



Quarterly Report on Status of the Beverage Container Recycling Fund

Department of Resources Recycling and Recovery

October 10, 2011



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OVERVIEW

As required by Public Resource Code (PRC) Sections 14556 and 14581(c)(1), the Department of Resources Recycling and Recovery (CalRecycle) has completed a quarterly review of actual and projected revenues and expenditures for the Beverage Container Recycling Fund (Recycling Fund). This review reports on the expected adequacy of funds in the Recycling Fund to make the payments specified in PRC 14581 as well as the processing fee reductions required by PRC 14575. The review also provides information about handling fees, processing fees, processing payments, and projections of sales and returns of beverage containers.

In general terms, the Recycling Fund Condition Summary indicates that the Fund will be solvent as long as expected loan repayments to the Recycling Fund continue. The Recycling Fund balance is not projected to reach a level that would require proportionate reduction in FY 2012-2013. However, that assessment is entirely dependent upon continued repayment of historic loans made from the Recycling Fund. For FY 2011-2012, the Governor's Budget provides for loan repayments of \$89 million from the General Fund and \$21 million from the Air Pollution Control Fund. For FY 2012-2013, the Governor's budget provides for loan repayments of \$172 million, which will pay off all outstanding loans from the Recycling Fund to the General Fund, plus \$18 million from the Air Pollution Control Fund.

This report is based upon sales of beverage containers and recycling (or "returns") of beverage containers in California. Any assessment of the Recycling Fund's ability to support program activities must rest on both actual observed sales/returns activity and on projections of those sales and returns. For this report, actual sales and actual returns data are current through the May 2011 reporting period. Data after that reporting period are projections.

The report again includes sections discussing beverage container sales and returns estimates, as well as handling fee and processing fee/payment estimates. Those handling fees and processing fees/payments estimates rely upon projections of sales and returns and make no assumptions about changes in the actual fee or payment rate.

Current handling fee and processing fee/payment rates were used and, thus, the estimates are subject to change, given changes in costs of recycling and scrap values.

This report is divided into five main sections:

- A *Recycling Fund Condition Summary* that is a slightly revised, summary version of the entire fund condition. At the request of many interested parties, it has been re-formatted for ease of reference, but all data on the chart can be tied directly to the detailed Quarterly Status Report.
- A discussion of the *Projections* used in this report and also a comparison of past projections to actual observed values.
- *Sales and Returns Estimates* that display actual and projected numbers of containers sold and returned.
- *Handling Fees* and associated assumptions.
- *Processing Fees and Processing Payments* that include the amounts used for actual and projected processing fees, and processing fee offsets, by material type.
- Finally, the detailed *Quarterly Status Report* is shown as an Appendix, with annotations to corresponding entries in the Fund Condition.

RECYCLING FUND CONDITION SUMMARY

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

Recycling Fund Condition Summary Statement				
		FY 2010-11	FY 2011-12	FY 2012-13
RESOURCES	RESOURCES			
	Balance Forward	119,286,000	184,067,275	192,497,289
	CRV Revenues	1,132,189,537	1,110,919,225	1,110,919,225
	Transfers (Loans Made/Repaid)	119,470,000	110,300,000	181,327,000
	Adjustments	131,118,290	19,773,817	23,941,817
	TOTAL RESOURCES	1,502,063,827	1,425,060,317	1,508,685,331
EXPENDITURES	EXPENDITURES			
	CRV Out	1,059,019,264	997,609,689	999,225,930
	Beverage Container Recycling Program Administration	39,930,688	46,271,000	46,271,000
	Handling Fees	51,007,206	39,777,659	39,842,104
	Curbside Supplemental Payments	23,250,000	15,000,000	15,000,000
	Local Conservation Corps Grants	19,543,673	19,501,680	20,200,000
	Local Conservation Corps Grants (one-time)	(689,525)		
	City/County Payments	10,500,000	10,500,000	10,500,000
	Competitive Grants	(281,176)	750,000	1,500,000
	Glass Processing Fee Offsets	53,687,972	47,410,000	47,410,000
	Plastic Processing Fee Offsets	32,954,496	27,616,000	28,099,000
	Public Education and Information	(116,462)	2,500,000	5,000,000
	Quality Incentive Payments	15,626,806	10,000,000	10,000,000
	Market Development Grants	(2,977,901)		
	Plastic Market Development Payments	12,123,130	10,000,000	10,000,000
	Grants Multi-family Housing (low income)	(653,409)		
Other Disbursements	5,071,790	5,627,000	5,627,000	
TOTAL EXPENDITURES	1,317,996,552	1,232,563,028	1,238,675,034	
FUND BALANCE	184,067,275	192,497,289	270,010,297	
NET INCOME	(54,688,725)	(101,869,986)	(103,813,992)	

