



July 1, 2019

Scott Smithline
Director
California Department of Resources Recycling and Recovery (CalRecycle)
1001 I Street
Sacramento, CA 95812-4025

Dear Director Smithline:

The Mattress Recycling Council California, LLC (MRC) is a tax-exempt non-profit entity certified by CalRecycle as a “mattress recycling organization.” MRC was established for the express purpose of designing, implementing, and administering California’s mattress recycling program.

Pursuant to Section 42988 of the California Public Resources Code, MRC hereby submits its proposed 2020 budget.

Please contact me should you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Ryan Trainer".

Ryan Trainer
President
Mattress Recycling Council California, LLC



California Used Mattress Recovery and Recycling 2020 Program Budget

July 1, 2019

Submitted by:

Mattress Recycling Council California, LLC
501 Wythe Street
Alexandria, VA 22314-1917

Submitted to:

California Department of Resources Recycling and Recovery
Scott Smithline
Director
1001 I Street
Sacramento, CA 95812-4025

California Used Mattress Recovery and Recycling Plan Budget

Pursuant to Cal. Pub. Res. Code § 42988 and 14 CCR §18963, the Mattress Recycling Council California, LLC (MRC), a non-profit entity, is pleased to submit to the California Department of Resources Recycling and Recovery (CalRecycle) its 2020 budget.

1. Introduction

In September 2013, California enacted SB 254, codified beginning at Section 42985 of the California Public Resources Code. That law requires mattress producers to create a statewide recycling program (the Program) to collect and recycle mattresses and foundations (units) discarded in the state. The Program is funded by a visible recycling charge collected from consumers and other purchasers on each unit sold for use in California. Pursuant to Cal. Pub. Res. Code § 42987, CalRecycle has certified MRC as the mattress recycling organization to administer the Program.

As required by Cal. Pub. Res. Code § 42987(a)(3)(B), MRC consulted with the Mattress Advisory Committee (Advisory Committee) multiple times in 2019, prior to the submission of the 2020 budget (and the 2018 annual report).

Cal. Pub. Res. Code § 42988 requires that MRC's budget meet the following requirements:

On or before July 1, 2015, and on or before July 1 annually thereafter, the mattress recycling organization shall prepare and submit to the department a proposed used mattress recycling program budget for the following calendar year that includes all of the following:

- a) Anticipated revenues and costs of implementing the Program, including related programs, projects, contracts, and administrative expenses.
- b) A recommended funding level sufficient to cover the plan's budgeted costs and to operate the mattress recycling program over a multiyear period in a prudent and responsible manner.
- c) The amount of the mattress recycling charge and itemization of costs that each charge covers.

In addition, CalRecycle has issued 14 CCR §18963(b) to implement the above requirements, which provides as follows:

- b) In addition to the requirements of subdivisions (a), (b), and (c) of section 42988 of the Public Resources Code, the information submitted in the used mattress recycling program budget shall contain the following:
 - 1. Contact information. Identify the corporate officer of the mattress recycling organization responsible for annual used mattress program budget submittal.
 - 2. Anticipated revenues and costs. Describe anticipated revenues and costs of implementing the Program, including related programs, projects, contracts, and administrative expenses.
 - 3. Mattress recycling charge and itemization. Identify the amount of the mattress recycling charge, including an itemization of costs that each charge covers.
 - 4. For used mattress recycling program budgets submitted on or by July 1, 2017 all actual expenses incurred to date shall be included. For annual reports submitted thereafter, the previous two years of actual expenses shall be included.

Pursuant to these provisions, MRC has calculated a “recommended funding level sufficient to cover the plan’s budgeted costs and to operate the mattress recycling program over a multiyear period in a prudent and responsible manner.”

In preparing this budget, MRC has allocated revenues and expenses in accordance with Generally Accepted Accounting Principles (GAAP), as requested by 14 CCR §18962(a)(6).

2. Executive Summary

MRC launched the Program on December 30, 2015. In preparing its 2020 budget, MRC has taken into consideration not only its planned activities for 2020, but also its actual revenue and expense experience for 2018 and the first quarter of 2019 (Q1), as well as projections for the remainder of 2019.

By law, MRC must set the per unit mattress recycling charge that funds its California operations at a level that is sufficient to fund the Program’s budgeted costs and operate the mattress recycling program over a multiyear period in a prudent and responsible manner. MRC’s expenses are comprised of collection costs (including illegally dumped mattresses), transportation and recycling, education and outreach, research, administrative expenses, and CalRecycle oversight.

In 2020, MRC anticipates that over 4.3 million units will be sold in California and that nearly 1.7 million units will be recycled through the Program. We note these figures also anticipate that units recycled will grow faster than units sold, with units recycled increasing by 9%, and units sold up by 2%.

MRC projects 2019 charge revenue of over \$44 million and budgets revenue of \$45.3 million for 2020, a 2% increase over 2019. MRC's revenue budget is based on the most recent Mattress Industry Forecast (published by the International Sleep Products Association in May 2019) (the ISPA Forecast).

