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January 15, 2025

Tom Metzner  
Connecticut Department of Energy and Environmental Protection  
70 Elm St.  
Hartford, CT 06016

Dear Mr. Metzner,

Since its beginning in 2013, the Connecticut PaintCare program has collected and properly managed over 4 million gallons of paint through its 160 paint drop-off sites, ensuring all Connecticut households are within 15 miles of a paint drop-off location. PaintCare has partnered with all local government household hazardous waste collection programs, and paint retailers and transfer stations continue to join the program, further expanding convenience.

Beginning in 2022, a decline in revenue due to slower-than-anticipated paint sales has resulted in expenses outpacing revenue. Therefore, PaintCare is proposing a fee increase. If approved, the fee increase will enable the program to maintain and potentially grow its paint management efforts, increase public outreach, and maintain positive net assets.

This document proposes to amend the Connecticut 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 6—Paint Sales and Projected Collection Volumes (pages 18-21) and Section 7—Funding and Paint Recovery Fees (pages 22-27), as specified below.

## **PROPOSED TEXT**

### **Architectural Paint Sales (Section 6, page 18)**

To estimate Connecticut architectural paint sales, PaintCare consulted with Decision Metrics, Inc., a highly reputable firm used by the American Coatings Association during the past 25 years, to project and model paint sales. Decision Metrics developed a series of models to project paint demand and publishes a quarterly report that provides current and future coatings demand estimates.

To project the total gallons to be sold and provide a container size breakdown (1-gallon vs. 5-gallon) for Connecticut, Decision Metrics considered several key metrics, including housing starts and home sales, construction projects, the residential home improvement market (DIY), and other economic conditions. To

assist in the analysis, PaintCare provided Decision Metrics with actual historical monthly sales totals reported by each size category for Connecticut.

Unexpectedly, sales surged during the pandemic due to an increase in the DIY market, but since then, sales have fallen yearly. Due to lower-than-anticipated paint sales and increased paint management costs, the expenses for the Connecticut program began exceeding its revenue in 2022, a trend that continued in 2023 and is expected through the forecasted period without a fee increase. Although the Decision Metrics model projects that paint sales will grow at an average rate of 2% per year during the next few years, expenses are expected to outpace that modest increase in revenue. The following table shows paint sold in gallons from 2020 through 2023.

ACTUAL PAINT SOLD (GALLONS)				
	2020	2021	2022	2023
Gallons Sold	6,194,195	6,057,141	5,580,267	5,200,354

#### Projected Collection Volumes (Section 6, pages 20-21)

While paint collection activities and gallons have ebbed and flowed, the recovery rate has averaged nearly 7% since 2020. The recovery rate is the volume of paint collected divided by the volume of new paint sold in the same period. The volume of paint collected in Connecticut is expected to remain near its current level and may increase with additional outreach activities. The following table shows paint collection volumes from 2020 through 2023.

PAINT COLLECTED (GALLONS)				
	2020	2021	2022	2023
Gallons Collected	405,200	437,799	395,943	371,177

#### Budget Discussion (Section 7, pages 23-25)

Based on anticipated paint sales, collection volumes, and program management costs, PaintCare has developed a budget projection for the next four years. Although the 2024 program year is complete, since year-end billing is not yet available, 2024 is presented as a projection and was prepared using actual expenses and forecasts. The following describes the primary elements of the budget.

## Revenue

Revenue is calculated using the anticipated paint sales by container type and current fees through December 2025. Starting in January 2026 and subsequent years, revenue is calculated using the proposed fees indicated in the PaintCare Recovery fee subsection below.

## Operations Expenses

Operations include all in-state (direct) expenses for operating the Connecticut program. These costs are borne entirely by the Connecticut 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 due to vendor price increases, new drop-off sites, and increased paint volume, paint processing costs have risen steadily and are projected to continue increasing.
- **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, 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. Due to vendor price increases, new drop-off sites, 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 public outreach 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 increase the communications budget to \$500,000 to provide additional public education and outreach funding.
- **Personnel, professional services, and other.** These expenses include staff working directly to implement the Connecticut program, legal costs for regulatory review and developing contracts, and other logistical, professional support, and office expenses. This category includes the 2025 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 Connecticut Department of Energy and Environmental Protection for the retail permit annual fees.

