

Overview of the Beverage Container Recycling Fund

LEGISLATIVE ANALYST'S OFFICE

Presented to:

Assembly Budget Subcommittee No. 3

On Resources and Transportation

Hon. Richard S. Gordon, Chair





Background

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

CRV = California Redemption Value.

- ☑
Program Covers Most Beverage Container Types. As shown in the figure above, the Beverage Container Recycling Program (BCRP) covers the majority of disposable beverage containers sold in the state. The BCRP encourages the voluntary recycling of certain 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 2010-11. In 2010-11, over 20 billion containers covered by the BCRP were sold and about 17 billion were recycled, reflecting an 85 percent recycling rate.



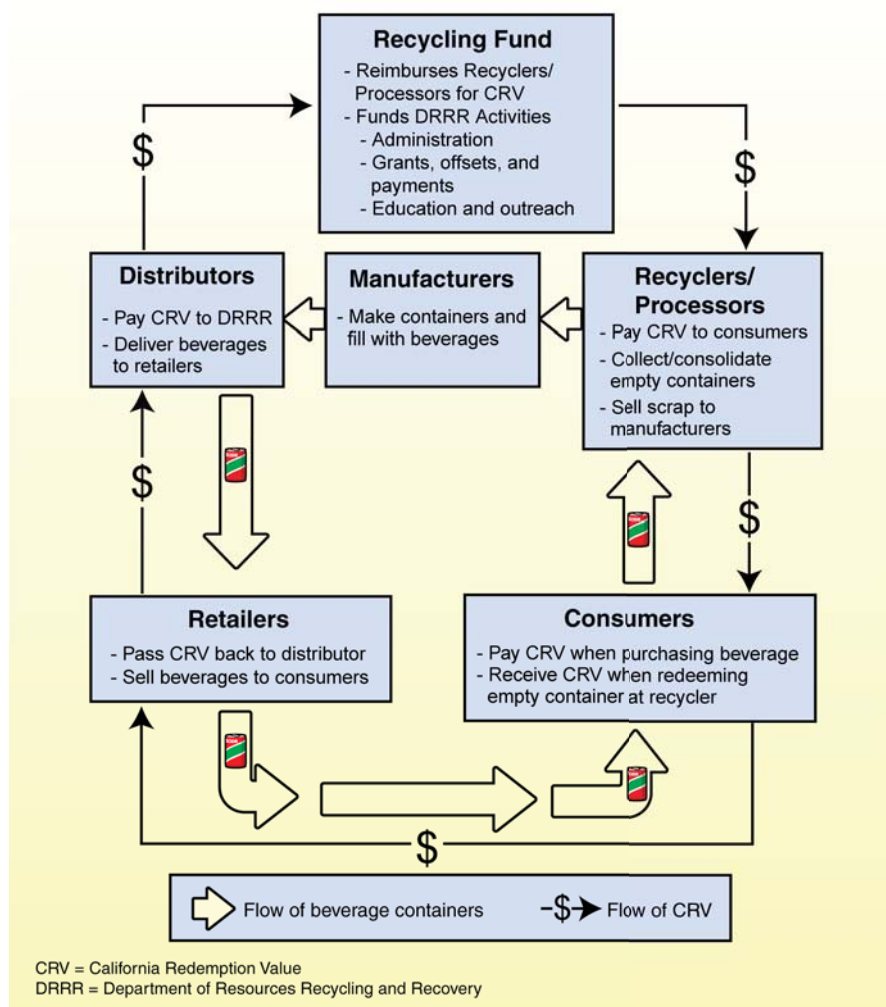
Background

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

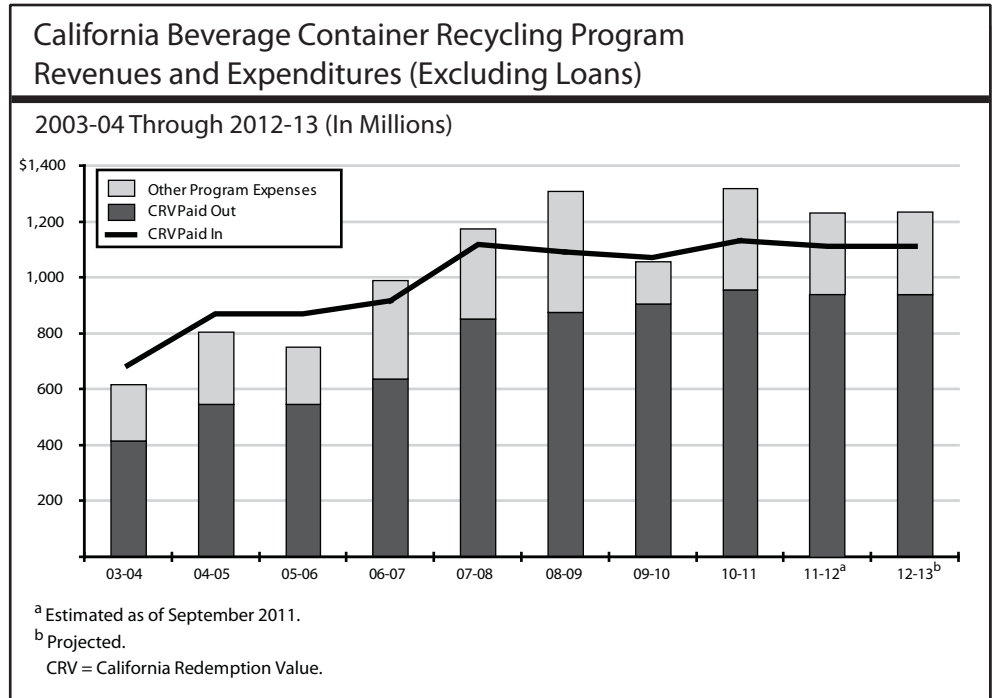
 - Expenditures From BCRF.*** The BCRF's expenditures fit into two main categories: (1) CRV reimbursements to recyclers and (2) program expenses (including for administration, grant programs, and education and outreach) that are funded from unredeemed CRV.

Operation and Funding





The BCRF Continues to Have a Structural Deficit





Recent Legislative Action to Restore Solvency

- The Legislature passed—and the Governor signed—Chapter 5, Statutes of 2010 (ABX8 7, Evans), 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.



However, Solvency of the BCRF Continues to Be an Issue

- ☑ ***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 58 percent in 2003-04 to 85 percent in 2010-11.

- ☑ ***BCRF Projected to Be Insolvent in 2014-15, Absent Corrective Action.*** The BCRF is currently operating with a structural deficit (operating expenditures exceed revenues by around 12 percent), but remains solvent mainly due to the repayments of loans made from BCRF to the General Fund. The DRRR estimates that about \$100 million of the program’s spending in 2012-13 and \$70 million 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.



Most Loans From the BCRF Will Be Repaid by 2012-13

Outstanding Loans From the Beverage Container Recycling Fund				
<i>(In Millions)</i>				
Special Fund Making Loan	Date of Loan	Remaining Loan Amount	Repayment Date^a	Terms of Loan
Loans to General Fund				
