



Quarterly Report on the Status of the
Beverage Container Recycling Fund
(FY 2014-15 – 3rd Quarter)

Department of Resources Recycling and Recovery

September 16, 2015



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This *Quarterly Report on the Status of the Beverage Container Recycling Fund*¹ is a review of the adequacy of resources in the Beverage Container 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 statutorily required report provides updates on the status of all five funds in the Beverage Container Recycling Program. 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 January 2015 report.

¹ Public Resources Code [Section 14556](#) requires the Department of Resources Recycling and Recovery (CalRecycle) to report every three months on the adequacy of the fund to meet the current payments and to project estimates of future adequacy.

Executive Summary

Since its passage nearly 30 years ago, California's beverage container recycling law has proven a success in diverting materials from wasteful landfilling to beneficial reuse. In recent years, the overall statewide recycling rate for container types included in the program has remained above 80 percent.

However, a combination of factors has imposed a strain on the Beverage Container Recycling Fund (Fund), resulting in an ongoing structural deficit.

These factors include statutorily prescribed payments established when the Fund was running large surpluses, fraudulent activity, and ironically, the success of the program itself. In FY 2008-09, the recycling rate rose to 78 percent. Since then, the recycling rate has continued to increase. The current recycling rate is about 80.7 percent, while the FY 2013-14 recycling rate was 82 percent.

Until now, the gap between expenditures and revenues has been temporarily bridged through repayments of loans, particularly to the General Fund, made from the Fund when it was operating at a surplus. The final loan repayment, amounting to \$82.3 million, was paid in full at the end of FY 2014-15.

Failure to take sufficient action to close the structural deficit could result in cutbacks, known as "proportional reductions," in payments made to program participants, and potentially insufficient funds to provide CRV refunds to consumers. Continuous annual deficits threaten the continued viability of the program.

In order to address the structural deficit, CalRecycle implemented several program reforms, including reduced daily load limits for redemption at recycling centers, increased monitoring of the importation of out-of-state beverage containers, and elimination of the commingled rate at buyback centers, which allowed for slightly lower per-pound refund rates for loads containing a combination of CRV and non-CRV material.

These three measures were implemented between November 2013 and January 2014, and early indications of their impact are promising as fewer ineligible containers are being redeemed for payment. Additionally, beverage sales have increased. Notably, because of these circumstances, CalRecycle does not anticipate the need to impose proportional reductions until after the 2017-18 fiscal year, consistent with the January 2015 quarterly report, issued in April 2015.

However, actions taken thus far have secured only partial success; while the gap is smaller, the amount of money coming into the Fund is still insufficient to cover the amount being paid out. In order to eliminate the structural deficit and achieve a secure financial future for the Fund and the programs it supports, further measures will be necessary.

Both the positive impact of the first round of reforms and the need for more are supported by the recent [audit](#) conducted by the California Bureau of State Audits and released in November 2014. The audit confirmed the Fund's structural deficit, then approximately \$100 million, and recognized that changes such as reducing or eliminating administrative fees for beverage distributors, enacting changes to mandatory payments such as those for curbside programs or quality incentives to beverage program participants, or reducing or eliminating processing fee offsets could improve the program's financial condition. The Administration continues to evaluate policy options and additional program reform measures.

This report shows a decline in the projected average structural deficit, from \$56 million in January 2015 to \$27.9 million in FYs 2014-15 through 2017-18, based on lower payouts, potentially stemming from the recent reforms, as well as higher revenues as beverage sales have increased with an improving economy. Nevertheless, as the audit, titled "The Beverage Container Recycling Program Continues to Face Deficits and Requires Changes to Become Financially Sustainable (Report 2014-110)," and the

information provided in this quarterly update demonstrate, additional program reform measures² will be required to achieve long-term solvency.

² See Appendix 3 – Program Reform Measures for a more detail description of currently implemented program reform measures.

I. Introduction

As of April 1, 2015, CalRecycle projects that the cash balance of the recycling fund will not permanently fall below the prudent reserve until after FY 2017-18, which is the extent of the current forecast horizon, if present trends continue. This projection time frame is unchanged from the January 2015 report. Due to further reductions in expenditures and continued growth in sales revenue, the average structural deficits for FYs 2014-15 to 2017-18 are projected to decrease, on average, to \$27.9 million per year as compared to the \$56 million annual estimate cited in the January 2015 report.

CalRecycle is continuing to implement key reform measures³ to improve program integrity, reduce loss, and enhance revenue where possible. The measures are intended to improve program integrity and focus on certified recyclers by promoting higher standards of performance, accountability, and service to the public. The measures are also intended to reduce loss by concentrating on counteracting fraud. Finally, the measures are intended to enhance revenue by closing possible gaps in the collection of redemption fees and processing fees. Despite these efforts, CalRecycle projects the combination of all reform measures outlined in Table 24 will not be sufficient to eliminate the ongoing structural deficit. Absent additional measures, proportional reduction in the long run remains inevitable.

Projected fund condition statements in this report are very sensitive to the timing and amounts of actual receipts and disbursements. The timing of proportional reduction implementation may change based on more current information presented in future reports.

As recycling rates stabilize near 80 percent, CalRecycle must continue its emphasis on program fiscal integrity.⁴

³ See Appendix 3 – Program Reform Measures for a more detailed description of currently implemented key program reform measures.

⁴ See Public Resources Code Section [14501\(c\)](#).

CalRecycle is committed to exploring efforts and opportunities to support a stable recycling infrastructure in California.

Information used in preparation of this report is derived primarily from two sources: 1) Historical data on sales and revenues by material type, recycling rates, handling fees, and processing fees; and, 2) payments extracted from the Division of Recycling Integrated Information System (DORIIS). DORIIS data is also used in preparing the projections by material type. Data provided in the Fund Condition Statements (Appendix 1 – Fund Condition Statements) ties to reports from CalRecycle’s fiscal book of record as well as the Governor’s Budget.⁵ Numbers may differ due to year-end adjustments.

CalRecycle welcomes your feedback concerning this report. Please send questions and comments to BeverageContainerReform@calrecycle.ca.gov, or contact the Division of Recycling at (916) 323-3836.

⁵ California’s Governor’s Budget 3-Yr Expenditures & Positions. 3970 Resources Recycling and Recovery. Program 3715 Beverage Container Recycling and Litter Reduction. Available at <http://www.ebudget.ca.gov/2015-16/StateAgencyBudgets/3890/3970/spr.html#Fund>

II. Fund Condition Statements

This section provides an updated fund condition including revenues, transfers, and expenditures in to and out of the funds. This section also includes an explanation of significant changes of the fund condition statement from the previous reports and any significant changes to the methodology used for forecasting the fund condition statement. There are five funds in the Beverage Container Recycling Program.⁶ Table 1 shows the consolidated fund condition statement for FY 2013-2014 and a projection for current FY 2014-15 and for FYs 2015-16 and 2016-17.

