



March 1, 2021

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: Financial Projections and Fee Proposal for Minnesota Paint Stewardship Program

Dear Mr. Koudelka:

This document responds to MPCA's letter dated June 26, 2019, and subsequent follow-up letter dated December 22, 2020, requesting that PaintCare submit a proposal for the Minnesota Architectural Paint Stewardship Program's fee levels by March 1, 2021.

Below we present two financial projection scenarios outlining different fee levels and their impact on the program's finances. The starting point for these scenarios is PaintCare's financial data covering the Calendar Year (CY) 2020 from January through December.¹ It is noteworthy that total revenue and expenses for CY2020 are outliers amongst PaintCare's historical data set. Revenue is anomalously high, representing a massive surge in paint sales as the Covid-19 pandemic intensified. Conversely, expenses were down from historic numbers due to the closure of collection sites (both public and private) as well as the cancellation of public collection events as Covid-19 cases surged in Minnesota.

Since the pandemic led to temporary dramatic changes in PaintCare's finances, and the future impacts of Covid-19 are difficult to predict, we based the projection scenarios on several assumptions to model more typical revenue and expenses for the program.

- ◆ Sales volumes reported to PaintCare will decrease in CY2021 approaching pre-pandemic numbers.
- ◆ Leftover paint collection volume will increase in CY2021 approaching pre-pandemic numbers.
- ◆ After CY2021, revenue is predicted to grow at a moderate 2% based on general market estimates.
- ◆ After CY2021, expenses are predicted to grow at a moderate 2% year in line with national inflation.
- ◆ PaintCare does not project investment activities (gains/losses) for future years.
- ◆ Communications spending will increase above pre-pandemic numbers.
- ◆ Projections are only reasonable estimates, further complicated by the unpredictability of the Covid-19 pandemic's impacts on the public's purchasing and recycling behaviors.

¹ These numbers represent current figures and have not yet been independently audited.

Table I. Projections with Fee Status Quo

REVENUE	Actual	Forecast		
	CY2020	CY2021	CY2022	CY2023
Larger than half pint to smaller than 1 gallon	\$ 1,109,654	\$ 849,161	\$ 866,144	\$ 883,467
1-2 gallons	5,206,912	4,147,802	4,230,758	4,315,373
>2 gallons up to 5 gallons	1,712,739	1,545,709	1,576,623	1,608,156
Total revenue	8,029,305	6,542,672	6,673,526	6,806,996
EXPENSES				
Paint processing	3,640,215	4,186,247	4,269,972	4,355,372
Paint transportation	424,642	488,338	498,105	508,067
Collection supplies and support	347,899	400,084	408,086	416,247
Communications	76,892	300,000	300,000	300,000
Personnel, professional fees, and other	252,128	267,171	272,314	277,560
State administrative fees	17,171	21,000	21,000	21,000
Allocation of corporate activity	396,424	404,352	412,440	420,688
Total expenses	5,155,371	6,067,192	6,181,916	6,298,935
Allocation of investment activity	196,007	-	-	-
Change in net assets (revenue minus expenses)	3,069,941	465,480	481,409	497,657
Net assets, beginning of reporting period	399,394	3,469,335	3,934,815	4,416,224
Net assets, end of reporting period	\$3,469,335	\$3,934,815	\$4,416,224	\$4,913,881
Reserve Level	67%	65%	71%	78%

Table 2. Projections with Fee Decrease starting 10/1/21

REVENUE	Actual		Forecast	
	CY2020	CY2021	CY2022	CY2023
Larger than half pint to smaller than 1 gallon	\$ 1,109,654	\$ 788,507	\$ 618,675	\$ 631,048
1-2 gallons	5,206,912	3,896,420	3,205,120	3,269,222
>2 gallons up to 5 gallons	1,712,739	1,469,977	1,267,637	1,292,989
Total revenue	8,029,305	6,154,904	5,091,431	5,193,260
EXPENSES				
Paint processing	3,640,215	4,186,247	4,269,972	4,355,372
Paint transportation	424,642	488,338	498,105	508,067
Collection supplies and support	347,899	400,084	408,086	416,247
Communications	76,892	300,000	300,000	300,000
Personnel, professional fees, and other	252,128	267,171	272,314	277,560
State administrative fees	17,171	21,000	21,000	21,000
Allocation of corporate activity	396,424	404,352	412,440	420,688
Total expenses	5,155,371	6,067,192	6,181,916	6,298,935
Allocation of investment activity	196,007	-	-	-
Change in net assets (revenue minus expenses)	3,069,941	77,711	(1,100,685)	(1,116,079)
Net assets, beginning of reporting period	399,394	3,469,335	3,547,046	2,446,361
Net assets, end of reporting period	3,469,335	3,547,046	2,446,361	1,330,282
Reserve Level	67%	58%	40%	21%

