

January 21, 2010

Beverage Container Recycling Program: The Governor's Special Session Proposals

LEGISLATIVE ANALYST'S OFFICE

Presented to:

Senate Budget and Fiscal Review Committee

Hon. Denise Moreno Ducheny, Chair





The Governor's Budget Seeks to Restore Core Funding, Implement Long-Term Reforms

- Three Main Components.** The Governor's proposal has three elements to address recent program reductions in the Beverage Container Recycling Program that were necessitated by a structural deficit in the Beverage Container Recycling Fund (BCRF):
- Partial repayment by the General Fund in the current and budget years of loans made from BCRF.
 - Restructuring of payments from the fund in the short term.
 - Long-term structural reform of the program.



Since July 2009, Beverage Container Recycling Program Has Faced Severe Cuts

- ☑ **Actions Taken to Avoid Deficit.** Acting under its existing statutory authority, the Department of Conservation's Division of Recycling, now part of the new Department of Resource Recovery and Recycling (DRRR), has reduced expenditures from BCRF to avoid a projected fund deficit of \$157 million.

- ☑ **Program Cuts.** Major impacts of the program cuts include:
 - No per container handling payments are to be paid to Convenience Zone Recyclers.
 - Beverage manufacturers have paid around \$50 million more into the program, reflecting a lower contribution from BCRF in payments to recyclers.
 - Overall payments to recyclers (made to reflect a higher cost of recycling over a material's scrap value) have been reduced by about 15 percent.
 - Most grant and market development programs (that rely on unredeemed California Redemption Value (CRV) revenues as their source of funding) have been reduced to zero.



Fund Deficit Exacerbated by Loans to the General Fund and Other Special Funds

Loans From the Beverage Container Recycling Fund					
<i>(Dollars in Millions)</i>					
Special Fund Making Loan	Date of Loan	Loan Amount	Original Repayment Date	Amended Repayment Date	Terms of Loan
Loans to General Fund					
BCRF	FY 02-03	\$188	June 30, 2009	June 30, 2013	Original authorized loan amount was for \$218 million, but DOC could only accommodate a loan of \$188 million.
BCRF	FY 03-04	98	June 30, 2009	June 30, 2013	
BCRF	FY 09-10	99	June 30, 2013	—	
PET Processing Fee Account ^a	FY 03-04	27	June 30, 2009	June 30, 2012	Original authorized loan amount was for \$45 million, but DOC could only accommodate a loan of \$27 million.
Glass Processing Fee Account ^b	FY 03-04	39	June 30, 2009	June 30, 2012	
Subtotal		\$452			
Loans to Air Pollution Control Account					
BCRF	FY 08-09	32	June 30, 2013		One-third of the loan is to be repaid on or before June 30, 2011. One-third of the loan is to be repaid on or before June 30, 2012.
BCRF	FY 09-10	35	June 30, 2014		
Subtotal		\$67			
Total Loans		\$519			

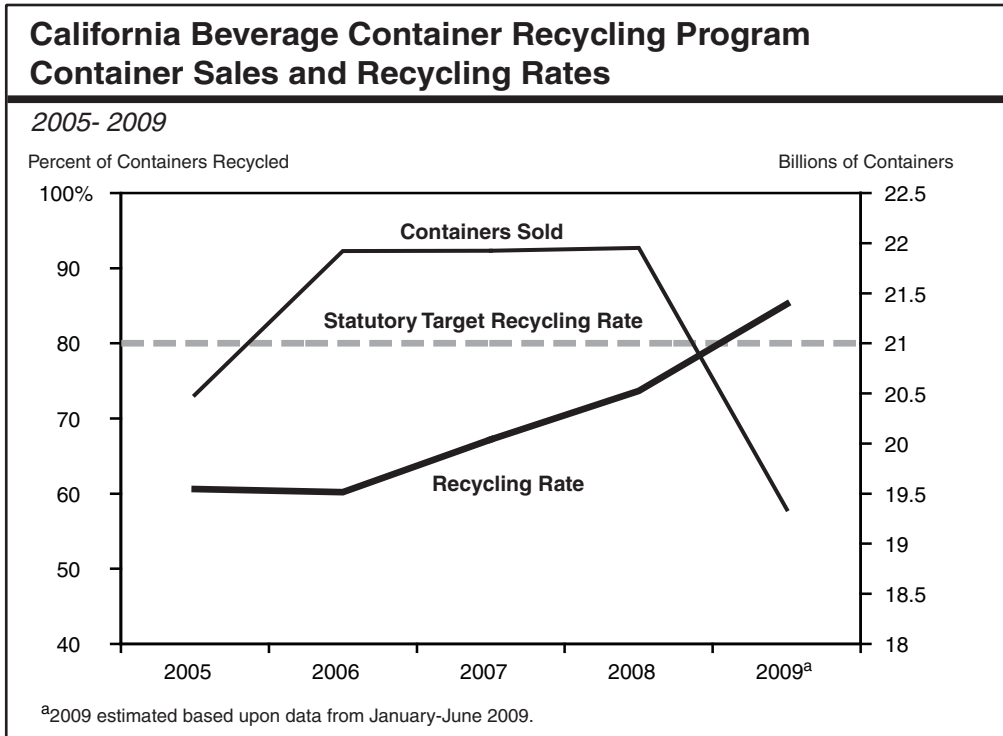
^a Sub-account of the Beverage Container Recycling Fund used to subsidize polyethylene terephthalate (PET) recycling.