Table 1: Consolidated Fund Condition Statement FY 2013-2014 and Projections for FY 2014-2015 to FY 2016-2017 (Dollars in Thousands)

Consolidated Fund Condition Statement	FY 2013-2014 (Actual)	FY 2014-2015 (Estimated)	FY 2015-2016 (Projected)	FY 2016-2017 (Projected)
Beginning Reserve	\$153,044	\$293,243	\$351,278	\$321,853
Transfers	\$168,400	\$82,277		
Net Redemption Fees ⁷	\$1,194,017	\$1,253,099	\$1,253,099	\$1,253,099
Processing Fees	\$12,105	\$13,729	\$13,729	\$13,729
Receivables and other Revenues ⁸	\$33,798	\$13,044	\$572	\$572
Total Revenues and Net Transfers	\$1,408,320	\$1,362,149	\$1,267,400	\$1,267,400
Refund Value Plus Admin Fees	(\$1,023,373)	(\$1,051,783)	(\$1,051,783)	(\$1,051,783)
Processing Payments	(\$80,092)	(\$89,499)	(\$89,499)	(\$89,499)
Handling Fees	(\$46,318)	(\$51,054)	(\$51,054)	(\$51,054)
Program Expenditures	(\$67,243)	(\$62,974)	(\$55,914)	(\$51,364)
Program Administration	(\$45,366)	(\$48,719)	(\$48,492)	(\$47,457)
Other Expenditures	(\$5,729)	(\$85)	(\$84)	(\$84)
Total Expenditures	(\$1,268,121)	(\$1,304,114)	(\$1,296,826)	(\$1,291,241)
Ending Reserve	\$293,243	\$351,278	\$321,853	\$298,012

⁶ See Appendix 1 for a brief description of the fund and a detailed fund condition statement.

⁷ CRV-IN net revenue after deduction of the 1.5% administrative fees held by beverage distributors.

⁸ It includes the expected interest revenue generated from the repayment of the \$82.3 million loan.

Because of the continuing structural deficit, the fund balance declines in each of the successive years from a projected \$351 million at the end of FY 2014-15 to a projected \$298 million at the end of FY 2016-17.⁹

As of April 22, 2015, the combined balance of the five Beverage Container program funds¹⁰ is \$309,066,386, of which approximately \$226 million is available for current operations.

Table 2: Fund Condition Statement (Assets as of April 22, 2015)

FUND	Cash in State Treasury (1140)	Surplus Money Investment Fund (1210)	Loans - Legislative (2170)	Loans - Non-Legislative (1410)	Total Assets
Beverage Container Recycling Fund - 0133	(\$2,877,896)	\$62,514,000	\$82,277,000	\$119,100,000	\$261,013,104
Glass Processing Fee Fund - 0269	\$207	\$12,205,000		\$6,600,000	\$18,805,207
Plastic Processing Fee Fund - 0278	\$584	\$5,406,000		\$1,300,000	\$6,706,584
Bimetal Processing Fee Fund - 0277		\$16,995,336			\$16,995,336
Penalty Account Fund - 0276		\$5,546,154			\$5,546,154
TOTAL	(\$2,877,105)	\$102,666,491	\$82,277,000	\$127,000,000	\$309,066,386

The estimated reserve for contingencies of 5 percent of the total amount paid to processors during the preceding calendar year¹¹ is approximately \$57 million.

According to PRC Section 14556(c), the Department of Resources Recycling and Recovery, after reviewing the information included in the fund condition statement, determines that adequate funds exist to pay the disbursements required pursuant to PRC Division 12.1, and PRC Sections 14581 and 14575. No reduction in payments proportionally, as defined in PRC Section 14581(c), is required at this time.

⁹ For additional information, the full fund condition statements, which contain line-item detail covering FY 2013-2014 to FY 2015-2016 for all five program funds with accompanying notes, can be found in Appendix 1 of this report.

¹⁰ See Appendix 1 for a description of the five program funds and their condition statements.

¹¹ Section 14580(a)(2) of California Public Resources Code

1. Revenues and Sales

Revenues have fluctuated over the previous five fiscal years, as shown in Table 3.

Table 3: Revenues by Type, FY 2009-2010 to FY 2013-2014

Revenue Type	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
CRV-IN*	\$1,132,527,222	\$1,122,350,821	\$1,139,872,354	\$1,171,968,435	\$1,208,327,090
Processing Fees	\$67,554,819	\$28,170,310	\$15,184,676	\$13,336,464	\$13,690,007
TOTAL	\$1,200,082,042	\$1,150,521,131	\$1,155,057,030	\$1,185,304,900	\$1,222,017,097

* CRV-IN net revenue from redemption fees after deduction of the 1.5% administrative fees held by beverage distributors.

Revenues from processing fees for FY 2013-2014 represented 1.12 percent of all net revenues for that fiscal year. In FY 2009-2010, that percentage was 5.63 percent. In addition to the regular revenues, in FY 2013-2014, the fund received other income in an amount of \$14,489,000 associated with interest received from loan repayments.

2. Expenditures and Returns

Table 4 includes expenditures and disbursements by type and the handling fees for FY 2009-2010 to FY 2013-2014.

Table 4: Expenditures by Type, FY 2009-2010 to FY 2013-2014

Expenditure Type	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
CRV-Paid	\$994,119,557	\$972,146,120	\$991,559,402	\$1,044,712,214	\$1,020,888,800
Admin Fee	\$24,852,994	\$24,303,658	\$24,788,991	\$26,117,813	\$25,522,226
Processing Payments	\$104,387,254	\$98,591,164	\$77,935,595	\$71,472,605	\$83,464,377
Handling Fees	\$24,506,175	\$38,633,656	\$37,292,776	\$39,192,564	\$41,371,131
TOTAL	\$1,147,865,979	\$1,133,674,599	\$1,131,576,764	\$1,181,495,197	\$1,171,246,534

Other fund expenditures for FY 2013-2014 are displayed in Table 5.

Table 5: Other Fund Expenditures, FY 2013-2014

Other Fund Expenditures	FY 2013-2014
Fixed Cost -14581 Program	\$67,243,000
Beverage Container Recycling Grants	\$1,500,000
City/County Payments	\$10,500,000
Curbside Supplemental Payments	\$15,000,000
Local Conservation Corps Grants	\$20,643,000
Plastic Market Development	\$10,000,000
Public Information and Education	\$0
Quality Incentive Payment	\$9,600,000
Fixed Cost-Administration	\$51,095,000
Fiscal	\$5,729,000
Pro Rata	\$5,053,000
State Operations SB 96	\$415,000
Program Administration	\$39,898,000
TOTAL	\$118,338,000

3. Transfers

Table 6: FY Transfers In to and Out of the Fund, FY 2010-2011 to FY 2015-2016

Transfers	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015 (Projected)	2015-2016 (Projected)
Beginning Balance Out of Fund	\$496,847,000	\$377,377,000	\$267,077,000	\$250,677,000	\$82,277,000	\$0
Transfers In to Fund	\$119,470,000	\$110,300,000	\$16,400,000	\$168,400,000	\$82,277,000	
Transfers Out of Fund	\$0	\$0	\$0	\$0	\$0	\$0
End Balance Out of Fund	\$377,377,000	\$267,077,000	\$250,677,000	\$82,277,000	\$0	\$0

Based on increased reserves during years of surpluses, inter-fund loans were authorized from the recycling fund, mostly to the General Fund, to meet statewide needs. Between FY 2002-2003 and FY 2009-2010, loans made from the recycling fund totaled \$458.7 million. Additionally, in FY 2003-2004, loans totaling \$66 million were made from the processing fee funds to the General Fund.

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 \$376.4 million plus interest with a balance of outstanding loans of \$82.3 million as of April 2015. All outstanding loans made from the recycling fund, amounting to \$82.3 million, were repaid in full as of the end of FY 2014-2015.

4. Historical Fund Balance, Trends, and Projections

The program has traditionally had an excess of revenue due to high sales and relatively low recycling rates. Since FY 2008-2009, exclusive of proportional reduction in FY 2009-2010, the program began operating under a structural deficit averaging \$123 million per year due to recycling fund expenditures exceeding revenues. Annual structural deficits¹² are projected to decrease to an average of \$27.9 million from FYs 2014-2015 to 2017-2018, likely due to a combination of the recent implementation of reform measures and increasing sales. More detail on the historical and projected structural deficits are shown in Table 7 below.

