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Overview of the Beverage Container Recycling Fund

LEGISLATIVE ANALYST'S OFFICE

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Hon. Joe Simitian, Chair





Fundamentals of the Beverage Container Recycling Program

Beverage Container Recycling Program Coverage			
	Container Type	Beverage Type	Container Size
Covered in Program	Glass	Soda	24 oz or less—5 cent CRV
	Plastic (all resin types)	Water	24 oz to 64 oz—10 cent CRV
	Aluminum	Sports drinks	
	Bi-metal	Fruit juice	
		Beer	
Not Covered in Program	Aseptic	Wine	64 oz or more
	Foil pouches	Distilled spirits	
	Styrofoam	Milk	
		Vegetable juices	
		Soy drinks	

CRV = California Redemption Value.



Program Covers Most Beverage Container Types. As shown in the figure above, the Beverage Container Recycling Program (Program) covers most disposable beverage containers sold in the state. The Program encourages the voluntary recycling of most beverage containers by guaranteeing a minimum payment (termed a California Redemption Value [CRV]) for each container returned to certified recyclers.



Recycling Rate Was 85 Percent in 2009-10. In budget year 2009-10, over 21 billion containers covered by the Program were sold and 17 billion were recycled, reflecting an 85 percent recycling rate.



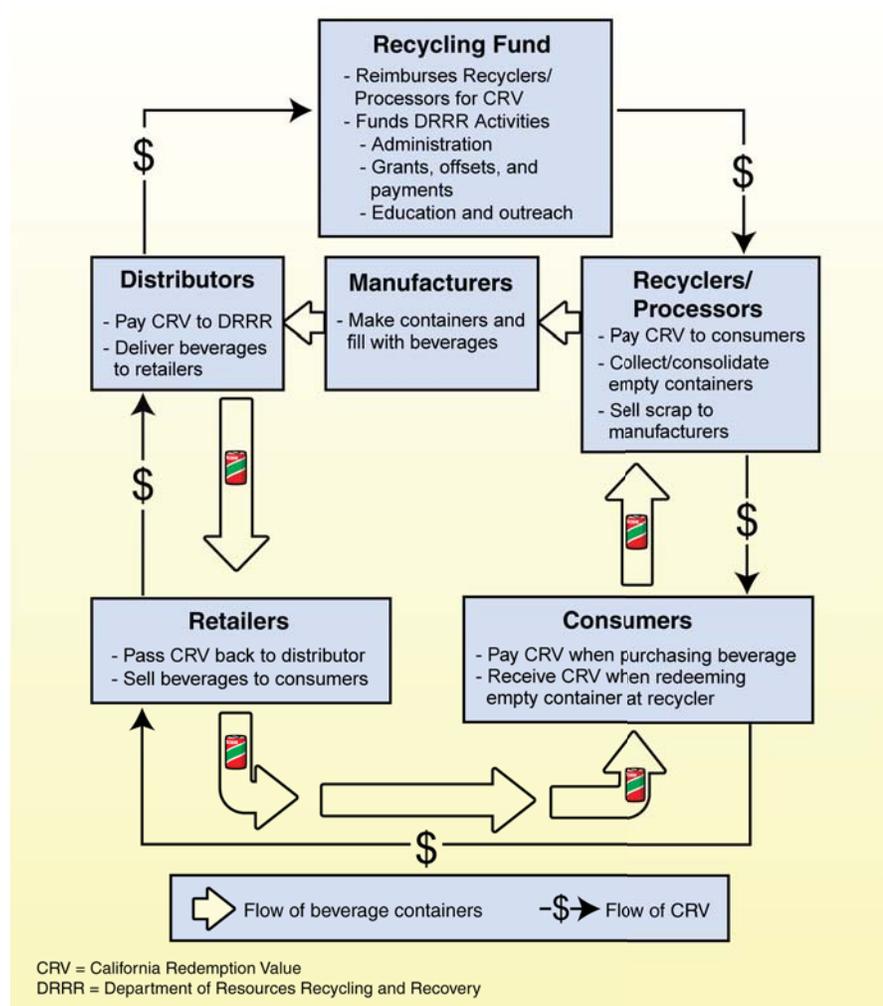
Fundamentals of the Beverage Container Recycling Program *(Continued)*