^b Sub-account of the Beverage Container Recycling Fund used to subsidize glass recycling.

BCRF = California Beverage Container Recycling Fund; FY = fiscal year.



Deficit Exacerbated by Declining Container Sales and Increasing Recycling Rates





Governor's Budget Proposals



Loan Repayments. The Governor's budget proposes partial repayments of loans made from the BCRF to the General Fund and other special funds:

- From the General Fund, repayment of \$55 million in the current year and \$98 million in the budget year, to be used to reduce beverage manufacturers' contribution towards funding payments to recyclers.
- From the Air Pollution Control Account (a fund administered by the California Air Resources Board, for the implementation of AB 32 and air quality regulatory programs), \$21 million in the budget year.



Program Changes. The Governor proposes statutory changes to restructure payments into and from BCRF. He proposes to:

- Eliminate all continuously appropriated funding (\$120 million annually), including funding for curbside programs and local conservation corps.
- Create an annually appropriated grant program administered by the DRRR.
- Accelerate by one month the submittal to the fund of the CRV revenues collected by beverage distributors.



Partial Restoration of Current-Year Program Expenditures



Full Payments for Six Months. Under the Governor's proposal, full payments to all program recipients would be made for the last six months of the current fiscal year. That is, program recipients would get payments over this time period at the level prior to the recent program cuts.

Beverage Container Recycling Fund Under Current Law and the Governor's Proposal			
<i>(In Millions)</i>			
Selected Payments and Expenditures	Full-Funding Level	Current Law / Budget	Governor's Proposal
Processing Payments to Recyclers	\$120.0	\$110.0	\$110.0
BCRF contribution	(100.0)	(30.0)	(55.0)
Payments from manufacturers	(20.0)	(80.0)	(55.0)
Handling Payments to Recyclers	49.0	2.5	27.0
Total Payments to Recyclers	\$169.0	\$112.5	\$137.0
Programs			
Curbside program	\$15.0	\$0.7	\$8.0
Local Conservation Corps ^a	19.0	1.0	9.0
Payments to cities and counties	11.0	0.5	5.0
Grants—competitive	2.0	0.1	1.0
Public education and information	5.0	0.2	3.0
Quality incentive payments	15.0	0.7	8.0
Market development grants	20.0	1.0	10.0
Recycler incentive program	10.0	0.2	5.0
Plastics market development	5.0	0.2	3.0
Other grants	15.0	0.4	8.0
Total Programs	\$116.0	\$5.0	\$58.0

^a Does not reflect \$8.25 million of additional funding for local conservation corps authorized in the 2009-10 Budget Act funded from a loan from the Alternative and Renewable Fuel and Vehicle Technology Fund.