MRC's 2020 budget increases annual expenses to \$46.8 million, which is less than \$500,000 (1%) above our projected 2019 expenses of \$46.4 million. The projected 2019 operational expenses (including collection, transportation and recycling) of \$33 million are unusually high due to over \$4.8 million in costs related to clean-up for mattresses abandoned by a former MRC recycler. Therefore, the incremental year-over-year increase in operational expenses from 2019 to 2020 is skewed by this unusual 2019 expense. Excluding this unusual 2019 expense, MRC's 2019 operational expenses would have been projected to be \$28.2 million and the total expenses would have been projected to be \$41.6 million. Excluding these unusual 2019 expenses, 2020 budgeted operational expenses are 18.4% higher and total expenses are 12.7% higher than comparable projected costs in 2019.

As part of the \$1.3 million budgeted in 2020 for its Illegally Dumped Mattress Initiative, MRC will compensate participating entities for reporting data on illegal mattress dumping. In addition to public awareness campaigns, MRC has budgeted to hold a symposium of experts in the field in an effort to think more broadly about strategies for encouraging residents to properly discard their used mattresses, and not dump them illegally on California's public rights of way.

MRC's 2020 budget of \$7.2 million for education and outreach represents an increase of almost \$700,000 (11%) over 2019 projections. In 2020, education and outreach represent 15.4% of MRC's total budgeted expenses.

MRC has budgeted \$1.1 million in 2020 to fund an array of grant and research projects, including a "micro-grant" program to support efficient mattress collection by California municipalities, grants intended to help MRC recyclers implement the results of Lean Manufacturing analyses that MRC funded of each recycler's operations, and projects to identify new uses for several hard-to-recycle mattress components.

MRC's 2020 Program administration budget of \$3,951,761 represents 8.4% of total expenses. In addition, based on 2019 Q1 actuals, the 2020 MRC budget includes \$981,014 to reimburse CalRecycle for oversight of the Program.

Based on our 2020 budgeted expenses of just over \$46.8 million and anticipated unit sales of approximately 4.3 million units, with corresponding charge revenue of \$45.3 million, MRC anticipates that a \$10.50 per unit charge plus approximately \$864,000 withdrawn from MRC's reserves will be sufficient to fund this 2020 budget.¹

3. Anticipated revenues and costs of implementing the program, including related programs, projects, contracts, and administrative expenses

(Cal. Pub. Res. Code § 42988(a))

In preparing this budget, MRC calculated its revenue and costs as follows:

Revenue

The recycling charge collected on all sales of units historically is the Program's primary revenue source. MRC budgets charge-sourced revenue of \$45,266,603 for 2020.

We note that MRC collected in 2018 and projects for 2019 modest late fee revenue (\$38,942 and \$11,016, respectively), but has not budgeted for late fee revenue in 2020 because it intends to continue to encourage retailers and other sellers to make timely remittances in 2020, thus avoiding the late fee. In addition, MRC expects to earn interest/dividend income and gains on its investments in 2020, but under recent changes to Generally Accepted Accounting Principles (GAAP), such income cannot be classified as revenue and must appear on the income statement below the Operating Net Assets (Net Income).²

In preparing the Program's 2020 budgeted revenue, MRC used the national sales data in the ISPA Industry Forecast. The ISPA Forecast projects a 1.5% increase in national unit sales from 2018 to 2019. Therefore, based on this information, MRC's budget assumes that 2019 projected California unit sales will be 4,226,574, an increase of 1.5% over 2018 year-end unit sales of 4,164,112. The ISPA Forecast further anticipates that national sales will increase 2% from 2019 to 2020. Thus, assuming that unit sales in California will increase at approximately the same rate as the national increase, MRC's budget assumes unit sales in 2020 will be 4,311,105 (2% over the 2019 projected unit sales noted

¹ In addition to the budgeted charge revenue and funds withdrawn from reserves, MRC has budgeted a net investment return of \$707,249. Under recent GAAP changes, interest and realized gains on investments can no longer be classified as revenue and must appear on the income statement below the Change in Operating Net Assets (Net Income).

² For comparison purposes, investment income is reported on the 2018 Audited Financial Statements of the Mattress Recycling Council California, LLC, Statement of Activities, as Change in Net Assets Before Investment Returns.

above). MRC's budgeted 2020 recycling charge revenue of \$45,266,603 is calculated by multiplying the 2020 budgeted units of 4,311,105 by the \$10.50 per unit charge.

Costs

For purposes of preparing this budget, MRC has classified its expenses under the following cost categories:

- Collection
- Illegally Dumped Mattress Collection Initiative
- Transportation and Recycling
- Education and Outreach
- Sleep Products Sustainability Program
- Research and Development
- Administration and Legal
- CalRecycle Oversight

Following is a description of each of the above cost categories:

Collection:

This cost category covers the following activities:

- Solid waste facility (SWF)/collection site handling fees
- Collection/storage container rental fees and signage
- Consumer incentive payments

MRC's 2020 budget anticipates that SWF/collection sites will account for 46% of the Program units, which is consistent with the percentage of units collected through this channel in 2018 and projected for 2019.

