

REQUEST FOR APPROVAL

To: Scott Smithline
Director

From: Howard Levenson
Deputy Director, Materials Management and Local Assistance Division

Request Date: September 20, 2016

Decision Subject: Approval of the California Used Oil Recycling Fund Three-Year Spending Plan (FY 2016-17—FY 2018-19)

Action By: September 20, 2016

Summary of Request

Staff requests approval of the California Used Oil Recycling Fund Three-Year Spending Plan for FYs 2016-17, 2017-18 and 2018-19. 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. However, the fund will not be able to support the current level of expenditures by FY 2018-19. Accordingly and as directed in statute, a reduction in payments to local governments is possible in upcoming years as the fund balance is drawn down.

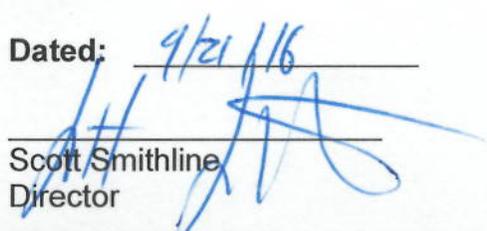
Recommendation

Staff recommends approval of the proposed California Used Oil Recycling Fund Three-Year Spending Plan (FY 2016-17—FY 2018-19). Staff also seeks direction to conduct public workshops to solicit stakeholder input on the future of the program, including input on potential statutory changes to address the projected funding shortfall.

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 2016-17—FY 2018-19) and direct staff to conduct public workshops to solicit stakeholder input on the future of the program.

Dated: 9/21/16



Scott Smithline
Director

Background

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. 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 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, rerefined 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. Statute directs up to \$11 million annually for the OPP unless the Fund cannot support it. If the Fund cannot support the full \$11 million, then statute requires that at least half of the balance in the Fund after mandatory expenditures be dedicated to OPP.

Fund Status

The six cent per gallon fee on all lubricating oil sold in California generates approximately \$23.7 million annually. This is projected to stay relatively constant for the next three years to five years, although it is possible that longer intervals between oil changes may impact future lubricating oil sales. Statutorily mandated expenses are projected to be \$17.2 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 used to keep the OPP funds at the maximum award level of \$11 million. When the reserve is depleted, and the \$11 million for OPP cannot be fully funded, then a minimum of 50 percent of funds; remaining after mandatory expenditures are accounted for; must go to the OPP program, as directed by statute.

Staff project that in FY 2018-19, OPP funding will need to be reduced. This projection is based on conservative estimates of revenues and liberal expenditure estimates. 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. It is anticipated that fund projections, including any possible reductions, will be released annually in January in conjunction with the Governor's Budget.

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. If a reduction in OPP is necessary, then only the discretionary spending proposed is continuing the claims for contaminated and rerefined oil and to support the biennial used oil training/conference. Statute directs CalRecycle to provide funds to program participants to cover expenses related to the management of a contaminated load of used motor oil. Also, CalRecycle will make payments to processors for re-refined base lubricant produced from used oil generated and collected in California.

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.

While these monitoring and programmatic improvements are on-going efforts within the Program, staff also propose to enhance those efforts with a focus on the future of the Program, including soliciting input from Program participants and stakeholders via public workshops, surveys, and/or small workgroups. Initial discussions could include review of existing programmatic efforts and funding, follow-up on recommendations included in CalRecycle's [report](#) to the Legislature pursuant to SB 546 (Lowenthal, Chapter 235, Statutes of 2009), and potential options for statutory change.

Projected Spending Plan

	FY 16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22
Beginning Balance	\$ 19,345,000	\$ 6,897,273	\$ 424,633	\$ 0.00	\$ 0.00	\$ 0.00
Revenue (oil fee)	\$ 23,763,000	\$ 23,763,000	\$ 23,763,000	\$ 23,763,000	\$ 23,763,000	\$ 23,763,000
Revenue (interest)	\$ 138,000	\$ 48,000	\$ 8,000			
TOTAL REVENUE	\$ 43,246,000	\$ 30,708,273	\$ 24,195,633	\$ 23,763,000	\$ 23,763,000	\$ 23,763,000
EXPENDITURES						
Mandatory Expenditures						
Personnel & Operating Expenses	\$ 7,336,000	\$ 6,596,000	\$ 6,596,000	\$ 6,596,000	\$ 6,596,000	\$ 6,596,000
Used Oil Collection Payments (PRC 48651)	\$ 5,768,000	\$ 5,768,000	\$ 5,768,000	\$ 5,768,000	\$ 5,768,000	\$ 5,768,000
Farm and Ranch Grants Transfer (PRC 48653)	\$ 266,000	\$ 266,000	\$ 266,000	\$ 266,000	\$ 266,000	\$ 266,000
DTSC Contract (PRC 48653)	\$ 350,000	\$ 350,000	\$ 350,000	\$ 350,000	\$ 350,000	\$ 350,000
Local Conservation Corps Grants (PRC 17001)	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000
DTSC (PRC 48653 b) & OEHHA Agreements	\$ 1,029,000	\$ 1,029,000	\$ 1,029,000	\$ 1,029,000	\$ 1,029,000	\$ 1,029,000
Dept of Finance Support	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000
State Conservation Corp Contract		\$ 59,750		\$ 59,750		\$ 59,750
Audit Settlement	\$ 6,084,837					
Statutory Reserve (PRC 48653)	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
3% Contingency Reserve	\$ 712,890	\$ 712,890	\$ 712,890	\$ 712,890	\$ 712,890	\$ 712,890
MANDATORY EXPENDITURES TOTAL	\$ 24,548,727	\$ 17,783,640	\$ 17,723,890	\$ 17,783,640	\$ 17,723,890	\$ 17,783,640
Balance: Revenue minus Mandatory Expenses	\$ 18,697,273	\$ 12,924,633	\$ 6,471,743	\$ 5,979,360	\$ 6,039,110	\$ 5,979,360
Discretionary Expenditures						
Re-refined Oil Payments	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000
Contaminated Used Oil Payments	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000
UO/HHW Conference		\$ 700,000		\$ 700,000		\$ 700,000
Competitive Grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<i>Minimum OPP Amount (i.e. half of remaining funds, per statute)</i>			\$ 3,235,872	\$ 2,989,680	\$ 3,019,555	\$ 2,989,680
Amount Proposed for OPP	\$ 11,000,000	\$ 11,000,000	\$ 5,671,743	\$ 4,479,360	\$ 5,239,110	\$ 4,479,360
DISCRETIONARY EXPENDITURES TOTAL	\$ 11,800,000	\$ 12,500,000	\$ 6,471,743	\$ 5,979,360	\$ 6,039,110	\$ 5,979,360
TOTAL EXPENDITURES	\$ 36,348,727	\$ 30,283,640	\$ 24,195,633	\$ 23,763,000	\$ 23,763,000	\$ 23,763,000
FUND BALANCE	\$ 6,897,273	\$ 424,633	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

NOTE: A reserve was built with increases to fees pursuant Act pursuant to SB 546 (Lowenthal, Chapter 235, Statutes of 2009) and is reflected in the beginning balances. Also, FY 2016-17 mandatory expenditures include a one-time \$6.084 million increase due to a reimbursement of overpayment of fees to a program participant.