



September 1, 2020

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

Dear Acting Director DaRosa:

The Mattress Recycling Council California, LLC (MRC) is a tax-exempt nonprofit 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 2021 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 2021 Program Budget

September 1, 2020

Submitted by:

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

Submitted to:

California Department of Resources Recycling and Recovery
Ken DaRosa
Acting Director
1001 I Street
Sacramento, CA 95812-4025

California Used Mattress Recovery and Recycling 2021 Program Budget

Pursuant to Cal. Pub. Res. Code §42988 and 14 CCR §18963, the Mattress Recycling Council California, LLC (MRC), a nonprofit entity, is pleased to submit to the California Department of Resources Recycling and Recovery (CalRecycle) its 2021 budget.

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) in 2020, prior to the submission of the 2021 budget (and the 2019 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.

In light of the disruptions caused by the COVID-19 pandemic in California, CalRecycle postponed the July 1 deadlines for MRC to submit its 2021 budget referenced in the above statutory and regulatory provisions to September 1, 2020.

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).

Executive Summary

MRC launched the program on December 30, 2015. In preparing its 2021 budget, MRC has taken into consideration not only its planned activities for 2021, but also its actual revenue and expense experience for 2019, the first half of 2020 (Q1 and Q2), as well as projections for the remainder of 2020.

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 the collection of illegally dumped mattresses), transportation and recycling, education and outreach, research, administrative expenses and payments to reimburse CalRecycle for its oversight activities.

In 2021, MRC anticipates that over 4.2 million units will be sold in California and that over 1.5 million units will be recycled through the program. We note these figures also anticipate that units recycled will grow faster than units sold in 2021,

with units recycled increasing by 4.6% and units sold up by 1.7% over 2020 levels.

MRC projects 2020 charge revenue of over \$43.7 million and budgets charge revenue of \$44.5 million for 2021, a 1.7% increase over 2020. We have budgeted \$30,000 for late fee revenue in 2021 (at the same level projected for 2020), although we continue to encourage retailers and other sellers to make timely remittances to avoid these fees.

In MRC's 2021 budget, total annual expenses for 2021 are budgeted at \$46.6 million, which is 1% less than our projected 2020 total expenses of \$47.1 million. This comparison is skewed, however, because MRC projects it will incur unusual costs in 2020 that it does not expect to spend in 2021. These unusual 2020 costs, which include over \$2.7 million in operational costs and \$1.7 million in administrative and legal costs, are for recycling a large quantity of damaged mattresses abandoned by a recycler that MRC terminated in 2018 and related legal proceedings. The 2021 budget includes no additional operational costs related to this clean-up effort (which MRC expects to complete in 2020) and only \$246,000 in administrative and legal costs related to concluding the legal proceedings with the former recycler. The total 2020 expenses would be \$42.7 million without these unusual expenses and the 2021 budgeted total expenses would increase by 8.5% to \$46.3 million

Total operational expenses (Collection, Illegally Dumped Mattress Collection Initiative, Transportation and Recycling) are budgeted to \$34.9 million in 2021, which is 2.5% less than the 2020 projected operating expenses of \$35.8 million. If we exclude the unusual expenses mentioned above, the operational expenses for 2020 would be \$33.1 million. Thus, the 2021 budgeted operational expenses reflect a 5.5% year-over-year increase after excluding the unusual 2020 expenses.

MRC's 2021 budgeted operational expenses include \$5 million in collection costs for solid waste handling fees, container and storage rental, consumer incentive payments (CIP) and collection site signage. This is a 1% decrease compared to 2020 projections due to the unusual expenses MRC experienced in 2020, as mentioned above. Because the 2021 budget no longer contains expenses related to processing damaged mattresses abandoned by a former recycler, the 2021 recycling expense is budgeted at \$19 million (a 7% decrease compared to 2020 projections). The 2021 budget for transportation of \$9.2 million is a 6% increase over 2020 projections, because we anticipate that both the number of units processed and per unit transportation costs will increase in 2021.

Part of the \$1.1 million MRC has budgeted in 2021 for its Illegally Dumped Mattress Collection Initiative will compensate participating entities for reporting data on illegal mattress dumping. The remainder of that amount will both fund public awareness campaigns to educate California residents about how to

properly discard their used mattresses and allocate \$125,000 to fund pilot projects that will test innovative approaches to help solve the problem of illegally dumped mattresses.

MRC has budgeted \$4.5 million in 2021 for education and outreach to inform the industry and consumers about the Bye Bye Mattress program and how to recycle mattresses in California. This is a \$1 million (28.6%) increase over 2020 projections. In 2021, education and outreach expenses represent 9.7% of MRC's total budgeted expenses.