As of early 2019, MRC had agreements with 201 permanent collection sites in California on terms that they and MRC agreed were reasonable for accepting, collecting, storing and handling used mattresses for processing through the Program. This includes 146 SWFs that allow residents to drop off units at no cost, 22 entities that collect units through no-cost curbside bulky item pick-up services, 27 alternative sites (California Redemption Value sites, nonprofits, scrap metal processors, mattress renovators, etc.), and 6 retailer sites. Residents or businesses may also drop off used mattresses at 9 of the 11 recycling facilities in the state. The average handling fee budgeted in 2020 that MRC pays these no-cost consumer collection sites is the same as projected for 2019.

As MRC continues to expand the Program, we will contract with additional sites in 2020. However, our ability to contract with certain solid waste facilities is constrained for various reasons, including that:

- Some lack internal resources to review and complete the contracting process
- It can be difficult for a franchise hauler operating a SWF and currently under a multiyear contract with the local municipality it serves to negotiate reasonable compensation terms with MRC while that contract remains in effect
- Participating with the Program is not logistically possible (e.g., the facility has insufficient space for a 53-foot trailer; insufficient labor to collect, store, transport and handle the units for MRC; inadequate loading equipment)

MRC's 2020 budgeted collection expenses include a 35% decrease in container and storage expenses over 2019 projections. In 2019, MRC projects to incur abnormally high expenses (\$1.3 million) for container and storage costs related to the cleanup of abandoned units by a mattress recycler that MRC terminated in late 2018. MRC does not anticipate similar unusual expenses in 2020.

As we look ahead, MRC forecasts a 16% increase from 2020 to 2021 in container and storage costs to accommodate Program growth and inflation, which will increase the container rental costs and collection site compensation costs that MRC will incur.

MRC has budgeted \$20,370 for 2020 to provide appropriate signage and written guidelines for collection sites, including those needed for new sites and replacement signage for existing sites that need new signage due to damage.

MRC set the per unit consumer incentive payment at \$3 following pre-Program discussions with the Advisory Committee in 2015. In setting the incentive at this level, MRC took into consideration Cal. Pub. Res. Code § 42985(b), which states that it is the legislature's intent that SB 254 not undermine existing used mattress recycling, resale, refurbishing, and reuse operations that are in compliance with state and federal law. MRC and the Advisory Committee also considered safety concerns related to incentivizing consumers to haul mattresses on personal vehicles. MRC anticipates that units collected from consumers who are paid the \$3 incentive will account for 15% of Program units in 2020, which is consistent with actual experience in 2018 and projections for 2019.

Illegally Dumped Mattress Collection Initiative

In its initial budget for 2016, MRC, with input from the Advisory Committee, set aside \$750,000 to fund the Illegally Dumped Mattress Collection Initiative (the Initiative).

MRC initially compensated local municipalities \$10 per unit to provide MRC with needed statistical information about illegal mattress dumping in their jurisdictions and collect the illegally dumped unit. MRC increased compensation to \$15 per unit in 2018. By the end of 2018, 54 entities had participated in the Initiative.

In 2019, MRC again offered a \$15 per unit compensation and continued to recruit non-participating entities in order to expand the impact of the Initiative. MRC anticipates that the number of units reported and collected in 2019 will be 10% higher than in 2018. In addition, MRC has embarked on specific advertising efforts to educate state residents about the environmental impact of illegally dumped mattresses. MRC also participates in various state-wide conferences and events to promote awareness of MRC’s activities, including its efforts to prevent illegal dumping. In 2020, MRC has budgeted for a 10% increase in reported units over 2019 at the same \$15 per unit compensation. The 2020 budget also funds various illegal dumping advertising and awareness campaigns, a planned symposium of experts on the subject of illegal dumping and related administration costs.

In addition, in 2019 MRC will offer grants to entities harmed by illegal mattress dumping. MRC anticipates grants will promote dumping prevention, enforcement of laws against dumping and related education. MRC will incur costs for these grants in 2019 and 2020 and has allocated funds for this purpose in the 2020 budget.

Details of the 2020 budget as it concerns the Initiative are as follows:

Category	Amount
Illegally Dumped Mattress Collection Compensation	\$953,490
Marketing and Advertising	\$139,199
Grants	\$135,000
Symposium	\$15,000
Staff and Oversight Expenses	\$37,596
Total Illegally Dumped Mattress Initiative	\$1,280,285

Transportation & Recycling:

Both transportation and recycling costs are directly related to the number of units collected. MRC projects that 1,697,000 units will be collected for recycling through the Program in 2020.

