



December 20, 2024

Megan Warfield  
Product Stewardship Unit Supervisor  
Washington State Department of Ecology  
300 Desmond Dr SE, Lacey, WA 98503

Dear Ms. Warfield,

This document proposes to amend the Washington Architectural Paint Stewardship Program Plan. Its primary objective is establishing a new fee structure, an important change for the program's sustainability. PaintCare proposes replacing part of Section 7 - Funding and Budget (pages 37-44) with the following text.

## PROPOSED TEXT

### Paint Sales Volume (pages 38-39)

Although a thorough analysis was conducted to determine the appropriate fee before the program began, actual paint sales in Washington have been much lower than expected, resulting in a significant shortfall in revenue. While the outlook for paint sales in Washington looks positive over the next several years, the growth rate is forecasted to average about 2% a year and not generate the revenue needed to cover the program's expenses. As the program continues to grow with the addition of new drop-off sites and paint collection volume increases, the shortfall in revenue is projected to generate annual deficits and decrease the program's net assets to 12% by the end of 2025.

The following table compares the estimated paint sales in Washington as presented in the Washington Architectural Paint Stewardship Program Plan submitted on February 26, 2021, with the actual paint sold in gallons from 2021 (April-December) through 2023.

### PAINT SOLD (GALLONS)

	2021	2022	2023
Estimated Gallons Sold	12,213,751	16,493,374	16,696,276
Actual Gallons Sold	11,822,257	14,365,271	13,827,789

To estimate current and future Washington architectural paint sales, PaintCare consulted with Decision Metrics, a highly reputable firm used by the American Coatings Association to analyze paint sales data. Decision Metrics developed a series of models to project future paint demand and publishes a quarterly report that provides current and future coatings demand estimates.

To project the total gallons sold and provide a container size breakdown (1-gallon vs. 5-gallon) for Washington, Decision Metrics considered many key metrics, including housing starts, home sales, construction projects, the

residential home improvement market, and other economic conditions. To assist, PaintCare provided Decision Metrics with actual historical monthly sales totals reported by each size category for Washington.

**Collection Volume Projections (page 40)**

The recovery rate for paint collected by paint stewardship programs in the U.S. and Canada varies from a low of about 4% to a high of about 12%. The recovery rate is the volume of paint collected divided by the volume of new paint sold in the same period. Since the Washington program began, the gallons of paint collected have increased yearly, with an average three-year recovery rate of 5.9%. The volume of paint collected depends on various factors including but not limited to the state’s paint collection infrastructure, the extent of outreach, and the age of the program. Based on its experience in other programs, PaintCare has observed a pattern showing that the recovery rate initially increases each year of a new program, with the largest increases in the program’s first two or three years. After a few years, the recovery rate stabilizes, with smaller increases, no increase, or small decreases. The volume of paint collected in Washington is expected to increase with additional outreach activities. The following table shows paint collection volumes, new paint sold, and the corresponding recovery rate from 2021 (April-December) through 2023.

**PAINT GALLONS COLLECTED, SOLD, AND RECOVERY RATE**

	2021	2022	2023
Gallons Collected (gallons)	581,363	864,906	929,490
New Paint Sold (gallons)	11,822,257	14,365,271	13,827,789
Recovery Rate	4.9%	6.0%	6.7%

**Budget Description (pages 41-42)**

PaintCare is presenting a budget and proposed fee structure calculated to fully fund the Washington program through 2028, including an operating reserve, to help ensure the program's sustainability. The budget reflects PaintCare’s expected revenue and expenses based on the projected paint sales and recovery rates described previously. Also, the budget includes funds to add new paint drop-off sites to improve convenience for Washingtonians as a program requirement.

The following describes the primary elements of the budget.

**Revenue**

Revenue is calculated using the current fee structure through December 2025. Starting January 1, 2026 and in subsequent years, revenue is calculated using the proposed fee structure (shown in the following subsection) and the anticipated paint sales by container type.

**Operations Expenses**

Operations include all in-state (direct) expenses for operating the Washington program. These costs are borne entirely by the Washington program and not shared with other PaintCare programs. They are categorized as follows:

- **Paint processing.** This is usually the most significant expense of the program. Costs are based on vendor pricing and payments for the additional activities (e.g., reuse) at sites. Due to vendor price increases, new drop-off sites, increased paint collection events, and increased paint volume, processing costs have risen steadily and are projected to continue to increase.

- **Paint transportation.** This expense includes transporting paint bins from paint drop-off sites to paint processing locations. Due to vendor price increases, new drop-off sites, increased paint collection events, and increased paint volume, transportation costs have risen steadily and are projected to continue to increase.
- **Paint collection supplies and support.** These expenses include the cost of paint collection bins, spill kits, PaintCare event expenses, training materials, signs, labor to pack paint at LVP sites, and other paint collection-related support. The cost for outdoor storage units needed for some stores to participate as drop-off sites is also included. Due to vendor price increases, new drop-off sites, increased paint collection events, and increased paint volume, paint collection supplies and support costs have risen steadily and are projected to continue to increase.
- **Communications.** These expenses include advertising and educational materials to increase program awareness and promote drop-off sites, events, and other services. If the paint stewardship fee increase is approved, PaintCare plans to gradually increase the communications budget to \$850,000 to provide funding for additional public education and outreach.
- **Personnel, professional services, and other.** These expenses include staff working directly to implement the Washington program, legal costs for regulatory review and developing contracts, and other logistical, professional support, and office expenses. This category includes a 2024 review of the proposed fee by an independent financial auditor as required by the Architectural Paint Stewardship Program statute.
- **State agency administrative fees.** PaintCare will pay this annual expense to the Washington State Department of Ecology for program oversight.

## **General and Administrative**

General and administrative costs include administrative and corporate staff, back-office support (e.g., information technology, human resources, legal, accounting, and government affairs), insurance, data management systems, annual financial audit, software licenses, professional services for corporate or organization-wide matters, occupancy, general communications, and other supplies and services that support all PaintCare programs. These costs are shared across all PaintCare programs and allocated relative to population. Washington's share of the general and administrative allocation is currently 8.5%.