MRC has budgeted \$856,000 in 2021 to fund an array of research and projects, including awards to California municipalities to support efficient mattress collection projects, research to identify new uses for several hard-to-recycle mattress components and funding to initiate a life cycle assessment. MRC has also budgeted \$204,000 for the Sleep Products Sustainability Program to continue to help mattress manufacturers reduce waste while increasing operational efficiency.

MRC's 2021 program administration budget of \$5 million represents 10.8% of total expenses. In addition, the MRC budget includes \$801,000 to reimburse CalRecycle for oversight of the program, and \$272,000 for legal expenses.

Finally, the 2021 budget anticipates that MRC will have a net investment return of approximately \$1.15 million.¹

MRC intends to fund its 2021 budgeted expenses of \$46.6 million with a combination of \$44.5 million in charge revenue (based on budgeted unit sales of 4.2 million units at a \$10.50 per unit charge), \$30,000 in late fee revenue, a net investment return of approximately \$1.15 million and \$929,000 withdrawn from MRC's reserves.

Requirements of Cal. Pub. Res. Code §42988

- 1. 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 mattress sales is the program's primary revenue source. MRC budgets recycling charge revenue of \$44,480,541 for 2021.

¹ We note that GAAP requires interest, realized, and unrealized gains on investments (less investment costs) to appear as Net Investment Return on the income statement below the Change in Operating Net Assets (Net Income).

We note that MRC collected in 2019 and projects for 2020 modest late fee revenue of \$26,264 and \$30,000, respectively. We have budgeted \$30,000 for late fee revenue in 2021, although we continue to encourage retailers and other sellers to make timely remittances to avoid these fees.

In preparing the program's 2021 budgeted charge revenue, MRC considered revenue and units sold for the past few years. The year-over-year reported units sold increased by 2.9% in 2018 and decreased by 1.7% in 2019. In addition, MRC factored in the 2020 actuals through June, which as of January 1, 2020 includes sales of futons, which are now subject to the recycling charge. Year-to-date 2020, however, has been highly unusual because reported sales dropped significantly in March and April (primarily resulting from reduced sales through brick-and-mortar retailers that were required to close during the initial stages of the COVID-19 pandemic), but recovered to near 2019 levels by June 2020.

Based on actual revenues through June 2020 (including recycling charge revenue on futon sales), MRC projects that 2020 California unit sales, despite the pandemic, will be 4,165,430, an increase of 1.7% over 2019 unit sales of 4,095,154. Assuming that California unit sales will increase by approximately the same 1.7% in 2021, MRC budgeted unit sales in 2021 of 4,236,242. MRC based this assumption on the post-quarantine recovery in mattress sales experienced to date and a forecasted modest increase in California home sales due to a continuation of low interest rates. Additionally, since the inception of the program, the California population has continued to increase at an average annual rate of 0.38%. MRC's budgeted 2021 recycling charge revenue of \$44,480,541 is calculated by multiplying the 2021 budgeted units of 4,236,242 by the \$10.50 per unit charge.

Costs

MRC has budgeted \$46,593,795 in 2021 program costs, as classified under the following categories:

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

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

Collection:

This cost category, totaling \$5,148,225, covers the following activities:

- Solid Waste Handling
- Collection Container and Storage Rental
- Consumer Incentive Payments (CIP)
- Collection Site Signage

MRC's 2021 budget includes \$2,951,752 in Solid Waste Handling fees, based on the assumption that Solid Waste Facilities (SWF)/Collection sites will account for 47% of the annual program units (which is similar to the percentage of units MRC collected through this channel over the last three years). Nevertheless, we expect the importance of this channel will diminish somewhat in 2021 because, as of January 1, 2021, online retailers that deliver new units to consumers via common carrier will be required to take back the consumers' discarded unit upon request. We anticipate that SWFs and other collection site types will not handle many of the units collected in this manner, and that they will instead be delivered directly to recyclers for processing.

As of mid-2020, MRC had agreements with 232 permanent collection sites in California under which MRC compensated them for accepting, collecting, storing and handling used mattresses for processing through the program. This includes permanent collection sites that allow residents to drop off units at no cost and entities that collect units through no-cost curbside bulky item collection services. For purposes of preparing this 2021 budget, MRC adjusted the average per unit handling fee that MRC paid in 2020 for inflation and applied that to the number of units we expect to collect through this channel. Additionally, MRC has contracted with organizations to provide labor at collection events and select collection sites.

As MRC continues to expand the program, we will contract with additional sites in 2021. However, our ability to contract with certain SWFs is constrained for various reasons, including the following:

- They 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 or equipment to collect, store, or transport units for MRC).