Table 7: Historical and Projected Structural Deficits for all Program Funds

Fiscal Year	Redemption and Processing Fee Revenues	Governor Budget Expenditures [Note 2]	Operational Surplus/(Deficit) [Note 1]
2011-2012	\$1,154,039,000	\$1,262,965,000	(\$108,926,000)
2012-2013	\$1,175,473,000	\$1,285,065,000	(\$109,592,000)
2013-2014	\$1,206,122,000	\$1,261,979,000	(\$55,857,000)
2014-15 (projected)	\$1,266,828,000	\$1,304,114,000	(\$37,286,000)
2015-2016 (projected)	\$1,266,828,000	\$1,296,826,000	(\$29,998,000)
2016-2017 (projected)	\$1,266,828,000	\$1,291,241,000	(\$24,413,000)
2017-2018 (projected)	\$1,266,828,000	\$1,286,700,000	(\$19,872,000)

[Note 1] – Reflects ongoing operations only and excludes non-reoccurring revenues and expenditures such as interest on loans.

[Note 2] – Budget Expenditures from Governor's Budget for FYs 2007-2008 to 2013-2014. Projections based on budgeted expenditures and DORIIS data.

¹² See Appendix 2 – Definition of Terms

The current forecasting horizon of the fund condition projection extends to FY 2017-2018, after which making reliable estimates is extremely difficult. The program has had a history of surpluses followed by a period of deficits, and continues to pay for operational costs based on prior annual surpluses. 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 traditionally have been funded by unredeemed redemption fees. With low recycling rates, the program was operating with significant year-over-year surpluses. To meet policy goals following the enactment of SB 332, California redemption payments and refund value (CRV, collectively) were increased from 2½ cents in 1992 to 5 cents in 2007 for containers smaller than 24 ounces and from 5 cents in 1992 to 10 cents in 2007 for containers larger than 24 ounces. Each increase in CRV initially resulted in higher year-over-year surpluses because recycling rates initially did not increase as sharply as increases in sales.

To further policy goals, the Legislature passed AB 3056 (Chapter 907, Statutes of 2006), which created or supplemented programs to expand and improve in-state markets for recycled beverage container materials. 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 recycled beverage containers. However, the measures that have contributed to the success of the recycling program have also resulted in unsustainable demands on the recycling fund.

The program began to operate under a structural deficit in FY 2008-2009 when the actual recycling rate rose to 78 percent, exceeding that year's break-even recycling rate of approximately 70 percent.

The break-even recycling rate is the estimated recycling rate—the quotient of containers recycled over containers sold—at which 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. The break-even recycling rate increased to about 75 percent in FY 2012-2013 due to the reduction of fixed

expenditures for various incentive programs and a decrease in the plastic processing fee offset. In FY 2013-2014, the recycling rate decreased to 82 percent, possibly due to the effect of recently implemented anti-fraud measures. In the projections for FY 2015-2016 through FY 2017-2018, CalRecycle assumes the recycling rate will remain at the current level through FY 2017-2018.

III. Recycling and Return Rates

This section provides information regarding the recycling rate, by beverage container material type, that is inferred from revenues. The recycling rate for all beverage container material types combined for FY 2013-2014, is 81.4 percent. This recycling rate inferred using revenues is different from the 84 percent recycling rate reported in the biannual report for all materials during the January through June 2014 period.¹³

Beverage Container Return Rate

The beverage container return rate is defined as the number of CRV beverage containers redeemed for recycling divided by the number of CRV beverage containers sold. Sold container counts are derived from reports received by CalRecycle directly from beverage distributors, whereas recycled container counts are derived from the redemption weight, from shipping reports, multiplied by the container per pound rate. Because of the delay between containers sold and containers returned for recycling, the return rate is an approximation for the actual recycling rate.

Figure 1: Recycling Rate Trends, Inferred Using Revenues

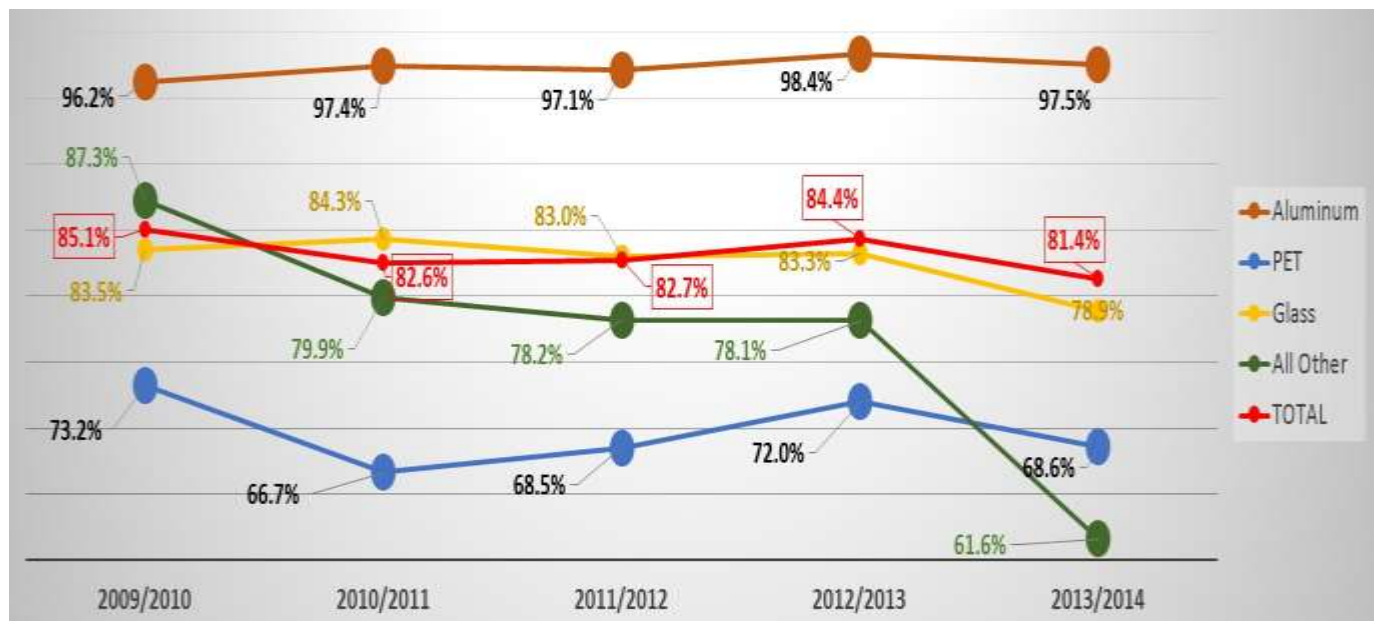


Table 8: Recycling Rate Trends by Material Type, FY 2009-2010 to FY 2013-2014

Recycling Rate by Material Type					
Type	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
Aluminum	96.2%	97.4%	97.1%	98.4%	97.5%
PET	73.2%	66.7%	68.5%	72.0%	68.6%
Glass	83.5%	84.3%	83.0%	83.3%	78.9%
All Other	87.3%	79.9%	78.2%	78.1%	61.6%
TOTAL	85.1%	82.6%	82.7%	84.4%	81.4%

¹³ CalRecycle's Biannual Report of Beverage Container Sales, Returns, Redemption, and Recycling Rates is available here: <http://www.calrecycle.ca.gov/bevcontainer/Notices/2014/Biannual.pdf>

Table 9, Table 10, and Table 11 include an estimate of the return rate calculated based on the units sold by fiscal year. The sales amount (Sales) are the gross values, before the 1.5 percent administrative fee for beverage distributors is deducted from receivables. The refund value (Payments) does not include the administrative fee of 2.5 percent paid to certified processors.

