1500 RHODE ISLAND AVE NW ♦ WASHINGTON, DC 20005 ♦ (855) 724-6809

November 14, 2016

Garth Hickle
Minnesota Pollution Control Agency
520 Lafayette Road N
Saint Paul, MN 55155

Dear Mr. Hickle,

This document proposes an amendment to the 2014 Minnesota Architectural Paint Stewardship Program Plan. Its purpose is to change the architectural paint stewardship assessment (PaintCare fee).

The Minnesota PaintCare program (Program) began operations on November 1, 2014. Through the program plan, PaintCare proposed a fee structure and budget based on specific projections of paint sales and collection volume. As shown in PaintCare's Minnesota 2015 and 2016 annual reports, expenses exceeded revenues in both program years. The primary cause of the imbalance was paint sales, which were significantly lower than the projections used by PaintCare for program planning. In addition, paint collection volumes were higher than projected in the second program year, furthering the gap between revenue and expenses. Table 1 provides projected and actual paint sales and collection volume for both program years, and illustrates the variance between the projected and actual values. It also provides the projected and actual recovery rates (gallons processed divided by gallons sold in the same reporting period) for both program years.

Table 1

	FY2015 Projected*	FY2015 Actual	Variance	FY2016 Projected	FY2016 Actual	Variance
Gallons Sold	10,246,500	5,249,053	-49%	13,662,000	9,235,668	-32%
Gallons Processed	532,818	501,400	-6%	806,058	1,022,346	+27%
Recovery Rate	5.2%	9.6%	+84%	5.9%	11.1%	+88%

*FY2015 projection is prorated for eight months, the duration of the FY2015 reporting period.

The large discrepancy between projected and actual paint sales resulted in significant revenue shortfalls in both program years, which had led to a sizable program debt that continues to grow under the current fee structure. In addition, PaintCare incurred substantial pre-program costs – including site recruitment, contracting, program promotion, and MPCA administration – adding to the program deficit. Table 2 shows pre-program expenses, revenue and expenses for both program years, and program debt (net asset balance) at the end of the second program year (June 30, 2016).

Table 2

	Pre-Program	FY2015	FY2016
Revenue	$ -	$ 3,124,672	$ 5,432,831
Expenses	$ 647,114	$ 3,627,045	$ 5,779,419
Change in net assets	$ (647,114)	$ (502,373)	$ (346,589)
Net assets, beginning period	$ -	$ (647,114)	$ (1,149,487)
Net assets, end of period	$ (647,114)	$ (1,149,487)	$ (1,496,076)

PaintCare has cut costs in discretionary several areas. However, the largest expenses are non-discretionary and remain directly tied to the increasing amount of paint collected and processed by the Program. In order to bring the Minnesota PaintCare program out of deficit and operate with a balanced budget, a fee increase is necessary. PaintCare proposes implementing the new fee structure by April 1, 2017. The current and proposed fee structures are shown in Table 3.

Table 3

Current Fee Structure		Proposed Fee Structure	
Half pint or smaller	$ -	Half pint or smaller	$ -
Larger than half pint to smaller than 1 gallon	$ 0.35	Larger than half pint to smaller than 1 gallon	$ 0.49
1 gallon	$ 0.75	1 gallon up to 2 gallons*	$ 0.99
Larger than 1 gallon up to 5 gallons	$ 1.60	Larger than 2 gallons up to 5 gallons	$ 1.99

* 2-gallon containers are now combined in the same fee category as 1-gallon containers. PaintCare learned in the last year that several small to mid-size regional manufacturers sell a small portion of their paint in 2-gallon containers. Since the fee in the largest containers size tier is more than double that of the 1-gallon container tier (in both the current and proposed fee structure), PaintCare believes it is appropriate to combine 1 and 2-gallon containers into the same fee tier to reduce the impact to the consumer. Over time, PaintCare intends to implement this change in all of its state programs.

Under the proposed fee structure, assuming implementation by April 2017, monthly revenue will immediately exceed monthly expenses and the program should come out of deficit in approximately two years. This is illustrated in Table 4 which provides a 5-year budget beginning with the current fiscal year (2017). The primary elements of the budget are discussed here.

- **Revenue:** Projected volume of paint sales is based on sales data from the second year of the program (the first full 12-month period), with a conservative increase of 2% per year. The budget reflects implementation of the new fee structure on April 1, 2017. Any delay in fee approval and implementation would alter the revenue and budget projections.

