Oregon
Kate Brown, Governor

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April 23, 2018

Jeremy Jones
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Dear Mr. Jones:

This memo is in response to PaintCare's fee increase proposal submitted to DEQ on March 1, 2017, updated on March 29, 2018, and corrected on April 5, 2018.

Based on our assessment of the information provided in PaintCare's proposal, DEQ agrees that a fee increase is needed and approves PaintCare's recommended changes in the container size categories to align with other states and the District of Columbia. However, the information provided in the proposal was not sufficient for us to determine whether PaintCare's proposed fee structure (Table 1) is likely to cover the costs of the program while not generating an excessive ending fund balance[a]. Instead, to evaluate PaintCare's proposed fee structure, DEQ analyzed various fee scenarios. Based on those analyses, DEQ is recommending approval of PaintCare's Proposed Fee Structure (Table 1) contingent on several conditions. This proposal and the supporting analyses are described below.

Table 1: Fee Structures: Current and Proposed

Container Size	Current Fee	PaintCare Proposed Fee
Half pint or smaller	$0.00	$0.00
Larger than half pint to smaller than 1 gallon	$0.35	$0.45
1 gallon	$0.75	n/a
1 gallon up to 2 gallons	n/a	$0.95
Larger than 1 gallon up to 5 gallons	$1.60	n/a
Larger than 2 gallons up to 5 gallons	n/a	$1.95

[a] ORS 459A.827(4)(f) provides that the paint stewardship assessment must be sufficient to recover, but not exceed, the costs of the paint stewardship program. Under ORS 459A.835(1)(d)(C), DEQ may require a plan amendment if the stewardship program's unallocated reserve funds during the prior calendar year equaled 35 percent or more of the total annual budget for the program during the year.

To review PaintCare's proposed fee increase and alternative scenarios, DEQ evaluated the information provided in the annual reports from 2011 to 2017, the conversations between Oregon DEQ and PaintCare about the potential impact on retailers, and the information provided in PlanB Consultancy, Inc.'s draft audit of PaintCare, provided to PaintCare on March 1, 2018.

DEQ's evaluation included:

- Analyzing past revenue, expenses, and collection volumes
- Analyzing past finances on a per capita basis
- Determining percent change from the previous year in revenue and expenses for both total and per capita values
- Using Oregon population projections
- Conducting multiple projections using different estimates for changes in total and per capita revenue and expenses
- Comparing various fee increases

These analyses are presented in Appendices A and B. The analyses indicate there is variability in program expenses and revenue, and this variability makes it difficult to project program finances. As a result, DEQ is requiring PaintCare to closely monitor program finances as part of its proposed fee approval.

DEQ is proposing to approve PaintCare's Proposed Fee Recommendation (Table 1) with the following conditions:

- PaintCare must submit quarterly budget reports to DEQ for timely and efficient monitoring of program finances.
- PaintCare must evaluate the fee structure biennially with updated projections for revenue and expenditures to determine whether the new fee structure is generating sufficient, but not excessive revenue, and report the results to DEQ with its annual budget.
- If the fee structure is not achieving the desired goal, PaintCare will timely propose a fee change to DEQ.
- PaintCare's fee evaluation and any proposed fee changes must include the following information:
    - Describe the rationale supporting the fee structure evaluated or proposed, including information and analyses used to project both revenue and expenses.
    - Use the best available information and methods to forecast future sales (e.g. industry sales projections, forecasts for home remodeling and building developments in Oregon, forecasts for real estate sales)
    - Use more than simple inflation when projecting future expenses

Before final approval of the fee increase, DEQ will post the proposed approval on April 30, 2018 and invite public comment through May 11, 2018. DEQ may also host a teleconference. We are inviting your review of this proposal before posting.

DEQ looks forward to continuing to work together with PaintCare to ensure the environmentally sound and cost-effective end-of-life management of paint.