1. Aluminum Containers

Table 9: Aluminum Containers Sold, FY 2009-2010 to FY 2013-2014

Aluminum	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014
Units Sold	9,030,334,780	8,656,334,354	8,505,199,176	8,416,264,859	8,377,500,759
Under 24 oz.	8,546,519,160	8,163,170,424	7,993,667,378	7,886,458,935	7,809,566,843
Over 24 oz.	483,815,620	493,163,930	511,531,798	529,805,924	567,933,916
Units Returned	8,690,690,984	8,431,426,055	8,260,168,180	8,278,345,897	8,168,458,533
Units Not Returned	339,643,796	224,908,299	245,030,996	137,918,962	209,042,226
Return Rate	96.24%	97.40%	97.12%	98.36%	97.50%

2. PET Containers (Plastic #1).

Table 10: PET Containers Sold, FY 2009-2010 to FY 2013-2014

PET (Plastic #1)	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014
Units Sold	8,098,731,806	8,409,656,107	8,665,072,533	9,265,614,049	9,978,178,637
Under 24 oz.	6,765,238,025	7,032,439,727	7,239,062,450	7,816,862,964	8,431,314,362
Over 24 oz.	1,333,493,781	1,377,216,380	1,426,010,083	1,448,751,085	1,546,864,275
Units Returned	5,929,866,821	5,606,278,984	5,937,399,485	6,672,388,830	6,840,569,019
Units Not Returned	2,168,864,985	2,803,377,123	2,727,673,048	2,593,225,219	3,137,609,618
Return Rate	73.22%	66.66%	68.52%	72.01%	68.56%

3. Glass Containers

Table 11: Glass Containers Sold, FY 2009-2010 to FY 2013-2014

Glass	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014
Units Sold	3,050,592,771	2,910,220,687	3,007,977,793	3,084,527,952	3,125,233,376
Under 24 oz.	2,752,221,488	2,638,670,317	2,723,391,440	2,781,483,603	2,890,557,602
Over 24 oz.	298,371,283	271,550,370	284,586,353	303,044,349	234,675,774
Units Returned	2,548,251,447	2,453,599,973	2,497,646,024	2,568,195,248	2,466,879,458
Units Not Returned	502,341,324	456,620,714	510,331,769	516,332,704	658,353,918
Return Rate	83.53%	84.31%	83.03%	83.26%	78.93%

IV. Projections and Estimates for Fiscal Year 2014-2015

This section provides information for projected sales and returns, handling fee payments, and processing payments for FYs 2015-2016, 2016-2017, and 2017-2018.

This section also provides a preliminary estimated result for the current fiscal year.

a. Projected End Result for Fiscal Year 2014-2015

Actual information is available for the first two quarters for FY 2014-2015 and the results for the third and fourth quarters are estimated. The projected end result for FY 2014-2015 is a deficit of \$24.2 million (\$36.7 million operational deficit not including the \$12.5 million interest earnings).

Table 12: Revenues and Costs and Projected End Result for FY 2014-2015

Fiscal Year 2014-15	1Q (July-Sept) (Actual)	2Q (Oct-Dec) (Actual)	3Q (Jan-March) (Estimated)	4Q (Apr-June) (Estimated)	TOTAL FY 14- 15 (Projected)	TOTAL Previously PROJECTED
CRV IN	\$340,049,023	\$295,828,445	\$274,464,803	\$342,757,073	\$1,253,099,344	\$1,235,098,000
Processing Fees	\$3,446,232	\$3,446,633	\$3,131,708	\$3,704,611	\$13,729,184	\$14,084,000
Other Income ¹⁴	\$41,641	\$140,434	\$259,003	\$12,603,000	\$13,044,077	\$12,829,000
TOTAL REVENUES	\$343,536,896	\$299,415,512	\$277,855,514	\$359,064,684	\$1,279,872,605	\$1,262,011,000
CRV OUT	\$288,523,095	\$248,602,945	\$236,100,148	\$252,903,431	\$1,026,129,619	\$1,020,701,463
Admin Fees	\$7,213,079	\$6,215,075	\$5,902,505	\$6,322,586	\$25,653,246	\$25,517,536
Processing Payments	\$25,201,327	\$21,592,072	\$20,431,773	\$22,273,581	\$89,498,753	\$91,589,001
Handling Fees	\$13,486,989	\$12,114,746	\$12,288,813	\$13,163,410	\$51,053,958	\$54,455,000
14581 Costs	\$4,480,399	\$6,812,372	\$3,385,470	\$48,295,759	\$62,974,000	\$62,974,000
Fixed Costs	\$8,003,526	\$9,604,412	\$9,690,610	\$21,505,452	\$48,804,000	\$48,804,000
TOTAL COSTS	\$346,908,415	\$304,941,622	\$287,799,319	\$364,464,219	\$1,304,113,575	\$1,304,041,000
Surplus/Deficit	(\$3,371,519)	(\$5,526,110)	(\$9,943,805)	(\$5,399,536)	(\$24,240,970)	(\$42,030,000)
RETURN RATE	83.57%	82.78%	84.73%	72.68%	80.66%	81.40%
Rate of Growth Sales	3.04%	3.31%	4.45%	4.12%	3.71%	2.22%
Rate of Growth Returns	-1.47%	-1.76%	5.69%	0.52%	0.51%	-0.02%

¹⁴ "Other Income" includes atypical interest revenue.

This result is 42 percent lower than the \$42 million deficit projected in the prior report. The main reason for this significant change is the actual increase in sales for PET of 6.5 percent and a rate of growth in the returns in the first two quarters of only 3.3 percent. Table 12 summarizes the actual revenues and costs for the first two quarters and the estimated projections for the third and fourth quarters of FY 2014-2015. The new projections also include an expected atypical revenue of \$13 million.

The recycling rate, inferred using the revenues, is now estimated at 80.66 percent for FY 2014-2015 (previously estimated at 81.4 percent). The new estimate for the rate of growth of sales is 3.71 percent compared to 2.22 percent in the prior report. This, combined with a slightly higher rate of growth of returns of 0.5 percent, results in a lower estimated deficit for FY 2014-2015.

b. Projected Handling Fee Payments

This section includes all actual data available for handling fee payments, the per beverage container handling fee amount, and the number of beverage containers projected to be eligible for a handling fee payment.

Table 13: Handling Fee Payments and Containers Eligible

	FY 2010-2011	FY 2011-2012	FY 2012-2013	FY 2013-2014	FY 2014-2015 (Estimated)	FY 2015-2016 (Projected)
Handling Fees	\$38,633,656	\$37,292,776	\$39,192,564	\$41,371,131	\$51,053,958	\$51,053,958
Per Beverage Container Handling Fee Amount	\$0.00859	\$0.00890	\$0.0089- \$0.0090	\$0.00900	\$0.01035	\$0.01035
Containers Eligible for Handling Fee Payment	4,497,515,286	4,190,199,516	4,403,658,928	4,596,792,361	4,932,749,535	4,932,749,535

The handling fee per container rate was \$0.0089 for the reporting months of July 2012 through February 2013 pursuant to PRC Section 14585(g)(1). For the reporting months of March 2013 through June 2014, the handling fee per container rate was \$0.0090.

The projected handling fees for FYs 2014-2015 and 2015-2016 are based on a handling fee per container rate of \$0.01035 derived from the latest cost survey.¹⁵

c. Projected Processing Payments

This section includes all data available since last reporting period for processing payments¹⁶ by beverage container material type and includes projections for processing fee offsets, processing fees, and processing payments for the next fiscal year.