## **Operating Reserves**

Reserves represent the net assets of the Washington program. Reserves are needed to sustain the program in times of either higher-than-expected paint collection volumes resulting in higher-than-expected expenses, lower-than-expected paint sales resulting in lower-than-expected revenue, or a combination of the two. PaintCare's reserves policy establishes a target reserve as a percentage of annual expenses and sets a minimum and maximum threshold. If the reserves fall below the minimum threshold or rise above the maximum threshold, an evaluation of the program's expenses and revenue is performed to determine if changes are needed in operations, outreach, and/or the fee structure to bring the reserve balance within range. PaintCare currently has a target reserve of 100% of annual expenses (i.e., 12 months of operating expenses), with a minimum threshold of 75% (i.e., nine months) and a maximum threshold of 125% (i.e., 15 months).

## **PaintCare Fee (page 42)**

Based on the projected paint sales, revenue, and expenses, PaintCare proposes the following increases in the program fee structure:

## CURRENT AND PROPOSED FEE STRUCTURE

Size	Container Size	Current Fee	Proposed Fee	Change
Very Small	Half pint or smaller	\$0.00	\$0.00	\$0.00
Small	Larger than half pint up to smaller than 1 gallon	\$0.45	\$0.65	\$0.20
Medium	1–2 gallons	\$0.95	\$1.45	\$0.50
Large	Larger than 2 gallons up to 5 gallons	\$1.95	\$2.75	\$0.80

### Audit of the PaintCare Fee (page 43)

To help ensure that the program’s funding mechanism is appropriate to cover the cost of the program, Washington law requires the proposed PaintCare fee to be reviewed by an independent financial auditor.

The audit report issued by Lydon Fetteroff Corydon, P.A. is provided in the appendix and concluded the following:

In our opinion, the accompanying forecasted budget is presented, in all material respects, in accordance with the guidelines for presentation of a forecast established by the AICPA, and the underlying assumptions are suitably supported and provide a reasonable basis for PCWA’s forecasted budget. Also, in our opinion the PCWA’s proposed uniform paint stewardship assessment fee of \$0.00, \$0.45 , \$0.95, and \$1.95 by each container size (half pint or smaller, larger than half pint to smaller than one gallon, one gallon up to two gallons, and larger than two gallons up to five gallons, respectively) charged on all paint containers sold at retail to Washington State consumers from January 1, 2025 through December 31, 2025, and uniform paint stewardship assessment fee of \$0.00, \$0.65 , \$1.45, and \$2.75 by each container size (half pint or smaller, larger than half pint to smaller than one gallon, one gallon up to two gallons, and larger than two gallons up to five gallons, respectively) charged on all paint containers sold at retail to Washington State consumers starting January 1, 2026 is sufficient, within the meaning of Section 70A.515.040, to cover the expenses (costs) of operating the architectural paint stewardship program and maintain financial reserves sufficient to operate said program over the multi-year period from January 1, 2025 through December 31, 2028.

### Financial Summary (pages 43-44)

The following table shows actual revenue and expenses for 2022 and 2023 and projected revenue and expenses for 2024 through 2028. The proposed fee increase is reflected in 2026 and subsequent years.

## REVENUE AND EXPENSES

	Actual		Projections				
Revenue	2022	2023	2024	2025	2026	2027	2028
Small Containers	\$656,573	\$711,095	\$745,371	\$773,919	\$1,140,240	\$1,140,240	\$1,140,240
Medium Containers	3,958,684	3,696,311	3,928,464	4,078,531	6,349,629	6,349,630	6,349,630
Large Containers	3,827,530	3,712,872	3,796,794	3,881,083	5,582,789	5,582,789	5,582,789
Total Revenue	8,442,788	8,120,279	8,470,629	8,733,533	13,072,658	13,072,658	13,072,658
<b>Expenses</b>							
Paint Processing	4,258,839	5,081,431	5,429,084	6,154,884	6,277,982	6,403,541	6,531,612
Paint Transportation	1,118,819	1,393,671	1,449,846	1,640,846	1,673,663	1,707,136	1,741,279
Paint Collection Supplies and Support	484,942	239,043	275,249	373,449	380,918	388,536	396,307
Communications	813,698	794,136	30,266	23,000	500,000	850,000	850,000
Personnel, Prof. Fees, Other	418,600	470,539	539,415	481,689	498,443	513,486	529,037
State Agency Administrative Fees	24,934	50,180	45,700	78,000	78,000	78,000	78,000
Loan Interest	35,046	34,906	24,000	12,130	0	0	0
General and Administrative	569,500	619,865	762,616	779,974	807,273	835,528	864,771
Total Expenses	7,724,379	8,683,772	8,556,176	9,543,972	10,216,278	10,776,228	10,991,006
Change in Net Assets	718,409	(563,493)	(85,547)	(810,439)	2,856,380	2,296,430	2,081,652
Net Assets, Beginning of Year	1,870,731	2,589,140	2,025,647	1,940,100	1,129,661	3,986,041	6,282,471
Net Assets, End of Year	\$2,589,140	\$2,025,647	\$1,940,100	\$1,129,661	\$3,986,041	\$6,282,471	\$8,364,123
Reserve Level	34%	23%	23%	12%	39%	58%	76%

**PAINTCARE WASHINGTON LLC**

**SUMMARY SCHEDULE OF ACTUAL AND  
FORECASTED REVENUES, EXPENSES (COSTS), AND  
FINANCIAL RESERVE FUND**

**AND**

**CALCULATED AVERAGE UNITIZED PAINT STEWARDSHIP FEE  
FOR THE WASHINGTON STATE DEPARTMENT OF ECOLOGY**

For the Actual Pre-Operational Startup Period from June 1, 2019 through March 31, 2021,  
Actual and Projected Period from April 1, 2021 through December 31, 2024, and  
Forecasted Period Covering January 1, 2025 through December 31, 2028

## **PAINTCARE WASHINGTON LLC**

### **SUMMARY SCHEDULE OF ACTUAL AND FORECASTED REVENUES, EXPENSES (COSTS) AND FINANCIAL RESERVE FUND AND CALCULATED AVERAGE UNITIZED PAINT STEWARDSHIP FEE FOR THE WASHINGTON STATE DEPARTMENT OF ECOLOGY**