Transportation

MRC uses third parties to transport mattresses from collection sites to recyclers for processing. Transport costs vary considerably depending on

the transport distance, geographic location of the collection site and the container type used to hold the discarded mattresses. Based on 2019 Q1 actuals and projections for the remainder of the year, the 2019 per unit transport cost is expected to be \$3.89, a 3.5% increase over 2018 actuals of \$3.76/unit and a 40% increase over 2017 actuals of \$2.79/unit. The 2019 projection excludes \$215,000 in abnormal transportation costs incurred to move mattresses abandoned by a recycler that MRC terminated.

MRC took into consideration the significant transportation cost increases over the last 2 years when preparing the 2020 budget. MRC has budgeted 2020 transportation costs at an average per unit rate of \$4.02 (a 3.4% increase over 2019 projected unit cost of \$3.89) to cover anticipated inflation³. MRC then multiplied this rate by the number of units budgeted to be transported in 2020. To this amount, we have also added an 8.6% contingency to mitigate the risk that these costs will be higher than expected. MRC considers this conservative approach to be appropriate because per unit transport costs increased by:

- 12% (from \$2.49 to \$2.79) from 2016 to 2017
- 35% (from \$2.79 to \$3.76) from 2017 to 2018

In addition, as MRC expands its collection network in rural counties, it is concerned that average transport costs will rise because the units must be shipped longer distances and could be subject to occasional service interruptions (caused by weather, fires, or other events outside of MRC's control). As a result, MRC's 2020 transportation expense is budgeted at \$7,414,949, which reflects increases in the number of units to be transported, anticipated inflation and a contingency factor. This is a 22% increase over 2019 projected transportation costs (excluding the unusual expense noted above) and a 41% increase over 2018 actuals.

Since all transportation services are provided by third parties, no MRC staff are directly involved in transporting discarded mattresses. As a result, no staff expenses are charged directly to these activities.

Recycling

MRC-contracted recyclers' costs have increased as labor markets have tightened and wages increased, factory space for the recycling plants has become more limited and expensive in certain markets, and other operational expenses are affected by inflation. In addition, recyclers' ability to offset some operational costs by selling the materials reclaimed from the dismantled units at favorable prices has generally diminished in the last year, as prices in the secondary markets for recycled materials

³ Inflation source: State of California, Department of Finance, www.dof.ca.gov/Forecasting/Economics/Indicators/Inflation.

have been under pressure.

In 2019, we project an 11% increase in recycling expense compared to 2018 based on both an increase in units recycled and the recycling fees MRC must pay recyclers. This increase does not include a projected one-time \$3.3 million 2019 clean-up expense related to recycling baled mattresses abandoned by a recycler that MRC had terminated.

MRC anticipates 2020 recycling costs will be 30% more than 2018 actuals and 17% higher than 2019 projections (excluding the one-time 2019 expense noted above for the abandoned mattresses). The expense takes into account a 9% increase in units to be recycled in 2020 (compared to 2019 projected units) and a budgeted higher per unit processing fee paid to recyclers in 2020. The 2020 recycling expense of \$19,876,204 includes a modest 2% contingency to accommodate uncertainties in secondary commodities market prices and other cost factors (like the possibility of wage increases and higher energy costs) that may lead to unanticipated recycling cost changes.

Although MRC has budgeted for a level of uncertainty in its budget with a contingency to cover short-term cost increases such as these, the organization also maintains a reserve sufficient to allow the Program to remain sustainable over a multiyear period should situations arise where operational expenses increase beyond what the contingencies can absorb, or revenues do not meet budget as a result of factors beyond MRC's control.

All recycling services are provided by third parties. No MRC staff are directly involved in processing discarded mattresses. As a result, no staff expenses are charged directly to these activities.

Education and Outreach

MRC's comprehensive consumer education and outreach efforts inform the industry and consumers about the Program and how to recycle mattresses in California. MRC promotes the Program across the state with paid advertising campaigns, Public Service Announcements (PSAs), media relations, direct mail, digital marketing and social media, and participation in community events. MRC measures the success of its outreach with consumer awareness research. MRC staff and its PR agencies will continue to build brand awareness of the Mattress Recycling Program and Bye Bye Mattress.

In 2020, MRC plans to continue its paid advertising campaigns that target consumers throughout California and include multicultural outreach to the Latino and Asian Pacific Islander communities, among others. The budget

will continue to include funds for MRC to monitor the effectiveness of its advertising and outreach efforts through surveys that will measure consumer awareness. In fact, the 2020 budget will increase efforts to measure consumer awareness and effectiveness of various advertising messages and channels.

In addition to statewide advertising that promotes the successes of the Mattress Recycling Council Program, the MRC budget funds Bye Bye Mattress consumer advertising throughout the state and in targeted local jurisdictions to support new collection sites and events. MRC will continue to work with local collection events in 2020, reaching portions of the state that do not have a permanent collection site. In addition to consumer outreach, MRC will continue to communicate with mattress retailers and other members of the industry regarding their legal obligations to register, report and remit the recycling charge, as well as how they can recycle the discarded mattresses that they collect from consumers with the Program.

