

Request for Approval

To: **Karen Kayfetz**
Acting Deputy Director
Division of Circular Economy

From: **Michelle Martin**
Branch Chief
Financial Resources Management Branch

Request Date: **August 5, 2024**

Decision Subject: Approval of the California Used Oil Recycling Fund Three-Year Spending Plan (FY 2024–25 to FY 2026–27)

Action By: **August 20, 2024**

Summary of Request

Staff requests approval of the California Used Oil Recycling Fund Three-Year Spending Plan for FYs 2024–25, 2025–26 and 2026–27. The California Oil Recycling Enhancement Act (Act) mandates expenditure of revenues generated from a fee of six cents per quart on lubricating oil sold in California. CalRecycle staff propose a three-year spending plan that outlines continued support for local jurisdictions' used oil and filter recycling efforts. According to and as directed by statute, payments to local governments have been reduced as the fund balance is drawn down. The fund balance drawdown is expected to continue due to decreased revenues as electric vehicle use increases. The reduction in local government payments will help to extend the life of the Oil Fund.

Background and Analysis

Statutory Authority

Assembly Bill 2076 (Sher, Chapter 817, Statutes of 1991) established a comprehensive used oil recycling program to reduce the effects of improper disposal by encouraging the recycling of used oil that must be managed as a hazardous waste in California. The Act established a manufacturer fee and recycling incentive system to fund various activities that encourage generators, including do-it-yourselfers, to recycle their used oil.

Program Background

Since the enactment of the Act, CalRecycle has implemented a successful used oil recycling program (Program) resulting in a robust infrastructure for collecting and handling used oil. Statute and the annual State Budget set forth specific mandated funding priorities for the Program, including payments to certified collection centers, Local Conservation Corps, local jurisdictions via the Oil Payment Program (OPP), and specified state agencies (see Table 1 below). These are structured to ensure that core program responsibilities are met (e.g., payments to collection centers, minimum OPP payments, program administration).

CalRecycle also has discretion to use revenue remaining after the mandatory expenses are made to fund projects to further the intent of the Act (e.g., competitive grants, contaminated oil claims, re-refined oil claims, contracts).

A major focus of the Program is support for local jurisdictions' used oil and filter recycling programs through the Oil Payment Program (OPP). This is a per capita payment program to provide resources to establish and operate programs at the local and/or regional level. Funds are typically used for collection infrastructure such as the establishment of new certified collection centers, used oil recycling costs, used oil filter collection programs, and innovative public education and outreach programs.

Fund Status

The six cent per gallon fee on all lubricating oil sold in California generates approximately \$21 million annually. This is projected to decrease slightly in the next five years, though this may be changed by the increase in the adoption of electric vehicles. Statutorily mandated expenses are projected to be \$15.7 million annually for the same time frame, although personnel costs are likely to rise slightly. The amount available for discretionary expenses will drop as the reserve is depleted, and the \$11 million for OPP cannot be fully funded. Under these circumstances, statute allows for CalRecycle to fund OPP at a lower level.

Staff proposed a reduction to OPP funding to \$6 million starting in FY 2018–19 to preserve Fund levels, and staff continues to support this reduction. This projection is based on conservative estimates of revenues and liberal estimates of expenditures. Thus, the need for reduction and the amount of any reduction will be determined as staff prepare budgets for upcoming fiscal years. Staff will monitor and provide updates as budget information becomes available.

In the interim, staff are not pursuing any new contracts or other expenditures that will place a draw on the fund. Support and resources for local government programs, certified collection centers, and the Local Conservation Corps are paramount and continue to be the focus of CalRecycle's efforts. Statute also directs CalRecycle to provide funds to program participants to cover expenses related to the management of a contaminated load of used motor oil, and to make payments to processors for re-refined base lubricant produced from used oil generated and collected in California. CalRecycle is no longer hosting the biennial Used Oil Symposium and will instead provide support to Household Hazardous Waste Information Exchange (HHWIE) events by assisting with remote participation for events every other year. The only other discretionary spending proposed is continuing the claims for contaminated and re-refined oil.