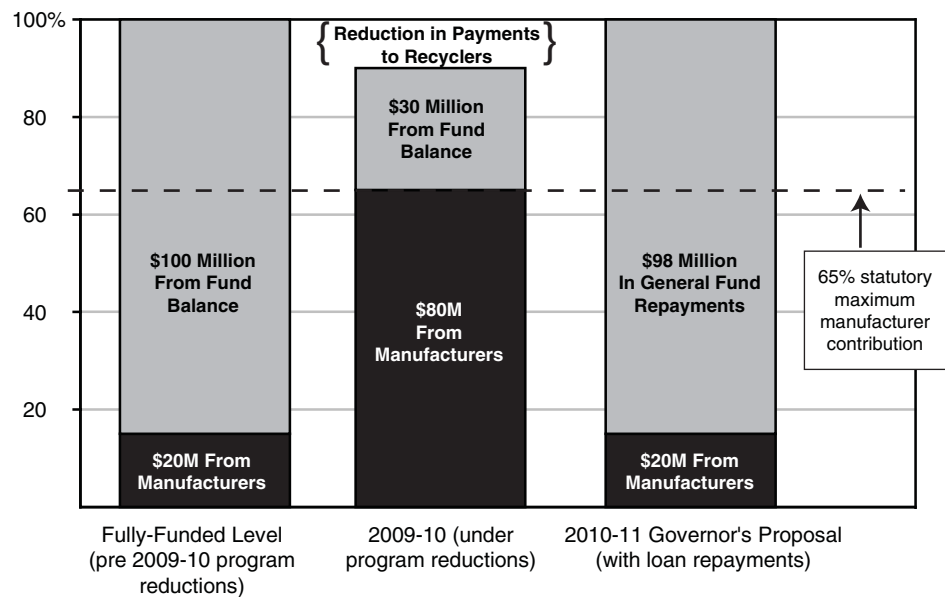
BCRF = California Beverage Container Recycling Fund.



Proposed Use of Budget-Year Loan Repayments from General Fund

California Beverage Container Recycling Program: General Fund Repayments Proposed Under Governor's Budget

Percent of Full Payments to Recyclers^a



^aFull payments to recyclers represent payments that cover the difference between the cost of recycling and the scrap value of the material.



Governor's Long-Term Proposals for the Beverage Container Recycling Program

- Changes Beginning in 2014.*** The proposed budget contains a proposed change to the structure of the program to be implemented beginning 2014. Under this proposal, consumers would pay an additional, non-refundable fee per container that is equivalent to the cost of recycling. This per container fee would be separately identified to the consumer at the point of sale.



Recommended Actions for Current Year

- ☑ ***Disapprove General Fund Loan Payment.*** Given the state's current fiscal situation, we find that the \$55 million repayment from the General Fund in the current year is not sufficiently essential to BCRF-funded programs and should not be made.

- ☑ ***Approve Acceleration of Payments.*** The DRRR estimates that accelerating the submittal of collected CRV revenues would increase the fund balance by \$100 million in the current year. We recommend that the Legislature approve the proposed statutory change and that the additional revenues be used to:
 - Make operators of recycling centers and convenience zones "whole" for the current year by not only fully funding the remaining six months, but also repaying funding that was not met from July to December of 2009.
 - Fund other program expenditures in line with the Legislature's current recycling program priorities.