## **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 are allocated relative to population. Connecticut's share of the general and administrative allocation is currently 4%.

## **Operating Reserves**

Reserves represent the net assets of the Connecticut 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 beyond 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).

PROGRAM BUDGET AND PROJECTIONS

	Actual		Projections			
Revenue	2022	2023	2024	2025	2026	2027
Small Containers	\$347,521	\$342,273	\$348,017	\$354,594	\$516,695	\$516,695
Medium Containers	2,240,217	2,045,767	2,090,717	2,116,015	3,309,447	3,309,447
Large Containers	745,446	707,429	735,373	752,066	1,078,744	1,078,744
Total Revenue	3,333,185	3,095,469	3,174,107	3,222,675	4,904,886	4,904,886
<b>Expenses</b>						
Paint Processing	1,834,798	1,720,037	1,829,114	1,865,584	1,958,863	2,017,629
Paint Transportation	731,742	662,600	680,036	693,787	728,476	750,331
Paint Collection Supplies and Support	452,291	448,503	480,173	499,115	524,071	534,552
Communications	292,464	15,001	11,907	12,000	500,000	500,000
Personnel, Professional Fees, Other	133,815	153,875	140,488	159,405	144,470	166,304
State Agency Administrative Fees	21,000	20,800	20,800	20,800	20,800	20,800
General and Administrative	266,519	290,087	350,125	365,007	377,782	391,005
Total Expenses	3,732,628	3,310,903	3,512,643	3,615,698	4,254,462	4,380,621
Change in Net Assets	(399,443)	(215,434)	(338,536)	(393,023)	650,424	524,265
Net Assets, Beginning of Year	3,895,821	3,496,378	3,280,944	2,942,408	2,549,385	3,199,809
Net Assets, End of Year	\$3,496,378	\$3,280,944	\$2,942,408	\$2,549,385	\$3,199,809	\$3,724,074
Reserve Level	94%	99%	84%	71%	75%	85%

### PaintCare Recovery Fee (Section 7, page 26)

Based on the projected paint sales, revenue, and expenses, PaintCare proposes the following increases in the program 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	\$0.35	\$0.50	\$0.15
Medium	1–2 gallons	\$0.75	\$1.15	\$0.40
Large	Larger than 2 gallons up to 5 gallons	\$1.60	\$2.25	\$0.65

### Audit of the PaintCare Recovery Fee (Section 7, pages 26-27)

To help ensure that the program’s funding mechanism is appropriate to cover the cost of the program, the Connecticut law requires the proposed PaintCare fee to be reviewed by an independent financial auditor every two years. For the proposed fee structure, PaintCare contracted with Lydon Fetteroff Corydon, P.A.

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

In our opinion, the accompanying forecast is presented 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 PCCT’s forecasted budget, in all material respects. Also, in our opinion the PCCT’s unitized paint stewardship assessment fee of \$0.35, \$0.75, and \$1.60 by each container size (larger than half pint up to smaller than one gallon, one gallon up to two gallons, larger than two gallons up to five gallons, respectively) charged on all paint containers sold at retail to Connecticut State consumers from January 1, 2025 through December 31, 2025 and unitized paint stewardship assessment fee of \$0.50, \$1.15, and \$2.25 by each container size (larger than half pint up to smaller than one gallon, one gallon up to two gallons, larger than two gallons up to five gallons, respectively) charged on all paint containers sold at retail to Connecticut State consumers starting January 1, 2026 is reasonable, within the meaning of Section § 22a-904a, 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.