For the Actual Pre-Operational Startup Period from June 1, 2019 through March 31, 2021, Actual and Projected Period from April 1, 2021 through December 31, 2024, and Forecasted Period Covering January 1, 2025 through December 31, 2028

<b>CONTENTS</b>	<b>PAGE(S)</b>
Independent Accountant's Examination Report	1-2
Forecasted Financial Information:	
Summary Schedule of Forecasted Revenues, Expenses (Costs), and Financial Reserve Fund <b>(A)</b>	3
Summary and Detail Schedule of Actual and Forecasted Revenues, Expenses (Costs), and Financial Reserve Fund <b>(B)</b>	4
Calculated Average Unitized Paint Stewardship Fee for the Washington State Department of Ecology <b>(B)</b>	5
Notes to Forecasted Financial Information	6-14

**(A)** For the Forecasted Period (only) Covering January 1, 2025 through December 31, 2028

**(B)** For the Actual Pre-Operational Startup Period from June 1, 2019 through March 31, 2021, Actual and Projected Period from April 1, 2021 through December 31, 2024, and Forecasted Period Covering January 1, 2025 through December 31, 2028



## **INDEPENDENT ACCOUNTANT'S STEWARDSHIP FEE EXAMINATION REPORT**

Nichole Dorr, VP State Programs  
PaintCare Washington LLC

Pursuant to PaintCare Washington LLC's (PCWA) engagement letter dated on October 18, 2024, we have examined the accompanying summary of forecasted revenues, expenses (costs), and financial reserve fund prepared by the management of PCWA with regard to operating a paint recycling program required by the Revised Code of Washington, Section 70A.515.040 Architectural Paint Stewardship Program, and the calculated average unitized paint stewardship fee that PCWA has proposed to fund the program for the multi-year operational period covering January 1, 2025 through December 31, 2028, and including actual pre-operational startup costs that the PCWA has incurred from June 1, 2019 through March 31, 2021 and actual and projected costs from April 1, 2021 through December 31, 2024 (collectively the forecasted budget), based on the guidelines for the presentation of a forecast established by the American Institute of Certified Public Accountants (AICPA). PCWA's management is responsible for preparing and presenting the forecasted budget in accordance with guidelines for the presentation of a forecast established by the AICPA. The forecasted budget was prepared for the purpose of complying with Section 70A.515.040. Our responsibility under Section 70A.515.040 is to express an opinion on the forecasted budget statement based on our examination.

Our examination was conducted in accordance with attestation standards established by the AICPA. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the forecast is presented in accordance with the guidelines for the presentation of a forecast established by the AICPA, in all material respects. An examination involves performing procedures to obtain evidence about the forecast. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the forecast, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.



**INDEPENDENT ACCOUNTANT'S STEWARDSHIP FEE EXAMINATION REPORT**  
**(continued)**

Also, we are required to be independent and to meet our other ethical responsibilities in accordance with relevant ethical requirements related to the engagement.

In our opinion, the accompanying forecasted budget is presented, in all material respects, in accordance with the guidelines for presentation of a forecast established by the AICPA, and the underlying assumptions are suitably supported and provide a reasonable basis for PCWA's forecasted budget. Also, in our opinion the PCWA's proposed uniform paint stewardship assessment fee of \$0.00, \$0.45 , \$0.95, and \$1.95 by each container size (half pint or smaller, larger than half pint to smaller than one gallon, one gallon up to two gallons, and larger than two gallons up to five gallons, respectively) charged on all paint containers sold at retail to Washington State consumers from January 1, 2025 through December 31, 2025, and uniform paint stewardship assessment fee of \$0.00, \$0.65 , \$1.45, and \$2.75 by each container size (half pint or smaller, larger than half pint to smaller than one gallon, one gallon up to two gallons, and larger than two gallons up to five gallons, respectively) charged on all paint containers sold at retail to Washington State consumers starting January 1, 2026 is sufficient, within the meaning of Section 70A.515.040, to cover the expenses (costs) of operating the architectural paint stewardship program and maintain financial reserves sufficient to operate said program over the multi-year period from January 1, 2025 through December 31, 2028.

There will usually be differences between forecasted and actual results because events and circumstances frequently do not occur as expected and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

The accompanying documents contain confidential proprietary business information of PCWA and other parties that should not be publicly disclosed. Also, the accompanying forecasted budget statement and our report are intended solely for the information and use of the Washington State Department of Ecology and management of the PCWA, and are not intended to be used and should not be used by anyone other than these specified parties.

*Sydney Pettit-Coyden, P.A.*

December 17, 2024

**PAINTCARE WASHINGTON LLC**

**SUMMARY SCHEDULE OF FORECASTED REVENUES, EXPENSES  
(COSTS), AND FINANCIAL RESERVE FUND  
FOR THE WASHINGTON STATE DEPARTMENT OF ECOLOGY  
Forecasted Period from January 1, 2025 through December 31, 2028**

**FORECASTED REVENUES**

Paint stewardship (recycling) fee - NOTE B	\$ 47,951,508	(1)
<b>TOTAL REVENUES</b>	<u>47,951,508</u>	

**FORECASTED EXPENSES**

Collection, transportation, and processing - NOTE C	\$ 33,670,154	
Communications - NOTE D	2,223,000	
Corporate overhead allocation - NOTE E	3,287,546	
Salaries and benefits, state reporting fees, travel, and administrative - NOTE F	2,334,655	
Interest expense - NOTE G	<u>12,130</u>	
<b>TOTAL EXPENSES</b>	<u>41,527,485</u>	(2)

**INCREASE IN FORECASTED RESERVE BALANCE  
BEFORE NET INVESTMENT ACTIVITY**

6,424,023

Net investment activity - NOTE I	<u>0</u>
----------------------------------	----------

**INCREASE IN FORECASTED NET RESERVE BALANCE FOR THE  
PERIOD COVERING JANUARY 1, 2025 THROUGH DECEMBER 31, 2028**

6,424,023

**BEGINNING RESERVE BALANCE AT DECEMBER 31, 2024**

1,940,100 (3)

**FORECASTED RESERVE BALANCE AT DECEMBER 31, 2028 - NOTE H**

\$ 8,364,123

(1) For the forecasted period from January 1, 2025 through December 31, 2025, retailers will collect a \$0.45 fee for each paint container unit sold larger than a half pint up to smaller than one gallon, \$0.95 fee for each one to two gallons paint container unit sold, and \$1.95 fee for each paint container larger than two gallons up to five gallons sold in Washington. Effective January 1, 2026 through December 31, 2028, retailers will collect a \$0.65 fee for each paint container unit sold larger than a half pint up to smaller than one gallon, \$1.45 fee for each one to two gallons paint container unit sold, and \$2.75 fee for each paint container larger than two gallons up to five gallons sold in Washington.