As MRC moves into 2021 and beyond, it preliminarily forecasts a reduction in advertising spend as fewer new collection sites and events require support and promotion, and three years of aggressive advertising have built strong brand awareness. MRC will allocate budgeted advertising resources based on the results of various consumer awareness and effectiveness studies being undertaken in 2020.

The 2020 MRC marketing and communication expenses cover the following activities:

- Advertising and Consumer Education
- 3rd Party PR Agencies
- Industry and Stakeholder Outreach
- Community Collection Events/Conferences and Events
- Other Marketing and Communications Expenses
- MRC Marketing and Communication Staff

MRC budgeted education and outreach expenses for 2020 of \$7,191,555, which represents a \$695,681 (11%) increase over 2019 projections of \$6,495,874. In 2020, approximately 15% of MRC's total budgeted expenses are allocated to education and outreach. The education and outreach expense allocation in the 2018 actuals represented almost 14% of the total expenses and the projection for 2019 is also 14% of total expenses.

Sleep Products Sustainability Program

In 2019, MRC developed the Sleep Products Sustainability Program (SP2), which is designed to help individual mattress manufacturers analyze and understand the environmental impacts of their products by examining:

- The nature and designs of the products they manufacture
- The raw materials they manage and consume in manufacturing and distributing those products
- The energy, water and other resources needed in the manufacturing and distribution processes
- How to manage and minimize waste products generated at each stage in the manufacturing and distribution processes
- How the products they manufacture today are managed at end of their useful lives by recyclers

SP2 will help mattress manufacturers develop methods to analyze their businesses, products and processes. These methods will also help mattress manufacturers identify steps they can take to reduce their environmental impacts, define metrics for measuring the effects of those changes and learn from best practices. The efforts are intended to result in:

- Improved management of resources and raw materials, such as steel, foam, fiber, fabric, wood, other components and packaging materials
- Reductions in energy and water consumption
- Reductions in both total waste generated and nonrecyclable waste generated

Training began with one manufacturer in late April 2019 and will continue with additional training through the end of the year and throughout 2020.

The 2020 SP2 budget includes \$250,000 to support this initiative, including funds to: publicize the Program and associated training for additional manufacturers. Because it can take 6 to 8 months for a manufacturer to complete its projects for certification, MRC will evaluate the results of the pilot initiative in 2020 and consider whether to expand the Program to include mattress retailers and component suppliers.

Research

MRC seeks to enhance the sustainability of California's mattress recycling Program by improving the efficiency and effectiveness of the mattress collection network, promoting best practices in mattress recycling and identifying and developing new and better end uses for recovered materials.

MRC has budgeted \$1,112,128 in 2020, an increase of \$91,323 over 2019 projections and \$663,165 over 2018 actuals, for the following activities:

- Micro-grants to improve operations at collection sites that collect discarded mattresses and foundations for recycling.
- MRC has contracted with a company to provide Lean Manufacturing assessments of each recycler in the Program. These assessments will inform MRC and the recycler how the companies can improve their processes to be faster, safer and more efficient in increasing their recycling rate. In 2020, MRC has budgeted funds to award grants to recyclers based on the analysis of the assessments so that they may purchase equipment that will improve their recycling processes.
- Transportation optimization is an important operational objective of the Program. With three years of Program experience in California, MRC plans to improve the efficiency of our operations. Given that transporting light and bulky products like discarded mattresses over long distances is expensive, MRC plans to analyze its collection network in an effort to optimize its freight operations. MRC will task consultants with identifying steps MRC can take to be more efficient in allocating freight resources around the state.
- Continuing work from 2019, MRC plans to fund contract(s) to develop innovative processes for economically separating the steel and fabric used to make pocket coils. Both the steel and the fabric can be recycled. The goal of this project is to increase the Program's recycling rate by preventing the whole pocket coil units from being landfilled.
- Select experts to assist with identifying new uses for several hard-to-recycle mattress components, including fibers, quilt panels and latex foam.
- Continue to work with the chemical industry in developing new foam-to-foam conversion technology for processing post-consumer mattress foam.
- Commission a convenience study to help MRC allocate resources efficiently in selecting new participating sites as it expands its collection network into underserved parts of the state.
- Participate in events and meetings with similar organizations around the globe to investigate and explore best practices and new market research initiatives. These activities are extremely helpful in comparing experiences and sharing successful practices. MRC plans to continue these activities in 2020 and the future. Activities include speaking at the IMM home

furnishings event in Cologne, Germany as well as the ISPA EXPO mattress industry tradeshow, and sharing experiences and best practices with similar organizations from around the world that manage large mattress recycling programs.

- Research Planning and Administration - MRC will use existing staff and third-party consultants to plan, manage and oversee the above projects.