**PAINTCARE CONNECTICUT LLC**

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

AND

CALCULATED AVERAGE UNITIZED PAINT STEWARDSHIP FEE  
FOR THE CONNECTICUT DEPARTMENT OF ENERGY AND ENVIRONMENTAL  
PROTECTION AND BOARD OF DIRECTORS OF PAINTCARE CONNECTICUT LLC

For the Actual Period from January 1, 2021 through August 31, 2024,  
Projected Period from September 1, 2024 through December 31, 2024, and  
Forecasted Period Covering January 1, 2025 through December 31, 2028

## **PAINTCARE CONNECTICUT LLC**

SUMMARY SCHEDULE OF ACTUAL AND FORECASTED REVENUES, EXPENSES (COSTS) AND FINANCIAL RESERVE FUND AND CALCULATED AVERAGE UNITIZED PAINT STEWARDSHIP FEE FOR THE CONNECTICUT DEPARTMENT OF ENERGY AND ENVIRONMENTAL PROTECTION AND BOARD OF DIRECTORS OF PAINTCARE CONNECTICUT LLC

For the Actual Period from January 1, 2021 through August 31, 2024, Projected Period from September 1, 2024 through December 31, 2024, and Forecasted Period Covering January 1, 2025 through December 31, 2028

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**(A)** For the forecasted period (only), covering January 1, 2025 through December 31, 2028

**(B)** For the actual period from January 1, 2021 through August 31, 2024, projected period from September 1, 2024 through December 31, 2024, and forecasted period covering January 1, 2025 through December 31, 2028





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

Nichole Dorr, Vice President of State Programs  
PaintCare Connecticut LLC

Pursuant to PaintCare Connecticut LLC's (PCCT) engagement letter dated on October 18, 2024, we have examined the accompanying forecasted summary of revenues, expenses (costs), and financial reserve fund prepared by the management of PCCT with regard to operating a paint stewardship (recycling) program required by the Connecticut General Statutes § 22a-904a, et seq. and the calculated average unitized paint stewardship assessment fee by container size that PCCT proposes to fund that program for the multi-year operational period covering January 1, 2025 through December 31, 2028, including actual operating revenue and expenses (costs) that PCCT has incurred from January 1, 2021 through August 31, 2024 (actual period), projected operating revenue and expenses (costs) from September 1, 2024 through December 31, 2024 (projected period), and forecasted operating revenues and expenses (costs) from January 1, 2025 through December 31, 2028 (forecasted period), (collectively the forecast), including the related summary of significant assumptions and accounting policies of PCCT, based on the guidelines for the presentation of a forecast established by the American Institute of Certified Public Accountants (AICPA). PCCT's management is responsible for preparing and presenting the forecast in accordance with guidelines for the presentation of a forecast established by the AICPA. The paint stewardship assessment fee by container size and forecast were prepared for the purposes of complying with Section (b)(1) of the Connecticut General Statutes § 22a-904a. Our responsibility under Section (b)(1) Connecticut General Statutes § 22a-904a is to express an opinion that the assessment fee by container size does not exceed the costs of the paint stewardship program described in subsection (a) of this section and to recommend an amount for such paint stewardship assessment to the department 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 forecast is presented 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 PCCT’s forecasted budget, in all material respects. Also, in our opinion the PCCT’s unitized paint stewardship assessment fee of \$0.35, \$0.75, and \$1.60 by each container size (larger than half pint up to smaller than one gallon, one gallon up to two gallons, larger than two gallons up to five gallons, respectively) charged on all paint containers sold at retail to Connecticut State consumers from January 1, 2025 through December 31, 2025 and unitized paint stewardship assessment fee of \$0.50, \$1.15, and \$2.25 by each container size (larger than half pint up to smaller than one gallon, one gallon up to two gallons, larger than two gallons up to five gallons, respectively) charged on all paint containers sold at retail to Connecticut State consumers starting January 1, 2026 is reasonable, within the meaning of Section § 22a-904a, 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 PCCT and other parties that should not be publicly disclosed. Also, the accompanying combined actual and forecast statement and our report are intended solely for the information and use of the Connecticut Department of Energy and Environmental Protection and the management of the PCCT and are not intended to be used and should not be used by anyone other than these specified parties.