(2) Includes the forecasted period expenses covering January 1, 2025 through December 31, 2028.

(3) Beginning reserve balance includes the cumulative reserve for the program from its inception through December 31, 2024, and includes pre-operational costs incurred prior to the program's implementation.

**CONTAINS CONFIDENTIAL PROPRIETARY BUSINESS DATA WHICH IS RESTRICTED FOR USE  
BY PCWA AND THE WASHINGTON STATE DEPARTMENT OF ECOLOGY**

See Notes to Forecasted Financial Information and Accountant's Report

**PAINTCARE WASHINGTON LLC**  
SUMMARY AND DETAIL SCHEDULE OF ACTUAL AND FORECASTED REVENUES,  
EXPENSES (COSTS), AND FINANCIAL RESERVE FUND  
FOR THE WASHINGTON STATE DEPARTMENT OF ECOLOGY  
For the Actual Pre-Operational Startup Period from June 1, 2019 through March 31, 2021,  
Actual and Projected Period from April 1, 2021 through December 31, 2024, and  
Forecasted Period from January 1, 2025 through December 31, 2028

	Actual Pre-Operational Startup Period from June 1, 2019 through March 31, 2021, Actual and Projected Period from April 1, 2021 through December 31, 2024	See Page 3 of Report Forecasted Period covering January 1, 2025 through December 31, 2028	Total
<b>FORECASTED REVENUES</b>			
Paint stewardship (recycling) fee - NOTE B	\$ 2,771,940	4,194,638	6,966,578
Larger than half a pint to smaller than a gallon	15,064,685	23,127,421	38,192,106
One to two gallons	14,374,540	20,629,449	35,003,989
Larger than two gallons to five gallons			
<b>TOTAL REVENUES</b>	<b>32,211,165</b>	<b>47,951,508</b>	<b>80,162,673</b> <sup>(1)</sup>
<b>FORECASTED EXPENSES</b>			
Collection, transportation, and processing - NOTE C	23,653,052	33,670,154	57,323,206
Communications - NOTE D	1,799,633	2,223,000	4,022,633
Corporate overhead allocation - NOTE E	2,705,415	3,287,546	5,992,961
Salaries and benefits, state reporting fees, travel, and administrative	1,983,826	2,334,655	4,318,481
administrative - NOTE F	129,139	12,130	141,269
Interest expense - NOTE G			
<b>TOTAL EXPENSES</b>	<b>30,271,065</b>	<b>41,527,485</b>	<b>71,798,550</b> <sup>(2)</sup>
Other Income:			
Net investment activity - NOTE I	0	0	0
<b>FORECASTED NET RESERVE BALANCE - NOTE H</b>	<b>\$ 1,940,100</b>	<b>\$ 6,424,023</b>	<b>\$ 8,364,123</b>
<b>BEGINNING RESERVE BALANCE AT DECEMBER 31, 2024 AND MAY 31, 2019, RESPECTIVELY</b>		1,940,100	0 <sup>(3)</sup>
<b>RESERVE BALANCE AT DECEMBER 31, 2028</b>		<b>\$ 8,364,123</b>	<b>\$ 8,364,123</b>

(1) For the forecasted period from January 1, 2025 through December 31, 2025, retailers will collect a \$0.45 fee for each paint container unit sold larger than a half pint up to smaller than one gallon, \$0.95 fee for each one to two gallons paint container unit sold, and \$1.95 fee for each pint container larger than two gallons up to five gallons sold in Washington. Effective January 1, 2026 through December 31, 2028, retailers will collect a \$0.65 fee for each pint container unit sold larger than a half pint up to smaller than one gallon, \$1.45 fee for each one to two gallons paint container unit sold, and \$2.75 fee for each paint container larger than two gallons up to five gallons sold in Washington.

(2) Includes actual pre-operational startup period from June 1, 2019 through March 31, 2021, actual and projected period from April 1, 2021 through December 31, 2024, and forecasted period covering January 1, 2025 through December 31, 2028.

(3) Beginning reserve balance includes the cumulative reserve for the program from its inception through December 31, 2024, and includes pre-operational costs incurred prior to the program's implementation.

**CONTAINS CONFIDENTIAL PROPRIETARY BUSINESS DATA WHICH IS RESTRICTED FOR USE BY PCWA AND THE WASHINGTON STATE DEPARTMENT OF ECOLOGY**

**PAINTCARE WASHINGTON LLC**  
**CALCULATED AVERAGE UNITIZED PAINT STEWARDSHIP FEE**  
**FOR THE WASHINGTON STATE DEPARTMENT OF ECOLOGY**  
 For the Actual Pre-Operational Startup Period from June 1, 2019 through March 31, 2021,  
 Actual and Projected Period from April 1, 2021 through December 31, 2024, and  
 Forecasted Period from January 1, 2025 through December 31, 2028