Table 14: Processing Fees and Processing Payments by Material Type

PET (Plastic #1)	FY 2010-2011	FY 2011-2012	FY 2012-2013	FY 2013-2014	FY 2014-2015 (Estimated)	FY 2015-2016 (Projected)
Processing Fees	\$14,141,658	\$2,464,362	\$452,139	\$1,437,931	\$2,117,660	\$2,117,660
Processing Payments	\$38,644,854	\$13,958,358	\$2,457,953	\$17,311,177	\$24,028,955	\$24,028,955
Processing Fee Offsets	(\$24,503,196)	(\$11,493,996)	(\$2,005,814)	(\$15,873,246)	(\$21,911,295)	(\$21,911,295)
Glass						
Processing Fees	\$6,491,941	\$6,878,814	\$7,431,084	\$6,913,367	\$6,516,216	\$6,516,216
Processing Payments	\$52,344,515	\$56,573,848	\$61,038,195	\$60,030,378	\$60,322,476	\$60,322,476
Processing Fee Offsets	(\$45,852,574)	(\$49,695,034)	(\$53,607,111)	(\$53,117,011)	(\$53,806,260)	(\$53,806,260)
All Other Material						
Processing Fees	\$7,536,710	\$5,841,500	\$5,453,242	\$5,338,709	\$5,095,308	\$5,095,308
Processing Payments	\$7,601,794	\$7,403,389	\$7,976,457	\$6,122,822	\$5,147,321	\$5,147,321
Processing Fee Offsets	(\$65,084)	(\$1,561,889)	(\$2,523,216)	(\$784,112)	(\$52,013)	(\$52,013)
Total						
Processing Fees	\$28,170,310	\$15,184,676	\$13,336,464	\$13,690,007	\$13,729,184	\$13,729,184
Processing Payments	\$98,591,164	\$77,935,595	\$71,472,605	\$83,464,377	\$89,498,753	\$89,498,753
Processing Fee Offsets	(\$70,420,854)	(\$62,750,919)	(\$58,136,141)	(\$69,774,370)	(\$75,769,569)	(\$75,769,569)

Projections for processing fees, processing payments, and processing fee offsets are based on current processing payment rates effective January 1, 2015.

¹⁵ The Handling Fee Cost Survey Final Report can be found on the CalRecycle website at

<http://www.calrecycle.ca.gov/Publications/Documents/1494/20141494.pdf>.

¹⁶ Processing Payments are adjusted based on the average scrap value for each beverage container material type. Processing Payment information is available at:

<http://www.calrecycle.ca.gov/BevContainer/Notices/#Processing>

d. Projected Other Fund Expenditures*Table 15: Projected Other Fund Expenditures*

Other Fund Expenditures	FY 2013-2014 (Actual)	FY 2014-2015 (Estimated)	FY 2015-2016 (Projected)	FY 2016- 2017 (Projected)	FY 2017- 2018 (Projected)
Fixed Cost -14581 Program	\$67,243,000	\$62,974,000	\$55,914,000	\$51,364,000	\$46,823,000
<i>Beverage Container Recycling Grants</i>	<i>\$1,500,000</i>	<i>\$1,500,000</i>	<i>\$1,500,000</i>	<i>\$1,500,000</i>	<i>\$1,500,000</i>
<i>City/County Payments</i>	<i>\$10,500,000</i>	<i>\$10,500,000</i>	<i>\$10,500,000</i>	<i>\$10,500,000</i>	<i>\$10,500,000</i>
<i>Curbside Supplemental Payments</i>	<i>\$15,000,000</i>	<i>\$15,000,000</i>	<i>\$15,000,000</i>	<i>\$15,000,000</i>	<i>\$15,000,000</i>
<i>Local Conservation Corps Grants</i>	<i>\$20,643,000</i>	<i>\$13,474,000</i>	<i>\$6,414,000</i>	<i>\$6,864,000</i>	<i>\$7,323,000</i>
<i>Plastic Market Development</i>	<i>\$10,000,000</i>	<i>\$10,000,000</i>	<i>\$10,000,000</i>	<i>\$5,000,000</i>	<i>\$0</i>
<i>Public Information and Education</i>	<i>\$0</i>	<i>\$2,500,000</i>	<i>\$2,500,000</i>	<i>\$2,500,000</i>	<i>\$2,500,000</i>
<i>Quality Incentive Payment</i>	<i>\$9,600,000</i>	<i>\$10,000,000</i>	<i>\$10,000,000</i>	<i>\$10,000,000</i>	<i>\$10,000,000</i>
Fixed Cost-Administration	\$51,095,000	\$48,804,000	\$48,576,000	\$47,541,000	\$47,541,000
<i>Fiscal</i>	<i>\$5,729,000</i>	<i>\$85,000</i>	<i>\$84,000</i>	<i>\$84,000</i>	<i>\$84,000</i>
<i>Pro Rata</i>	<i>\$5,053,000</i>				
<i>State Operations SB 96</i>	<i>\$415,000</i>	<i>\$1,015,000</i>	<i>\$1,035,000</i>		
<i>Program Administration</i>	<i>\$39,898,000</i>	<i>\$47,704,000</i>	<i>\$47,457,000</i>	<i>\$47,457,000</i>	<i>\$47,457,000</i>
TOTAL	\$118,338,000	\$111,778,000	\$104,490,000	\$98,905,000	\$94,364,000

Projections are based on current appropriations and sunset dates specified in PRC Sections 14581 and 14581.1. Additionally, expenditures for Local Conservation Corps Grants from the recycling fund have been reduced by \$7.5 million in FY 2014-2015 and \$15 million beginning in FY 2015-2016 pursuant to SB 861 (Chapter 35, Statutes of 2014). Total funding for Local Conservation Corps Grants generally remains unchanged, as the remainder of support will come from other CalRecycle funds.

e. Significant Changes

Decline in refund value expenditures due to implemented program reform measures.

Overall, refund value expenditures have declined from the level shown in the previous report. CalRecycle believes the primary reason for the expenditure reduction is due to the impacts from recently implemented reform measures,¹⁷ most notably the discontinuance of the commingled redemption of beverage containers at recycling centers, lower consumer load limits, and increased monitoring of the importation of out-of-state beverage container material. These three key reform measures were implemented between November 2013 and January 2014. While CalRecycle cannot directly isolate the impacts of the reform measures due to their compacted implementation dates, their presumed effect began to appear in mature volume data covering the first quarter of 2014 in the form of declining volumes of beverage container material returned for recycling. Recycling volumes continued to decline during the first and second quarters of FY 2014-2015 to 1.47 percent and 1.76 percent respectively.

Increase in redemption fee revenue due to a growth of sales of PET beverage containers

Projections for FY 2014-2015 have been revised based on the actual sale and expenditures information for the second quarter of FY 2014-2015 (October to December 2014). Overall, CRV sales increased by 3.31 percent compared to the second quarter of FY 2013-2014. This rate of growth is not uniformly distributed among material type: For the sales of PET containers, the rate of growth is 6.93 percent, while the rate of growth for the same period for glass was 5.26 percent. Aluminum containers saw a reduction in sales of 1.5 percent.

The increase in PET sales mostly in containers with a capacity of less than 24 fluid ounces may be explained by an increase of sales of bottled water. An increase of sales

¹⁷ See Appendix 3 – Program Reform Measures for a description of key reform measures.

of beverage containers containing water may be due, in part, to the persisting California drought conditions.

Fraud Prevention and Enforcement

CalRecycle is taking actions designed to detect, prevent, and mitigate fraud to achieve the greatest fiscal impact in the most effective and efficient manner possible. Although we have been successful, the calendar year 2014 implementation of the Imported Empty Beverage Container Reporting and Inspection Program has revealed that significant amounts of previously unidentified single-stream curbside material, and other unsorted loads of recyclables containing empty beverage containers, are being imported into California and processed with beverage container materials collected in the state. Once imported, out-of-state beverage containers are sorted and processed within various facilities in California, and there is a risk of those imported empty beverage containers being illegally claimed for CRV.