MRC’s 2021 budget includes Collection Container and Storage Rental Expenses of \$1,494,274, a 12% decrease from 2020 projections. In 2019 and 2020, MRC incurred abnormally high expenses (\$1.3 million and \$325,000 respectively) for container and storage costs related to the cleanup of abandoned units by a mattress recycler that MRC terminated in late 2018. MRC will not incur similar expenses in 2021. At the same time, despite the expense decrease, in 2021 MRC anticipates a 9% increase in the number of containers it will rent to service SWF and Commercial Volume Program (CVP)² customers.

MRC set the per unit CIP 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. For 2021, MRC has budgeted \$682,455 for CIP costs. MRC anticipates that units collected from consumers who are paid the \$3 incentive will account for 15% of program units in 2021, which is consistent with actual experience in 2018 and 2019 as well as projections for 2020.

Finally, MRC has budgeted \$19,744 for 2021 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.

Details of the 2021 budgeted Collection costs are as follows in Table 1:

TABLE 1: 2021 Budgeted Collection Costs

Category	Amount
Solid Waste Handling Fees	\$2,951,752
Collection Container and Storage Rental Expenses	\$1,494,274
Consumer Incentive Payments	\$682,455
Collection Site Signage	\$19,744
Total Collection Costs	\$5,148,225

Illegally Dumped Mattress Collection Initiative

MRC compensates local municipalities to provide MRC with needed statistical information about illegal mattress dumping in their jurisdictions and to collect the illegally dumped units.

² The Commercial Volume Program (CVP) currently includes retail, hotel, and educational facilities requiring large volume pickup and in 2021 will also include military installations and hospitals.

As it has in prior years, in 2020 MRC will pay participating entities \$15 per unit collected for approximately 65,000 units. To expand the Initiative’s impact, MRC continues to recruit new participants. The Initiative has expanded from 54 participants in 2018, to 66 in 2019, and is expected to include 68 in 2020. Over this time period, the number of units reported and collected has increased by over 20%.

The 2021 budget anticipates participants will collect approximately 65,650 illegally dumped units next year (a 1% increase in reported units over 2020) at the same \$15 per unit compensation. The 2021 budget will continue to fund targeted advertising and outreach efforts to educate state residents about the environmental impact of illegally dumped mattresses, as well as related administrative costs.

In addition, MRC has allocated \$125,000 in 2021 to fund pilot studies proposed by those Initiative participants that are most affected by illegal mattress dumping to test innovative approaches for solving the problem. MRC anticipates the pilot studies will promote awareness about existing mattress collection channels, enforcement of laws against dumping and establish or improve mattress drop off programs.

MRC will refresh its Stop Illegal Dumping public service announcement (which has been in use for nearly three years) with new messaging and creative content.

Details of the 2021 budget as it concerns the Initiative are as follows:

TABLE 2: 2021 Budgeted Initiative Costs

Category	Amount
Illegally Dumped Mattress Collection Initiative Compensation	\$985,000
Advertising and Outreach	\$13,503
Funding for Pilot Studies	\$125,000
Staff and Oversight Expenses	\$14,000
Total Illegally Dumped Mattress Collection Initiative	\$1,137,503

Transportation and Recycling:

Both transportation and recycling costs are directly related to the number of units collected. MRC projects that 1,516,575 units (a 4.6% increase over 2020) will be collected for recycling through the program in 2021.

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 2020 Q1-

Q2 actuals and projections for the remainder of the year, the 2020 per unit transport cost is expected to be \$6.01, a 34.6% increase over 2019 actuals (and a 60% increase over 2018 actuals). Costs increased in 2020 because we expanded the program to more rural areas located further from recyclers, the COVID-19 pandemic resulted in labor shortages at some recyclers requiring that we haul units longer distances to recyclers with available capacity, and transportation rates increased.

MRC took these 2020 cost factors into consideration when preparing the 2021 budget. For example, MRC does not anticipate further service disruptions in 2021 caused by the COVID-19 pandemic. Furthermore, MRC plans to focus on improving transportation efficiency throughout the program by implementing recommendations prepared for us by a transportation consultant in 2020. Given these factors, MRC has budgeted 2021 transportation costs at an average per unit rate of \$6.09 (a 1.3% increase over the 2020 projected unit cost of \$6.01). MRC then multiplied this rate by the number of units budgeted to be transported by MRC in 2021. Included in this per unit rate is a 1.4% contingency in case the anticipated transportation efficiencies take longer to implement than expected.

As a result, MRC's 2021 transportation expense is budgeted at \$9,229,663, which reflects the number of units expected to be transported multiplied by the \$6.09 per unit rate. In total, the expense (including a 4.6% increase in units multiplied by the per unit rate) is 6% above 2020 projected transportation costs.

