastics #3 - #7.

[Note 20] Under the provisions of the BCPs, the projected Bimetal Processing Fee for volumes reported on or after Jan. 1, 2015 is anticipated to be zero while Fund Balance is sufficient to cover the Processing Payment.

[Note 21] Expenditure from fund 0276 used for eight limited-term positions to implement Program reform activities specified in SB 96.