**FORECASTED CALCULATED AVERAGE UNITIZED PAINT STEWARDSHIP FEE**

	(1) Unit Fee 6/1/2019 - 12/31/2025	(2) Proposed Unit Fee 1/1/2026 - 12/31/2028	Actual and Forecasted Units Sold 6/1/2019 - 12/31/2025	(3) Forecasted Units Sold 1/1/2026 - 12/31/2028	Actual and Projected Period from June 1, 2019 through December 31, 2024	(4) + Forecasted Period Covering January 1, 2025 through December 31, 2025	(5) + Forecasted Period Covering January 1, 2026 through December 31, 2028	(6) = Total Combined Actual and Forecasted Revenue
<b>REVENUE</b>	\$ 0.45	\$ 0.65	6,415,463	5,262,645	\$ 2,771,940	\$ 773,919	\$ 3,420,719	\$ 6,966,578
Larger than half a pint to smaller than a gallon	0.95	1.45	16,486,306	13,137,165	15,064,685	4,078,531	19,048,890	38,192,106
One to two gallons	1.95	2.75	7,804,246	6,090,315	14,374,540	3,881,083	16,748,366	35,003,989
Larger than two gallons to five gallons								
<b>TOTAL REVENUES</b>					32,211,165	8,733,533	39,217,975	80,162,673
<b>LESS: EXPENSES</b>					(30,271,065)	(9,543,972)	(31,983,513)	(71,798,550)
<b>CHANGE IN FORECASTED RESERVE BALANCE BEFORE NET INVESTMENT ACTIVITY</b>					1,940,100	(810,439)	7,234,462	8,364,123
Net investment activity - NOTE I					0	0	0	0
<b>FORECASTED RESERVE (DEFICIT) BALANCE</b>					\$ 1,940,100	\$ (810,439)	\$ 7,234,462	\$ 8,364,123
<b>BEGINNING RESERVE BALANCE AT MAY 31, 2019</b>								0 (7)
<b>RESERVE BALANCE AT DECEMBER 31, 2028</b>						\$6,424,023		\$ 8,364,123

See Page 4 of Report

(1) For the actual and projected period from June 1, 2019 through December 31, 2024 and the forecasted period from January 1, 2025 through December 31, 2025, retailers will collect a \$0.45 fee for each pint container unit sold larger than a half pint up to smaller than one gallon, \$0.95 fee for each one to two gallons paint container unit sold, and \$1.95 fee for each pint container larger than two gallons up to five gallons sold in Washington. Effective January 1, 2026 through December 31, 2028, retailers will collect a \$0.65 fee for each pint container unit sold larger than a half pint up to smaller than one gallon, \$1.45 fee for each one to two gallons paint container unit sold, and \$2.75 fee for each pint container larger than two gallons up to five gallons sold in Washington.

(2) Actual unit sales for the period June 1, 2019 through December 31, 2024 and forecasted unit sales for the period covering January 1, 2025 through December 31, 2025.

(3) Forecasted unit sales for the period covering January 1, 2026 through December 31, 2028.

(4) Includes actual operating revenues and expense for the periods covering June 1, 2019 through December 31, 2024, subject to the fees collected at retail (\$0.45 fee for each pint container unit sold larger than a half pint up to smaller than one gallon, \$0.95 fee for each one to two gallons paint container unit sold, and \$1.95 fee for each pint container larger than two gallons up to five gallons).

(5) Includes forecasted operating revenues and expense for the periods covering January 1, 2025 through December 31, 2025, subject to the fees collected at retail (\$0.45 fee for each pint container unit sold larger than a half pint up to smaller than one gallon, \$0.95 fee for each one to two gallons paint container unit sold, and \$1.95 fee for each pint container larger than two gallons up to five gallons).

(6) Includes forecasted operating revenues and expense for the periods covering January 1, 2026 through December 31, 2028, subject to the fees collected at retail (\$0.65 fee for each pint container unit sold larger than a half pint up to smaller than one gallon, \$1.45 fee for each one to two gallons paint container unit sold, and \$2.75 fee for each pint container larger than two gallons up to five gallons).

(7) Beginning reserve balance was zero as of the date of the inception of the Washington state program.

**CONTAINS CONFIDENTIAL PROPRIETARY BUSINESS DATA WHICH IS RESTRICTED FOR USE BY PCWA AND THE WASHINGTON STATE DEPARTMENT OF ECOLOGY**

## **PAINTCARE WASHINGTON LLC**

### **NOTES TO FORECASTED FINANCIAL INFORMATION**

For the Actual Pre-Operational Startup Period from June 1, 2019 through March 31, 2021, Actual and Projected Period from April 1, 2021 through December 31, 2024, and Forecasted Period Covering January 1, 2025 through December 31, 2028

### **NOTE A – SUMMARY OF SIGNIFICANT ASSUMPTIONS AND ACCOUNTING POLICIES**

PaintCare Washington LLC (PCWA) is a wholly owned subsidiary of PaintCare, Inc. and was established to operate the paint recycling program in the state of Washington. The accompanying forecasted summary schedules of budgeted revenues, expenses (costs), and financial reserve fund and calculated average unitized paint stewardship fee for the Washington State Department of Ecology presents, to the best of management's knowledge and belief, the PaintCare Washington LLC's (PCWA) expected budgeted revenues, expenses (costs) and financial reserve fund and calculated average unitized paint stewardship fee for the Washington State Department of Ecology for the forecasted period. The forecast reflects the actual and expected costs to set up, implement and operate a paint stewardship (recycling) program from inception through the end of forecasted period as required by the Revised Code of Washington, Section 70A.515.040 Architectural Paint Stewardship Program. The forecast also includes the calculation of the average unitized paint stewardship fee per container size sold at retail that PCWA has proposed to fund that program for the multi-year operational period covering January 1, 2025 through December 31, 2028, and including both actual pre-operational program startup from June 1, 2019 through March 31, 2021 and actual operating revenue and expenses (costs) of the paint stewardship program from April 1, 2021 through December 31, 2024 and forecasted operating revenues and expenses (costs) from January 1, 2025 through December 31, 2028 (collectively the combined actual and forecast), including the related summary of significant assumptions and accounting policies (forecast) of PaintCare Washington LLC. Accordingly, the forecast reflects management's assumptions as of December 17, 2024, the date of this forecast, of the forecasted expenses of operation of the program, and the proposed unitized paint stewardship fee per container size sold at retail that would be needed to cover these expenses and to establish a financial reserve. The forecast is designed to provide information to the Washington State Department of Ecology regarding the calculation of the paint stewardship fee and whether it is a reasonable amount to cover the expenses of the program and to establish a reserve fund for program expenses as of December 31, 2028. Accordingly, this presentation should not be used for any other purposes. The assumptions disclosed herein are those that management believes are significant to the forecast. The forecasted revenues and expenses are presented on an accrual basis, and there will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