*Sydon Peter J. Corydon, P.A.*

January 14, 2025

**PAINTCARE CONNECTICUT LLC**

SUMMARY SCHEDULE OF FORECASTED REVENUES, EXPENSES  
(COSTS) AND FINANCIAL RESERVE FUND  
FOR THE CONNECTICUT DEPARTMENT OF ENERGY AND ENVIRONMENTAL  
PROTECTION AND BOARD OF DIRECTORS OF PAINTCARE CONNECTICUT  
For the Forecasted Period from January 1, 2025 through December 31, 2028

**FORECASTED REVENUES**

Paint stewardship (recycling) fee - NOTE B	\$ 17,937,333	(1)
<b>TOTAL REVENUES</b>	<u>17,937,333</u>	

**FORECASTED EXPENSES**

Collection, transportation and processing - NOTE C	\$ 12,968,650	
Communications - NOTE D	1,512,000	
Corporate overhead allocation - NOTE E	1,538,484	
Salaries and benefits, state reporting fees, travel, and administrative - NOTE G	<u>706,667</u>	
<b>TOTAL EXPENSES</b>	<u>16,725,801</u>	(2)

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

1,211,532

Net investment activity - NOTE F	<u>0</u>	
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**INCREASE IN FORECASTED NET RESERVE BALANCE FOR THE  
PERIOD COVERING JANUARY 1, 2025 THROUGH DECEMBER 31, 2028**

1,211,532

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

2,942,408 (3)

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

\$ 4,153,940

(1) For the forecasted period from January 1, 2025 through December 31, 2025, retailers will collect a \$0.35 fee for each paint container unit sold larger than a half pint up to smaller than one gallon, \$0.75 fee for each one to two gallons paint container unit sold, and \$1.60 fee for each paint container larger than two gallons up to five gallons sold in Connecticut. Effective January 1, 2026 through December 31, 2028, retailers will collect a \$0.50 fee for each paint container unit sold larger than a half pint up to smaller than one gallon, \$1.15 fee for each one to two gallons paint container unit sold, and \$2.25 fee for each paint container larger than two gallons up to five gallons sold in Connecticut.

(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  
PCCT AND THE CONNECTICUT DEPARTMENT OF ENERGY AND ENVIRONMENTAL PROTECTION**

See Notes to Forecasted Financial Information and Accountant's Report

**PAINTCARE CONNECTICUT LLC**

SUMMARY AND DETAIL SCHEDULE OF ACTUAL AND FORECASTED REVENUES, EXPENSES (COSTS) AND FINANCIAL RESERVE FUND FOR THE CONNECTICUT DEPARTMENT OF ENERGY AND ENVIRONMENTAL PROTECTION AND BOARD OF DIRECTORS OF PAINTCARE CONNECTICUT LLC For the Actual and Projected Period from January 1, 2021 through December 31, 2024 and Forecasted Period from January 1, 2025 through December 31, 2028

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	Actual and Projected Period from January 1, 2021 through December 31, 2024	+ Forecasted Period covering January 1, 2025 through December 31, 2028	= Total
<b>FORECASTED REVENUES</b>			
Paint stewardship (recycling) fee - NOTE B Larger than half a pint to smaller than a gallon	\$ 1,531,374	1,904,679	3,436,053
One to two gallons	8,809,737	12,044,356	20,854,093
Larger than two gallons to five gallons	2,974,621	3,988,298	6,962,919
<b>TOTAL REVENUES</b>	13,315,732	17,937,333	31,253,065 (1)
<b>FORECASTED EXPENSES</b>			
Collection, transportation and processing - NOTE C	11,686,076	12,968,650	24,654,726
Communications - NOTE D	658,160	1,512,000	2,170,160
Corporate overhead allocation - NOTE E	1,188,294	1,538,484	2,726,778
Salaries and benefits, state reporting fees, travel, and administrative - NOTE G	650,864	706,667	1,357,531
<b>TOTAL EXPENSES</b>	14,183,394	16,725,801	30,909,195 (2)
Other Income: Net investment activity - NOTE F	0	0	0
<b>FORECASTED NET RESERVE BALANCE - NOTE H</b>	\$ (867,662)	\$ 1,211,532	\$ 343,870
<b>BEGINNING RESERVE BALANCE AT DECEMBER 31, 2024 AND JANUARY 1, 2021, RESPECTIVELY</b>		2,942,408 (3)	3,810,070 (3)
<b>FORECASTED RESERVE BALANCE AT DECEMBER 31, 2028 - NOTE H</b>		\$ 4,153,940	\$ 4,153,940