NOTES:				
1. "Transfers" are entirely repayment of General Fund and ARB Implementation loans. Absent those payments, the Fund Balance changes significantly (as shown at right). In FY2012-13 transfers also include repayment of \$8.25 M loan from the Alternative and Renewable Fuel and Vehicle Technology Fund	64,597,275	82,197,289	88,683,297	
2. "Processing Fee Offsets" are shown in Expenditures for ease of reference and to provide consistency with the statutory listing of PRC 14581-authorized expenditures.				
3. "Adjustments" includes Prior Year Adjustments and Other Income.				
4. "Other Disbursements" includes Pro Rata and other required payments to control agencies, as required of all special funds.				
5. "Net Income" is CRV Income and Adjustments, less Annual Expenditures. It does not include balances carried forward or any loans or loan repayments. The measure is intended to help convey the actual difference in annual revenues and costs.				

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

By statute, the amount of the prudent reserve in the Recycling Fund should equal 5 percent of the prior year's expenditures to processors. Including CRV payments and processing payments to processors, the prudent reserve is approximately \$55 million. However, due to the seasonality of the Recycling Fund's revenues and expenditures, planning for an end-of-year Recycling Fund balance of \$55 million results in insufficient funds in certain months throughout the year. For instance, August and September are traditionally months when CRV Out payments are high, due to peak consumer recycling of beverage containers resulting from summertime consumption patterns. However, payments from distributors in August and September decrease because distributors are reducing shipment amounts from the summertime high sales volumes in preparation for slower traditional autumn sales. A 5 percent prudent reserve does not provide a sufficient account balance to accommodate seasonal consumption patterns that affect the Fund. At times, payment to processors may be slowed to ensure that sufficient resources exist in the Fund to make the claimed payments. This translates to delayed payments to processors, recyclers, grantees, and anyone else receiving payments from the Recycling Fund.

This Summary also includes a "Net Income" reference. This value considers the amount of CRV revenue and interest/adjustments in a given year and then the projection of CRV expenditure to consumers who recycle and other expenditures in that given year; it is a snapshot of a given year and is additive from one year to the next. The Net Income values for all fiscal years in the Summary are negative, reflecting the fact that the solvency of the Recycling Program is dependent upon loan repayments.

PROJECTIONS

CalRecycle's projections for sales and returns for this quarterly reporting period are downward for sales and returns for the next 21 months as compared to sales and returns for FY 2010-2011. The sales projections follow a month-over-month projection

that is much more reflective of recent historical changes. Actual sales observed by the Recycling Program have been in decline since FY 2007-2008, and revenues received to date for this report suggest that the Recycling Fund is receiving slightly less revenue in FY 2010-2011 than in FY 2009-2010.

As similar to sales, the returns projections follow a month-over-month projection that is much more reflective of recent historical changes. Longer-term trend line analyses are influenced by years of heavy growth in recycling volumes. These years followed the increase in CRV and witnessed 10 percent growth in total recycling volumes for three consecutive fiscal years (FY 2006-2007 through FY 2008-2009). Growth from FY 2008-2009 through FY 2009-2010, however, radically slowed to 1 percent growth. Examining returns volumes to date indicate that actual returns will be essentially the same in FY 2010-2011 compared to last year, due primarily to declining sales.

If these projections are matched by actual sales and returns values, recycling rates will increase slightly to about 83 percent for FY 2010-2011 and 84 percent for FY 2011-2012 and FY 2012-13. This projected growth in recycling rate results from a slight decrease in sales with a slight increase in returns.

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

Sales	Mar-11	Apr-11	May-11
July 2011 Projection	\$111,903,560	\$88,974,149	\$102,980,885
Actual	\$91,154,282	\$92,411,875	\$96,958,625
% Difference	-18.5%	-3.9%	5.8%

Returns	Mar-11	Apr-11	May-11
July 2011 Projection	\$88,609,805	\$80,381,687	\$77,279,389
Actual	\$77,820,822	\$82,074,717	\$82,842,680
% Difference	12.2%	-2.1%	-7.2%

SALES AND RETURNS ESTIMATES

The tables below show projections of sales and returns for FY 2010-2011 through FY 2012-2013. The table for FY 2010-2011 is an estimate based on actual volumes reported to date for both container sales and container returns. Data regarding sales and returns for FY 2011-2012 and FY 2012-2013 include only projections.

