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January 20, 2020

Carpet America Recovery Effort
Dr. Robert Peoples, Executive Director
100 S. Hamilton Street
Dalton, Georgia 30720

Regarding: **Carpet America Recovery Effort (CARE) Cost Analysis and Model Evaluation**

Dear Dr. Peoples:

Following up on CalRecycle's November 19, 2019 "Consideration of CARE's Implementation of Chapter 0 of its 2018-2022 California Carpet Stewardship Plan" and our meeting on January 14, 2020 with CARE and the Modeling Team, Crowe is providing two clarifications of our recommendations.

The first clarification relates to our CARE Model Evaluation report. In this report (page 37) we note that our primary recommendation is to combine the models into one comprehensive workbook. We also "recognize that integrating these models would be challenging, and do not recommend combining models until they are more fully developed to avoid unnecessary work and revisions." At this point in time, we would like to emphasize this statement. As a starting point, we recommend that CARE combine the Cost Conversion Model (CCM) and Subsidy Justification Model (SJM). The Economic Model is an extremely large and complex, and as we now understand – unstable – Excel Model. The risk of combining the Economic Model with the CCM and SJM does not justify potential benefits. Consistent with our recommendations in the Model Evaluation, we recommend keeping the Financial Model separate. We support CARE's ongoing efforts to refine the models.

The second clarification relates to our CARE Cost Analysis report. In this report (page 80) we evaluated the ability of the program to absorb a 10 percent or 15 percent increase in subsidies. As the report states, "such an increase in subsidies could be the result of higher subsidies, higher recycling rates, or a combination of the two." We would like to clarify that by a 10 percent increase in subsidies, we meant a 10 percent increase in the overall amount of subsidies paid out, not a 10 percent increase in each of the subsidy payments. In hindsight, we recognize that our statement could be interpreted more than one way. Our calculations reflected a 10 percent total dollar increase. For example, if total subsidy payments were \$15 million, then a 10% increase would result in total subsidy

payments of \$16.5 million. We did not intend to opine on specific subsidy amounts within this analysis. Increasing each subsidy by 10 percent would result in a greater expenditure of funds as compared to a 10 percent overall increase, which may not be sustainable.

Please let me know if you have any questions. We look forward to working with CARE to address CalRecycle's requirements regarding CARE's Implementation of Chapter 0.

Sincerely,

A handwritten signature in blue ink that reads "Wendy B. Pratt". The signature is written in a cursive, flowing style.

Wendy Pratt, Managing Director
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