



July 1, 2021

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

Dear Director Wagoner:

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 2022 budget.

Please contact me should you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Ryan Trainer".

Ryan Trainer
President
Mattress Recycling Council California, LLC



California Used Mattress Recovery and Recycling 2022 Program Budget

July 1, 2021

Submitted by:

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

Submitted to:

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

California Used Mattress Recovery and Recycling 2022 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 2022 budget.

Introduction

In September 2013, California enacted SB 254, as amended, 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 (including futons) 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 2021, prior to the submission of the 2022 budget (and the 2020 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).

Executive Summary

In preparing its 2022 budget, MRC has taken into consideration not only its planned activities for 2022, but also the actual revenue and expenses experienced in 2020 and the first quarter of 2021 (Q1), as well as projections for the remainder of 2021.

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, administration expenses and payments to reimburse CalRecycle for its oversight activities.

In 2022, MRC anticipates that over 4.5 million units will be sold in California, compared to 2021 projected units of 4,431,504. MRC also anticipates that over 1.7 million units will be recycled through the program. We note these figures also anticipate that units recycled will grow slightly faster than units sold in 2022. The number of units recycled is budgeted to increase by 2.0% while units sold is expected to increase by 1.7% over 2021 levels.

MRC budgets charge revenue of \$47.3 million for 2022, a 1.7% increase over 2021 projected charge revenue of \$46.5 million. We have budgeted \$30,000 for late fee revenue in 2022 (at the same level projected for 2021), although we continue to encourage retailers and other sellers to make timely remittances to avoid these fees.

MRC's total annual expenses for 2022 are budgeted at \$50.1 million, which is 1.8% more than our projected 2021 total expenses of \$49.2 million. Total expenses include operational expenses of \$39.2 million in 2022, to cover expenses related to collection and containers, the Illegally Dumped Mattress Collection Initiative, transportation and recycling. Operational expenses are expected to be 3.4% higher than the 2021 projected operating expenses of \$37.9 million as we recycle 2% more units in 2022 compared to 2021. The operational expenses represent 78.2% of MRC's total budgeted expenses.

MRC's 2022 budgeted operational expenses include \$5.3 million in collection and container costs for solid waste handling fees, container and storage rental, consumer incentive payments (CIP) and collection site signage. This is a 1.3% increase compared to 2021 projections. Over \$1.4 million of the \$1.6 million MRC has budgeted in 2022 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 \$150,000 to fund pilot projects that will test innovative approaches to help solve the problem of illegally dumped mattresses.

The 2022 budget for recycling is \$22.5 million, a 7.2% increase from the 2021 projections due to increases in both the rate MRC's recyclers charge MRC for their services and unit volumes. Although MRC expects to transport more units in 2022 than it did in 2021, the 2022 budget for transportation is \$9.7 million, a 3.1% decrease from the 2021 projections due to planned efficiency improvements.

MRC has budgeted \$3.13 million in 2022 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 1.6% increase over 2021 projections of \$3.08 million. In 2022, education and outreach expenses represent 6.3% of MRC's total budgeted expenses.

MRC has budgeted \$1.1 million in 2022 to fund an array of research projects to develop new end uses for mattress components, increase efficiencies within the program and provide funds for improvements to mattress collection sites. Those improvements are intended to help the sites divert more units from landfills and protect the quality of discarded units so that more mattress materials can be recycled. MRC has also budgeted \$201,000 for the Sleep Products Sustainability Program to continue to help mattress manufacturers reduce waste while increasing operational efficiency.

MRC's 2022 program administration budget of \$5.6 million represents 11% of total expenses. Program administration expenses include staff expenses, administration and overhead, database expenses, compliance audits and outside consultants who provide expertise and program assistance. In addition, the MRC budget includes \$87,000 for legal expenses and \$850,000 to reimburse CalRecycle for oversight of the program.

Finally, the 2022 budget anticipates that MRC will have a net investment return of

approximately \$922,000.¹

MRC intends to fund its 2022 budgeted expenses of \$50.1 million with a combination of \$47.3 million in charge revenue (based on budgeted unit sales of 4.5 million units at a \$10.50 per unit charge), \$30,000 in late fee revenue, a net investment return of approximately \$922,000, and almost \$1.8 million 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 \$47,303,844 for 2022. We note that MRC also projects a modest late fee revenue in 2022 of \$30,000, although we continue to encourage retailers and other sellers to make timely remittances to avoid these fees.

In preparing the program's 2022 budgeted charge revenue, MRC considered revenue and units sold for the past few years. The reported units sold in 2020 increased by 3.4% over 2019 levels, despite the COVID-19 pandemic. Part of this increase was due to futon sales which, as of January 1, 2020, are subject to the recycling charge.

Based on actual revenues through the first quarter of 2021, MRC projects that California unit sales for all of 2021 will be 4,431,504, an increase of 4.7% over 2020 unit sales of 4,234,404. This can be attributed to the recovery of mattress sales as the state began reopening from the COVID-19. Approximately 0.3% of the reported sales to date include units sold in prior years that participants did not report to MRC until 2021.

