

Evaluation of PaintCare Program Expenses and Revenue

1. INTRODUCTION

PaintCare provides a five-year projection each fall in its annual report to CalRecycle. The projection reflects PaintCare's view of a most likely scenario, though it considers other possible outcomes. It is built using a revenue and expense modeling template which considers the previous five years' finances and planned increases or decreases in each budget category. The core program budget variables are:

Revenue from fees: (95% of revenue in FY19)

While PaintCare has no control over this variable, the projection considers both historic and current year trends. Annual paint sales in the previous five years have increased some years and decreased in others, averaging less than 0.1% change. In normal economic circumstances, annual changes beyond plus or minus 2% are seen as unlikely.

Investment Gain (Loss): (5% of revenue in FY19)

Though the exact return on the program's investment strategy cannot be determined, high, low and middle return levels based on historic outcomes can be envisioned.

Paint Collection, Transportation and Processing (CTP): (75% of expenses in FY19)

Overall drop-off site counts and associated CTP volumes are growing at a slower pace, as the program has shifted from program build-out to program maintenance. Sites also tend to remain in the program once active or are soon replaced by others if they stop participation, adding to stability of costs. Variables that may increase costs in future years include vendor price increases and additional CTP costs stimulated by increased marketing, outreach or expanding sites or services.

Communications: (12% of expenses in FY19)

While PaintCare has mandatory communications expenses simply to operate the program, it also has discretion to increase this budget area to grow and enhance the program. Dedicating more funds toward this area may simultaneously be able to improve the results of the program and moderate the program's surplus by stimulating additional paint reuse or recovery for recycling.

2. PROJECTION SCENARIOS DISCUSSION

PaintCare creates three plausible scenarios that show what happens when core program budget variables are modified within expected ranges. The projection also uses each scenario to model the outcome of reducing program fees by five cents across all container sizes beginning in FY21.

PaintCare prefers to make budgetary adjustments to reach its reserve policy target, in lieu of revising the fee structure, to avoid the need to increase fees again in the near future. From experience in other states, PaintCare understands that even the smallest change to the fee structure demands substantial time and effort from various program stakeholders to prepare, gain approval and implement. Scenario A reveals how adding \$1 million annually to enhance the program achieves the desired result without a fee decrease.

Scenario A (chosen scenario)

PaintCare has chosen to include an updated five-year projection that reflects a brief rebound in FY22 from the economic impact of COVID-19, followed in FY23-FY25 by stable revenue from fees and small increases in CTP. Growth in CTP costs reflects the maturity of the stewardship program, while a return to stability in revenue from fees reflects the historic stability of the paint market. Under these conditions, an additional \$1 million each year in expenses could be sustained while returning the program to its target reserve level (96% in FY25). Reducing the program by five cents in this scenario would take the program below its target range.

Scenario B

In this scenario, economic uncertainty continues, revenue from fees continues to decline in FY21-FY22, while CTP costs continue to grow, as in Scenario A. Under these conditions, the program would go below its target reserve range (62% in FY25) even without additional spending contemplated in Scenario A. Reducing the program by five cents in this scenario would only take the program further below its target range.

Scenario C

In this scenario, a strong recovery from the economic impact of COVID-19 results in revenue from fees steadily increasing each year beginning in FY22. During the same timeframe, CTP costs decline due a decline in recycling activities. Under these conditions, the program would still be above its target reserve range (148% in FY25), even with additional spending contemplated in Scenario A. Reducing the program by five cents in this scenario would put the program at the high end of its target range.

3. PROJECTION SCENARIOS: ASSUMPTIONS AND OUTCOMES

Scenario assumptions are a preliminary assessment of the impact of COVID-19 and are subject to change. All three scenarios assume a 10% year-over-year decline in CTP expenses and revenue from fees in FY20 and no investment return in FY20. Revenue from fees and investment return are projected to rebound to differing degrees, with each scenario forecasting a different cadence.

