

CARE California Carpet Stewardship Program

Carpet Stewardship Plan 2023-2027 Amendment #1 Request to Increase Assessment



Submitted to CalRecycle

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An initiative of CARE:
Carpet America Recovery Effort

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1. REQUEST TO INCREASE ASSESSMENT

1.1 Background and Justification for Amendment

Based on the approved 2023-2027 Carpet Stewardship Plan, CARE proposed a new reserve balance of approximately \$15 million (six months of funding) to meet the required reserve level. CalRecycle specified that CARE establish assessments that would achieve this reserve level by December 2025.

The initial assessment levels approved as of April 1, 2023, will not achieve the required reserve.

CARE engaged Crowe LLP to conduct detailed analyses and modeling to define the necessary assessments to hit the reserve target.

This formal request for an assessment change is the result of Crowe's analyses and modeling and approved by the Stewardship Planning Committee (SPC) and Sustainable Fund Oversight Committee (SFOC).

This Plan Amendment is strictly focused on the need to meet the 2025 fund balance deadline and ensure a 6-month reserve as required under the newly approved 2023-2027 Plan. Separately, CARE has committed to the next version of the Carpet Differential Assessment (CDA) approach as outlined in the CalRecycle approved RFA dated April 5, 2022 (see Condition 3) and based on the February 22, 2022, Revised Plan Amendment regarding CARE's Differential Assessment Approach. Under the approved CDA Plan, page 26, item 3 states: Tentative implementation of updated differential assessments: Q1 2025. CARE encourages all stakeholders to read Bullett 3 for the full context. [\[Public Notice: Consideration of CARE's Plan Amendment Regarding its Differential Assessment Approach, Revised February 22, 2022\]](#) The reader is also referred to the AB729 statute for details of the law. [\[Bill Text - AB-729 Carpet recycling: carpet stewardship.\]](#)

1.2 Summary of Request

CARE is submitting this formal request for an amendment to the 2023-2027 Carpet Stewardship Plan to increase the assessment levels on January 1, 2024, to the following (current levels are shown in parenthesis):

- Broadloom carpet with at least 10% post-consumer recycled content (PCR): **\$0.68** (from \$0.56)
- Broadloom carpet with less than 10% PCR: **\$0.70** (from \$0.58)
- Carpet tile with at least 10% PCR: **\$0.97** (from \$0.71)
- Carpet tile with less than 10% PCR: **\$0.99** (from \$0.73)

This immediate assessment increase is required to meet the new reserve requirement by the end of 2025.

At these assessment levels, this Amendment assures that the Plan is fully and aggressively funded pursuant to Carpet Stewardship Law. The Program will continue its monthly monitoring of financial performance. If unanticipated funding concerns arise in the future, the Program will meet with CalRecycle to discuss an appropriate plan of action. Pursuant to the approved Plan and the March 2023 signed RFA:

- a. CARE has updated its reserve policy to assure uninterrupted implementation of the Plan, including assuring the reserve amount is sufficient for CalRecycle to carry out the activities in the Plan for up to one year in the event of Plan revocation or termination.
- b. CARE will commit to achieving the increased reserve level by the end of the fourth quarter of 2025 (i.e., December 31, 2025), which is inclusive of mill assessment remittances for the fourth quarter of 2025.
- c. CARE will continue its commitment to providing quarterly updates regarding its reserve levels to CalRecycle (e.g., in quarterly reports). CARE will demonstrate by March 31, 2026, via its quarterly report for the fourth quarter of 2025, that it has achieved the required reserve level.

Consistent with the direction from CalRecycle, with the proposed assessments implemented on January 1, 2024, CARE will achieve a reserve by December 31, 2025, that amounts to six months of average program costs. CalRecycle has directed that CARE may not incorporate future assessments into the Plan for automatic implementation. For 5-year budgeting purposes and to demonstrate the Plan is adequately funded and the reserve level is met, CARE has shown possible future assessment adjustments. Based on required quarterly updates, when the time becomes apparent that an assessment adjustment is warranted, CARE will follow the approved protocol for submission of such requests. In addition, the tentative implementation of updated differential assessments in Q1 of 2025, as noted above, will replace the possible future assessment adjustments incorporated into the model for budgeting purposes.