- CRV is the Primary Source of Funding in the Beverage Container Recycling Fund (BCRF).*** For each beverage container subject to the CRV that they sell to retailers, distributors make redemption payments that are collected by Department of Resources Recycling and Recovery (DRRR) and deposited into the BCRF. This CRV cost is typically passed on to retailers who collect the CRV from consumers for each applicable beverage container sold. Consumers can recoup the cost of the CRV they paid at the time of purchase by redeeming empty recyclable beverage containers at a recycler. Recyclers/processors are in turn reimbursed by DRRR for redeemed CRV.

- Expenditures From BCRF.*** The BCRF's expenditures fit into two main categories: (1) CRV reimbursements to recyclers/processors and (2) program expenses (including for administration, grant programs, and education and outreach) that are funded from unredeemed CRV.

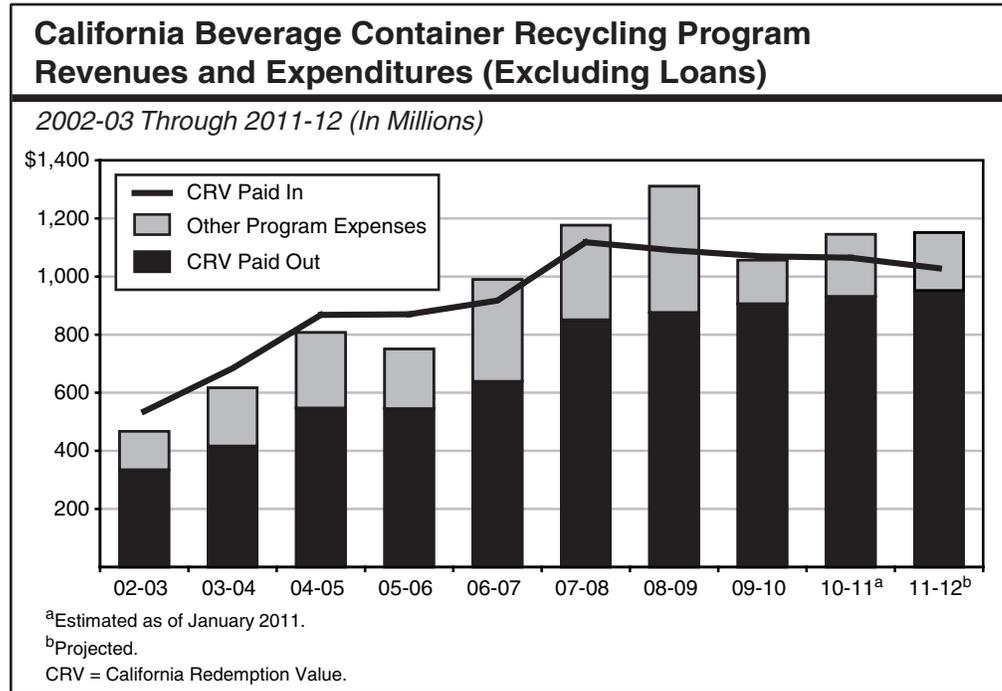


Operation and Funding of The Beverage Container Recycling Program





The BCRF Continues to Have a Structural Deficit





One-Half of Loans From the BCRF Will Be Repaid by 2011-12

Loans From the Beverage Container Recycling Fund (BCRF)				
<i>(In Millions)</i>				
Special Fund Making Loan	Date of Loan	Loan Amount	Final Repayment Date^a	Terms of Loan
Loans to General Fund				
BCRF	FY 2002-03	\$188	6/30/2013	Original loan amount was for \$218 million, but DOC could only accommodate a loan of \$188 million.
BCRF	FY 2003-04	98	6/30/2013	
BCRF	FY 2009-10	99	6/30/2013	Original loan amount was for \$45 million, but DOC could only accommodate a loan of \$27 million.
PET Processing Fee Account ^b	FY 2003-04	27	6/30/2012	
Glass Processing Fee Account ^c	FY 2003-04	39	6/30/2012	
Subtotal		<u>(\$452)^d</u>		
Loans to Air Pollution Control Fund				
BCRF	FY 2008-09	\$32	6/30/2013	One-third of the loan is to be repaid on or before June 30, 2011.
BCRF	FY 2009-10	35	6/30/2014	One-third of the loan is to be repaid on or before June 30, 2012.
Subtotal		<u>(\$67)^e</u>		
Total Loans		\$519		

^a Reflects amended repayment dates when applicable.
^b Sub-account of BCRF used to subsidize Polyethylene terephthalate (PET) recycling.
^c Sub-account of BCRF used to subsidize glass recycling.
^d Of this amount, \$216 million is scheduled to be repaid by the end of 2011-12.
^e Of this amount, \$42 million is scheduled to be repaid by the end of 2011-12.

FY = fiscal year and DOC = Department of Conservation.



Recent Legislative Action Sought to Restore Solvency to the BCRF



The Legislature Took Action During the 2010 Special Session to Ensure the Fund Remained Solvent.