Description	Scenario A	Scenario B	Scenario C
Note	Expenses track closely with revenue from fees	Expenses outpace revenue from fees	Expenses are outpaced by revenue from fees
Revenue from fees	4% increase in FY22, no increase in other years.	4% decrease each year FY21-FY22, 1% increase each year FY23-FY25	No increase in FY21, 2% increase each year FY22-FY25
Investment return	\$1 million return each year FY21-FY25	No investment return FY21-FY22, \$500,000 return each year FY23-FY25	No investment return FY21, \$1.5 million return each year FY22-FY25
CTP	Average annual increase of 1.8%	Average annual increase of 1.8%	Average annual decrease of 1%
Communications or other additional expenses	+\$1 million per year starting in FY21	None, due to reserve depletion	Communications (or other additional expenses): +\$1 million per year starting in FY21
Does scenario result in compliance with Reserve Policy?	Yes. Reserve ends FY25 at 96%.	No. Reserve ends FY25 at 62%.	No. Reserve ends FY2025 at 148%.
With fee decrease: does it result in compliance with Reserve Policy?	No. Reserve ends FY25 at 70%.	No. Reserve ends FY25 at 38%.	Yes. Reserve ends FY2025 at 119%.

4. PROJECTION SCENARIOS: RESERVE BALANCE SUMMARY

The FY20 tables below shows the baseline — the similar starting point of each scenario at the end of the current fiscal year. The full projection for Scenario A showing all years FY20-FY25 is provided at the end of this submission.

FY20 - Revenue

Description	Scenario A	Scenario B	Scenario C
Revenue from fees	\$31,031,885	\$31,031,885	\$31,031,885
Investment gain (loss)	0	0	0
Total Revenue	\$31,031,885	\$31,031,885	\$31,031,885

FY20 – Expenses

Description	Scenario A	Scenario B	Scenario C
CTP	\$24,627,223	\$24,627,323	\$24,627,323
Communications	\$3,500,000	\$3,500,000	\$3,500,000
All other expenses	\$4,508,874	\$4,508,874	\$4,508,874
Total Expenses	\$32,636,097	\$32,636,097	\$32,636,097

FY20 – Other

Description	Scenario A	Scenario B	Scenario C
Total Change in Net Assets	\$(1,604,212)	\$(1,604,212)	\$(1,604,212)
Net Assets, beginning of year	\$49,412,286	\$49,412,286	\$49,412,286
Net Assets, end of year	47,808,074	47,808,074	47,808,074
Reserve level	146%	146%	146%

The FY25 tables below shows the end point of each scenario.

FY25 - Revenue

Description	Scenario A	Scenario B	Scenario C
Revenue from fees	\$32,273,161	\$29,465,564	\$33,589,911
Investment gain (loss)	\$1,000,000	\$500,000	\$1,500,000
Total Revenue	\$33,273,161	\$29,965,564	\$35,089,911

FY25 – Expenses

Description	Scenario A	Scenario B	Scenario C
CTP	\$26,916,159	\$26,916,159	\$23,420,244
Communications	\$4,500,000	\$3,500,000	\$4,500,000
All other expenses	\$5,073,745	\$5,073,745	\$5,073,745
Total Expenses	\$36,489,904	\$35,489,904	\$32,993,990

FY25 – Other

Description	Scenario A	Scenario B	Scenario C
Total Change in Net Assets	(\$4,216,743)	(\$6,024,321)	\$595,921
Net Assets, beginning of year	\$38,070,172	\$27,667,200	\$46,829,189
Net Assets, end of year	34,853,429	22,142,860	48,925,110
Reserve level	96%	62%	148%

The FY25 table below shows the end point for each scenario, with a \$0.05 fee decrease in all container categories. All other variables and values from FY25 are held constant.