Table 1 shows a three-year projection assuming that fees are maintained at their current levels. Table 2 shows a three-year projection assuming a fee decrease to the original program plan levels starting on October 1, 2021 per MPCA's December 22, 2020 letter. Otherwise, both projection scenarios rely on the same assumptions and starting points.

A cursory review of these scenarios reveals that maintaining fees at their current level would lead to a small increase in reserve levels over the next three years, while a decrease in fees will lead to a rapid decline in reserve levels. Based on the latter's trajectory, a fee decrease will eventually lead to a funding deficit, yielding a foreseeable result: a yo-yo scenario of fee decrease followed by fee increase every few years, which reduces consistency and reliability for manufacturers, consumers, and other stakeholders.

It is our desire to create a reliable and consistent program and fee structure that led PaintCare's Board of Directors to establish a reserves policy between 75% and 125% of annual operating expenses. The Board, representing paint manufacturers, seeks a stable fee to provide not only sustainable finances but also for other stakeholders to rely upon when making purchasing, sales, and inventory decisions. Reserves buffer financial fluctuations in the program and maintain consistency in the fee, a key component of future planning

for consumers, businesses and PaintCare. To achieve these outcomes, the Board has officially adopted the above reserves policy as a reasonable cost of doing business.

As business managers in the paint industry, Board members and staff inherently understand the necessity of keeping fees low while providing a cushion against unknown shocks such as a dramatic decrease in sales, sudden influx of collected paint or other future uncertainties including, but not limited to, change in program requirements by state entities, updates to statutes, ongoing health pandemics, and rises in collection and processing costs that are beyond the organization's control.

Furthermore, the point of a product stewardship organization is to put responsibility for end-of-life product management on those businesses whose intimate knowledge about their products and customers, business acumen and self-interest will manage costs effectively. Since program revenues are not guaranteed (merely dedicated), the program has no physical assets to borrow against in the event of a deficit, and the organization only indirectly controls its fee levels, a meaningful reserve is critical to current and future operations. The target range set by the Board is both appropriate and reasonable², and ultimately a necessary business decision to create stability for a program that manufacturers are legally obligated to run and fund.

Considering the above and given the unpredictability of the global pandemic's further impact on revenue and finances, PaintCare believes any fee change this year is ill-advised and would be potentially detrimental to the program. Moreover, the inherent business decision-making responsibilities that manufacturers are charged with, and their imperative to provide fee stability and program self-sufficiency, lead PaintCare to the conclusion that fees must be maintained at current levels through December 31, 2023, at a minimum. We propose that PaintCare submit another fee review (outside those already provided in required annual reports) to MPCA on March 31, 2024 to re-evaluate the fee structure.

We appreciate your consideration and look forward to your response.

Sincerely,



Steve Pincuspy
Minnesota Program Manager, PaintCare

CC:

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² A recent study commissioned by the Colorado Department of Public Health & Environment found that "PaintCare's reserves and reserve policy are on the high end compared to multiple comparison groups, but is not unreasonable." (<https://www.paintcare.org/wp-content/uploads/docs/co-cdphe-financial-assessment.pdf>). ProductCare, one of the largest product stewardship organizations in North America, showed net assets more than 100% of annual operating expenses in its 2019 consolidated report (<https://www.productcare.org/app/uploads/2020/05/2019-AR-EN-%C6%92-reduced.pdf>). Within Minnesota, a survey report by the Minnesota Council of Nonprofits found that 36% of respondents had 6 months or more of cash on hand (2018 Minnesota Nonprofit CFO Report available at https://www.minnesotanonprofits.org/docs/default-source/publications/2018-cfo-survey.pdf?sfvrsn=95a92b6_2).