The Legislature passed—and the Governor signed—Chapter 5, Statutes of 2010 (ABX8 7, Evans) during the 2010 special session to address shortfalls in the BCRF in 2009-10 and 2010-11. Specifically, Chapter 5 contains provisions that:

- Accelerate the collection of CRV revenues.
- Caps or suspends some program expenditures.
- Restricts future borrowing from the BCRF.



The Future Solvency of the BCRF

- Increasing Recycling Rates Increase Potential for Fund Imbalance.*** Higher recycling rates reduce the amount of unredeemed CRV to fund program expenses, potentially leading to a structural deficit. The “breakeven” recycling rate where expenditures equal revenues is about 72 percent. The recycling rate has increased from 60 percent in 2005-06 to 85 percent in 2009-10. The department projects that the recycling rate will continue to trend upward in the coming years.

- The DRRR Projects BCRF Will Become Insolvent in 2014-15, Absent Corrective Action.*** The BCRF is currently operating with a structural deficit (operating expenditures exceed revenues by around 13 percent), but remains solvent mainly due to repayments into the fund, scheduled through 2013-14, in respect of previous loans made from BCRF to the General Fund and other special funds. The DRRR estimates that about \$90 million of the Program’s spending in each of 2012-13 and 2013-14 will be covered by these loan repayments. The BCRF’s reserves will ultimately be depleted, and the fund is projected to face insolvency in 2014-15, absent corrective action.



Options for Long-Term BCRF Solvency



There are two basic ways (which could be combined) to bring the BCRF into balance over the long term:

- **Revenue Options.** Various proposals have been made over time that involve increasing the revenues into the BCRF. For example, the administration has previously proposed the enactment of a nonrefundable consumer fee for plastic and glass beverage containers. The policy thinking behind this fee is that it would make consumers (1) pay more to purchase beverage containers that are expensive to recycle or (2) shift their purchases to containers that are less expensive to recycle. Such incentives are lacking under the current program structure. In our view, fundamental structural changes to the program such as this one are appropriately considered in the legislative policy process.
- **Expenditure Options.** Changes could be made that serve to reduce the amount of payments from the BCRF as a means of bringing the fund into balance. For example, the administration previously proposed changes (which we recommended be approved) to Convenience Zone recycling center requirements that would serve to reduce the amount of per-container handling fee payments that are made from BCRF.