Limited Ability to Reduce Expenditures

Although the structural deficit is shrinking (this result is in large part due to an unprecedented increase in beverage container sales), we are continuing to watch the deficit as the trend may change quickly and the ability to reduce expenditures is limited.

In response to stakeholder concerns over the potential significant under-collection of redemption fees, CalRecycle conducted an extensive examination of business practices, analyzed third-party point-of-sale data, and conducted retailer shelf surveys. The findings have indicated that there are no significant gaps in the collection of revenues for redemption fees and processing fees.

CalRecycle is committed to collecting all revenue owed to the recycling program. CalRecycle has recently reached out to the State of California's Drinking Water Program and the Board of Equalization to identify companies that should be paying redemption fees but do not appear to be registered under the recycling program. In addition, CalRecycle has been contacting Internet-based marketers of beverages to ensure that they and their associated companies are paying redemption fees. While these efforts have not resulted in significant new revenue sources, CalRecycle

continues to explore all feasible sources of uncollected or under-collected recycling revenue.

Proportional Reduction

Proportional reduction¹⁸ would be implemented if the cash balance of the recycling fund falls below the prudent reserve¹⁹ of \$57 million by the end of FY 2015-2016 (see Table 22).

Despite the apparent successes of the recently implemented reform measures, the program is projected to continue operating under a structural deficit indefinitely. Barring other changes, this circumstance will result in the eventual need to implement proportional reduction pursuant to PRC Section 14581(d). Under current projections, the timing of proportional reduction is expected to occur outside the current forecasting horizon, after FY 2017-2018. Because of this extended outlook, the timing and the percentage of expenditure reductions needed to maintain the cash balance of the recycling fund above the prudent reserve cannot be reliably forecast at this time.

CalRecycle believes the anticipated date of proportional reduction is beyond FY 2017-2018 because of lower California Refund Value expenditures, primarily due to the implementation of three key reform measures²⁰—segregated-only redemption at recycling centers, lower consumer load limits, and increased monitoring of the out-of-state importation of empty beverage containers—all of which were implemented between November 2013 and January 2014. The secondary reason is a moderately sharp increase in redemption fee revenue combined with a reduction in the refund value expenditures (see Table 16).

¹⁸ California Public Resources Code Section 14581(c) requires a proportional reduction of all payments once the department has determined that funds are insufficient to make the payments established in Sections 14581 and 14575.

¹⁹ California Public Resources Code Section 14580(a)(2) requires a minimum reserve for contingencies of 5% of previous calendar year payments to processors.

²⁰ See Appendix 3 – Program Reform Measures for a summary of key reform measures.

Table 16: Redemption Fee and California Refund Value Rate of Growth Calendar Years 2013 and 2014

	Jan-Dec 2014	Jan-Dec 2013	Change
Redemption Fee Revenue	\$1,227,828,270	\$1,186,587,007	3.48%
California Refund Value Expenditure	\$1,012,170,971	\$1,060,538,518	-4.56%

Uncertainties and limitations

Current projections are based on conditions observed over a relatively short period of time that are subject to change. The potential changes to current observations that could impact future forecasts include:

- Circumvention of existing fraud prevention measures that reverses the decline in fraudulent expenditures.
- Adjustment of consumer behavior in response to segregated-only redemption and lower load limits resulting in higher volumes of beverage containers recycled.
- Stagnation or reversal of economic growth encouraging more recycling above current levels.
- Estimates for Processing Payments for FY 2015-2016, FY 2016-2017, and FY 2017-2018, which are assumed to be the same as the current fiscal year (FY 2014-2015).
 - Scrap prices of PET and glass are declining, which is likely to result in future increased expenditures.
 - The Department is currently under contract to conduct the Processing Fee and Processing Payment Cost Survey. The Department cautions that costs for recycling may change, affecting the expenditures and structural deficit.
 - The Department is currently researching methods for forecasting Processing Payments; the new methods will be introduced when they are approved.
- Changes in law that may impact program revenues and expenditures.

In addition to potential changes in conditions that could counteract the positive effects of the reform measures, the program faces additional challenges. Implementation of the

reform measures has occurred within a short period of time, and while the collective impacts have so far been positive, the impact of each individual measure is not known.

Appendix 1 – Fund Condition Statements

This section contains fund condition statements for all five program funds based on current projections and projected fund balance at the end of FY 14-15. Each fund condition statement shows one column per fiscal year. Amounts for FY 2014-15 and FY 2015-16 are projections, and the projections are based on actual volumes through the December 2014 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/2015/AprCondition.xls> on the CalRecycle webpage.

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

Beverage Container Recycling Fund, fund 0133 – This fund serves as a depository for redemption payments by beverage distributors. The fund is the source for paying California Refund Value for recycling empty beverage containers and funding programs that (1) develop and maintain an infrastructure for beverage container recycling, and (2) promote markets for recycled beverage container material.

Glass Processing Fee Fund, fund 0269 – This fund serves as a depository for glass processing fees paid by beverage manufacturers who package products 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 beverage manufacturers who package products in any type of plastic bottle having a scrap value that is less than the cost of recycling. The fund is the source for paying processing payments to certified recyclers for handling empty plastic beverage containers.

Bimetal Processing Fee Fund, fund 0277 – This fund serves as a depository for bimetal processing fees paid by beverage manufacturers who package products in

bimetal cans. The fund is the source for paying processing payments to certified recyclers for handling empty bimetal beverage containers.

Penalty Fund, fund 0276 – This 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).

Table 17: Beverage Container Recycling Fund Condition Statement (Fund 0133)

California Department of Resources Recycling and Recovery (CalRecycle)			
Beverage Container Recycling Fund Condition Statement (Fund 0133)			
Projected Revenues and Expenditures as of April 1, 2015			
		FY 2013-14	FY 2014-15
		Actual	Projected
			FY 2015-16
			Projected
Balance Forward		107,087,000	219,350,000
Prior Year Adjustments [Note 1]		13,366,000	
Balance Adjusted (A)		120,453,000	219,350,000
Revenues and Transfers			
Receipts			
	Redemption Fees [Note 2]	1,194,017,000	1,253,099,344
	Other Income [Note 3]	4,750,000	12,911,077
	Total Receipts (B)	1,198,767,000	1,266,010,421
Transfers			
	Repayment of Air Pollution Control Fund Loan	8,000,000	
	Repayment of General Fund Loan [Note 4]	89,400,000	82,277,000
	Repayment of Loan to Department of Conservation [Note 4]	5,000,000	
	Transfers to Glass Processing Fee Fund [Note 5]	(14,721,000)	(55,208,251)
	Transfers to Plastic Processing Fee Fund [Note 5]	(336,000)	(4,945,000)
	Total Transfers (C)	87,343,000	22,123,749
	Total Transfers and Receipts (B+C)	1,286,110,000	1,288,134,170
	Total Resources (D) = (A+B+C)	1,406,563,000	1,507,484,170
Expenditures [Note 6]			
Disbursements (CalRecycle)			
	California Refund Value [Note 7]	1,023,373,000	1,051,782,865
	Beverage Container Recycling Program Administration	39,898,000	47,704,000
	Handling Fees [Note 8]	46,318,000	51,053,958
	Curbside Supplemental Payments	15,000,000	15,000,000
	Local Conservation Corps Grants [Note 9]	20,643,000	13,474,000
	City/County Payments	10,500,000	10,500,000
	Beverage Container Recycling Grants	1,500,000	1,500,000
	Public Education and Information [Note 10]		2,500,000
	Quality Incentive Payments	9,600,000	10,000,000
	Plastic Market Development	10,000,000	10,000,000
	Pro Rata	5,053,000	
	Total Disbursements (CalRecycle) (E)	1,181,885,000	1,213,514,823
Disbursements (Other)			
	State Controller	1,000	
	Financial Information System for California (Fi\$cal) [Note 11]	5,327,000	41,000
	Total Disbursements (Other) (F)	5,328,000	41,000
	Total Expenditures (G) = (E+F)	1,187,213,000	1,213,555,823
FUND BALANCE (D-G) [Note 12]		219,350,000	293,928,347

