

April 21, 2016

L E G I S L A T I V E A N A L Y S T ' S O F F I C E

LAO
75
YEARS OF
SERVICE

Overview of the Beverage Container Recycling Program

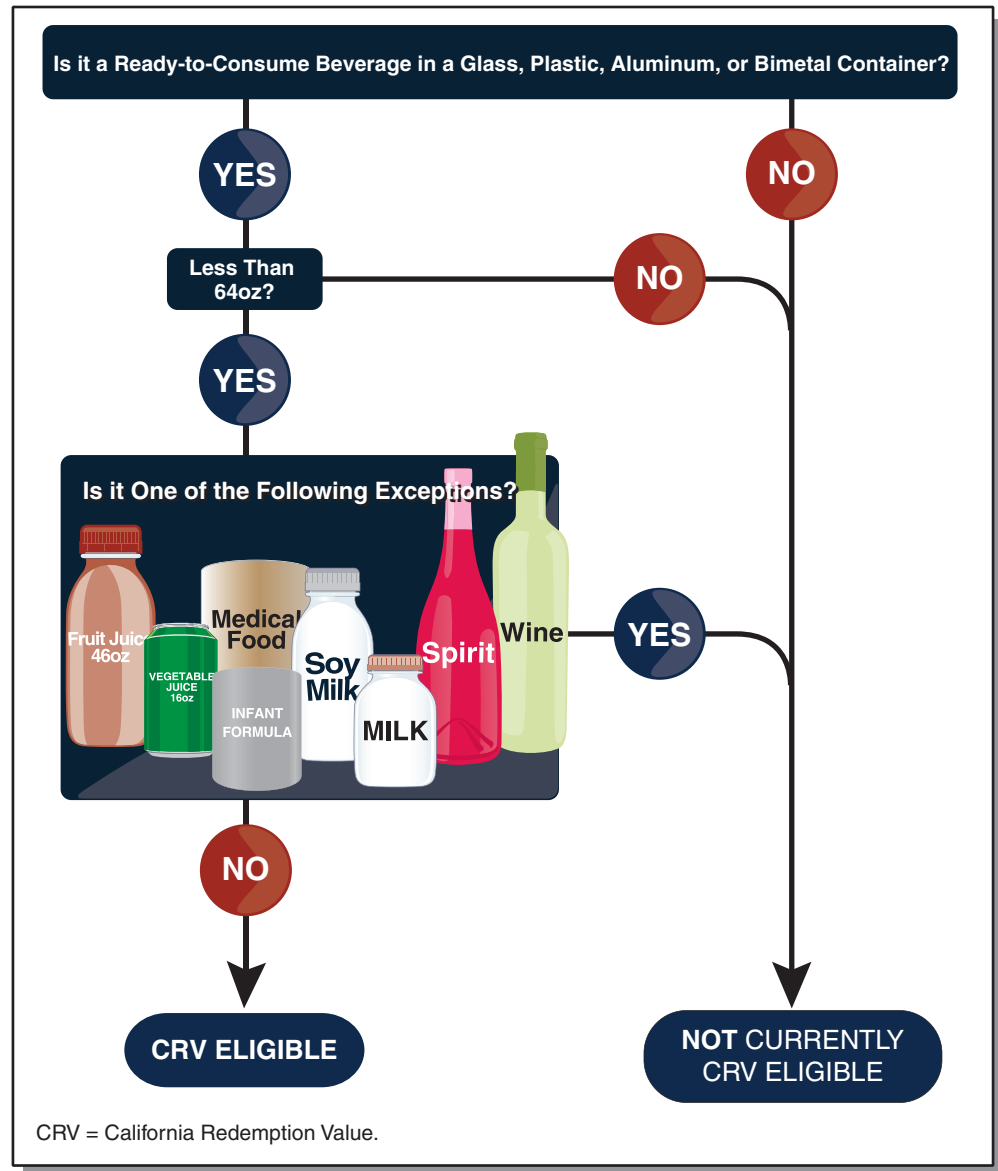
Presented to:

Senate Budget and Fiscal Review Subcommittee No. 2
On Resources, Environmental Protection,
Energy, and Transportation

