



March 26, 2019

Kirk Koudelka
Assistant Commissioner
Minnesota Pollution Control Agency
520 Lafayette Road N
Saint Paul, MN 55155
Submitted via e-mail to: kirk.koudelka@state.mn.us

RE: PaintCare fee increase financial impact review – Due April 1, 2019

Dear Mr. Koudelka,

This document is a follow-up to your letter dated March 10, 2017 approving PaintCare's fee increase request. The approval letter requested that PaintCare review the financial impact of the fee increase (effective September 1, 2017) on the Minnesota program and, if necessary, request its continuance by April 1, 2019. After further review of the Minnesota program's financials through November 2018 and five-year projections of expenses versus revenue, presented below, PaintCare requests that the current fee structure be kept in place through the end of FY2024 with regular five-year projections included in future annual reports to MPCA.

As indicated in our most recent annual report to MPCA, thanks to the fee increase PaintCare has decreased its deficit from a peak of \$1,561,043 at the closing of FY2017 to a low of \$718,902 at the closing of FY2018, and preliminary financial statements at the closing of CY2018 indicate a continued reduction to \$272,382. While deficit reduction is one intended outcome of the fee increase, PaintCare's Board of Directors representing paint manufacturers has also established a reserves policy to guide fiscal operations. The minimum reserve threshold is 75% of annual expenses per state program, with a target of 100% annual expenses and a maximum of 125% of annual expenses. The target reserves for the Minnesota program in FY2018 is \$5,310,878, although this number will fluctuate overtime as program costs change.

Statistical projections using actual historic sales reported to PaintCare of eligible architectural coatings indicate relatively flat to potentially negative sales growth in future years. In addition, statistical projections using historic paint collection data compiled by Minnesota's paint recycler indicate a slight increase in total paint collection. Consequently, PaintCare has modeled a zero percent (0%) growth rate in paint sales revenue remitted to PaintCare and a one percent (1%) growth rate in paint collection, transportation and processing costs from FY2020 through FY2024 which is presented in Table 1. The other main cost drivers for the program are the expense categories "Personnel, professional fees and other" and "Allocation of corporate activity." These are modeled to grow at four percent (4%) annually reflecting increases in salaries, benefits

and overhead costs during this period as more sites are added requiring additional staff time, travel expenses, and administration.

Table 1

	Actual		Projected					
	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenue	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Larger than half pint to smaller than 1 gallon	644,642	768,131	834,325	834,325	834,325	834,325	834,325	834,325
1 gallon up to 2 gallons	3,426,857	3,904,518	4,152,167	4,152,167	4,152,167	4,152,167	4,152,167	4,152,167
Larger than 2 gallons up to 5 gallons	1,333,626	1,519,460	1,557,479	1,557,479	1,557,479	1,557,479	1,557,479	1,557,479
Total revenue	5,405,125	6,192,109	6,543,971	6,543,971	6,543,971	6,543,971	6,543,971	6,543,971
Expenses								
Paint processing	3,893,722	3,667,091	3,703,762	3,740,800	3,778,208	3,815,990	3,854,149	3,892,691
Paint transportation	464,621	428,683	432,970	437,300	441,673	446,089	450,550	455,056
Collection supplies and support	375,735	427,620	431,896	436,215	440,577	444,983	449,433	453,927
Communications	113,166	204,463	200,000	200,000	200,000	200,000	200,000	200,001
Personnel, professional fees, and other	149,535	166,436	173,093	180,017	187,218	194,707	202,495	210,595
State administrative fees	35,131	35,160	68,000	68,000	68,000	68,000	68,000	68,000
Allocation of corporate activity	362,337	381,425	396,682	412,549	429,051	446,213	464,062	482,624
Total expenses	5,394,247	5,310,878	5,406,403	5,474,881	5,544,727	5,615,982	5,688,689	5,762,894
Allocation of investment activity*	-75,844	-39,090	0	0	0	0	0	0
Change in net assets	-64,966	842,141	1,137,568	1,069,090	999,244	927,989	855,282	781,077
Net assets, beginning of reporting period	-1,496,075	-1,561,041	-718,900	418,668	1,487,758	2,487,002	3,414,991	4,270,273
Net assets, end of reporting period	-1,561,041	-718,900	418,668	1,487,758	2,487,002	3,414,991	4,270,273	5,051,350
Reserve level	-29%	-14%	8%	27%	45%	61%	75%	88%

*PaintCare cannot estimate or guarantee any potential future gains or losses from investments of net assets/reserves. Therefore, we assume \$0 in projections.

The model forecasts that the Minnesota program will likely pay off its deficit by the end of this current fiscal year. However, we do not anticipate the program will meet target reserve levels of 100% of annual operating expenses until sometime after FY2024 (with an estimated reserve of 88% for that fiscal year).

While the modest assumptions in this model are based on the best historical data available, factors beyond PaintCare's control, such as macroeconomic conditions and changes in paint collection infrastructure, are not included in this analysis. For example, PaintCare is not able to anticipate changes to the State of Minnesota's hazardous waste management contract, a cooperative purchasing venture currently utilized by counties operating HHW and VSQG programs. This contract is renewed every three to five years by the state with intermittent price changes by vendors possible during the contract period. Last fiscal year HHW and VSQG programs accounted for 73%, or approximately 725,302 gallons, of the eligible architectural coatings processed and paid for by PaintCare. Any small change in vendor pricing or reimbursement rates set forth in PaintCare's income agreement with MPCA have the potential to significantly impact PaintCare's finances.

To address possible future economic or management uncertainties, PaintCare proposes that we incorporate yearly fee reviews and five-year projections into all of our annual reports to MPCA. This consolidation is both reasonable and efficient given that our annual reports are regularly reviewed by MPCA staff, a meeting with MPCA is always conducted to review each report's contents, and report edits as well as general programmatic discussions already occur throughout this process. Transparency will also be maintained since reports are always made available to the public and followed by a public meeting (usually in webinar format).

PaintCare therefore requests that you approve a continuance of the fees at current levels through FY2024, contingent upon future fee reviews and projections (as discussed above) to be updated and submitted annually to MPCA, for its consideration, in PaintCare's fiscal year report due every October 1.

We look forward to working with MPCA to ensure the financial sustainability of the Minnesota paint stewardship program's operations. If you have any suggestions or questions about this letter, please do not hesitate to contact me directly to discuss.

Sincerely,



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