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March 29, 2018

Blake Bennett
Oregon Department of Environmental Quality
700 NE Multnomah St., Suite #600
Portland, OR 97232

Dear Mr. Bennett,

This document proposes an amendment to the Oregon Architectural Paint Stewardship Program Plan. Its purpose is to change the architectural paint stewardship assessment (PaintCare fee).

The volume of paint managed by the stewardship program has increased over time. Paint processing and transportation costs represent 89% of total program expense, and now consume more than 95% of annual program revenue. To meet both its financial and stewardship obligations, the program is requesting a fee revision to accommodate the present and future growth of the program, and to restore balance to the program's finances. Table 1 provides the proposed changes to the fee structure.

Table 1 – Comparison of Fee Structures

| Container Size | Current Fee Structure | Proposed Fee Structure |
|--|-----------------------|------------------------|
| 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 |

The proposed fees include changes to (1) the fee amounts, as well as (2) the container sizes for the two larger categories. Under the new fee categories, there will no longer be a category for 1-gallon containers. Instead, there will be a category for containers ranging in size from 1 to 2 gallons. Also, the upper category of "Larger than 1 gallon up to 5 gallons" will be replaced with "Larger than 2 gallons up to 5 gallons." The proposed fee structure, by container size, is provided in the table above. The change to include containers up to 2 gallons in the \$0.95 fee is done to include container sizes that sell in very limited quantities in Oregon. It will not result in a significant impact to program funding.

Table 2 provides projected statements of activities, under the proposed fee schedule assuming an effective date of **September 1, 2018**. Under the proposed fee structure, monthly revenue will immediately exceed monthly expenses and the program should come out of deficit in **2020**.

The significant assumptions in these projections are:

Stability of the Oregon paint market. PaintCare assumes that the Oregon paint market will remain stable through 2021. State demographers predicted in 2015 that Oregon population will grow by approximately 1.5% a year to more than 4.3 million by 2020. Oregon's growth projection appears to be supported by US Census Bureau's estimate (Dec. 2016) that Oregon's population grew 1.7% in 2016. PaintCare believes that sales may be tied to increasing population, but is projecting revenue to remain flat to avoid overestimation.

Growth in cost of paint collection. Paint collection spending (the Paint Processing & Transportation expense category in Table 2 and Table 3) is projected to increase by **2.5%** per year through 2021. This projection is based on an increase in bins collected/processed, with an allowance for the potential of price increases for processing and transportation, or a combination of both.

Monitoring of communications spending. The program intends to keep the communications budget at \$70,000 for 2017 (this amount still allows for communications and outreach surrounding the revised fee structure), and increasing to \$100,000 for 2018 and beyond to accommodate expanded outreach which will be used to meet program awareness and source reduction goals currently in development with DEQ.

Monitoring of travel spending. By visiting drop-off sites less frequently, but no less than once per year, the program can reduce travel expense by approximately \$10,000 annually. PaintCare will continue to receive and address feedback from DEQ, store staff and other stakeholders to ensure that newer sites and sites needing more in-person contact will receive it. Sites with long tenure and experience that are performing well may receive a phone call, in lieu of a second annual visit.

Stability of program site count. The program will no longer recruit new program sites, except in underserved areas where events would otherwise be required by statute.

Stability of the DEQ administrative fee. The program assumes that this fee will remain at \$40,000.

Reduced growth in administrative costs. At the direction of the PaintCare board of directors, PaintCare was asked to plan on an optimal staffing level, while still allowing for increases to corporate staff costs and maintaining the program's obligations and current level of service. The savings from these measures are reflected in Allocation of Corporate Activity category in Table 2 and Table 3.

Cost of loan repayment. The program began use of loaned funds from ACA to continue program operations in 2016. **The cost of using these loaned funds was approximately \$9,000 in 2017 and is expected to be similar each year until repaid. If the new fee schedule takes effect in September 2018, the loan is expected to be retired in 2020.** These costs are reflected in the Personnel, Professional fees, and Other category in Table 2.

Table 2 – Program Finances with Proposed Fee Schedule (effective date, September 1, 2018)

| | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 | Year 11 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| | CY2017 | CY2018 | CY2019 | CY2020 | CY2021 | CY2022 |
| Revenue | \$4,831,423 | \$5,226,879 | \$6,034,738 | \$6,034,738 | \$6,034,738 | \$6,034,738 |
| Expenses | | | | | | |
| Paint processing & transportation | 4,629,903 | 4,634,000 | 4,742,500 | 4,857,813 | 4,976,008 | 5,097,158 |
| Collection supplies and support | 18,378 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 |
| Communications | 77,134 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| Personnel, professional fees, and other | 181,726 | 261,000 | 229,054 | 198,206 | 201,452 | 204,796 |
| State administrative fees | 40,000 | 50,000 | 40,000 | 40,000 | 40,000 | 40,000 |
| Allocation of corporate activity | 265,464 | 298,000 | 306,940 | 316,148 | 325,633 | 335,402 |
| Total expenses | \$5,212,605 | \$5,363,000 | \$5,438,494 | \$5,532,167 | \$5,663,093 | \$5,797,356 |
| Change in net assets | -381,182 | -136,121 | 596,244 | 502,572 | 371,646 | 237,383 |
| Net assets, beginning of reporting period | -333,005 | -714,187 | -850,308 | -254,064 | 248,508 | 620,154 |
| Net assets, end of reporting period | -714,187 | -850,308 | -254,064 | 248,508 | 620,154 | 857,536 |