(1) For the actual and projected period from January 1, 2021 through December 31, 2024 and the forecasted period from January 1, 2025 through December 31, 2028, retailers will collect a \$0.35 fee for each paint container unit sold larger than a half pint up to smaller than one gallon, \$0.75 fee for each one to two gallons paint container unit sold, and \$1.60 fee for each paint container larger than two gallons up to five gallons sold in Connecticut. Effective January 1, 2026 through December 31, 2028, retailers will collect a \$0.50 fee for each paint container unit sold larger than a half pint up to smaller than one gallon, \$1.15 fee for each one to two gallons paint container unit sold, and \$2.25 fee for each paint container larger than two gallons up to five gallons sold in Connecticut.

(2) Includes actual and projected period from January 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 January 1, 2021, respectively, and includes pre-operational costs incurred prior to the program's implementation.

**CONTAINS CONFIDENTIAL PROPRIETARY BUSINESS DATA WHICH IS RESTRICTED FOR USE BY  
PCCT AND THE CONNECTICUT DEPARTMENT OF ENERGY AND ENVIRONMENTAL PROTECTION**

See Notes to Forecasted Financial Information and Accountant's Report

**PAINTCARE CONNECTICUT LLC**  
**CALCULATED AVERAGE UNITIZED PAINT STEWARDSHIP FEE**  
**FOR THE CONNECTICUT DEPARTMENT OF ENERGY AND ENVIRONMENTAL**  
**PROTECTION AND BOARD OF DIRECTORS OF PAINTCARE CONNECTICUT LLC**  
For the Actual and Projected Period from January 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 1/1/2021 - 12/31/2025	(1) Proposed Unit Fee 1/1/2026 - 12/31/2028	Actual and Forecasted Units Sold 1/1/2021 - 12/31/2025	(2) Forecasted Units Sold 1/1/2026 - 12/31/2028	(3) 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	= Total Combined Actual and Forecasted Revenue
<b>REVENUE - NOTE B</b>								
Larger than half a pint to smaller than a gallon	\$ 0.35	\$ 0.50	5,388,480	3,100,169	\$ 1,531,374	\$ 354,594	\$ 1,550,085	\$ 3,436,053
One to two gallons	0.75	1.15	14,567,670	8,633,340	8,809,737	2,116,015	9,928,341	20,854,093
Larger than two gallons to five gallons	1.60	2.25	2,329,179	1,438,325	2,974,621	752,066	3,236,232	6,962,919
<b>TOTAL REVENUES</b>					13,315,732	3,222,675	14,714,658	31,253,065
<b>LESS: EXPENSES</b>					(14,183,394)	(3,615,698)	(13,110,103)	(30,909,195)
<b>CHANGE IN FORECASTED RESERVE BALANCE</b>					(867,662)	(393,023)	1,604,555	343,870
<b>BEFORE/NET INVESTMENT ACTIVITY</b>					0	0	0	0
Net investment activity - NOTE F								
<b>FORECASTED RESERVE (DEFICIT) BALANCE</b>					\$ (867,662)	\$ (393,023)	\$ 1,604,555	\$ 343,870
<b>BEGINNING RESERVE BALANCE AT JANUARY 1, 2021</b>								
<b>RESERVE BALANCE AT DECEMBER 31, 2028 - NOTE H</b>								
							\$1,211,532	3,810,070 (7)
								\$ 4,153,940

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(1) For the actual and projected period from January 1, 2021 through December 31, 2024 and the forecasted period from January 1, 2025 through December 31, 2028, retailers will collect a \$0.35 fee for each pint container unit sold larger than a half pint up to smaller than one gallon, \$0.75 fee for each one to two gallons paint container unit sold, and \$1.60 fee for each pint container larger than two gallons up to five gallons sold in Connecticut. Effective January 1, 2026 through December 31, 2028, retailers will collect a \$0.50 fee for each pint container unit sold larger than a half pint up to smaller than one gallon, \$1.15 fee for each one to two gallons paint container unit sold, and \$2.25 fee for each pint container larger than two gallons up to five gallons sold in Connecticut.