Hon. Lois Wolk, Chair

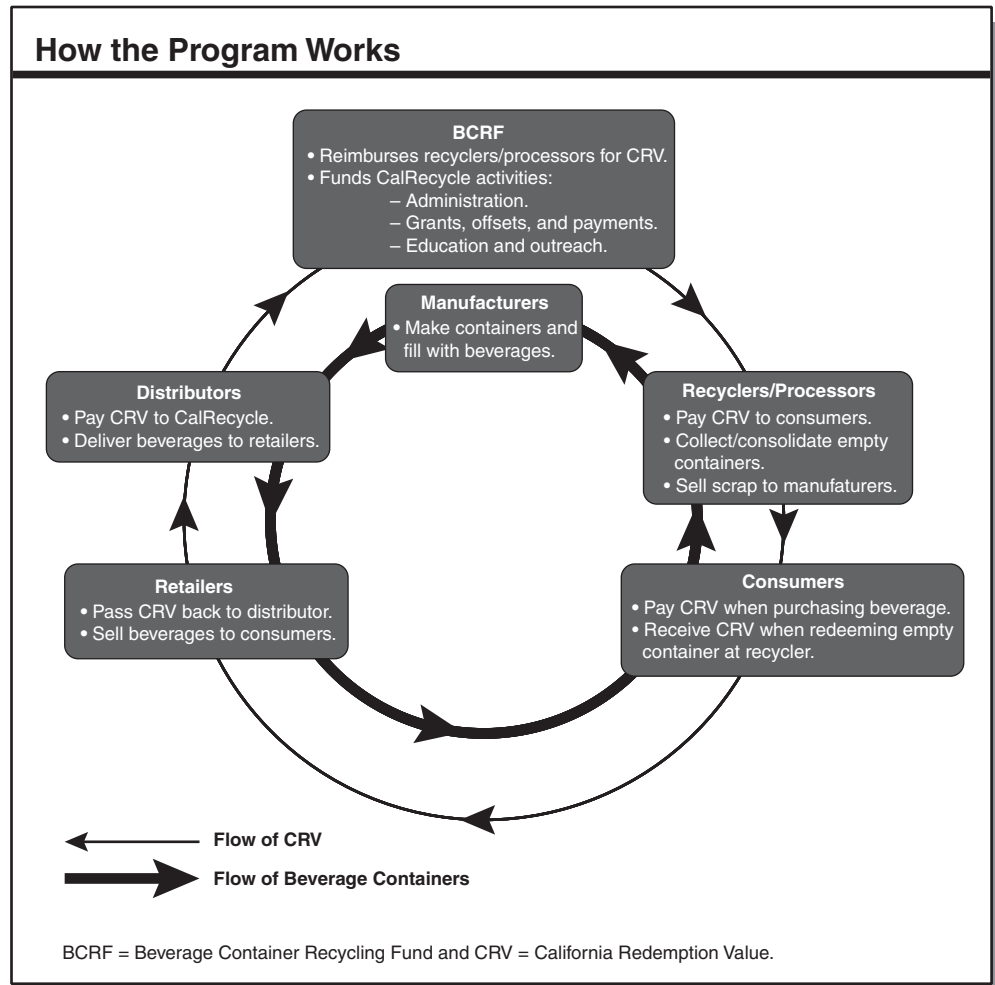


Eligible Containers



- The Beverage Container Recycling Program (BCRP) is designed to increase recycling of certain beverage containers. Whether a particular container is part of the program depends on the material, size, and content of the container.