Sincerely,

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Appendix A: Analysis of Past Revenue, Expenses, and Collection Volumes

DEQ analyzed the variability in revenue and expenses in PaintCare's program in Oregon over the past four years. Tables 1-4 below show the results of those analyses. The changes from year to year shown in these analyses are used in Appendix B to create various scenarios for projecting future program finances.

Table 1: Past Program Expenses[1] and Percent Change from Prior Year

	CY 2014	CY 2015	CY 2016	CY 2017
Operations	$3,726,229	$4,449,057	$4,553,621	$4,648,281
Communications	$345,911	$614,258	$125,000	$77,133
DEQ Administration Fees	$50,000	$40,000	$40,000	$40,000
Administration Costs	$466,652	$460,135	$445,033	$447,188
Total Expenses	$4,588,792	$5,563,450	$5,163,654	$5,212,602
Percent Change from Prior Year for Total Expenses		21.24%	-7.19%	0.95%
Percent Change from Prior Year for Operations & Administration Only[2]		17.08%	1.82%	1.94%
Percent Change from Prior Year for Operations Only		19.40%	2.35%	2.08%

[1] Expenses for Operations, Communications, DEQ Administration Fees and Administration Costs are from each year's respective Annual Report submitted by PaintCare

[2] Communications were excluded due to the high variation between 2014, 2015, and 2016

Table 2: Collection Volumes[1], Percent Change, and Total Expenses per Gallon Collected

	CY 2014[2]	CY 2015[2]	CY 2016[2]	CY 2017
Volume Collected (in gallons)	666,446	756,701	764,153	810,745
Percent Change from Prior Year for Volume Collected		13.54%	0.98%	6.10%
Total Expenses per Gallon Collected	$6.89	$7.35	$6.76	$6.43

[1] Collection Volume from the 2017 Annual Report submitted by PaintCare

[2] Adjusted Collection Volumes (see 2017 Annual Report Section A2)

Table 3: Oregon Population, Gallons Collected per Capita, Expenses per Capita, and Percent Change

	CY 2014	CY 2015	CY 2016	CY 2017
Population[1]	3,962,710	4,013,845	4,076,350	4,141,100
Percent Change from Prior Year for Population		1.29%	1.56%	1.59%
Gallons Collected Per Capita	0.168	0.189	0.187	0.196
Total Expenses per Capita	$1.158	$1.386	$1.267	$1.259
Percent Change from Prior Year for Total Expenses per Capita		19.70%	-8.61%	-0.63%
Operation Expenses Per Capita[2]	$0.940	$1.108	$1.117	$1.122
Percent Change from Prior Year for Operations Expenses per Capita[2]		17.88%	0.78%	0.48%

[1] Source: Oregon Department of Administrative Services Office of Economic Analysis (http://www.oregon.gov/das/OEA/Documents/appendixc.pdf)

[2] Communications were excluded due to the high variation between 2014, 2015, and 2016

Table 4: Revenue[1], Revenue per Capita, and Percent Change

	CY 2014	CY 2015	CY 2016	CY 2017
Fee Revenue	$4,199,074	$4,576,651	$4,665,094	$4,744,994
Other Revenue	$131,980	$139,530	$114,137	$86,429
Total Revenue	$4,331,054	$4,716,181	$4,779,231	$4,831,423
Population[2]	3,962,710	4,013,845	4,076,350	4,141,100
PaintCare Fee Revenue per Capita	$1.06	$1.14	$1.14	$1.15
Percent Change in Fee Revenue per Capita		7.60%	0.37%	0.12%

[1] PaintCare Fee Revenue, Other Revenue, and Total Revenue are from each year's respective Annual Report submitted by PaintCare

[2] Source: Oregon Department of Administrative Services Office of Economic Analysis (http://www.oregon.gov/das/OEA/Documents/appendixc.pdf)

Appendix B: "What if" Scenarios to Evaluate Program Finances under Various Projections for Revenue and Expenses and Different Fee Structures

The analyses in Appendix A show that the percent changes in revenue and expenditures have varied from one year to the next in PaintCare's Oregon program. Because a projection is only a prediction of what might happen in the future, we developed several "what if" scenarios to see how program finances changed if we assumed different values for projected revenue and projected expenses. We then evaluated those scenarios to identify the fee increase most likely to generate sufficient revenue to cover expenses and retire the debt without producing an excessive ending fund balance within five years. To minimize the impact of frequent changes in the paint fee on retailers, five years was selected as the timespan for assessment.