(2) Actual and projected unit sales for the period January 1, 2021 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 and projected operating revenues and expense for the periods covering January 1, 2021 through December 31, 2024, subject to the fees collected at retail (\$0.35 fee for each pint container unit sold larger than a half pint up to smaller than one gallon, \$0.75 fee for each one to two gallons paint container unit sold, and \$1.60 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 (\$0.35 fee for each pint container unit sold larger than a half pint up to smaller than one gallon, \$0.75 fee for each one to two gallons paint container unit sold, and \$1.60 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 (\$0.50 fee for each pint container unit sold larger than a half pint up to smaller than one gallon, \$1.15 fee for each one to two gallons paint container unit sold, and \$2.25 fee for each pint container larger than two gallons up to five gallons).

(7) Beginning reserve balance includes the cumulative reserve for the program from its inception through January 1, 2021 and includes pre-operational costs incurred prior to the program's implementation.

**CONTAINS CONFIDENTIAL, PROPRIETARY BUSINESS DATA WHICH IS RESTRICTED FOR USE BY PCCT AND THE CONNECTICUT DEPARTMENT OF ENERGY AND ENVIRONMENTAL PROTECTION**

## **PAINTCARE CONNECTICUT LLC**

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

For the Actual Period from January 1, 2021 through August 31, 2024,  
Projected Period from September 1, 2024 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 Connecticut LLC (PCCT) is a wholly owned subsidiary of PaintCare, Inc. and was established to operate the paint stewardship (recycling) program in the state of Connecticut. The accompanying summary schedules of forecasted revenues, expenses (costs) and financial reserve fund and calculated average unitized paint stewardship fee for the Connecticut Department of Energy and Environmental Protection (DEEP) presents, to the best of management's knowledge and belief, PCCT's expected forecasted revenues, expenses (costs) and financial reserve fund and calculated average unitized paint stewardship fee for the DEEP for the forecasted period.

The forecast reflects the actual and expected costs to implement and operate the paint stewardship (recycling) program from the January 1, 2021 through the end of the forecasted period, as required by the Connecticut General Statutes § 22a-904a, et seq. The forecast also includes the calculation of the average unitized paint stewardship assessment fee by container size that PCCT has proposed to fund that program for the multi-year operational period covering January 1, 2025 through December 31, 2028. The forecast also includes actual operating revenue and expenses (costs) that PCCT has incurred from January 1, 2021 through August 31, 2024, projected operating revenue and expenses (costs) from September 1, 2024 through December 31, 2024, and forecasted operating revenues and expenses (costs) from January 1, 2025 through December 31, 2028 (collectively the forecast), including the related summary of significant assumptions and accounting policies of PaintCare Connecticut LLC. Accordingly, the forecast reflects management's assumptions as of January 14, 2025, the date of this forecast, of the actual and forecasted expenses of operation of the program and the unitized paint stewardship fee per container size sold at retail that would be needed to cover these expenses and to establish and maintain a financial reserve.

The forecast is designed to provide information to the DEEP, 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 of accounting. 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.

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

The paint stewardship (recycling) fee collected will provide the revenue to fund the expenses for the paint stewardship (recycling) program. Based on the recalculation of the fee required, retailers will collect a \$0.35 fee for each paint container larger than half pint up to one gallon, \$0.75 fee for each paint container one gallon up to two gallons sold, and \$1.60 fee for each paint container larger than two gallons up to five gallons sold from January 1, 2025 through December 31, 2025 and a \$0.50 fee for each paint container larger than half pint up to one gallon, \$1.15 fee for each paint container one gallon up to two gallons sold, and \$2.25 fee for each paint container larger than two gallons up to five gallons sold beginning January 1, 2026 (see table on page 8).