FY25 – (\$0.05 Fee Decrease in FY21)

Description	Scenario A	Scenario B	Scenario C
Revenue from fees	30,371,723	27,729,541	31,610,894
Total Change in Net Assets	(\$6,118,181)	(\$7,760,363)	(\$1,383,096)
Net Assets, beginning of year	\$30,537,554	20,806,411	39,293,630
Net Assets, end of year	25,419,372	13,546,047	39,410,534
Reserve level	70%	38%	119%

5. OPTIONS FOR USE OF RESERVE FUNDS

Beginning in 2019, PaintCare and CalRecycle used monthly update meetings to consider where PaintCare could increase the highest and best use of paint managed under the program, and where additional program funds would be useful to this end. Meeting topics included increasing program convenience, adjustments to the contracting process, and use of increased expenditures to stimulate higher volumes of paint recovery and/or rates of paint reuse and recycling. From the discussions, stimulating additional reuse and recycling volumes emerged as key consensus areas where PaintCare could leverage its program funds and role as a stewardship organization to greatest effect.

Concurrently, PaintCare held a series of brainstorming sessions with its staff that generated options and preferred alternatives for increasing the program's measurable reuse volume. In 2020, PaintCare will consult with California reuse partners and its haulers to refine its approach and determine the allocation for increasing reuse in its FY21 budget.

6. CONCLUSION

PaintCare is considering using excess reserve funds by increasing its annual expenses by \$1 million beginning in FY21 in two key areas:

- Increased Communications budget, with the intention of increasing utilization of program services by raising mass awareness of the program. Additional communication expenses will be approved as needed to support marketing of community paint reuse activities and events.
- Increased financial support for activities that increase paint reuse, with exact details to be specified in consultation with reuse partners.

The exact amount and timing of spending excess reserve funds requires approval of PaintCare's Board of Directors and is subject to revision. A decision to maintain or revise course will be made twice yearly, during spring budgeting and fall annual report preparation.

Revenue Projection for Revenue FY20-FY25

Description	FY2020 Forecast Year 8 (\$)	FY2021 Forecast Year 9 (\$)	FY2022 Forecast Year 10 (\$)	FY2023 Forecast Year 11 (\$)	FY2024 Forecast Year 12 (\$)	FY2025 Forecast Year 13 (\$)
Revenue from fees	31,031,885	31,031,886	32,273,161	32,273,161	32,273,161	32,273,161

Projection for Expenses FY20-FY25

Description	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
Paint processing	18,280,310	18,645,916	19,391,753	19,585,670	19,781,527	19,979,342
Paint transportation	3,339,626	3,406,418	3,542,675	3,578,102	3,613,883	3,650,022
Collection supplies and support	3,007,288	3,067,434	3,190,131	3,222,032	3,254,253	3,286,795
Communications	3,500,000	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000
Personnel, professional fees, and other	1,242,138	1,357,112	1,389,110	1,422,229	1,456,507	1,491,984
State administrative fees	240,000	240,000	240,000	240,000	240,000	240,000
Allocation of corporate activity	3,026,736	3,087,271	3,149,016	3,211,996	3,276,236	3,341,761
Total expenses	32,636,097	34,304,150	35,402,685	35,760,030	36,122,405	36,489,904

Projection for Other FY20-FY25

Description	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
Investment gain (loss)	-	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Change in net assets	(1,604,212)	(2,272,265)	(2,129,524)	(2,486,869)	(2,849,244)	(3,216,743)
Net assets, beginning of year	49,412,286	47,808,074	45,535,809	43,406,285	40,919,417	38,070,172
Net assets, end of year	47,808,074	45,535,809	43,406,285	40,919,417	38,070,172	34,853,429
Reserve level	146%	133%	123%	114%	105%	96%

7. STATEMENT ON THE IMPACT OF COVID-19

As of the date of submission, the effects of the COVID-19 pandemic on PaintCare's finances are not known. At present, a number of HHW programs have temporarily closed and have canceled spring 2020 events and economic indicators have shown short-term volatility. The projections included in this submission attempt to reflect these impacts based on best available current information. PaintCare will continue to monitor the programmatic impact of COVID-19 closely and update its budget and projections accordingly.