Category	Amount
Micro-Grants	\$100,000
Recycling and Transportation Efficiencies	\$320,000
Secondary Market/Commodity Market Research	\$350,000
Convenience Study	\$80,000
Best Practices	\$12,000
Research Planning & Administration	\$250,128
Total Research	\$1,112,128

Administration

For 2020, MRC has budgeted \$3,951,761 to administer the Program. This cost category covers the following:

- Management and Staffing
- Legal Costs
- Travel/Field Visits
- Government Affairs
- Annual Financial Audit and Tax Filing Preparation
- Compliance and Service fees
- Bank Fees

Management and staffing expenses include the salaries and associated overheads of MRC staff that administer the Program. Travel/field visits covers travel costs for staff to visit solid waste sites, recyclers, other operational service providers and other business-related travel.

Legal costs cover fees for outside counsel that negotiate MRC contracts, address contract compliance issues and advise MRC regarding corporate matters. In 2018 and 2019, Legal costs also included the defense of the Program in arbitration, mediation and/or litigation. However, we do not anticipate this expense to continue in 2020 at the 2019 projected levels.

Government affairs activities include communicating with members of the California legislature, executive branch agencies and local (city and county) officials regarding MRC’s plans and accomplishments, addressing their concerns, participating in recycling and related policy discussions,

and providing input on specific legislative proposals. Educating elected officials and staff members at the state and local level about mattress recycling opportunities and Program challenges is a critical component of the Program. In 2019, MRC responded to inquiries from elected officials and provided information about the Program to legislators and their staff. MRC anticipates similar activities in 2020.

MRC's financial records are audited annually by an independent certified public accountant. In addition, in order to comply with the 14 CCR § 18964(b)(11) internal control requirements, MRC commissioned a SOC1 audit (conducted by PwC, a global audit and accounting firm) as a necessary component of the annual audit conducted by MRC's independent auditor. MRC also incurs costs in preparing and filing necessary tax documents. Separately, MRC uses both in-house and outsourced providers to confirm whether vendors providing mattress processing services to MRC are complying with their contractual and other legal obligations. The 2020 budget reflects MRC staff and third-party costs associated with these activities.

CalRecycle Oversight:

Cal. Pub. Res. Code § 42988.2 requires that MRC reimburse CalRecycle for its direct costs incurred to implement and enforce SB 254. The expense identified on this line item reflects MRC's estimate of these reimbursements for 2020, based on 2019 Q1 actuals and anticipated inflation⁴.

- 4. A recommended funding level sufficient to cover the plan's budgeted costs and to operate the mattress recycling program over a multiyear period in a prudent and responsible manner**
(Cal. Pub. Res. Code § 42988(b))

Cal. Pub. Res. Code § 42988 requires that MRC maintain a reserve that is sufficient to fund the Program's operations over a multiyear period in a fiscally prudent and responsible manner. The MRC Board established a reserve policy that considered several factors and directed MRC management to be prepared in case its operational expenses increase or planned revenues decrease as a result of factors beyond its control. The amount that MRC sets aside in this reserve is influenced by several factors.

First, MRC must be prepared for unforeseen circumstances that could have a substantial impact on its revenues and expenses, such as accidents, disasters or failures of MRC's operational or financial systems, recyclers, retailers and other sellers that collect the charges that fund the Program, etc. Significant or sudden

⁴ Inflation source: State of California, Department of Finance, www.dof.ca.gov/Forecasting/Economics/Indicators/Inflation.

changes in market dynamics that affect recyclers' costs or revenues (e.g., fuel needed to transport units or lower prices for recycled materials) or political uncertainties could require MRC to use financial reserves to continue funding the Program.

Second, the reserve protects the long-term viability of the Program by setting aside money that can fund unusual budget deficits without necessitating frequent adjustments in the recycling charge. Given the amount of time required to request and implement a fee change (MRC must notify the public at least 180 days in advance of a decision to raise or lower the charge), a reserve sufficient to allow MRC to operate the Program smoothly without financial disruption during such a transition is imperative.

Finally, MRC's network of recyclers and transporters relies on rapid payment for services rendered. Most of these vendors do not have substantial financial resources of their own. As a result, many could experience serious financial distress if MRC were to miss or be late making even a single payment to them for services. If these vendors were to cease operations because of payment problems, MRC's collection and recycling networks would quickly unravel. Therefore, to keep the Program functioning, and its vendors paid and operating, it is critical that MRC hold sufficient short-term reserves to cover cash flow shortfalls. Unlike a government entity or more mature organization, a young enterprise like MRC does not have access to government or adequate bank financing that may be required to cover substantial unexpected shortfalls. Instead, MRC must rely on its own reserves to address the various financial risks it may encounter. Therefore, having less than approximately 3 months of operating cash on hand would be fiscally irresponsible.

For these reasons, MRC follows a reserve policy that allows it to address these and other unforeseen circumstances that may arise as the Program expands, evolves and matures now and for the next several years. This approach will provide sufficient financial resources to permit a proper response to such exigencies promptly and properly.