**CONTAINS CONFIDENTIAL PROPRIETARY BUSINESS DATA WHICH IS RESTRICTED FOR USE BY  
PCWA AND THE WASHINGTON STATE DEPARTMENT OF ECOLOGY**

## PAINTCARE WASHINGTON LLC

### NOTES TO FORECASTED FINANCIAL INFORMATION

For the Actual Pre-Operational Startup Period from June 1, 2019 through March 31, 2021, Actual and Projected Period from April 1, 2021 through December 31, 2024, and Forecasted Period Covering January 1, 2025 through December 31, 2028

#### NOTE B – PAINT STEWARDSHIP (RECYCLING) FEE REVENUE

The paint stewardship (recycling) fee collected will provide the revenue to fund the expenses for the recycling program. Based on the recalculation of the fee required, retailers will collect a \$0.00 fee for each half pint or smaller paint container unit sold, \$0.45 fee for each larger than half pint up to smaller than one gallon paint container unit sold, \$0.95 fee for each one gallon up to two gallons paint container unit sold, and \$1.95 fee for each larger than two gallons up to five gallons paint container unit sold from January 1, 2025 through December 31, 2025 (current, effective approved fee). Effective January 1, 2026, retailers will collect a \$0.00 fee for each half pint or smaller paint container unit sold, \$0.65 fee for each larger than half pint up to smaller than one gallon paint container unit sold, \$1.45 fee for each one gallon up to two gallons paint container unit sold, and \$2.75 fee for each larger than two gallons up to five gallons paint container unit sold beginning January 1, 2026 through December 31, 2028 (see table below).

Management estimated the stewardship fee revenue for the forecasted period by making certain assumptions. The significant assumptions made by management were the estimated population growth of the state of Washington, per capita paint sales, and paint container size purchasing trends in the state of Washington. The program was launched in the state of Washington in April 2021 and 2022 was the first full year of operations. Therefore, the forecasted period beginning in 2025 is primarily modeled after the results of 2023 and 2024, the two most recent years of full operations. Using data from the United States Census, the historical population growth in the state of Washington from 2020 through 2023 was an increase of 0.38%. Management does not expect the population growth rate in the state of Washington to have a significant impact on sales per capita during the combined actual and forecasted period. Therefore, management believes sales during the forecasted period of 2025 through 2028 will be relatively flat.

PCWA is funded by a fee paid by paint manufacturers for each can of paint they sell in the state. Manufacturers pass the fee to retailers, who then apply it to the price of paint. Stores can choose whether or not to show the fee on their receipts. The fee will be based on the size of the container as follows:

<u>Container Size</u>	<u>Fee 1/1/2025 – 12/31/2025</u>	<u>Fee 1/1/2026 – 12/31/2028</u>
Half pint or smaller	\$0.00	\$0.00
Larger than half pint up to smaller than 1 gallon	\$0.45	\$0.65
1 gallon up to 2 gallons	\$0.95	\$1.45
Larger than 2 gallons up to 5 gallons	\$1.95	\$2.75

Revenue from the paint stewardship fee is estimated to be \$47,951,508 and \$80,162,673 for the forecasted period, and combined actual and forecast, respectively.

**CONTAINS CONFIDENTIAL PROPRIETARY BUSINESS DATA WHICH IS RESTRICTED FOR USE BY PCWA AND THE WASHINGTON STATE DEPARTMENT OF ECOLOGY**

## **PAINTCARE WASHINGTON LLC**

### **NOTES TO FORECASTED FINANCIAL INFORMATION**

For the Actual Pre-Operational Startup Period from June 1, 2019 through March 31, 2021, Actual and Projected Period from April 1, 2021 through December 31, 2024, and Forecasted Period Covering January 1, 2025 through December 31, 2028

## **NOTE C – COLLECTION, TRANSPORTATION, AND PROCESSING EXPENSES**

### Units collected and collection expenses:

Program products are architectural paints in containers no larger than five gallons in size. They do not include industrial coatings, coatings used for original equipment manufacturing, and other specialty coatings.

In the development of management’s paint collection infrastructure expense model for the state of Washington for 2025 through 2028, management considered actual costs for running the program from 2019 through 2024, and the following factors and assumptions:

- Household hazardous waste (HHW) facilities and events:  
HHW facilities and events provide their customers the convenience of dropping off other products at the same time as paint, and they often have regular customers that have used their programs for many years.
- Solid waste facilities (transfer stations, recycling centers, and landfills):  
Solid waste facilities provide their customers the convenience of dropping off other products at the same time as paint, and they often have regular customers that have used their facilities for many years.
- Retail stores:  
Retailer participation as a paint drop-off site is voluntary. Retailers are not compensated for being a drop-off site. PCWA has identified approximately 767 paint retailers in Washington, of which approximately 541 stores were identified as potential drop-off sites. As of December 31, 2024, 206 of these retailers were participating as drop-off sites.
- Material reuse stores:  
Sites may operate reuse areas in which they place leftover paint that was brought to their site in good condition to be given away or sold “as is” to their customers and local community. This paint management method represents the highest, best use of paint and typically reduces program costs by avoiding the transportation and processing costs that would otherwise be required to manage the paint. PaintCare provides compensation for reuse services.

**CONTAINS CONFIDENTIAL PROPRIETARY BUSINESS DATA WHICH IS RESTRICTED FOR USE  
BY PCWA AND THE WASHINGTON STATE DEPARTMENT OF ECOLOGY**

## **PAINTCARE WASHINGTON LLC**

### **NOTES TO FORECASTED FINANCIAL INFORMATION**

For the Actual Pre-Operational Startup Period from June 1, 2019 through March 31, 2021, Actual and Projected Period from April 1, 2021 through December 31, 2024, and Forecasted Period Covering January 1, 2025 through December 31, 2028

#### **NOTE C – COLLECTION, TRANSPORTATION, AND PROCESSING EXPENSES (continued)**

- Direct pick-up or large volumes:

Large Volume Pick-up (LVP) Service is free to the customer and will be offered to Washington painting contractors, other businesses, organization, and households with large volumes of paint within a minimum quantity, currently 100 gallons. The service allows approved users to have paint picked up at their business or home.