The scenarios are presented below in figures 1 and 2. The methods used to develop these scenarios are presented at the end of this appendix.

Scenarios

Figure 1 displays projected ending fund balances for multiple scenarios under the assumption of a 25% fee increase. Figure 2 displays projected ending fund balances for the same scenarios under the assumption of a 20% fee increase. A 25% fee increase was selected because it is the closest approximation to PaintCare's proposed fee structure. A 20% fee increase was an alternative fee increase tested for comparison.

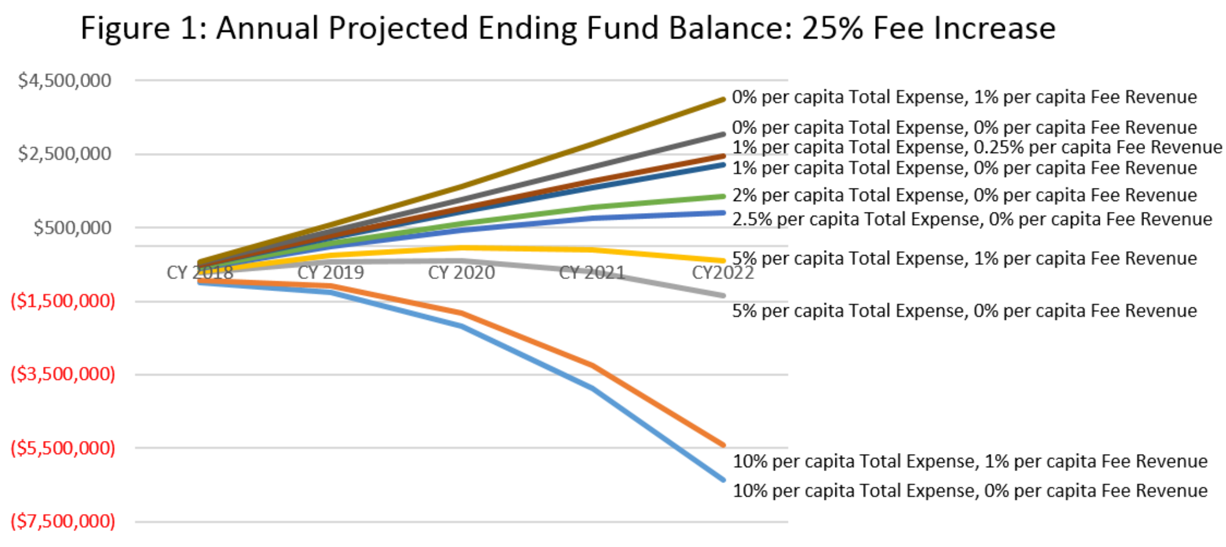

Figure 1 displays the change in the ending fund balance over the five years projected for multiple scenarios. At the end of each line, is the percent increase for per capita total expenses and per capita fee revenue used to make the ending fund balance projection