In developing its 2022 revenue budget, MRC considered the International Sleep Products Association's most recent Mattress Industry Forecast, which anticipates that national mattress unit sales will increase in 2022 by 2% over 2021. Given that projected 2021 unit sales revenue has been increased slightly due to previous years' late reported charges, MRC's 2022 budget assumes that units sold in California in 2022 will increase by 1.7% over 2021 (2% annual increase adjusted for the 0.3% of prior year reporting). Therefore, MRC's budgeted 2022 recycling charge revenue of \$47,303,844 is calculated by multiplying the 2022 budgeted units of 4,505,128 by the \$10.50 per unit charge. The late fee budget of \$30,000 is based on historical revenue from 2019 and 2020.

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).

TABLE 1: 2022 Budgeted Program Revenue

| Category | Amount |
|----------------------|---------------------|
| Fee Revenue | \$47,303,844 |
| Late Fee Revenue | \$30,000 |
| Total Revenue | \$47,333,844 |

Costs

MRC has budgeted \$50,051,440 in 2022 program costs, as classified under the following categories:

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

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

Operational Costs:

Operational Costs, including Collection and Container, Illegally Dumped Mattress Initiative, Transportation and Recycling, represent 78.2% of total expenses in 2022.

Collection and Container:

This cost category, totaling \$5,279,837, covers the following activities:

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

MRC's 2022 budget includes \$3,033,775 in Solid Waste Handling fees, a 2.5% reduction from 2021. As of mid-2021, MRC compensated 237 permanent collection sites in California 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 2022 budget, MRC applied the average per unit handling fee that MRC paid in 2020-2021 to the number of units it expects to collect through this channel. Additionally, MRC has contracted with organizations to provide labor at collection events and select collection sites.

MRC's 2022 budget for this cost is lower than 2021 because the percentage of units that MRC collects from Solid Waste Facilities (SWF)/Collection sites declined slightly in the first few months of 2021. We expect this trend to continue, in part because as of January 1, 2021, online retailers that deliver new mattress units to consumers via common carrier must take back a consumer's discarded unit upon request. We anticipate that this new requirement will result in SWFs and other collection sites handling fewer total units because the online retailers will deliver the units they collect directly to recyclers for processing.

As MRC continues to expand the program, we will contract with additional sites in 2022. 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 compensation terms with MRC while that contract remains in effect.
- Participating with the program is not logistically possible for the SWF (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 2022 budget includes Collection Container and Storage Rental Expenses of \$1,670,172, a 4.8% increase from 2021 projections. The increase is due primarily to increases in container rental fees, since the total number of containers is anticipated to remain steady.

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 2022, MRC has budgeted \$556,794 to provide CIP for 185,598 units at \$3 per unit. MRC anticipates that units collected from consumers who receive the \$3 incentive will account for 10.5% of program units in 2022, which is lower than previous years. The decrease can be attributed to both the increase in units collected by retailers as a result of the take back obligation extending to retailers using common carriers, as well as a temporary shortage of foam which may encourage some consumers to instead sell their discarded units to renovators.

Finally, MRC has budgeted \$19,096 for 2022 to provide appropriate signage and written guidelines for collection sites, including replacement signage needed due to damage.

Details of the 2022 budgeted Collection and Container costs are as follows in Table 2:

TABLE 2: 2022 Budgeted Collection and Container Costs

| Category | Amount |
|--------------------------------------------------|--------------------|
| Solid Waste Handling Fees | \$3,033,775 |
| Collection Container and Storage Rental Expenses | \$1,670,172 |
| Consumer Incentive Payments | \$556,794 |
| Collection Site Signage | \$19,096 |
| Total Collection and Container Costs | \$5,279,837 |

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. In 2020, MRC established separate compensation levels based on whether the entity was an urban (\$15 per unit) or rural county (\$20 per unit). MRC plans to continue this compensation structure in 2022 and expects to increase rural participation.

The 2022 budget anticipates participants will collect approximately 94,875 illegally dumped units, a 10% increase over the 2021 projection of 86,250 units and a 25% increase over 2020. The 2022 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.

MRC funded three illegal dumping mitigation pilot studies totaling \$233,000 in 2021. MRC has budgeted \$150,000 in 2022 to fund similar projects proposed by entities representing areas that are most affected by illegal mattress dumping. MRC's goal is to encourage innovative approaches for solving the problem. For example, MRC anticipates the projects will promote awareness about existing mattress collection channels, help enforce laws against dumping and establish or improve mattress drop off programs.

Details of the 2022 budget as it concerns the Initiative are as follows:

TABLE 3: 2022 Budgeted Illegally Dumped Mattress Collection Initiative Costs

| Category | Amount |
|--------------------------------------------------------------------|--------------------|
| Illegally Dumped Mattress Collection Initiative Compensation | \$1,432,615 |
| Advertising and Outreach | \$21,100 |
| Funding for Pilot Studies | \$150,000 |
| Staff and Oversight Expenses | \$36,720 |
| Total Illegally Dumped Mattress Collection Initiative Costs | \$1,640,435 |

Transportation and Recycling:

Both transportation and recycling costs are directly related to the number of units collected. MRC projects that 1,767,595 units (a 2.0% increase over 2021²) will be collected for recycling through the program in 2022. Of these units, approximately 85% (1,502,455) will be transported by an MRC transporter; the remaining 15% are expected to be self-hauled (by individuals or retailers).