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 recyclers' costs have increased as wages have increased, factory space for the recycling plants has become more limited and expensive in certain markets, and other operational expenses have increased due to inflation. In addition, recyclers' ability to offset some operational costs by selling the materials that they reclaim from the dismantled units at favorable prices has generally diminished in the last year, as prices for recycled materials have been under pressure.

In 2020, MRC projects a total of \$20.9 million in recycling expenses, which includes approximately \$2.3 million to recycle baled mattresses abandoned by a recycler that MRC terminated in 2018. MRC incurred these unusual expenses in both 2019 and 2020 but will not incur them in 2021. After excluding these unusual expenses from 2019 and 2020, we project normal recycling expenses in 2020 will increase 11% compared to 2019, despite an anticipated decrease of 38,570 units (2.6%) to be

processed in 2020 compared to 2019. The lower units resulted directly from the COVID-19 pandemic, which lowered the number of units collected in April and May and caused unexpected capacity constraints for some recyclers (because they could not get personnel to return to work following the pandemic disruptions). In addition, the 2020 recycling expense includes costs for processing pocketed coils. A number of scrap steel purchasers no longer were willing to buy pocketed coils and most recyclers lacked the ability to remove the steel coils from the fabric pockets for recycling. Rather than have the recyclers landfill these pocketed coils, MRC hired a specialized recycler to process those materials.

MRC budgeted 2021 recycling costs of \$19,418,572. The 2021 expense takes into account the expected units to be recycled in 2021 (4.6% over 2020 projected units) along with relatively flat per unit processing rates paid to recyclers. MRC’s budget includes additional costs to process pocketed coils so that the steel can be recycled. The 2021 recycling expense includes a modest 1.5% contingency to allow for uncertainties in market prices for recycled mattress materials and other cost factors (like the possibility of wage increases) that may lead to unanticipated recycling cost increases.

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.

Details of the 2021 budgeted total operational costs (Collection, Illegally Dumped Mattress Collection Initiative, Transportation and Recycling) are as follows:

TABLE 3: 2021 Budgeted Total Operational Costs

Category	Amount
Collection Costs	\$5,148,225
Illegally Dumped Mattress Collection Initiative	\$1,137,503
Transportation	\$9,229,663
Recycling	\$19,418,572
Total Operational Costs	\$34,933,963

Education and Outreach

MRC budgeted education and outreach expenses for 2021 of \$4,500,000, which represents a \$1,000,000 (28.6%) increase over 2020 projections of \$3,500,000. In 2021, approximately 9.7% of MRC’s total budgeted expenses are allocated to education and outreach.

For the consumer, MRC refers to itself as Bye Bye Mattress program. MRC’s comprehensive education and outreach efforts inform the industry and consumers about the Bye Bye Mattress program and how to recycle

mattresses in California. MRC promotes the program across the state with paid advertising campaigns, public service announcements (PSA), media relations, direct mail, digital marketing and social media, and participation in community and industry events.

In 2021, MRC plans to continue paid advertising campaigns that target consumers throughout California and to offer public service announcements (PSAs) to promote the Bye Bye Mattress program throughout the state. Consumer outreach activities will also include multicultural outreach to the Latino, Black and Asian Pacific Islander communities, among others. MRC has budgeted to run statewide advertising campaigns in both the spring and fall of 2021. These ads would feature a universal message such as the “Three Ways to Recycle” campaign (highlights the best methods for recycling a mattress – retailer take back, dropping it off at a participating location or using curbside bulky item pick up) or the “Retailer Take Back” campaign (dedicated to informing consumers that retailers must offer to take back their old mattress at no cost with the delivery of a new one). Throughout the year, we will use localized messaging in targeted areas to promote consumer drop-offs and the consumer incentive payments (CIP) available to them, as well as new collection sites and collection events. Much of the localized targeted outreach will be conducted in areas experiencing high per capita rates of illegal dumping or identified by CalEnviroScreen 3.0 as being disproportionately burdened by or vulnerable to multiple sources of pollution. The “Retailer Take Back” campaign materials (TV, radio, print and digital), will be updated to reflect AB 187 program changes. MRC also plans to introduce a Spanish-language campaign and new digital advertising.

Industry outreach activities continue to inform mattress retailers and other members of the industry about their legal obligation 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. MRC has a robust protocol in place to identify potential new registrants both traditional and online and conduct outreach to enroll them in the program. MRC will continue educating retailers, distributors and manufacturers about program changes resulting from the enactment of AB 187 in 2019 and inform stakeholders about the program’s achievements. MRC’s retailer outreach efforts will be ongoing in 2021, with a goal of connecting with each registered retailer at least once a year. This initiative includes email, phone contact and a survey.