Figure 2: Annual Projected Ending Fund Balance: 20% Fee Increase

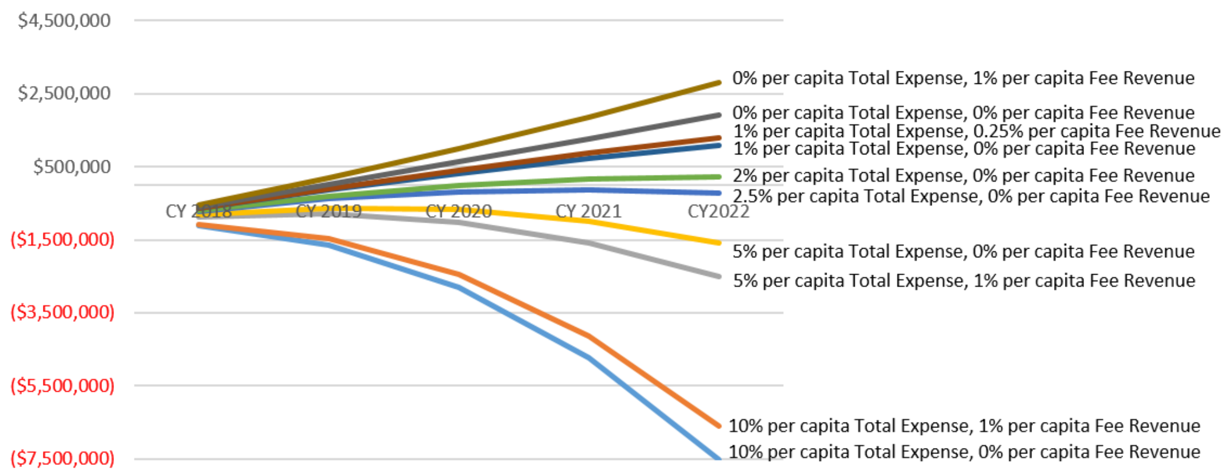

Figure 2 displays the change in the ending fund balance over the five years projected for multiple scenarios. At the end of each line, is the percent increase for per capita total expenses and per capita fee revenue used to make the ending fund balance projection

Overall, the projections indicate that a 25% increase is more likely to retire the debt, but there is a chance under a few scenarios that the ending fund balance might exceed $2 million, which is about 35% of the estimated total annual expenses[a]. By comparison, the 20% increase is less likely to result in an ending fund balance after five years that is above 35%, but if annual percent increases in expenses are higher than in recent years, then debt is more likely to remain.

When considering which scenarios are more likely, DEQ's analyses in Appendix A indicates that about a 1% increase per year in per capita expenses[b] is likely, as is about a 0.25% increase per year in per capita fee revenue. Meanwhile, PaintCare projected total expenses that equate to a 2% increase in expenses per year and projected using a 0% increase in revenue in its proposal. DEQ's analysis differs from PaintCare's projections, especially in the decision to project no increase in *total* paint sales (and revenue). DEQ feels this was too conservative since Oregon's population is continuing to increase, as noted in PaintCare's proposal. DEQ instead feels that no increase in *per capita* sales (and revenue) is more likely.

Looking at the range of possible scenarios presented in figures 1 and 2, a 20% fee increase is likely to avoid debt only if annual increases in total expenses remain below 2.5%, whereas a 25% fee increase is likely to avoid debt if annual increases in total expenses remain below 5%. Some scenarios were excluded from the figure for brevity. In general, if fee revenue is increased,

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[a] ORS 459A.827(4)(f) provides that the paint stewardship assessment must be sufficient to recover, but not exceed, the costs of the paint stewardship program. Under ORS 459A.835(1)(d)(C), DEQ may require a plan amendment if the stewardship program's unallocated reserve funds during the prior calendar year equaled 35 percent or more of the total annual budget for the program during the year.

[b] Operations expenses account for 80%-89% of PaintCare's total expenses (Table 4, Appendix A) each year, and the percent change in per capita operations expense over the past two years was just under 1% (Table 3, Appendix A).

without increased expenses, then the ending fund balance increases. If expenses increase with no increase in revenue, then the ending fund balance decreases.

Methods:

Process for Projecting Program Finances

Projecting program finances, involved several steps: (1) determining the values to use for projecting the percent changes in revenue and expenditures; (2) applying the percent change values to the per capita total expenses and fee revenue; (3) calculating annual total expenses and revenue; (4) determining the net balance between expenses and revenue; and (5) calculating the ending fund balance.

The percent change values selected to project per capita fee revenue were 0%, 0.25%, 0.5%, and 1%. These values were selected because the last two years of the program (Table 4 in Appendix A) indicate only 0.37% and 0.12% increases respectively on a per capita basis.