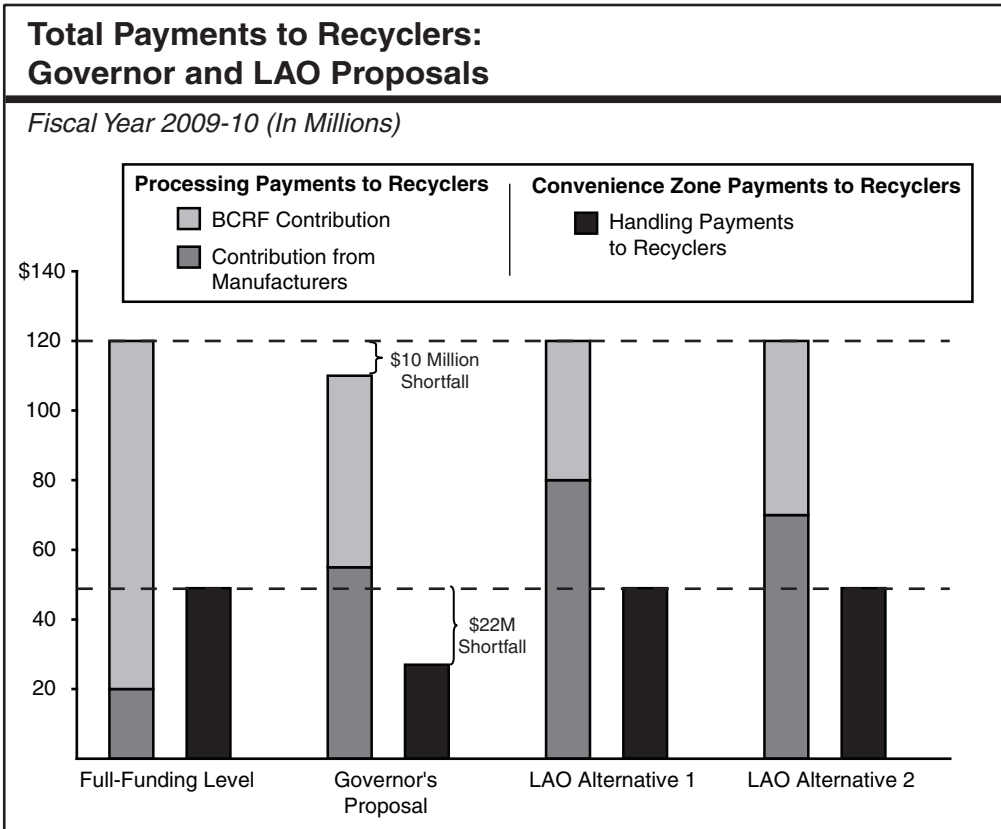


LAO Alternative for Current Year

Current-Year Alternatives for Beverage Container Recycling Fund					
<i>(In Millions)</i>					
Selected Payments and Expenditures	Full-Funding Level	Current Law/Budget	Proposals		
			Governor's	LAO Alternative (1)	LAO Alternative (2)
Processing Payments to Recyclers	\$120.0	\$110.0	\$110.0	\$120.0	\$120.0
BCRF contribution	(100.0)	(30.0)	(55.0)	(40.0)	(50.0)
Payments from manufacturers	(20.0)	(80.0)	(55.0)	(80.0)	(70.0)
Handling Payments to Recyclers	49.0	2.5	27.0	49.0	49.0
Total Payments to Recyclers	\$169.0	\$112.5	\$137.0	\$169.0	\$169.0
Programs					
Curbside Program	\$15.0	\$0.7	\$8.0	\$2.5	—
Local Conservation Corps ^a	19.0	1.0	9.0	3.2	\$5.0
Payments to cities and counties	11.0	0.5	5.0	1.7	—
Grants—competitive	2.0	0.1	1.0	0.2	—
Public education and information	5.0	0.2	3.0	0.8	—
Quality incentive payments	15.0	0.7	8.0	2.5	4.0
Market development grants	20.0	1.0	10.0	3.3	—
Recycler incentive program	10.0	0.2	5.0	1.7	—
Plastics market development	5.0	0.2	3.0	0.8	—
Other grants	15.0	0.4	8.0	2.5	—
Total Programs	\$116.0	\$5.0	\$58.0	\$19.0	\$9.0
LAO Alternative (1)					
No General Fund loan repayment. Statutory change to reimburse recyclers for all lost payments in current year. Allocate all other funding proportionally (83 percent reduction to payments). Statutory change to accelerate one month of California Refund Value (CRV).					
LAO Alternative (2)					
No General Fund loan repayment. Statutory change to reimburse recyclers for all lost payments in current year. Additional statutory change to allocate available funding to Legislative priorities. Statutory change to accelerate one month of CRV payments.					
^a Does not reflect \$8.25 million of additional funding for local conservation corps authorized in 2009-10 Budget Act funded from a loan from the Alternative and Renewable Fuel and Vehicle Technology Fund.					
BCRF = California Beverage Container Recycling Fund.					



LAO Alternative Would Make Recyclers “Whole”





Budget Year Program Reforms Do Not Need to Be Considered in Special Session

- Governor's Proposal May Have Merit.*** We recognize the Administration's efforts to reform the program and bring program expenditures under the oversight of the annual budget process. However, given that no legislative action is needed in special session to implement the budget year solution, we recommend that it be considered through the regular spring budget process.

- Fund Balance Projections May Change Significantly.*** The BCRF balances used in the Governor's proposal are based on September 2009 projections. Given that, and the acknowledged shortcomings in DRRR's forecasting methodology, decisions made for the budget year in special session will be based on information that may change significantly. Considering the proposal in the regular session will allow DRRR to provide the Legislature with the most up-to-date information possible.

- Do Not Make Loan Repayment in the Budget Year.*** Again, given the state's fiscal situation, we would recommend that the Legislature does not act to partially repay the loan to the General Fund Loan in the budget year. However, funds will not be available to run the program at pre-2009 levels and so the Legislature will be required to undertake significant program changes in the budget year.



Long-Term Changes to the Program Should Be Considered in the Policy Process

- ☑ ***Consider Changes in Policy Legislation.*** The administration's efforts to reform the program in the long run have merit in concept. However, as there are many different potential program models that could be applied to make the program more effective and efficient, we recommend that these major proposed policy reforms be evaluated more thoroughly in the legislative policy process.