With the rise of online purchases and the new take-back obligations in 2021 for online retailers that deliver units to consumers using common carriers, MRC plans to expand efforts to provide online retailers with customer education materials about Bye Bye Mattress.

The 2021 budget also includes funds for MRC to monitor the effectiveness of its advertising and outreach efforts through surveys and other tools that collect metrics regarding the performance of our websites, the impact of social media and press coverage and results of digital advertising, and analyze this data. We also have planned updates and improvements to our digital communications targeted at participants and stakeholders.

Details of the 2021 Education and Outreach budget are as follows:

TABLE 4: 2021 Budgeted Education and Outreach Costs

Category	Amount
Advertising and Consumer Education	\$3,135,372
3 rd Party PR Agencies	\$533,805
Industry and Stakeholder Outreach	\$115,737
Community Collection Events/Conferences	\$159,500
Annual Report	\$54,536
Travel	\$38,000
Marketing and Communications Staff	\$463,050
Total Education and Outreach	\$4,500,000

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. MRC’s SP2 works with mattress manufacturers to develop methods to analyze their businesses, products and processes to help mattress manufacturers identify steps they can take to reduce their environmental impact, 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

MRC began training three mattress manufacturers in 2019. Although the COVID-19 pandemic hampered MRC’s SP2 activities in 2020, efforts will resume as soon as risks to vendors and staff are reduced.

The 2021 SP2 budget includes \$204,000 to support this initiative, including funds to publicize this program and associated training for additional manufacturers. Because it can take 8 to 12 months for a manufacturer to complete its projects for certification, MRC will evaluate the results of the initiatives in 2020 and consider how best to expand the program.

In addition, MRC is planning other SP2 activities to help make new mattresses easier to recycle at the end of their useful life. This will include monitoring the introduction of new product and materials innovations so that recyclers are better able to recycle those products when they are discarded several years from now, and to take end-of-life recycling challenges into account when designing and manufacturing new products. These efforts will be launched in 2021.

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 \$856,048 in 2021, compared to a projected \$1.15 million in 2020 and a \$1.6 million in 2019. The 2021 budget includes the following activities:

- **Mattress Collection Facility Improvement Funding:** Fund small projects at MRC collection sites that will advance program goals by increasing the diversion of units from the solid waste stream and the recyclability of discarded units.
- **End-Use Application Development:** Develop new markets for recovered mattress materials to encourage sustainable growth of mattress recycling programs. MRC funds creative proposals that demonstrate potential to use hard-to-recycle mattress components in new or reformulated applications and/or products.
- **Life Cycle Analysis (LCA):** MRC is in the initial planning stages of conducting a life cycle assessment of mattress recycling processes and end-uses. This in-depth LCA should provide a useful baseline for evaluating the relative environmental impacts of new technologies developed under the research program.
- **Collaborating and Networking:** MRC participates 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. Although the COVID-19 pandemic has limited these collaborations, MRC plans to resume these types of activities when possible in 2021.
- **Research Planning and Administration:** MRC uses existing staff and third-party consultants to plan, manage and oversee the aforementioned research projects.

Details of the 2021 Research budget are as follows:

TABLE 5: 2021 Budgeted Research Costs

Category	Amount
Mattress Collection Facility Improvement Funding	\$75,000
End-use Application Development Research	\$388,000
Life Cycle Analysis	\$125,000
Collaborating and Networking	\$15,000
Research Planning and Administration	\$253,048
Total Research	\$856,048

CalRecycle Oversight

Cal. Pub. Res. Code §42988.2 requires that MRC reimburse CalRecycle for its direct costs incurred to implement and enforce the Used Mattress Recovery and Recycling Act. Based on 2020 Q1 and Q2 actuals of \$354,090, MRC anticipates the total cost for 2020 to be \$735,090. The 2021 expense of \$801,201 is based on the average costs for 2018 through 2020, adjusted for inflation.³

Administration

For 2021, MRC has budgeted \$5,026,843 to administer the program. This cost category covers the following:

- Management and Staffing
- Travel and Field Visits
- Government Affairs
- Annual Financial Audit and Tax Filing Preparation
- State Fees and Taxes
- Compliance Costs
- Bank Fees

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

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 2020, MRC provided information about the program to

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

legislators and their staff and anticipates similar activities in 2021.

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 perform compliance activities to confirm whether vendors providing mattress processing services to MRC are complying with their contractual and other legal obligations. In 2021, MRC will begin retailer compliance audits to validate mattress sales reporting. The 2021 budget reflects MRC staff and third-party costs associated with these activities.