Sales and Returns FY 2010-11 (Estimated)			
	Sales Over 24 oz.	Sales Under 24 oz.	Containers Returned
AL	491,663,923	7,994,006,265	8,425,988,593
GL	270,071,470	2,606,166,339	2,450,107,531
PET	1,360,308,826	6,993,304,031	5,601,702,010
HDPE	165,519,123	157,932,889	306,122,015
Total	2,287,563,342	17,751,409,524	16,783,920,148

Sales and Returns FY 2011-12 (Projected)			
	Sales Over 24 oz.	Sales Under 24 oz.	Containers Returned
AL	503,254,157	7,698,064,509	8,592,272,302
GL	256,597,324	2,561,494,371	2,437,937,384
PET	1,414,745,666	7,444,906,134	5,596,953,713
HDPE	174,626,329	153,822,914	275,064,076
Total	2,349,223,476	17,858,287,928	16,902,227,475

Sales and Returns FY 2012-13 (Projected)			
	Sales Over 24 oz.	Sales Under 24 oz.	Containers Returned
AL	503,254,157	7,698,064,509	8,641,800,698
GL	256,597,324	2,561,494,371	2,426,994,118
PET	1,414,745,666	7,444,906,134	5,637,905,891
HDPE	174,626,329	153,822,914	238,912,542
Total	2,349,223,476	17,858,287,928	16,945,613,249

Reported recycling rates will not match exactly to a formula of “returns divided by sales” for a given year. This is because the dollar amounts include reduced payment from distributors and extra payments to processors and recyclers for administrative fees. The Department can provide further information upon request.

HANDLING FEES

Handling fees are a set amount per container, regardless of container type. The table below shows three years of handling fee payments. All Handling Fees for FY 2010-2011 have been paid and actuals are shown. The actual amount for FY 2010-2011 reflects a one-time adjustment to tie CalRecycle financial records to State Controller’s Office records. For the FY 2011-2012 and FY 2012-2013 periods, the total amount is based on projections. For more information regarding handling fees, see the link to the Processing Fee and Handling Fee Cost Surveys, Handling Fee Final Report contained in Note 8 of the Appendix.

Fiscal Year	Handling Fee	Containers
2010-11	\$51,007,206	4,462,188,307
2011-12 (Projected)	\$39,777,659	4,469,399,888
2012-13 (Projected)	\$39,842,104	4,476,640,899

PROCESSING FEES/PAYMENTS

Processing Fees are collected from beverage manufacturers that package their beverages in plastic and glass. Processing Payments are made to recyclers from the Processing Fees paid by manufacturers, plus the Processing Fee Offsets transferred from the unredeemed redemption payments.

For FY 2010-2011 Processing Fees and Processing Payments are influenced by limitations on the amount of Processing Fee Offsets. The offsets for calendar years 2010 and 2011 were capped by AB 7 (8X) at the amount expended per container type in the 2008 calendar year. At this point, however, the observed changes in scrap

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

FY 2010-11			
	Processing Fees	Processing Fee Offsets	Processing Payments
Glass	\$5,527,790	\$53,687,972	\$56,597,682
PET	\$14,098,044	\$28,366,120	\$38,637,732
HDPE	\$3,689,351	\$4,588,376	\$7,048,761
Total	\$23,315,185	\$86,642,468	\$102,284,175

FY 2011-12 (Projected)			
	Processing Fees	Processing Fee Offsets	Processing Payments
Glass	\$6,552,000	\$47,410,000	\$53,962,000
PET	\$4,116,000	\$22,546,000	\$26,663,000
HDPE	\$1,098,000	\$5,070,000	\$6,168,000
Total	\$11,766,000	\$75,026,000	\$86,793,000

FY 2012-13 (Projected)			
	Processing Fees	Processing Fee Offsets	Processing Payments
Glass	\$6,552,000	\$47,410,000	\$53,962,000
PET	\$4,116,000	\$22,546,000	\$26,663,000
HDPE	\$616,000	\$5,553,000	\$6,168,000
Total	\$11,284,000	\$75,509,000	\$86,793,000