1.3 Modeling of Proposed Changes

Crowe conducted modeling of assessment levels based on the following assumptions and scenarios. The goal of all model scenarios was to achieve a fund balance of at least \$15 million by the end of 2025 to meet the new reserve requirement:

1. Projected California carpet sales between 2022 and 2027, including actual sales through Q2 2023 (modeling a 32% reduction in sales between 2022 and 2027, consistent with approved Plan).
2. California Carpet Stewardship Program expenditures, including actual expenditures through 2022 and projected expenditures through 2027. Projections for subsidy expenditures are based on subsidies for collection, processing, and manufacturing required to meet annual recycling rate goals as identified in the Plan along with Program and administrative expenses.
3. Subsidies account for approximately 75% to 80% of annual Program expenditures. (Expenditures are consistent with approved Plan)
4. A differential between broadloom and tile and a two-cent discount for $\geq 10\%$ post-consumer content, consistent with CARE's approved 2021 Differential Assessment Approach report and 2023-2027 approved Plan.
5. Analysis of three start-date scenarios for increased assessments: October 1, 2023; January 1, 2024; April 1, 2024. Based on the analysis and considering factors such as time required to approve an assessment change, time required to implement an assessment change, date of the prior assessment increase (April 2023), and impact on monthly fund balances, CARE determined that a January 1, 2024, assessment increase would best support the Program and Program participants.
6. For each of the three potential start dates CARE conducted an iterative analytical process to proportionally adjust the differential assessment levels for broadloom $< 10\%$ PCC, broadloom $> 10\%$ PCC, tile $< 10\%$ PCC, and tile $> 10\%$ PCC in order to achieve a \$15 million reserve level by the end of 2025. The modeling utilized recycling rate goals for each year consistent with the approved Plan, current subsidy levels, and carpet sales estimates reflecting annual declines of 7% to 8%.

1.4 Final Recommendation

CARE's requested amendment to the 2023-2027 Carpet Stewardship Plan is to increase the assessment levels on January 1, 2024, to the following:

- Broadloom carpet with at least 10% post-consumer recycled content (PCR): **\$0.68**
- Broadloom carpet with less than 10% PCR: **\$0.70**
- Carpet tile with at least 10% PCR: **\$0.97**
- Carpet tile with less than 10% PCR: **\$0.99**

The next sections present the associated updates to Table 7-3 and Figure 7-4 in the 2023-2027 Carpet Stewardship Plan.

The increased assessments are projected to meet the end-of-year fund reserve requirements for 2025, 2026, and 2027.

CARE will continue to monitor the fund balance monthly to ensure that the assessments provide sufficient funding to carry out the Program, meet the reserve requirement by the end of 2025, and advance the objectives of the Carpet Stewardship Law.

The January 1, 2024, assessment increase date also helps mitigate the low fund balance allowing the reserve to begin to build an early buffer capacity.

1.5 Updated Table 7-3

This table provides final audited numbers for 2022, based on the recently completed 2022 Annual Report, and updated assessment revenue and fund balances as compared to the approved Plan based on the proposed assessment levels and annual recycling rates as required by the May 2022 RFA. Note that final carpet sales in 2022 were slightly lower than projected in the Approved Plan, resulting in a slight reduction in sales projections for the years 2023 to 2027. Q2 carpet sales in Q2 2023 were approximately 15% lower than projected, reflected in lower 2023 carpet sales as compared to the Approved Plan. The assessment revenue projections reflect the lower sales, maintaining a 32 percent reduction in sales between 2022 and 2027. The projected ending fund balance on December 31, 2025, reflects projected sales, subsidy payments, and program expenditures as of September 2023. Given inherent uncertainties in the industry, actual revenues and expenditures will vary; however, CARE expects that the proposed assessment levels will achieve the projected 6-month reserve requirement based on the average of projected expenditures between 2023 and 2025. CARE will utilize the quarterly monitoring to track ongoing progress toward meeting the reserve requirement and propose adjustments if needed.