Table 18: Glass Processing Fee Fund Condition Statement (Fund 0269)

California Department of Resources Recycling and Recovery (CalRecycle)				
Glass Processing Fee Fund Condition Statement (Fund 0269)				
Projected Revenues and Expenditures as of April 1, 2015				
			FY 2013-14	FY 2014-15
			Actual	Projected
				FY 2015-16
				Projected
Balance Forward			4,599,000	8,140,000
				9,531,991
Prior Year Adjustments			(1,496,000)	
Balance Adjusted (A)			3,103,000	8,140,000
				9,531,991
Revenues and Transfers				
Receipts				
Processing Fees			6,177,000	6,516,216
Other Income <i>[Note 3]</i>			5,733,000	34,000
Total Receipts (B)			11,910,000	6,550,216
Transfers				
Transfers from Beverage Container Recycling Fund <i>[Note 13]</i>			14,721,000	55,208,251
Repayment of General Fund Loan <i>[Note 14]</i>			39,000,000	
Total Transfers (C)			53,721,000	55,208,251
Total Transfers and Receipts (B+C)			65,631,000	61,758,467
Total Resources (D) = (A+B+C)			68,734,000	69,898,467
Expenditures				
Disbursements (CalRecycle)				
Processing Payments			60,346,000	60,322,476
Pro Rata				
Total Disbursements (CalRecycle) (E)			60,346,000	60,322,476
Disbursements (Other)				
Financial Information System for California (Fi\$cal) <i>[Note 11]</i>			248,000	44,000
Total Disbursements (Other) (F)			248,000	44,000
Total Expenditures (G) = (E+F)			60,594,000	60,366,476
FUND BALANCE (D-G)			8,140,000	9,531,991
				7,565,991

Table 19: Plastic Processing Fee Fund Condition Statement (Fund 0278)

California Department of Resources Recycling and Recovery (CalRecycle)						
Plastic Processing Fee Fund Condition Statement (Fund 0278)						
Projected Revenues and Expenditures as of April 1, 2015						
				FY 2013-14	FY 2014-15	FY 2015-16
				Actual	Projected	Projected
Balance Forward				9,210,000	24,841,000	6,921,917
Prior Year Adjustments				(798,000)		
Balance Adjusted (A)				8,412,000	24,841,000	6,921,917
Revenues and Transfers						
Receipts						
Processing Fees [Note 15]				4,646,000	5,786,282	5,786,282
Other Income [Note 3]				3,969,000	21,000	21,000
Total Receipts (B)				8,615,000	5,807,282	5,807,282
Transfers						
Transfers from Beverage Container Recycling Fund [Note 13]				336,000	4,945,000	20,154,000
Repayment of General Fund Loan [Note 14]				27,000,000		
Total Transfers (C)				27,336,000	4,945,000	20,154,000
Total Transfers and Receipts (B+C)				35,951,000	10,752,282	25,961,282
Total Resources (D) = (A+B+C)				44,363,000	35,593,282	32,883,199
Expenditures						
Disbursements (CalRecycle)						
Processing Payments [Note 16]				19,371,000	28,671,365	28,671,365
Pro Rata						
Total Disbursements (CalRecycle) (E)				19,371,000	28,671,365	28,671,365
Disbursements (Other)						
Financial Information System for California (Fi\$cal) [Note 11]				151,000		
Total Disbursements (Other) (F)				151,000		
Total Expenditures (G) = (E+F)				19,522,000	28,671,365	28,671,365
FUND BALANCE (D-G)				24,841,000	6,921,917	4,211,834

Table 20: Bimetal Processing Fee Fund Condition Statement (Fund 0277)

California Department of Resources Recycling and Recovery (CalRecycle)						
Bimetal Processing Fee Fund Condition Statement (Fund 0277)						
Projected Revenues and Expenditures as of April 1, 2015						
				FY 2013-14	FY 2014-15	FY 2015-16
				Actual	Projected	Projected
Balance Forward				15,305,000	16,300,000	17,281,776
Prior Year Adjustments				53,000		
Balance Adjusted (A)				15,358,000	16,300,000	17,281,776
Revenues and Transfers						
Receipts						
Processing Fees				1,282,000	1,426,686	1,426,686
Other Income				37,000	60,000	60,000
Total Receipts (B)				1,319,000	1,486,686	1,486,686
Transfers						
Transfers from Beverage Container Recycling Fund						
Total Transfers (C)				0	0	0
Total Transfers and Receipts (B+C)				1,319,000	1,486,686	1,486,686
Total Resources (D) = (A+B+C)				16,677,000	17,786,686	18,768,462
Expenditures						
Disbursements (CalRecycle)						
Processing Payments				375,000	504,910	504,910
Pro Rata						
Total Disbursements (CalRecycle) (E)				375,000	504,910	504,910
Disbursements (Other)						
Financial Information System for California (Fi\$cal) [Note 11]				2,000		
Total Disbursements (Other) (F)				2,000		
Total Expenditures (G) = (E+F)				377,000	504,910	504,910
FUND BALANCE (D-G)				16,300,000	17,281,776	18,263,552

Table 21: Penalty Account Fund Condition Statement (Fund 0276)

California Department of Resources Recycling and Recovery (CalRecycle)			
Penalty Account Fund Condition Statement (Fund 0276)			
Projected Revenues and Expenditures as of April 1, 2015			
		FY 2013-14	FY 2014-15
		Actual	Projected
			FY 2015-16
			Projected
Balance Forward		5,965,000	24,612,000
Prior Year Adjustments		(247,000)	
Balance Adjusted (A)		5,718,000	24,612,000
Revenues and Transfers			
Receipts			
Penalty Assessments [Note 17]		19,296,000	212,000
Other Income		13,000	18,000
Total Receipts (B)		19,309,000	230,000
Transfers			
Transfers		0	0
Total Transfers (C)		0	0
Total Transfers and Receipts (B+C)		19,309,000	230,000
Total Resources (D) = (A+B+C)		25,027,000	24,842,000
Expenditures			
Disbursements (CalRecycle)			
State Operations [Note 18]		415,000	1,015,000
Pro Rata		0	0
Total Disbursements (CalRecycle) (E)		415,000	1,015,000
Disbursements (Other)			
Financial Information System for California (Fi\$cal) [Note 11]			
Total Disbursements (Other) (F)		0	0
Total Expenditures (G) = (E+F)		415,000	1,015,000
FUND BALANCE (D-G)		24,612,000	23,827,000

Table 22: Projected Balances for all Program Funds in FY 2015-2016

Projected Balances for all Program Funds in FY 2015-16 as of April 1, 2015		
	Actual Assets	Projected Assets
	End of FY 2013-14	End of FY 2015-16
Fund Balances		
Beverage Container Recycling Fund (0133)	\$ 219,350,000	\$ 269,002,000
Glass Processing Fee Fund (0269)	\$ 8,140,000	\$ 7,566,000
Plastic Processing Fee Fund (0278)	\$ 24,841,000	\$ 4,212,000
Bi-Metal Processing Fee Fund (0277)	\$ 16,300,000	\$ 18,263,000
Penalty Account Fund (0276)	\$ 24,612,000	\$ 23,022,000
	\$ 293,243,000	\$ 322,065,000
Loan Repayment Balances		
Beverage Container Recycling Fund (0133)	\$ 82,277,000	\$ -
Glass Processing Fee Fund (0269)	\$ -	\$ -
Plastic Processing Fee Fund (0278)	\$ -	\$ -
	\$ 82,277,000	\$ -
Total Assets	\$ 375,520,000	\$ 322,065,000
Less, Prudent Reserves <i>[Note 19]</i>		
Beverage Container Recycling Fund (0133)	\$ 55,343,000	\$ 52,589,143
Glass Processing Fee Fund (0269)	\$ 3,030,000	\$ 3,016,124
Plastic Processing Fee (0278)	\$ 976,000	\$ 1,433,568
Bimetal Processing Fee Fund (0277)	\$ 19,000	\$ 25,246
Penalty Account Fund (0276)	\$ 21,000	\$ -
Reserve Requirement	\$ 59,389,000	\$ 57,064,081
Assets Available, All Funds	\$ 316,131,000	\$ 265,000,919

Appendix 1 Notes

[Note 1] – The FY 2013-2014 balance forward and prior year adjustment ties to the Governor’s Budget published in January 2015.