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 Connecticut, per capita paint sales and paint container size purchasing trends in the state of Connecticut. COVID-19 impacted the sale of architectural paint, which increased sales in 2020 and 2021. Sales revenues began to trend back towards pre-COVID-19 levels slowly in 2022. However, the impacts of high interest rates on the housing market have resulted in lower paint sales in 2023 and 2024, as compared to the pre-COVID levels. Based on the predictions from Decision Metrics, a firm with extensive expertise in projections for the coatings industry, volume growth is expected to return in the last quarter of 2024 and in 2025. Slow growth is projected for the northeastern states, including Connecticut, with a 1-2% growth rate. For 2026, management anticipates fee revenue increasing 2% related to growth and 50% related to the proposed fee increase, for a combined increase of 52%. For the years 2027 and 2028, management took a conservative approach, with 0% revenue growth compared to 2026.

Using data from the United States Census, the historical population growth in the state of Connecticut from 2020 through 2023 was an average annual increase of 0.37%. Management does not expect the population growth rate in the state of Connecticut 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 and has projected a 2% sales growth for 2025 and 2026 and a 0% sales growth rate for 2027 and 2028.

PCCT 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.

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### NOTES TO FORECASTED FINANCIAL INFORMATION

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

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>
Larger than half pint up to smaller than one gallon	\$0.35	\$0.50
One gallon up to two gallons	\$0.75	\$1.15
Larger than two gallons up to five gallons	\$1.60	\$2.25

Revenue from the paint stewardship fee is estimated to be \$17,937,333 and \$31,253,065 for the forecasted period and combined actual and forecast, respectively.

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

##### Collection, Transportation and Processing expenses:

Material expenses to operate the stewardship program and various key assumptions include:

a) Paint processing:

This is the most significant expense of the program. PCCT contracts for processing and proper end-of-life management of postconsumer paint collected in the program. Expenses are forecasted based on 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, and labor to assist LVP sites in packing their paint. As of December 31, 2024, there are 160 drop off sites. An estimated additional 3 sites are projected to be added during the forecasted period. The number of bins at each drop off site will vary depending on the relative capacity of the stores. Retail drop-off sites and transfer stations receive site visits semi-annually.

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

##### 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 Connecticut state for 2025 through 2028, management considered actual and projected costs for running the program from 2021 through 2024 and the following factors and assumptions:

- a) Household hazardous waste (HHW) facilities and events:  
HHW facilities and events provide their residents the convenience of dropping off other products at the same time as paint.
- b) Transfer stations:  
Transfer stations provide their residents 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.
- c) Retail stores:  
Retailer participation as a paint drop-off site is voluntary. PCCT has identified approximately 352 paint retailers in Connecticut, of which approximately 228 stores were identified as potential drop-off sites. As of December 31, 2024, 102 retailers were participating as drop-off sites.
- d) 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. PCCT may provide compensation for reuse services. As of December 31, 2024, one reuse store was participating as a drop-off site.

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

##### Units collected and collection expenses (continued):

e) Direct pick-up or large volumes:

Large Volume Pick-up (LVP) Service is free to the customer and offered to Connecticut painting contractors, other businesses, organizations 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.

##### Transportation and processing expenses:

Transportation and processing costs include fees paid to vendors to (1) transport bins 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, PCCT has engaged three transporters, which provides reasonable management estimates of transportation and processing expenses. Under the terms of this agreement, transportation costs and processing costs are computed by weight. These estimates were used to project this expense over the forecasted period.

Management has made certain assumptions to develop the forecasted collection, transportation and processing (C, T, P) expenses. To account for future price increases, management has forecasted that C, T, P costs for 2025 through 2028 will increase an average of 3% each year, compared to an average of 2% increase each year from 2022 through 2024. Sales volume declined from 2022 to 2024, but management anticipates a sales volume increase of 2% in 2025 and 2026 and 0% in 2027 and 2028. The additional increase in C, T, P costs from 2025 to 2028 will account for this increase in sales, along with price increases. Additionally, forecasted C, T, P costs are based on actual costs, trends, and comparison to the prior periods and budgets.

The forecasted collection, transportation and processing costs are estimated to be \$12,968,650 and \$24,654,726 for the forecasted period and combined actual and forecast, respectively.