Details of the 2021 Administration budget are as follows:

TABLE 6: 2021 Budgeted Administration Costs

Category	Amount
Management and Staffing	\$4,163,294
Travel and Field Visits	\$104,000
Government Affairs	\$144,800
Annual Financial Audit and Tax Filing Preparation	\$218,796
State Fees and Taxes	\$14,500
Compliance Costs	\$380,192
Bank Fees	\$1,261
Total Administration	\$5,026,843

Legal

Legal costs for 2021, budgeted at \$271,740, cover fees for outside counsel that negotiate MRC contracts, address contract compliance issues and advise MRC regarding corporate matters. In 2019 and 2020, legal costs also included the defense of the program in litigation connected to MRC's termination of a recycler. However, we do not anticipate this expense to continue in 2021 at the same projected levels.

- 2. 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 amount that MRC sets aside in this reserve is influenced by several factors.

The MRC Board established a reserve policy that directs MRC management to not only have sufficient operating cash to fund operations (e.g., cash on hand equal to approximately three months of expenses), but a prudent level of reserves (Board Designated Financial Reserves) that allows MRC to be prepared in case its operational expenses increase or planned revenues decrease as a result of factors beyond its control.

First, MRC must be prepared for unforeseen circumstances that could have a substantial impact on its revenue and expenses, such as accidents, disasters or failures of MRC's operational systems, recyclers, retailers and other sellers that collect the charges that fund the program, etc. The COVID-19 pandemic is a recent example of a situation beyond MRC's control that interrupted our revenue and cash flow and increased our costs. In addition, significant or sudden 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 its 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, obtain approval of and implement a change in the recycling charge (e.g., CalRecycle must approve a proposed change and MRC must notify the public at least 180 days in advance of an approved change), 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, due to financial constraints, 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 working capital 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 to cover substantial unexpected shortfalls. Instead, MRC must rely on its own working capital and reserves to address the various financial risks it may encounter. Therefore, having less than approximately three months of operating cash as working capital on hand would be fiscally irresponsible.

For these reasons, MRC follows a reserve policy that will provide sufficient financial resources to permit a proper response to such exigencies promptly and properly.

As seen in Table 7 below, MRC's 2021 budget assumes a net loss of \$2,083,254

(change in Operating Net Assets). Factoring in a budgeted Net Investment Return of \$1,154,202, the change to Net Assets is a decrease of \$929,052. Therefore, MRC anticipates that \$929,052 from reserves will be necessary to supplement the charge revenue to fund its 2021 budgeted expenses. (In addition, very preliminary forecasts for 2022 anticipate that an additional \$14,112 from reserves will be needed to supplement revenue in that year's budget as well.)

MRC's Change in Operating Net Assets and Change in Net Assets projected for 2020, 2021 and 2022 are as follows in Table 7:

TABLE 7: 2020 thru 2022 Operating Net Assets and Change in Net Assets

Category	2020 Projections	2021 Proposed Budget	2022 Forecast
Total Revenue	\$43,767,015	\$44,510,541	\$45,622,554
Total Program Costs	\$47,122,337	\$46,593,795	\$47,344,106
Change in Operating Net Assets	(\$3,355,322)	(\$2,083,254)	(\$1,721,552)
Net Investment Return	\$708,652	\$1,154,202	\$1,707,440
Change in Net Assets	(\$2,646,670)	(\$929,052)	(\$14,112)
Net Assets Beginning of the Year	\$46,440,324	\$43,793,654	\$42,864,602
Net Assets at the End of the Year	\$43,793,654	\$42,864,602	\$42,850,490

Based on the objectives discussed previously regarding MRC's budgeted costs and reserve needs, MRC has budgeted charge-related revenue of \$44,480,541 (total revenue of \$44,510,541, including \$30,000 in late fee revenue) in 2021 to meet the requirements of Cal. Pub. Res. Code § 42988(b).

- 3. Commencing January 1, 2027, the mattress recycling organization shall not maintain total reserves exceeding 60 percent of its annual operating expenses, consistent with the requirements of the Financial Accounting Standards Board's Accounting Standards Update 2016-14, Not-for-Profit Entities (Topic 958), and any future updates to that standard. (Cal. Pub. Res. Code §42988.3(b))**

In 2019, California added Subsections 42988.3(a) and (b) to the California Public Resources Code, which state:

- (a) On and after January 1, 2021, the mattress recycling organization shall identify strategies in its annual proposed budget to comply, commencing January 1, 2027, with the reserve requirements specified in this section.
- (b) Commencing January 1, 2027, the mattress recycling organization shall not maintain total reserves exceeding 60 percent of its annual operating expenses, consistent with the requirements of the Financial Accounting Standards Board's Accounting Standards Update 2016-14,

Not-for-Profit Entities (Topic 958), and any future updates to that standard.