As discussed further below, MRC's 2020 budget assumes a net loss of \$1,571,061 (change in operating net assets). Factoring in budgeted earned interest, realized gain and unrealized gain (or loss) on investments, the change to net assets (factoring in estimated net investment return of \$707,249) is \$863,812.⁵ Therefore, MRC anticipates that \$863,812 from reserves will be

⁵ Due to changes in GAAP effective 2018 for not-for-profit organizations, MRC must report net investment income (that is, interest, dividends, realized and unrealized gains and losses, net of investment fees (or investment returns)) below operating net assets on its financial statements.

necessary to supplement its budgeted charge revenue to fund its 2020 budgeted expenses. (In addition, very preliminary forecasts for 2021 anticipate that an additional \$3,842,872 from reserves will be needed to supplement revenue in that year's budget as well.)

Category	2019 Projections	2020 Proposed Budget	2021 Proposed Budget
Total Revenue	\$44,390,043	\$45,266,603	\$46,171,934
Total Program Costs	\$46,409,012	\$46,837,664	\$50,702,570
Change in Operating Net Assets	(\$2,018,969)	(\$1,571,061)	(\$4,530,636)
Net Investment Return	\$777,677	\$707,249	\$687,764
Change in Net Assets	(\$1,241,292)	(\$863,812)	(\$3,842,872)
Net Assets Beginning of the Year	\$50,146,090	\$48,904,798	\$48,040,986
Net Assets at the End of the Year	\$48,904,798	\$48,040,986	\$44,198,114

Based on the objectives discussed above regarding MRC's budgeted operational expenses and reserve needs, MRC has budgeted charge-related revenues of \$45,266,603 in 2020 to meet the requirements of Cal. Pub. Res. Code § 42988(b).

5. The amount of the mattress recycling charge and itemization of costs that each charge covers

(Cal. Pub. Res. Code § 42988(c))

Determination of Two Separate Charges

Cal. Pub. Res. Code § 42989(b)(2) gives MRC the discretion to either (1) set a single recycling charge that applies to all sizes and types of mattresses and foundations, or (2) set up to two different charges "to accommodate mattress size differentials." MRC considered whether to exercise its authority to set two charges when it submitted its Plan in 2015 but decided to set a single charge for all sizes and types of mattresses and foundations. Likewise, MRC has set a single state-specific recycling charge for mattresses and foundations sold in the other two states in which it administers similar mattress recycling programs: Connecticut and Rhode Island.

When CalRecycle approved MRC's 2017 budget, the agency requested that MRC consider two separate charges when it prepared its 2018 budget and discuss this issue with the Advisory Committee. Pursuant to CalRecycle's request, MRC discussed this topic with the Advisory Committee in June 2017 and explained its rationale for retaining the single charge for calendar year 2018.

Likewise, MRC has decided in preparing its 2020 budget to continue to set a single charge, as it is authorized to do by Section 42989.

Itemization of the Mattress Recycling Charge

Cal. Pub. Res. Code § 42988(c) and 14 CCR §18963(b)(3) requires that MRC itemize the costs that the charge covers.

The per unit charge can be distributed over the different cost components discussed above that comprise MRC’s 2020 budgeted expenses as follows:

Cost Category	Percent of Per Unit Charge Itemized to Each Category
Collection	10.2%
Illegally Dumped Mattress Collection Initiative	2.7%
Transportation and Recycling	58.3%
Education and Outreach	15.4%
Sleep Products Sustainability Program	0.5%
Research	2.4%
Administration and Legal	8.4%
California Oversight	2.1%
Total	100.0%

Amount of the 2020 Charge

The 2020 MRC budget takes into account 2018 actuals and 2019 projections, based on the several months of data gathered since the 2019 budget was submitted for approval. MRC projects the 2020 charge-related revenue of \$45,266,603 and expenses of \$46,837,664. MRC budget anticipates that the volume of units on which the charge will be collected will be 4,311,105, an increase of 84,531 units over 2019, and that the number of units processed through the Program will increase by 140,000 units, to 1,697,000.

The following table demonstrates that a charge of \$10.50 will be sufficient to cover MRC’s 2020 budgeted expenses of \$46,837,664, after funding the net deficit from the net investment return and the reserves:

A. Budgeted 2020 Expenses	\$ 46,837,664
B. Net Deficit (Funded by Net Investment Return and Reserves)	(\$1,571,061)
C. Adjust for Net Investment Return	\$707,249
D. Amount Drawn from Reserve	\$863,812
E. Net Expenses Funded by Charge (E = A – C - D)	\$45,266,603
F. Projected Unit Sales	4,311,105
G. Per Unit Charge (G = E/F)	\$10.50

6. Contact information. Identify the corporate officer of the mattress recycling organization responsible for annual used mattress program budget submittal (14 CCR §18963(b)(1))

The MRC Budget is submitted by:

Catherine Lyons
Manager
Mattress Recycling Council California, LLC
501 Wythe St.
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703-683-8371
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7. Anticipated revenues and costs. Describe anticipated revenues and costs of implementing the program, including related programs, projects, contracts, and administrative expenses

(14 CCR §18963(b)(2))

See Part 3 above.