Future Efforts

As mentioned above, given the status of the fund, CalRecycle will not pursue contracts, competitive grants, or most other discretionary expenditures at this time. With existing resources, staff will continue to work towards identifying and making available, information and data to assist local jurisdictions and other program participants to further used oil collection in California. This will include examining trends in lubricating oil use and emerging automotive technologies that may have effects on the sale of new lubricating oil and the

recycling of used oil. Staff also will work with jurisdictions to identify new and innovative programs that can be replicated to provide cost savings and improve overall Program efficiencies.

Table 1: Projected Spending Plan

	FY 24/25	FY 25/26	FY 26/27
Beginning Balance	\$ 33,487,181	\$ 32,763,661	\$ 31,237,575
Revenue (oil fee)	\$ 21,797,000	\$ 21,494,000	\$ 21,168,000
Revenue (interest+delinquent fees+escheat)	\$ 401,000	\$ 401,000	\$ 401,000
TOTAL REVENUE	\$ 55,685,181	\$ 54,658,661	\$ 52,806,575
EXPENDITURES			
Mandatory Expenditures			
Personnel & Operating Expenses	\$ 6,779,520	\$ 7,254,086	\$ 7,761,872
Used Oil Collection Payments (PRC 48651)	\$ 5,768,000	\$ 5,768,000	\$ 5,768,000
Farm and Ranch Grants Transfer (PRC 48653)	\$ 266,000	\$ 266,000	\$ 266,000
DTSC Contract (PRC 48653)	\$ 350,000	\$ 350,000	\$ 350,000
Local Conservation Corps Grants (PRC 17001)	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000
DTSC (PRC 48653 b) & OEHHA Agreements	\$ 508,000	\$ 508,000	\$ 508,000
State Conservation Corp Contract	\$25,000	\$ 25,000	\$25,000
Supplemental Pension Payments	\$ 122,000	\$ 122,000	\$ 122,000
ProRata	\$ 303,000	\$ 303,000	\$ 303,000
MANDATORY EXPENDITURES TOTAL	\$16,121,520	\$16,596,086	\$ 17,103,872
Balance: Revenue minus Mandatory Expenses	\$39,563,661	\$38,062,575	\$35,702,703
Discretionary Expenditures			
Re-refined Oil Payments	\$ 600,000	\$ 600,000	\$ 600,000
Contaminated Used Oil Payments	\$ 200,000	\$ 200,000	\$ 200,000
HHWIE Assistance		\$ 22,470	
Amount Proposed for OPP	\$ 6,000,000	\$ 6,000,000	\$ 6,000,000
<i>Minimum OPP (not to exceed \$11,000,000, per statute)</i>	<i>\$ 11,000,000</i>	<i>\$ 11,000,000</i>	<i>\$ 11,000,000</i>
DISCRETIONARY EXPENDITURES TOTAL	\$ 6,800,000	\$ 6,825,000	\$ 6,800,000
TOTAL EXPENDITURES	\$ 22,921,520	\$ 22,421,086	\$ 22,903,872
FUND BALANCE	\$ 32,763,661	\$ 31,232,575	\$ 28,902,703
<i>Statutory Reserve (PRC 48653)</i>	<i>\$ 1,000,000</i>	<i>\$ 1,000,000</i>	<i>\$ 1,000,000</i>

3% Contingency Reserve	\$ 1,004,615	\$ 982,910	\$ 937,127
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NOTE: A reserve was built with increases to fees pursuant to SB 546 (Lowenthal, Chapter 235, Statutes of 2009) and is reflected in the beginning balances.

Recommendation

Staff recommends approval of the proposed California Used Oil Recycling Fund Three-Year Spending Plan (FY 2024–25 to FY 2026–27).

Deputy Director Action

On the basis of the information and analysis in this Request for Approval and the findings set out herein, I hereby approve the proposed California Used Oil Recycling Fund Three-Year Spending Plan (FY 2024–25 to FY 2026–27).

Karen Kayfetz
Acting Deputy Director

Dated