The 2021 proposed budget brings the Board Designated Financial Reserve to 67% of annual operating expenses. The preliminary forecast of MRC's 2022 revenue and expenses also anticipates that reserves will be further reduced. MRC will continue to identify and employ strategies to bring the reserves into compliance with the requirements of Section 42988.3 by 2027, which may include investments in program efficiencies, research to find new markets for recovered mattress materials and improve mattress recyclability, and targeted consumer outreach.

Total reserves (Board Designated Financial Reserve) and the reserves as a percent of annual operating expenses (Total Program Costs) for 2019 Actuals through the Forecast for 2022 are as follows in Table 8:

TABLE 8: Total Reserves

	2019 Actuals	2020 Projections	2021 Proposed Budget	2022 Forecast
Net Assets as of Year End	\$46,440,324	\$43,793,654	\$42,864,602	\$42,850,490
Board Designated Financial Reserve	\$34,059,359	\$32,013,070	\$31,216,153	\$31,014,463
Reserves as a % of Annual Operating Expenses	68.8%	67.9%	67.0%	65.5%
Undesignated Net Assets ⁴	\$12,380,965	\$11,780,584	\$11,648,449	\$11,836,027

4. 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.

⁴ Undesignated Net Assets, or working capital, is equal to 25% of annual operating expenses (total program costs).

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 2021 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 itemized cost components discussed above that comprise MRC's 2021 budgeted expenses as follows in Table 9:

TABLE 9: Itemized Costs of 2021 Proposed Budget

Cost Category	Percent of Each Cost Category
Collection	11.1%
Illegally Dumped Mattress Collection Initiative	2.4%
Transportation and Recycling	61.5%
Education and Outreach	9.7%
Sleep Products Sustainability Program	0.4%
Research	1.8%
CalRecycle Oversight	1.7%
Administration	10.8%
Legal	0.6%
Total	100.0%

Amount of the 2021 Charge

The 2021 MRC budget takes into account 2019 actuals and 2020 projections, based on the months of data gathered since the 2020 budget was submitted for approval in July of 2019. MRC projects 2021 charge-related revenue of \$44,480,541 and expenses of \$46,593,795. The MRC budget anticipates that the recycling charge will be collected on 4,236,242 units sold to California consumers, an increase of 70,812 units over 2020, and that the number of units processed through the program will increase by 67,275 units to 1,516,575.

Table 10 demonstrates that a charge of \$10.50 will be sufficient to cover MRC's 2021 budgeted expenses of \$46,593,795, after funding the net deficit from collected late fee revenue, the anticipated net investment return and a portion of the reserves:

TABLE 10: Recycling Charge

A. Budgeted 2021 Expenses	\$ 46,593,795
B. Net Deficit (Funded by Net Investment Return and Reserves)	(\$2,083,254)
C. Adjust for Late Fee Revenue	\$30,000
D. Adjust for Net Investment Return	\$1,154,202
E. Amount Drawn from Reserve	\$929,052
F. Net Expenses Funded by Charge (F = A – C – D – E)	\$44,480,541
G. Projected Unit Sales	4,236,242
H. Per Unit Charge (H = F/G)	\$10.50

Requirements of 14 California Code of Regulations §18963(b)

- 1. 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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 clyons@mattressrecyclingcouncil.org
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- 2. 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 1 on page 5.

- 3. 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 4 on page 19.

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. (14 CCR §18963(b)(4))