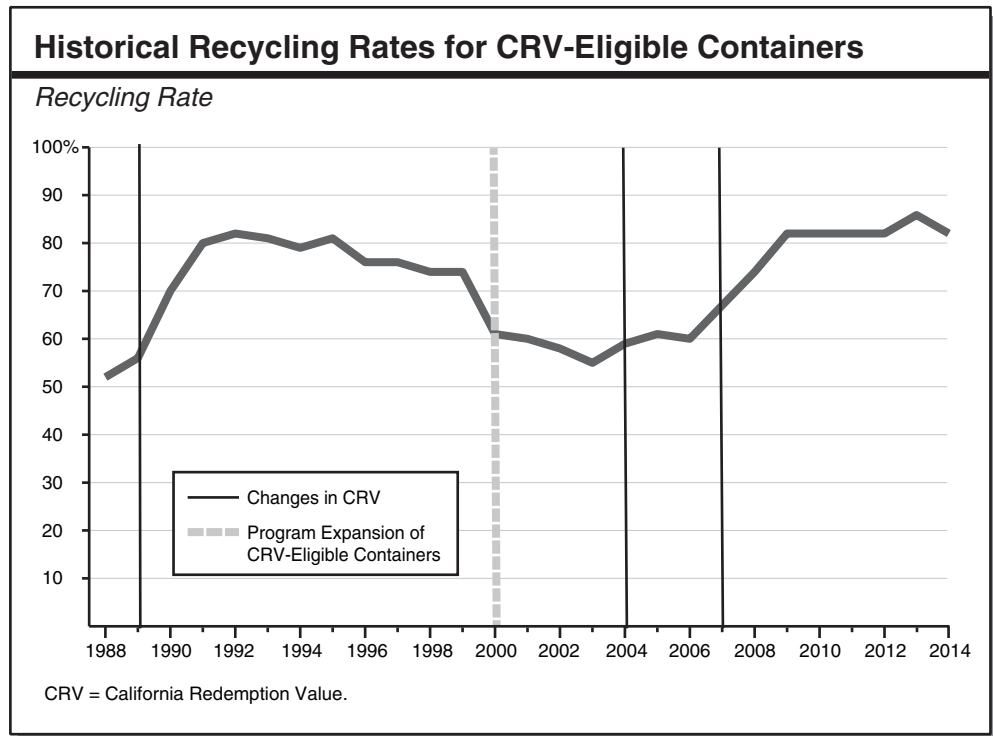
Flow of Containers and Payments



- Consumers are incentivized to recycle by being required to pay a deposit on each eligible container—currently 5 or 10 cents per container, depending on size—which they can recover if they return the container to a certified recycler.
- The BCRP involves the flow of beverage containers and payments (referred to as the California Redemption Value or CRV) among consumers, retailers, distributors, manufacturers, recyclers, processors, and the state’s Beverage Container Recycling Fund (BCRF).



Recycling of CRV-Eligible Containers Has Increased



- Since the program was first implemented, the recycling rate of eligible containers has increased from 52 percent to 82 percent, exceeding the statutory recycling goal of 80 percent. These rates have fluctuated during that time in response to the CRV amount, program expansions, and other factors.
- The total number of containers that are recycled has tripled due to the higher recycling rate and several expansions in the types of eligible containers over the years.



Unredeemed CRV Supports Recycling-Related Activities

BCRF Expenditures	
<i>(Dollars in Millions)</i>	
Expenditures	2016-17 Projection
California Redemption Value (CRV)	\$1,065.0
Supplemental Program Expenditures	
Processing fee offsets	85.1
Handling fees	52.5
CalRecycle administration	48.3
Administrative fees	45.7
Curbside Supplemental Payments	15.0
City County Payment Program	10.5
Plastic Market Development	5.0
Quality Incentive Payments	10.0
Local Conservation Corps	6.8
Public Education and Information	2.5
Beverage Container Recycling Competitive Grants	1.5
Subtotal	<u>(\$282.9)</u>
Total Expenditures	\$1,347.5

BCRF = Beverage Container Recycling Fund.

- State law requires that much of the unredeemed CRV be spent on specified recycling-related programs. These supplemental programs are not directly involved in the exchange of CRV, but they are intended to help achieve programmatic goals.



Estimated Structural Deficit of \$75 Million

Structural Deficit Projected in 2016-17

(In Millions)

Revenues

Total CRV paid by consumers	\$1,271
Processing fees paid by manufacturers	14
Subtotal	(\$1,286)

Expenditures

Total CRV paid out on redeemed containers ^a	\$1,065
Other program expenditures ^b	296
Subtotal	(\$1,361)

Net (Structural Deficit) **-\$75**

Projected Ending Fund Balance **\$156**

^a Based on a projected recycling rate of 84 percent.

^b Includes supplemental programs, processing payments, penalty account expenditures, and other spending.

CRV = California Redemption Value.

- CalRecycle’s most recent quarterly report identifies an average structural deficit of \$75 million from 2015-16 to 2017-18.
- This is a result of combined effects of (1) higher recycling rates, which reduce the amount of unredeemed CRV that can be used for other purposes, and (2) supplemental program costs.



City and County Payment Program (CCPP) Budget Proposal

- **Background.** One of the supplemental programs supported by unredeemed CRV is the CCPP, which provides \$10.5 million annually to local governments. Payments are distributed to virtually all cities and counties proportionally based on population, with payments averaging \$20,000 per jurisdiction.
- **Governor's Proposal.** The Governor's budget for 2016-17 proposes \$110,000 from the BCRF and one position to provide programmatic and fiduciary oversight of CCPP expenditures by recipient agencies. The proposal is in response to a 2010 audit by the California State Auditor of the BCRP supplemental programs, including CCPP.
- **LAO Assessment.** The structure of the CCPP is problematic because there is no relationship between the allocation of funds and the expected outcomes of a recipient's activities. In addition, the effectiveness of the program is unclear because the CCPP lacks any outcomes metrics.
- **LAO Recommendation.** We recommend the Legislature eliminate the CCPP given concerns with the current funding structure and lack of information on effectiveness. Eliminating the program would also provide \$10.5 million in savings to the BCRF, which would reduce the structural deficit by 14 percent.