Recurring Large Volume Pick-up (RLVP) Service is a free service also offered to painting contractors and other businesses and organizations that generate large volumes of paint on an on-going basis.

- PaintCare events:

Paint drop-off events may be held by PCWA in areas of the state that are not within 15 miles of a paint drop-off site or have too few drop-off sites for the population of the area, and participants from any place in Washington will be allowed to use the events.

#### Collection expenses:

Expenses to operate the program and various key assumptions include:

- a. **Paint processing:** This is the most significant expense of the program. PCWA contracts for processing and proper end-of-life management of postconsumer paint collected in the program. Expenses are forecasted based upon signed vendor agreements for processing paint. See further details on transportation expenses below.
- b. **Paint transportation:** These expenses include the cost of transporting paint bins from paint drop-off sites. See further details on transportation expenses below.
- c. **Collection supplies and support:** These expenses include the cost of paint collection bins, spill kits, PaintCare event expenses, labor to assist LVP sites to pack their paint, and payments for additional activities at sites (reuse). As of December 31, 2024, there were approximately 260 total drop-off sites. The number of bins at each drop-off site will vary depending on the relative capacity of the stores. Retail drop-off sites will receive site visits semi-annually, HHW, solid waste facilities, and RLVP sites will be visited annually.

**CONTAINS CONFIDENTIAL PROPRIETARY BUSINESS DATA WHICH IS RESTRICTED FOR USE  
BY PCWA AND THE WASHINGTON STATE DEPARTMENT OF ECOLOGY**



**PAINTCARE WASHINGTON LLC**

**NOTES TO FORECASTED FINANCIAL INFORMATION**

For the Actual Pre-Operational Startup Period from June 1, 2019 through March 31, 2021, Actual and Projected Period from April 1, 2021 through December 31, 2024, and Forecasted Period Covering January 1, 2025 through December 31, 2028

**NOTE C – COLLECTION, TRANSPORTATION, AND PROCESSING EXPENSES (continued)**

Transportation and processing expenses:

Transportation and processing costs include fees paid to vendors to (1) transport discarded paint container units from drop-off sites to the recycler’s processing facility, and (2) processing paint for recycling and proper end-of-life management. As of the date of this examination report, PCWA has engaged five transporters, which provides management reasonable estimates of transportation and processing expense. Under the terms of these agreements, transportation costs are computed based on zones and processing costs are computed by weight. These estimates were used for projecting this expense over the forecasted period.

Management has made certain assumptions to develop the forecasted collection, transportation and processing (C, T, P) expenses. The forecasted C, T, P costs for 2025 are projected to increase by 14% due to signed vendor price increases, additional sites, and infrastructure costs. The forecasted C, T, P costs for 2026, 2027, and 2028 are projected to increase approximately 2% per year, which is similar to the 2023 and 2024 increases. Additionally, forecasted C, T, P costs are based on actual costs, signed vendor contracts, trends, and comparison to the prior periods and budgets.

The total collection, transportation, and processing costs are estimated to be \$33,670,154 and \$57,323,206 for the forecasted period, and combined actual and forecast, respectively.

## **PAINTCARE WASHINGTON LLC**

### **NOTES TO FORECASTED FINANCIAL INFORMATION**

For the Actual Pre-Operational Startup Period from June 1, 2019 through March 31, 2021, Actual and Projected Period from April 1, 2021 through December 31, 2024, and Forecasted Period Covering January 1, 2025 through December 31, 2028

#### **NOTE D – COMMUNICATION EXPENSES**

##### Communications:

These expenses include advertising and promotional materials to increase awareness of program, with PCWA performing education and outreach efforts to promote the paint stewardship program in Washington. PCWA may utilize various outreach methods including distribution of point-of-sale materials, fact sheets, and signage, as well as messaging delivered via social media, digital and outdoor ads, radio, streaming, online video, print ads, and TV to promote the Washington paint recycling program to a widespread audience and increase overall awareness of the program. Communications costs are based on current written contracts with public relations agencies to promote and manage marketing for the recycling program. Costs also include expenses incurred to obtain third-party products and services such as advertising space, public education, point of sale marketing outreach, website maintenance, conferences and events, and customer service. Management estimated marketing outreach, point of sale, and advertising costs based on anticipated costs in 2025-2028. Beginning in 2026 through 2028, PCWA is expected to incur communication costs of approximately \$500,000, \$850,000, and \$850,000 per year, respectively, to provide public education and outreach expenditures in the state of Washington.

The total communication expenses are estimated to be \$2,223,000 and \$4,022,633 for the forecasted period, and combined actual and forecast, respectively.

#### **NOTE E – CORPORATE OVERHEAD ALLOCATION**

Overhead expenses are those that are not specific to Washington, but support all PaintCare state stewardship programs. These costs include:

Administrative and corporate staff, back-office support (information technology, human resources, legal, accounting, and government affairs), insurance, data management systems, annual financial audit, software licenses, professional services for corporate or organization-wide matters, occupancy, general communications, and other supplies and services that support all PaintCare programs.

**CONTAINS CONFIDENTIAL PROPRIETARY BUSINESS DATA WHICH IS RESTRICTED FOR USE  
BY PCWA AND THE WASHINGTON STATE DEPARTMENT OF ECOLOGY**

## **PAINTCARE WASHINGTON LLC**

### **NOTES TO FORECASTED FINANCIAL INFORMATION**

For the Actual Pre-Operational Startup Period from June 1, 2019 through March 31, 2021, Actual and Projected Period from April 1, 2021 through December 31, 2024, and Forecasted Period Covering January 1, 2025 through December 31, 2028

#### **NOTE E – CORPORATE OVERHEAD ALLOCATION (continued)**

Corporate expenses are allocated among all PaintCare state stewardship programs based on their relative populations in the most recent census and began to be assessed in Washington state about six months before the program started. Washington represents 8.51% of the combined population of all states participating in the PaintCare programs. Total corporate overhead costs allocated to the states is expected to increase approximately 4% per year. The portion of overhead costs allocated to Washington are estimated to be \$3,287,546 and \$5,992,961 for the forecasted period, and combined actual and forecast, respectively.