8. Mattress recycling charge and itemization. Identify the amount of the mattress recycling charge, including an itemization of costs that each charge covers (14 CCR §18963(b)(3))

See Part 5 above.

9. For used mattress recycling program budgets submitted on or by July 1, 2017 all actual expenses incurred to date shall be included. For annual reports submitted thereafter, the previous two years of actual expenses shall be included (14 CCR §18963(b)(4))

EXPENSES:	2017 Actual	2018 Actual	2019 Projected
Collection, Illegally Dumped Mattresses, Transportation, Recycling Costs (Operational Costs)			
Collection			
Solid Waste Handling Fee	1,294,345	1,930,486	2,252,481
Collection Containers and Storage	465,910	1,656,613	2,421,022
Collection Site Signage/Guidelines	32,374	6,724	26,477
Consumer Incentive	606,628	659,268	675,951
sub-total Collection Costs	2,399,257	4,253,091	5,375,931
Illegally Dumped Mattress Collection Initiative	420,160	870,466	1,069,954
Transportation and Recycling			
Transportation	3,635,235	5,273,982	6,273,675
Recycling	13,839,520	15,295,455	20,300,188
sub-total Transportation and Recycling	17,474,755	20,569,437	26,573,863
Total Operational Costs	20,294,172	25,692,994	33,019,748
Education and Outreach Costs			
Advertising and Consumer Education	1,289,505	3,790,984	5,124,293
3rd Party PR Agencies	152,207	458,940	537,358
Industry and Stakeholder Outreach	96,476	147,290	195,442
Community Collection Events/Conferences/Events	186,233	198,400	235,954
Other Marketing and Communications Expenses	11,173	58,518	76,494
MRC Marketing and Communications Staff	165,985	253,051	326,333
Total Education and Outreach Costs	1,901,579	4,907,183	6,495,874
Total Sleep Products Sustainability Program	-	-	174,250
Research			
Research	54,776	402,469	952,000
Staff Oversight	-	46,494	68,805
Total Research Costs	54,776	448,963	1,020,805
Administration and Legal			
Management and Staffing Expenses	2,196,679	2,917,005	2,860,031
Travel / Field Visits	59,647	123,122	121,073
Legal	89,488	279,734	1,237,138
Government Affairs/Services	-	282,580	222,905
Annual Financial Audit and Tax Filing Preparation	106,857	319,640	245,649
State Fees and Taxes	-	16,788	13,658
Compliance and Service Fees	100,233	29,526	47,304
Bank Fees	46,938	1,437	1,821
Total Administration and Legal	2,599,842	3,969,832	4,749,579
Total Cal Recycle Oversight Fees	447,048	777,095	948,756
Total Expenses	25,297,417	35,796,067	46,409,012

Mattress Recycling Council California, LLC

2020 Budget

	2020 Budget	Expense Allocation
REVENUE:		
Fee Revenue (\$10.50/unit)	45,266,603	
Total Revenue	45,266,603	
EXPENSES:		
Collection, Illegally Dumped Mattresses, Transportation, Recycling Costs (Operational Costs)		
Collection		
Solid Waste Handling Fee	2,421,483	
Collection Containers and Storage	1,574,265	
Collection Site Signage/Guidelines	20,370	
Consumer Incentive	763,650	
sub-total Collection Costs	4,779,768	10.2%
Illegally Dumped Mattress Collection Initiative	1,280,285	2.7%
Transportation and Recycling		
Transportation	7,414,949	
Recycling	19,876,204	
sub-total Transportation & Recycling	27,291,153	58.3%
Total Operational Costs	33,351,206	71.2%
Education and Outreach Costs		
Advertising and Consumer Education	5,644,287	
3rd Party PR Agencies	620,680	
Industry and Stakeholder Outreach	202,197	
Community Collection Events/Conferences & Events	244,531	
Other Marketing and Communications Expenses	79,095	
MRC Marketing and Communications Staff	400,765	
Total Education and Outreach Costs	7,191,555	15.4%
Total Sleep Products Sustainability Program	250,000	0.5%
Research		
Research	992,000	
Staff Oversight	120,128	
Total Research Costs	1,112,128	2.4%

	<u>2020 Budget</u>	<u>Expense Allocation</u>
Administration and Legal		
Management and Staffing Expenses	3,193,513	
Travel / Field Visits	122,517	
Legal	129,250	
Government Affairs/Services	144,000	
Annual Financial Audit and Tax Filing Preparation	223,078	
State Fees and Taxes	14,122	
Compliance and Service Fees	123,398	
Bank Fees	1,883	
Total Administration and Legal	<u>3,951,761</u>	8.4%
Total Cal Recycle Oversight Fees	981,014	2.1%
Total Expenses	<u>46,837,664</u>	<u>100.0%</u>
Operating Net Assets	(1,571,061)	
Net Investment Return	707,249	
Net Assets	<u>(863,812)</u>	