- **Paint Processing:** Processing costs include paint sorting, processing, recycling; an incentive payment for reuse activities to household hazardous waste (HHW) programs; and proper disposal of containers, non-PaintCare products, and non-recyclable items. The budget includes a volume increase of 5% each year through year 5, with a corresponding cost increase, as well as a price increase of 2.5% every other year through year 7.

- **Paint Transportation**: Transportation costs are for picking up bins from drop-off sites and delivering them to Amazon, as well as consolidation by HHW programs to central facilities (internal transportation). As with processing, the budget includes a volume increase of 5% each year through year 5, with a corresponding cost increase, as well as a price increase of 2.5% every other year through year 7.

- **Collection Supplies and Support:** Collection supplies and support include collection bins, spill kits, signage, and labor expenses for large volume pick-ups. The budget includes a volume increase of 5% each year through year 5, with a corresponding cost increase.

- **Communications:** Outreach and education activities and materials – collectively termed Communications expenses – include advertising and promotional materials to increase program visibility through education and outreach. As a result of the already high recovery rate, Communications expense will be pared back to $100,000 in year 3, and $200,000 each year after.

- **Personnel, Professional Fees, and Other:** This group of expense includes the cost of one fulltime in-state employee to administer the Program, visit drop-off sites for compliance, and general public outreach; travel; office supplies; and other logistical and professional support.

- **State Administrative Fees:** The program is budgeting approximately $150,000 annually to be paid to Minnesota PCA for program oversight, county HHW program reporting and reimbursement, and paint collection site license administration.

- **Corporate Activity:** 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 but are not limited to corporate staffing and related overhead, construction of data management systems, auditing fees, legal fees, and general communications. Corporate activity is projected to increase at 3% per year.

- **Net Assets (Reserve Funds):** The proposed fee schedule and budget bring the program out of net deficit by in year 5 and build a net surplus (reserve) of approximately 35% by the end of year 7. PaintCare reserve policy calls for a minimum threshold of 16% of annual expenses (i.e., at least two months of operating expenses), a target amount of 50% of annual expenses, and a maximum amount of 75% of annual expenses.

Table 4

Revenue	Year 3 FY2017	Year 4 FY2018	Year 5 FY2019	Year 6 FY2020	Year 7 FY2021
Larger than half pint to smaller than 1 gallon	732,515	950,937	969,956	989,355	1,009,142
1 gallon up to 2 gallons	3,797,163	4,733,797	4,828,473	4,925,042	5,023,543
Larger than 2 gallons up to 5 gallons	1,442,528	1,724,915	1,759,414	1,794,602	1,830,494
Total revenue	5,972,206	7,409,650	7,557,843	7,708,999	7,863,179

Expenses					
Paint processing	4,145,897	4,353,192	4,685,123	4,685,123	4,802,251
Paint transportation	500,872	525,915	566,016	566,016	580,167
Collection supplies and support	440,724	462,760	485,898	485,898	485,898
Communications	100,000	200,000	200,000	200,000	200,000
Personnel, professional fees, and other	217,507	212,933	198,629	194,611	200,891
State administrative fees	150,000	150,000	150,000	150,000	150,000
Allocation of corporate activity	400,000	442,000	455,260	468,918	482,985
Total expenses	5,955,000	6,346,800	6,740,926	6,750,565	6,902,192
Change in net assets	17,207	1,062,850	816,916	958,434	960,987
Net assets, beginning of reporting period	-1,496,075	-1,478,868	-416,018	400,898	1,359,332
Net assets, end of reporting period	-1,478,868	-416,018	400,898	1,359,332	2,320,319

These projections could ultimately be affected by the State of Minnesota's hazardous waste management contract, which was recently sent out for bid through a Request for Proposal, and is used by all HHW programs in the state. HHW programs accounted for 77% of the volume of paint collected in year 2 of the program, and hence paid for by PaintCare. The new hazardous waste management contract is expected to begin by January 1, 2017, at the earliest. However, cost containment measures through this contract are entirely beyond PaintCare's control. We hope that MPCA will work with us to manage these costs appropriately and to inform PaintCare of any anticipated impacts resulting from prices changes in order to ensure PaintCare's ability to meet its stewardship obligations efficiently and effectively.

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

Sincerely,

Steve Pincuspy
Minnesota Program Manager
PaintCare Inc.
(612) 719-5216
spincuspy@paint.org