TABLE 11: 2018 and 2019 Actual Expenses and 2020 Projections

Expenses	2018 Actuals	2019 Actuals	2020 Projections
Operational Costs			
Collection			
Solid Waste Handling Fees	\$ 1,930,486	\$ 3,040,984	\$ 2,836,149
Collection Container and Storage	\$ 1,656,613	\$ 2,527,032	\$ 1,699,532
Consumer Incentive Payments	\$ 659,268	\$ 596,097	\$ 645,405
Collection Site Signage	\$ 6,724	\$ 22,732	\$ 29,487
Total Collection Costs	\$ 4,253,091	\$ 6,186,845	\$ 5,210,573
Illegally Dumped Mattress Initiative	\$ 870,466	\$ 1,048,164	\$ 1,010,136
Transportation and Recycling			
Transportation	\$ 5,273,982	\$ 6,639,711	\$ 8,703,697
Recycling	\$ 15,295,455	\$ 19,396,086	\$ 20,903,946
Total Transportation and Recycling	\$ 20,569,437	\$ 26,035,797	\$ 29,607,643
Total Operational Costs	\$ 25,692,994	\$ 33,270,806	\$ 35,828,352
Education and Outreach			
Advertising and Consumer Education	\$ 3,790,984	\$ 6,171,598	\$ 1,996,008
3rd Party PR Agencies	\$ 458,940	\$ 523,038	\$ 667,279
Industry and Stakeholder Outreach	\$ 147,290	\$ 719,894	\$ 278,710
Community Events/Conferences	\$ 198,400	\$ 231,490	\$ 33,412
Annual Report	\$ 44,432	\$ 51,972	\$ 53,099
Travel	\$ 14,086	\$ 58,649	\$ 9,492
Marketing and Communications Staff	\$ 253,051	\$ 460,151	\$ 462,000
Total Education and Outreach	\$ 4,907,183	\$ 8,216,792	\$ 3,500,000
Sleep Products Sustainability Program	\$ -	\$ 153,730	\$ 97,448
Research			
Research	\$ 402,469	\$ 1,115,630	\$ 734,450
Collection Facility Improvement Funding	\$ -	\$ 116,354	\$ 155,083
Staff and Oversight Expenses	\$ 46,494	\$ 375,181	\$ 262,805
Total Research	\$ 448,963	\$ 1,607,165	\$ 1,152,338
CalRecycle Oversight Fees	\$ 777,095	\$ 823,677	\$ 735,090

Expenses	2018 Actuals	2019 Actuals	2020 Projections
Administration			
Management and Staffing	\$ 2,921,661	\$ 3,509,539	\$ 3,941,424
Travel and Field Visits	\$ 123,122	\$ 161,513	\$ 73,876
Government Affairs	\$ 282,580	\$ 186,728	\$ 144,783
Annual Financial Audit and Tax Filing	\$ 319,640	\$ 240,352	\$ 216,305
State Fees and Taxes	\$ 16,788	\$ 14,499	\$ 14,500
Compliance Costs	\$ 24,870	\$ 2,888	\$ 145,600
Bank Fees	\$ 1,437	\$ 813	\$ 1,225
Total Administration	\$ 3,690,098	\$ 4,116,332	\$ 4,537,713
Legal	\$ 279,734	\$ 1,335,357	\$ 1,271,396
Total Expenses	\$ 35,796,067	\$ 49,523,859	\$ 47,122,337

Mattress Recycling Council California, LLC 2021 Budget

TABLE 12: Proposed 2021 Program Budget

Category	2021 Budget	Expense Allocation
REVENUE:		
Fee Revenue (\$10.50/unit)	\$ 44,480,541	
Late Fee Revenue	\$ 30,000	
Total Revenue	\$ 44,510,541	
EXPENSES:		
Operational Costs		
Collection		
Solid Waste Handling Fees	\$ 2,951,752	
Collection Container and Storage Rental	\$ 1,494,274	
Consumer Incentive Payments	\$ 682,455	
Collection Site Signage	\$ 19,744	
Total Collection Costs	\$ 5,148,225	11.1%
Illegally Dumped Mattress Collection Initiative	\$ 1,137,503	2.4%
Transportation and Recycling		
Transportation	\$ 9,229,663	
Recycling	\$ 19,418,572	
Total Transportation and Recycling	\$ 28,648,235	61.5%
Total Operational Costs	\$ 34,933,963	
Education and Outreach		
Advertising and Consumer Education	\$ 3,135,372	
3rd Party PR Agencies	\$ 533,805	
Industry and Stakeholder Outreach	\$ 115,737	
Community Collection Events/Conferences	\$ 159,500	
Annual Report	\$ 54,536	
Travel	\$ 38,000	
Marketing and Communications Staff	\$ 463,050	
Total Education and Outreach	\$ 4,500,000	9.7%
Sleep Products Sustainability Program	\$ 204,000	0.4%
Research		
Research	\$ 513,000	
Collection Facility Improvement Funding	\$ 75,000	
Staff and Oversight Expenses	\$ 268,048	
Total Research	\$ 856,048	1.8%

Category	2021 Budget	Expense Allocation
CalRecycle Oversight Fees	\$ 801,201	1.7%
Administration		
Management and Staffing	\$ 4,163,294	
Travel and Field Visits	\$ 104,000	
Government Affairs	\$ 144,800	
Annual Financial Audit and Tax Filing	\$ 218,796	
State Fees and Taxes	\$ 14,500	
Compliance Costs	\$ 380,192	
Bank Fees	\$ 1,261	
Total Administration	\$ 5,026,843	10.8%
Legal	\$ 271,740	0.6%
Total Expenses	\$ 46,593,795	100.0%
Operating Net Assets	\$ (2,083,254)	
Net Investment Return	\$ 1,154,202	
Net Assets	\$ (929,052)	