Processing Fees, Payments, and Offsets will change in the middle of FY 2011-2012. The AB 7 (8X) cap on total offsets by material type is scheduled to become inoperative on January 1, 2012. The Processing Payment amount is unknown at this time, however, for the purpose of this report, CalRecycle has used the calendar year 2011 values as a proxy for FY 2011-2012 and FY 2012-2013, except that the values for HDPE reflect the lifting of the Offset cap effective January 1, 2012. The actual Processing Payment amount will result from cost of recycling surveys that are currently under way and scrap values gleaned from market conditions that have not yet occurred. Processing Fees are a function of the Payments, less the amount of allowed Offsets. These inter-relations, combined with fundamentally unknown details at this time, make it impossible to determine Processing Fees and Payments for FY 2011-2012 and FY 2012-2013. As CalRecycle is better able to determine those values, they will be reflected in subsequent reports.

APPENDIX 1 -- QUARTERLY STATUS REPORT DETAILS

The following Quarterly Status Report shows three columns of fiscal data, one column per fiscal year. All values of sales, returns, revenues and expenditures for FY 2011-2012 and 2012-2013 are projections.

Several of the line items in the Revenues and Transfers section and the Expenditures section are notated for further description. Those descriptions immediately follow the Quarterly Status Report. The Quarterly Status Report presented here also is available in Excel format

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

California Department of Resources Recycling and Recovery (CalRecycle)				
Beverage Container Recycling Fund Condition Statement				
Projected Revenues and Expenditures as of October 1, 2011				
		FY 2010-11	FY 2011-12	FY 2012-13
Balance Forward		119,286,000	184,067,275	192,497,289
Prior Year Adjustments		109,155,220		
Balance Adjusted (A)		228,441,220	184,067,275	192,497,289
Revenues and Transfers				
Receipts				
	CRV In <i>[Note 1]</i>	1,132,189,537	1,110,919,225	1,110,919,225
	Other Income	21,963,070	19,773,817	23,941,817
	Total Receipts (B)	1,154,152,607	1,130,693,042	1,134,861,042
Transfers				
	Repayment of Air Pollution Control Fund Loan <i>[Note 2]</i>	21,300,000	21,300,000	17,900,000
	Repayment of General Fund Loan <i>[Note 3]</i>	98,170,000	89,000,000	171,677,000
	Transfers to Glass Processing Fee Account <i>[Note 4]</i>	(53,687,972)	(47,410,000)	(47,410,000)
	Transfers to Plastic Processing Fee Account <i>[Note 4]</i>	(32,954,496)	(27,616,000)	(28,099,000)
	Repayment of Alternative Renewable Fuel & Vehicle Technology Fund Loan <i>[Note 5]</i>			(8,250,000)
	Total Transfers (C)	32,827,532	35,274,000	105,818,000
	Total Transfers and Receipts (B+C)	1,186,980,139	1,165,967,042	1,240,679,042
	Total Resources (D) = (A+B+C)	1,415,421,359	1,350,034,317	1,433,176,331
Expenditures <i>[Note 6]</i>				
Disbursements (CalRecycle)				
	CRV Out <i>[Note 7]</i>	1,059,019,264	997,609,689	999,225,930
	Beverage Container Recycling Program Administration	39,930,688	46,271,000	46,271,000
	Handling Fees <i>[Note 8]</i>	51,007,206	39,777,659	39,842,104
	Curbside Supplemental Payments	23,250,000	15,000,000	15,000,000
	Local Conservation Corps Grants <i>[Note 9]</i>	19,543,673	19,501,680	20,200,000
	Local Conservation Corps Grants (one-time) <i>[Note 12]</i>	(689,525)		
	City/County Payments	10,500,000	10,500,000	10,500,000
	Competitive Grants <i>[Notes 10, 12]</i>	(281,176)	750,000	1,500,000
	Public Education and Information <i>[Notes 10, 12]</i>	(116,462)	2,500,000	5,000,000
	Quality Incentive Payments	15,626,806	10,000,000	10,000,000
	Market Development Grants <i>[Note 12]</i>	(2,977,901)		
	Plastic Market Development <i>[Note 11]</i>	12,123,130	10,000,000	10,000,000
	Grants Multi-family Housing (low income) <i>[Note 12]</i>	(653,409)		
	Pro Rata	4,933,790	5,627,000	5,627,000
	Total Disbursements (CalRecycle) (E)	1,231,216,084	1,157,537,028	1,163,166,034
Disbursements (Other)				
	State Controller	138,000		
	Total Disbursements (Other) (F)	138,000		
	Total Expenditures (G) = (E+F)	1,231,354,084	1,157,537,028	1,163,166,034
	FUND BALANCE (D-G) <i>[Note 13]</i>	184,067,275	192,497,289	270,010,297

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

Offset	FY 2010-11	FY 2011-12	FY 2012-13
Glass Processing Fee	\$53,687,972	\$47,410,000	\$47,410,000
Plastic Processing Fee	\$32,954,496	\$27,616,000	\$28,099,000

Notes:

[Note 1] – “CRV In” is derived from projections of beverage container sales, added to known actual sales volumes. Actual sales are current through the May 2011 reporting period; all subsequent sales are projections.