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#### **NOTE D – COMMUNICATIONS EXPENSES**

These expenses include advertising and promotional materials to increase awareness of the program, with PCCT performing education and outreach efforts to promote the paint stewardship program in Connecticut. PCCT may utilize various outreach methods, including print materials, digital materials and social media to promote the Connecticut paint recycling program to a widespread audience and increase overall awareness of the program. Communications costs are based on written contracts with a public relations (PR) agency to promote and manage marketing for the recycling program. Currently, PCCT is not under contract with a PR agency and does not expect to have any contracts during the forecasted year of 2025. Beginning in 2026 through 2028, PCCT is expected to incur communications costs with a PR agency to be contracted with in the amount of approximately \$500,000 annually. Management estimated marketing outreach, point of sale, and advertising costs based on anticipated costs in 2025 through 2028.

The total communications expenses are estimated to be \$1,512,000 and \$2,170,160 for the forecasted period and combined actual and forecast, respectively.

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

Overhead expenses are those that are not specific to Connecticut 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, and general communications and other supplies and services that support all PaintCare programs.

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 Connecticut state about six months before the program started. Starting in 2025, Connecticut is estimated to represent 3.49% 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 3.5% per year.

The portion of overhead costs allocated to Connecticut are estimated to be \$1,538,484 and \$2,726,778 for the forecasted period and combined actual and forecast, respectively.

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#### **NOTE F – INVESTMENT INCOME**

As of January 2016, reserves are being held in a non-interest-bearing checking account and no longer in an investment portfolio. Therefore, no investment income is included in the forecast.

#### **NOTE G – SALARIES AND BENEFITS, STATE REPORTING FEES, TRAVEL AND ADMINISTRATIVE**

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

Direct expenses are allocated to Connecticut'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 staff working directly to implement the program. PCCT Management assumes the forecast period will include approximately 77% of the salary and benefits of one full-time employee. Salary and benefits are estimated to be \$492,950 and \$917,483 for the forecasted period and combined actual and forecast, respectively.

b) State oversight:

This expense is paid by PaintCare to the DEEP for oversight of the paint stewardship program. Connecticut state reporting fees are approximately \$21,000 per year, which covers the registration fees of \$200 per retail site. The estimated state oversight costs are \$83,200 and \$165,800 for the forecasted period and combined actual and forecast, respectively.

c) Travel:

PCCT Management has developed forecasted travel expenses with the assumption that a coordinator will visit each location statewide twice per year. Forecasted travel costs also include attendance and travel to trade shows. These costs will include airfare, lodging, mileage and meals and are estimated to be \$26,292 and \$61,370 for the forecasted period and combined actual and forecast, respectively.

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#### **NOTE G – SALARIES AND BENEFITS, STATE REPORTING FEES, TRAVEL AND ADMINISTRATIVE (continued)**

d) Administration:

These expenses include supplies, printing, subscriptions and other general expenses that are forecasted based on other state programs. Costs for administrative expenses are forecasted to be \$1,600 and \$37,328 for the forecasted period and combined actual and forecast, respectively.

e) Professional services:

These expenses include the legal costs for regulatory review and other logistical and professional support. PCCT Management modeled forecasted professional fees on the actual costs historically. Costs for professional services are forecasted to be \$102,625 and \$175,550 for the forecasted period and combined actual and forecast, respectively.

The total actual and forecasted salaries and benefits, state reporting fees, travel and administrative for the actual and forecast are estimated to be \$706,667 and \$1,357,531 for the forecasted period and combined actual and forecast, respectively.

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

The PCCT 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 expected paint sales resulting in less revenues, or a combination of the two. We also note that unlike a governmental entity, PCCT cannot bridge cash flow shortfalls by accessing additional working capital (cash) or other financing from other governmental sources. Therefore, PCCT has taken the position that having operating cash on hand, as well as a reserve, is fiscally responsible.

PCCT's reserves policy establishes a target reserve as a percentage of annual expenses and sets a minimum and maximum threshold. PCCT 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).

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

Management estimated that the increase in the forecasted paint stewardship fee to \$0.50 for each paint container larger than half pint up to smaller than one gallon, \$1.15 for each paint container one gallon up to two gallons, and \$2.25 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 \$4,153,940, which is 93% of twelve-months of 2028's estimated operating expenses of \$4,475,020. This amount is within management's reserve policy.

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