Revenue

- The projected volume of paint sales is based on actual sales data from the first six years of the program. Revenue from the PaintCare fees has increased by 10% since the beginning of the program, with a pronounced increase since 2014 due to an expanding economy and Oregon population growth. However, increases in paint collection have outpaced revenue from sales. PaintCare is cautiously projecting no increase in paint sales through 2022. When combined with a revised fee structure this will enable the program to restore balance to its finances.
- Revenue also includes a credit received from Metro for reaching pre-determined thresholds for volume of latex paint delivered for processing. PaintCare has reached a high credit threshold each year, and expects that this will continue based on existing and projected collection volumes.
- The amount of revenue budgeted reflects the revised PaintCare fees taking effect September 1, 2018, to permit ample time to communicate the prospective fee change to the public. In addition, PaintCare has

been advised by paint retailers to avoid introduction of a new fee structure during Oregon's peak painting season (May to August).

- The new fee schedule will generate approximately \$120,000 in additional revenue per month based on projected sales volumes. This will enable a return to a positive balance approximately 20 months from implementation. Changes to the proposed implementation timeline and/or paint sales volumes would alter actual revenue available when compared to the program budget and projections provided.

Expenses

- Paint processing & transportation are the most significant expenses of the program. Transportation costs include money paid to pick up bins of program products from drop-off sites and deliver them for further processing. Processing costs include sorting; incentive payments for reuse; and paint processing, recycling, and proper disposal.
- Collection supplies and support costs include training materials for sites, site securement (e.g., fencing), and spill kits.
- Communication includes advertising and promotional materials to increase program visibility through education and outreach. With the growing maturity and heightened visibility of the program, as evidenced through increased collection volumes, the Communications expense will be pared back to \$70,000 for 2017. Communications is budgeted to increase to \$100,000 in 2018 and beyond to allow for future work on source reduction.
- State agency administrative fees of \$40,000 are paid to Oregon DEQ annually, with an added \$10,000 budgeted in 2018 for DEQ's review of PaintCare's forthcoming Program Plan update, which has been requested.
- Personnel, professional fees, and other include costs for in-state personnel (Oregon Program Manager and Oregon's portion of the West Coast Regional Manager), travel, auditing, legal, insurance, professional fees, and administrative services and supplies.
- Allocation of corporate activity costs are those that are shared across all PaintCare programs and allocated relative to the population of the state or jurisdiction. These costs include corporate staffing and related overhead, construction of data management system, auditing fees, legal fees and general communications. Using 2010 US Census data, Oregon's current allocation is 6.6%.

Unallocated Reserve Funds (Net Assets)

- PaintCare has a Reserve Policy to maintain a net asset balance in each state. This policy establishes a minimum threshold of 16% (i.e., at least two months of operating expenses). An accumulated balance allows PaintCare programs to continue to operate in times of either higher than expected post-consumer

paint collection or lower than expected retail paint sales – or a combination of the two. Reserve funds or “net assets” represent the accumulated surplus of the program.

- PaintCare has an obligation to maintain a positive reserve balance, a program expense for which it must plan. As of December 31, 2017, the Oregon program's balance was -\$714,187. The volume of paint collections has increased to a point where paint management costs alone will soon exceed revenue. There is no change in this scenario foreseeable given the program's stewardship obligations. The program is projected to continue to run a deficit until a new fee structure is implemented.

Table 3 – Program Finances under Current Fee Schedule

| | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 | Year 11 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| | CY2017 | CY2018 | CY2019 | CY2020 | CY2021 | CY2022 |
| Revenue | \$4,831,423 | \$4,831,423 | \$4,831,423 | \$4,831,423 | \$4,831,423 | \$4,831,423 |
| Expenses | | | | | | |
| Paint processing & transportation | 4,629,903 | 4,634,000 | 4,742,500 | 4,857,813 | 4,976,008 | 5,097,158 |
| Collection supplies and support | 18,378 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 |
| Communications | 77,134 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| Personnel, professional fees, and other | 181,726 | 261,000 | 229,054 | 198,206 | 201,452 | 204,796 |
| State administrative fees | 40,000 | 50,000 | 40,000 | 40,000 | 40,000 | 40,000 |
| Allocation of corporate activity | 265,464 | 298,000 | 306,940 | 316,148 | 325,633 | 335,402 |
| Total expenses | \$5,212,605 | \$5,363,000 | \$5,438,494 | \$5,532,167 | \$5,663,093 | \$5,797,356 |
| Change in net assets | -381,182 | -531,577 | -607,071 | -700,743 | -831,670 | -965,933 |
| Net assets, beginning of reporting period | -333,005 | -714,187 | -1,245,764 | -1,852,835 | -2,553,579 | -3,385,248 |
| Net assets, end of reporting period | -714,187 | -1,245,764 | -1,852,835 | -2,553,579 | -3,385,248 | -4,351,181 |

We thank Oregon DEQ for its consideration of this program plan amendment. If you have any questions, please do not hesitate to contact me directly.

Sincerely,

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