[Note 2] – Loan repayments from the Air Pollution Control Fund for the AB 32 implementation loans are completed for FY 2010-2011 and scheduled for FY 2011-2012 and FY 2012-2013.

[Note 3] – The “Repayment of General Fund” for FY 2011-2012 amount to \$89 million including \$1 million already repaid from the Department of Conservation as a final installment of a loan made in FY 2008-09. Repayments scheduled for FY 2012-2013 amount to \$172 million, which will pay off all outstanding loans made from the Recycling Fund to the General Fund.

[Note 4] – “Transfers to Glass/Plastic Processing Fee Accounts” are the expenditures for the Processing Fee Offsets authorized in PRC 14581 and PRC 14575. They are capped per AB 7(8X) for calendar years 2010 and 2011 at the level expended, by material type, in the 2008 calendar year. Please see discussion of Processing Fees found in the body of this report regarding FY 2011-2012 and FY 2012-2013 Processing Fee, Payment, and Processing Fee Offset amounts displayed in this report. Note that in the Recycling Fund Condition Summary Statement on page 6 of this report, Processing Fee Offsets are shown as expenditures of unredeemed CRV.

[Note 5] – “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 California Conservation Corps.

[Note 6] – “Expenditures” section is derived primarily from the list of appropriations found in PRC 14581. For FY 2010-2011, expenditure amounts reflect one-time adjustments to tie CalRecycle financial records to State Controller’s Office records. FY 2011-2012 amounts include the mid-year reinstatement of certain programs suspended by AB 7(8X) until January 1, 2012.

[Note 7] – “CRV Out” is derived from projections of recycling volumes, combined with actual recycling volumes. Actual recycling volumes applied to projections extend through the May 2011 reporting period.

[Note 8] – The total annual amount of “Handling Fees” authorized is not fixed and the amount expended every year fluctuates based upon the per-container amount and the number of containers recycled. Handling Fee rates change annually on July 1. For FY 2010-2011, the amount reflects a one-time adjustment to tie CalRecycle financial records to State Controller’s Office records. For FY 2011-2012, the per-container Handling Fee is \$0.0089, up from \$0.00859 in FY 2010-2011 due to a cost-of-living adjustment specified in PRC Section 14585.

For more information regarding handling fees, see the Processing Fee and Handling Fee Cost Surveys, Handling Fee Final Report at the following webpage: <http://www.calrecycle.ca.gov/BevContainer/Fees/Handling/FinalReport.pdf>.

[Note 9] – Local Conservation Corp grants are annually adjusted for the cost of living from a baseline of \$15 million, which began in the 2000 calendar year. The amount shown in FY 2012-2013 is an estimate; the actual amount will be determined in January 2012. Source for adjustment rate is: http://www.dof.ca.gov/html/fs_data/latestEconData/fs_price.htm.

[Note 10] – The Quarterly Status Report indicates a half-year of funding available in FY 2011-2012, reflecting the end of the two-calendar-year suspension AB 7(8X) established for that program, and full funding in FY 2012-13.

[Note 11] – The amount for the Plastic Market Development payment for FY 2011-2012 and FY 2012-13 is the \$10 million baseline provided for each year pursuant to PRC Section 14581(a)(9)(A). The additional amount specified in PRC Section 14581(a)(9)(B) is dependent upon future Processing Fee offsets for plastic which are not known at this time. As CalRecycle is better able to determine those values, they will be reflected in subsequent reports.

[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 14580(a)(2) would be 5 percent of the total amount paid to processors. For FY 2011-2012 that amount would be approximately \$55 million. As explained above in Note 3, the amount of General Fund loan repayment directly influences the demonstrated prudent reserve. Without loan repayments, the Recycling Fund may not have a sufficient prudent reserve, as required by law, and CalRecycle would be required to implement proportionate reduction.