For per capita total expenses, the percent change values selected were 0%, 1%, 2% 2.5%, 5%, and 10% because the last three years of the program (Table 3 in Appendix A) indicate a range from -8% to almost 20% for total cost per capita when comparing one year to the next. Additionally, since operations expenses account for between 80% and 89% of the total expenses (Table 1 in Appendix A), 1% was selected as a percent change value because the percent change for the last two years for per capita operations cost were just under 1% (Table 3 in Appendix A). PaintCare used 2.5% for projecting the percent increase in operations costs, and 2% is approximately the annual increase in total expenses projected by PaintCare (Oregon Amendment – Fee Increase Proposal submitted March 29, 2018).

After selecting these percent change values for total expenses and fee revenue, the next step was to apply those values to each year's per capita total expenses and fee revenue to get the next year's projected total expenses and fee revenue. The process starts with the per capita values from the most recently reported year (i.e., 2017 for this analysis). The percent change values listed above for total expenses and fee revenue were applied to the prior year's per capita total expenses and per capita fee revenue (not total revenue).

Next, each year's projected per capita values for both total expenses and fee revenue were multiplied by the projected Oregon population (Table 1) to get the projected total expenses and total fee revenue for each year. To get total revenue, $100,000 for other revenue was added to the total fee revenue value for each year. $100,000 is the approximate amount of other revenue received annually (Table 4 in Appendix A).

Table 1: Oregon Population Projections[1]

	CY 2018	CY 2019	CY 2020	CY 2021	CY2022
Population	4,203,200	4,263,300	4,321,400	4,376,400	4,430,300

[1] Source: Oregon Department of Administrative Services Office of Economic Analysis (http://www.oregon.gov/das/OEA/Documents/appendixc.pdf)

After determining projected total revenue and expenses for each year, the net balance was calculated by subtracting expenses from revenue.

Finally, to calculate the ending fund balance, the net balance was added to the prior year's ending fund balance. For 2018, the net balance was added to the 2017 ending fund balance of ($714,187) as reported in the Oregon Amendment – Fee Increase Proposal[c].

Process for Assessing the Impact of a Fee Increase

The process described above was performed under the assumption of no fee increase. To assess the impact of fee increases, three fee structures (15%, 20%, and 25%) were used in the analysis (Table 2). The 25% increase is approximately equivalent to the percent increase in fee structure proposed by PaintCare. The current fee, PaintCare proposed fee, and simple inflation values are included for comparison only.

To evaluate the fee increases, each year's total revenue projection for no fee increase was multiplied by the fee structure percent increase and the result was added to each year's total revenue projection for no fee increase. This provides a new total revenue projection based on the fee increase. For 2018, the fee increase was divided by 2 because the fee increase will only be in effect for about half of 2018.

Table 2: Fee Structures based on the Current Container Size Categories

	Current Fee	PaintCare Proposed Fee	25% Increase	20% Increase	15% Increase	Simple Inflation[3]
Half pint or smaller	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Larger than half pint to smaller than 1 gallon	$0.35	$0.45	$0.44	$0.42	$0.40	$0.42
1 gallon	$0.75	$0.95[1]	$0.94	$0.90	$0.86	$0.90
Larger than 1 gallon up to 5 gallons	$1.60	$1.95[2]	$2.00	$1.92	$1.84	$1.91

[1] Proposed fee structure is to switch from a "1 gallon" to "1 gallon up to 2 gallons" category

[2] Proposed fee structure is to switch from a "larger than 1 gallon up to 5 gallons" to "larger than 2 gallons up to 5 gallons" category

[3] 3% simple inflation applied for 6 years (i.e., inflation since 2011)

[c] The ending fund balance for 2017 in the Oregon Amendment – Fee Increase Proposal submitted March 29, 2018 differs from the ending fund balance reported in the 2017 Annual Report was ($708,934) and the ending fund balance for 2017 in the Audit Report was ($706,460)