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

	FY 2013-2014 (Actual)	FY 2014-2015 (Estimated)	FY 2015-2016 (Projected)
Total Redemption Fees	\$1,212,200,000	\$1,272,181,726	\$1,272,181,726
Less 1.5% Administrative Fee	(\$18,183,000)	(\$19,082,726)	(\$19,082,726)
Net Redemption Fee Revenue	\$1,194,017,000	\$1,253,099,000	\$1,253,099,000

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

[Note 4] – General Fund and Department of Conservation loan repayments scheduled for FY 2013-2014, totaling \$94.4 million, have been completed. All remaining loans are scheduled to be paid in full in FY 2015-2016 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] – Expenditures section is derived primarily from the list of appropriations found in PRC Sections 14581 and 14581.1.

[Note 7] – California Refund Value, detailed in the table below, includes the 2.5 percent administrative fee paid to certified processors.

	FY 2013-2014 (Actual)	FY 2014-2015 (Estimated)	FY 2015-2016 (Projected)
Refund Value Paid	\$998,413,000	\$1,026,129,756	\$998,413,002
Plus 2.5% Administrative Fee	\$24,960,325	\$25,653,244	\$24,960,325
Total Refund Value Expenditure	\$1,023,373,325	\$1,051,783,000	\$1,023,373,327

[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 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). For the March 2013 to June 2014 reporting periods, the

per-container handling fee was \$0.0090. For FYs 2014-2015 and 2015-2016, the projected handling fee is based on a per-container handling fee of \$0.01035.

[Note 9] – Local Conservation Corps grants are annually adjusted for the cost of living from a baseline of \$20,974,000, which begins in FY 2014-2015. The source for the adjustment rate is:

http://www.dof.ca.gov/html/fs_data/latestEconData/fs_price.htm. The amounts shown are from the recycling fund only. The amount for FY 2015-2016 is the actual planned expenditure whereas the amount in the October 2014 report was an estimate. Amounts provided from other CalRecycle funds total \$7.5 million for FY 2014-2015 and \$15 million for FYs 2015-2016 and beyond.

[Note 10] – 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 11] – Assessments for “Fiscal” are anticipated to continue for the foreseeable future and are subject to change.

[Note 12] – 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 2015, the prudent reserve amounts to approximately \$58 million.

[Note 13] – 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 14] – Repayment of General Fund loan, scheduled in the Budget Act in FY 2013-2014, has been completed.

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

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

[Note 17] – Penalty assessment revenue includes the account receivable due to the department’s adoption of the decision of the Mission Fibers/Burbank Recycling case.

[Note 18] – Expenditure from fund 0276 used for eight limited-term positions to implement program reform activities specified in SB 96 (Chapter 356, Statutes of 2013).

[Note 19] – Fund 0133 based on PRC Section 14580(a)(2); all other funds based on 5 percent of expenditure.

Appendix 2 – Definition of Terms

Table 23: Definition of Terms

Term	Basis of Determination [Note 1]	Description
Breakeven Recycling Rate	Modified Accrual	Recycling rate where total expenditures from the Recycling Fund equals Redemption Fee revenue
Cash Balance	Cash	Cash immediately available to pay current operations measured as of the end of the last business day of the month or the beginning of the first business day of the following month
Fund Balance	Modified Accrual	Resources less total expenditures; resources includes all transfers between funds including loan repayments.
Proportional Reduction	Cash	Expenditure reductions for programs included in PRC Section 14581. Proportional Reduction is expressed as a percentage of full expenditure authority, and the reductions are determined based what is needed to maintain a Cash Balance that does not decrease below the Prudent Reserve. Proportional Reduction is scheduled to begin at the beginning of the fiscal year that the cash balance is forecasted to fall below the Prudent Reserve.
Prudent Reserve	Cash	5% of total cash paid to certified processors for California Refund Value and Processing Payments during the most recently completed calendar year plus the interest earned on that amount
Structural Deficit	Modified Accrual	An indicator of fund solvency calculated using one of two methods. For the Recycling fund, the Structural Deficit equals Redemption Fee revenue less the sum of total expenditures including transfers from the Recycling Fund to the Processing Fee Funds, also known as Processing Fee Offsets. For the combined Recycling Fund and Processing Fee Funds, Structural Deficit equals the sum of revenue from Redemption Fees and Processing Fees less total expenditures excluding non-reoccurring payments for Fi\$cal. Structural Deficit does not reflect one-time transfers such as loan repayments
<p>[Note 1] - Modified Accrual is the basis of accounting in which revenues are recognized if the underlying transaction has occurred as of the last day of the fiscal year, and the amount is measurable and available to finance expenditures of the current period (i.e., the actual collection will occur either during the current period or after the end of the current period, to be used to pay current year-end liabilities). Expenditures are recognized when the obligations are created, except for amounts payable from future fiscal year appropriations. This basis is generally used for the General Fund and special funds. Under the cash basis of accounting, revenues and expenditures are recognized only when cash is received or paid.</p>		

Appendix 3 – Program Reform Measures

Key reform measures are summarized on Table 24.

Table 24: Program Reform Measures

Category	Measure	Rulemaking Authority [Note 1]	Implementation Date
Improve Integrity	Develop a more robust certification application review and probationary process [Note 2]	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 [Note 2]	Emergency	Regulations effective Jan 1, 2014
	Mandate program participants use the Division of Recycling Integrated Information System (DORIIS) [Note 2]	Regular	Anticipated effective date of regulations Jul 1, 2015 [Note 3]
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 [Note 4]	Emergency	Regulations Effective Jan 13, 2014
	Discontinue beverage container redemption of consumer loads based on the commingled rate at certified recycling centers [Note 2]	Regular [Note 5]	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	Conduct retailer self surveys to identify products sold in California where Redemption Fees have not been paid	Implemented under existing statute and regulation	In progress
	Identify previously unknown beverage distributors and manufacturers from CRV labeled containers sampled during rate determination surveys	Implemented under existing statute and regulation	In progress
	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
	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 98% of certified recyclers and processors are using DORIIS			
[Note 4] - Statutory Authority: AB 1933 (Chapter 540, Statutes of 2012)			
[Note 5] - Workshops for amending existing regulations in order to clarify the provisions of SB 96 began in March 2014			

Overall, even if the existing reform measures continue to provide the same level of benefit to the recycling program as has been observed during the recent short period following implementation, CalRecycle believes the combination of all reform measures outlined in Table 24 will not be sufficient to eliminate the existing ongoing structural deficit. Absent additional measures, proportional reduction will be needed in the future to ensure long-term Fund solvency.