#### **NOTE F – SALARIES, STATE REPORTING, TRAVEL, AND ADMINISTRATIVE**

Total actual and forecasted salaries and benefits, state reporting, travel, and administrative (including legal costs), include costs required to run the paint stewardship program.

Direct expenses are allocated to Washington's paint stewardship program based upon direct effort where they can be specifically identified. These costs include:

- a. Personnel: These expenses include the cost of four staff, at varying rates, working directly to implement the program. Salary and benefits are estimated to be \$1,636,721 and \$3,062,432 for the forecasted period, and combined actual and forecast, respectively.
- b. State oversight: This expense is paid by PaintCare to the WA State Department of Ecology for oversight of the paint stewardship program. WA state reporting fees are approximately \$78,000 per year. The estimated state oversight costs are \$312,000 and \$475,967 for the forecasted period, and combined actual and forecast, respectively.
- c. Travel: Management has developed forecasted travel expense with the assumption that the program manager will visit each location statewide twice per year. These costs will include airfare, lodging, mileage and meals, and are estimated to be \$262,534 and \$488,829 for the forecasted period, and combined actual and forecast, respectively.
- d. Administration: These expenses include supplies, printing, subscriptions, occupancy, and other general expenses that are forecasted based on other state programs and historical actuals. Costs for administrative expenses are forecasted to be \$59,900 and \$149,764 for the forecasted period, and combined actual and forecast, respectively.
- e. Professional services: These expenses include the legal costs for regulatory review and developing contracts, and other logistical, professional support. Management modeled forecasted professional fees on the actual costs of other state programs. Costs for professional services are forecasted to be \$63,500 and \$141,488 for the forecasted period, and combined actual and forecast, respectively.

The total salaries, state reporting, travel, and administrative expenses are estimated to be \$2,334,655 and \$4,318,481 for the forecasted period, and combined actual and forecast, respectively.

**CONTAINS CONFIDENTIAL PROPRIETARY BUSINESS DATA WHICH IS RESTRICTED FOR USE BY PCWA AND THE WASHINGTON STATE DEPARTMENT OF ECOLOGY**

## **PAINTCARE WASHINGTON LLC**

### **NOTES TO FORECASTED FINANCIAL INFORMATION**

For the Actual Pre-Operational Startup Period from June 1, 2019 through March 31, 2021, Actual and Projected Period from April 1, 2021 through December 31, 2024, and Forecasted Period Covering January 1, 2025 through December 31, 2028

#### **NOTE G – PRE-OPERATING LOAN**

On September 15, 2020 PCWA entered into a loan agreement with American Coatings Association to borrow \$1,550,000. The proceeds of the loan were to fund the pre-program costs in implementing the paint stewardship program in the state of Washington. The loan is to be repaid in five years with interest accruing at the three, four, and five-year swap rate plus an operating fee of 1.75%, totaling 2.14%, 2.21%, and 2.31%, respectively. There is no collateral on the loan. Principal payments of \$516,667 are due at the end of years three (2023) through five (2025). Principal payments of \$516,667 were made for 2023 and 2024, and the final payment is expected to be made in 2025. The total interest expense is estimated to be \$12,130 and \$141,269 for the forecasted period, and combined actual and forecast, respectively.

Future loan principal payments are as follows:

<u>For the Year Ending December 31,</u>	
2025	<u>\$ 516,667</u>
TOTAL	<u>\$ 516,667</u>

#### **NOTE H – OPERATING (FINANCIAL) RESERVE FUND**

The PCWA financial policies require an operating (financial) reserve to sustain the program in times of either higher than expected paint collection volumes resulting in higher expenses, lower than expect paint sales resulting in less revenues, or a combination of the two. PCWA management and staff use prudent financial management in allocating net asset funds between unrestricted (necessary for working capital needs and current operations) versus board-designated financial reserves (necessary for the long-term viability of the recycling program). We also note that unlike a governmental entity, PCWA cannot bridge cash flow shortfalls by accessing additional working capital (cash) or other financing from other governmental sources. Therefore, PCWA has taken the position that having operating cash on hand, as well as a reserve, is fiscally responsible. PCWA's reserves policy establishes a target reserve as a percentage of annual expenses and sets a minimum and maximum threshold. PCWA currently has a target reserve of 100% of annual expenses (twelve-months of operating expenses), with a minimum threshold of 75% (nine-months) and a maximum threshold of 125% (fifteen-months).

**CONTAINS CONFIDENTIAL PROPRIETARY BUSINESS DATA WHICH IS RESTRICTED FOR USE BY PCWA AND THE WASHINGTON STATE DEPARTMENT OF ECOLOGY**

## **PAINTCARE WASHINGTON LLC**

### **NOTES TO FORECASTED FINANCIAL INFORMATION**

For the Actual Pre-Operational Startup Period from June 1, 2019 through March 31, 2021, Actual and Projected Period from April 1, 2021 through December 31, 2024, and Forecasted Period Covering January 1, 2025 through December 31, 2028

#### **NOTE H – OPERATING (FINANCIAL) RESERVE FUND (continued)**

Management estimated that the increase in forecasted paint stewardship fee to \$0.65 for each paint container larger than half a pint up to smaller than one gallon, \$1.45 fee for each one-gallon to two-gallons paint container, and \$2.75 fee for each paint container larger than two gallons up to five gallons sold, effective January 1, 2026 through December 31, 2028, will result in the net reserve fund at December 31, 2028 to be forecasted at \$8,364,123, which is 76% of twelve-months of 2028's estimated operating expenses of \$10,991,006. This amount is above management's target reserve policy minimum threshold of 75%.

#### **NOTE I – INVESTMENT INCOME**

PaintCare Washington LLC does not have any excess cash, after meeting its working capital needs, to invest as of December 31, 2024. PaintCare Washington LLC has not forecasted to have any investment income during the forecasted period 2025 through 2028.

**CONTAINS CONFIDENTIAL PROPRIETARY BUSINESS DATA WHICH IS RESTRICTED FOR USE  
BY PCWA AND THE WASHINGTON STATE DEPARTMENT OF ECOLOGY**