Beverage Container Recycling Fund	Fiscal Year 2003-04	\$72.0	June 30, 2013	Original loan amount was for \$98.3 million, but \$26 million was repaid in 2011.
Beverage Container Recycling Fund	Fiscal Year 2009-10	99.0	June 30, 2013	
PET Processing Fee Account ^b	Fiscal Year 2003-04	27.0	June 30, 2014	Original loan amount was for \$45 million, but DOC could only accommodate a loan of \$27 million.
Glass Processing Fee Account ^c	Fiscal Year 2003-04	39.0	June 30, 2014	
Subtotal		<u>(\$238.0)^d</u>		
Loans to Air Pollution Control Account				
Beverage Container Recycling Fund	Fiscal Year 2008-09	\$8.4	June 30, 2013	Original loan amount was for \$32 million, but \$23.6 million has been repaid.
Beverage Container Recycling Fund	Fiscal Year 2009-10	16.0	June 30, 2014	Original loan amount was for \$435 million, but \$19 million has been repaid.
Subtotal		<u>(\$24.4)^e</u>		
Total		\$262.4		

^a Reflects amended repayment dates when applicable.
^b Subaccount of the Beverage Container Recycling Fund used to subsidize Polyethylene terephthalate (PET) recycling.
^c Subaccount of the Beverage Container Recycling Fund used to subsidize glass recycling.
^d Of this amount, \$171 million is scheduled to be repaid by the end of 2012-13.
^e Of this amount, \$18 million is scheduled to be repaid by the end of 2012-13.
 DOC = Department of Conservation.



Options for Long-Term BCRF Solvency

- Revenue Options.** Changes could be made to increase the revenues into the BCRF. For example, a nonrefundable consumer fee could be imposed on certain plastic and glass beverage containers. This would make consumers (1) pay more to purchase beverage containers that are more expensive to recycle or (2) potentially shift their purchases to containers that are less expensive to recycle. Such incentives are lacking under the current program structure. Alternatively, the Legislature could consider expanding the program to include additional container or beverage types, such as foil pouches or wine and distilled spirits.

- Expenditure Options.** Changes could be made to reduce the amount of expenditures from the BCRF to bring the fund into balance. For example, program changes could be made to reduce payments to recyclers in Convenience Zones, such as a grocery store parking lot, or find an alternative source of funding for the local conservation corps.