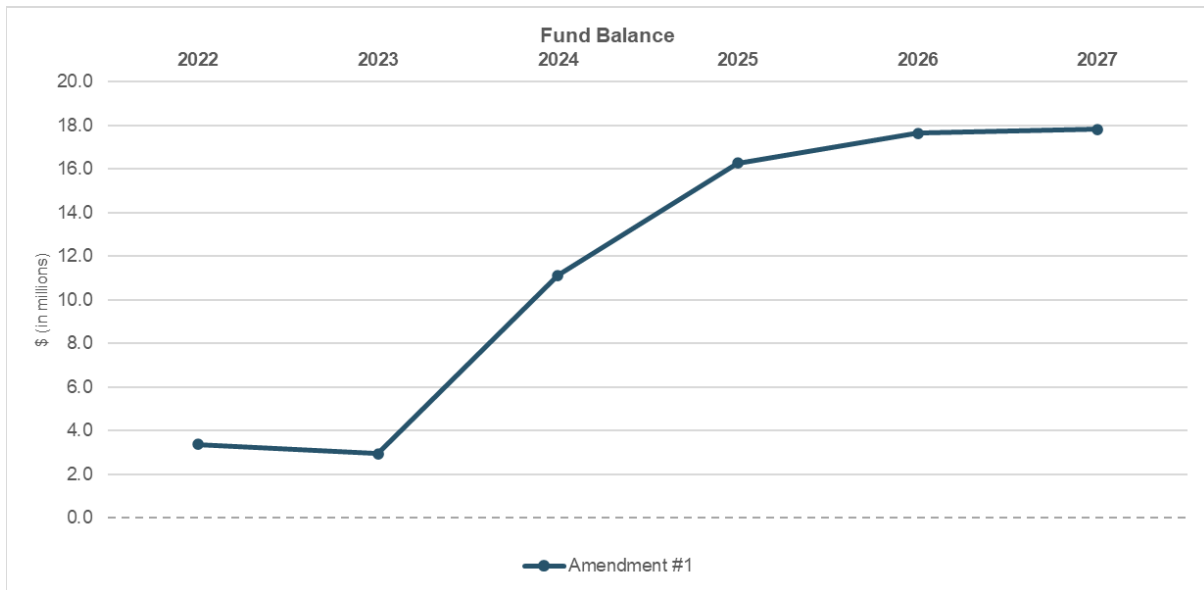
Table 7-3. Carpet Stewardship Program Budget, 2021 and 2022 Actual and 2023–2027 Forecast (in thousands of dollars)

Budget Components	2021	2022	2023	2024	2025	2026	2027
Annual Recycling Rate Goal	27.9%	34%	31%	34%	37%	41%	45%
Beginning Fund Balance	\$18,387	\$12,165	\$3,375	\$2,949	\$11,125	\$16,267	\$17,650
Carpet Sales (thousand square yards)	67,340	61,911	55,934	53,547	49,798	46,014	42,333
Assessment Revenue	\$23,545	\$22,726	\$30,499	\$40,243	\$37,426	\$36,078	\$33,192
Total Expenditures	\$29,802	\$31,596	\$30,925	\$32,067	\$33,364	\$34,197	\$34,847
Ending Fund Balance	\$12,165	\$3,375	\$2,949	\$11,125	\$16,267	\$17,650	\$17,830

1.6 Updated Figure 7-4

Figure 7-4 illustrates the Program’s projected fund reserve balance from 2022 through 2027. Assessment levels, as provided in this Amendment and subsequent adjustments to be determined, will provide adequate coverage of the projected Program expenditures necessary to achieve a 45% recycling rate and to meet the reserve requirement. The Program tracks costs on a detailed monthly basis, by individual recycler and subsidy category, and has the ability to examine trends with sufficient lead time to make adjustments if needed.

Figure 7-4. Projected Fund Reserve Balance (millions), 2022–2027



Alt text:

Cover photos:

3 cover photos show:

Program staff talking to carpet installers at warehouse tabling event.

Rolled carpet loaded for recycling in box truck.

Pellet material from recycled carpet.

Figure 7-4:

This line graph shows the Projected Fund Reserve Balance at the end of the year, in millions of dollars, for 2022 through 2027.

The annual figures are:

3.4 million dollars in 2022.

2.9 million dollars in 2023.

11.1 million dollars in 2024.

16.3 million dollars in 2025.

17.6 million dollars in 2026.

17.8 million dollars in 2027