Transportation

MRC uses third parties to transport mattresses from collection sites to recyclers for processing. Transport costs vary considerably depending on the transport distance, the location of the collection site and the container type used to hold the discarded mattresses. In 2020, transportation costs increased by 37% over 2019 due to the increase in units transported, higher transport rates, new collection routes added to the network, more long-distance routes to service rural areas and the need to transport pocketed coils accumulated by individual recyclers to a centralized processing facility. In addition, temporary COVID-19 pandemic-related recycler closures in 2020 forced MRC to divert significant volumes of units from closed facilities to those that were open, further increasing transportation costs.

In preparing the 2021 projections and the 2022 budget, MRC considered these costs as well as its plans to improve transportation efficiency throughout the program. For 2021, MRC projects transportation costs at an average rate of \$5.26 per unit, plus pocketed coil transportation and unplanned diversion costs, for a total of \$10,043,762. MRC has budgeted 2022 transportation costs at an average per unit rate of \$5.07 (a 3.6% decrease from 2021), plus pocketed coil transportation and unplanned diversions, for a total of \$9,735,364. This decrease is due to continued transportation efficiency improvements.

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 and real estate for recycling facilities has become more limited and expensive in certain markets. The 2022 recycling budget takes into account the 2% increase in the number of units processed and the processing of pocketed coils in an effort to maintain the program's recycling rate.

In 2021, MRC projects a total of \$21,006,444 in recycling expenses, including over \$982,000 to recycle pocketed coils. To assist recyclers who lacked the ability to remove the steel coils from the fabric pockets for recycling, MRC

² In 2021, arbitration proceedings between MRC and a former recycler concluded. The arbitrators ruled in MRC's favor. As a result, a contingency fund that MRC has held since 2018 to cover transportation and recycling costs invoiced by the former recycler in case MRC lost the arbitration will be credited against the 2021 transportation and recycling expenses, lowering those costs in 2021 by \$795,667.

conducted research in 2019 to determine an interim recycling solution and implemented that process in 2020. This expense continues in 2021 and 2022 as part of MRC’s efforts to increase the recycling rate. The MRC 2022 recycling budget of \$22,508,703 includes almost \$897,000 for processing pocketed coils.

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 2022 budgeted total operational costs (Collection and Containers, Illegally Dumped Mattress Collection Initiative, Transportation and Recycling) are as follows:

TABLE 4: 2022 Budgeted Total Operational Costs

| Category | Amount |
|-------------------------------------------------|---------------------|
| Collection and Container Costs | \$5,279,837 |
| Illegally Dumped Mattress Collection Initiative | \$1,640,435 |
| Transportation | \$9,735,364 |
| Recycling | \$22,508,703 |
| Total Operational Costs | \$39,164,339 |

Education and Outreach:

MRC budgeted education and outreach expenses for 2022 of \$3,129,479, which represents a 1.6% increase over 2021 projections of \$3,079,516. In 2022, approximately 6.3% of MRC’s total budgeted expenses are allocated to education and outreach.

For the consumer, MRC refers to itself as the 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 2022, MRC plans to continue paid advertising campaigns that target consumers and to offer a public service announcement (PSA) to promote the Bye Bye Mattress program throughout California. Consumer outreach activities will also include multicultural outreach to the Latino, Black and Asian-Pacific Islander communities, among others. MRC plans to run advertising campaigns in both the spring and fall of 2022, with more emphasis on digital advertising. Additional efforts related to preventing illegal dumping are budgeted under the Illegally Dumped Mattress Collection Initiative in the Operational Costs noted above.

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 with the program. MRC has a robust protocol in place to identify potential new registrants (both

traditional brick-and-mortar 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. MRC’s retailer outreach efforts will be ongoing in 2022, with a goal of contacting 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 commencement of the take back obligation for online retailers that deliver units to consumers using common carriers, MRC will continue efforts to provide online retailers with customer education materials about Bye Bye Mattress.

The 2022 budget also includes funds for MRC to analyze 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 the results of digital advertising. These surveys and tools will help make future advertising and marketing efforts as cost effective as possible while meeting communication goals. We also have planned improvements to our digital communications targeted at participants and stakeholders.

Details of the 2022 Education and Outreach budget are as follows:

TABLE 5: 2022 Budgeted Education and Outreach Costs

| Category | Amount |
|-----------------------------------------|--------------------|
| Advertising and Consumer Education | \$1,918,800 |
| 3 rd Party PR Agencies | \$589,659 |
| Industry and Stakeholder Outreach | \$81,592 |
| Community Collection Events/Conferences | \$135,000 |
| Annual Report | \$33,928 |
| Travel | \$20,500 |
| Communications Staff Expenses | \$350,000 |
| Total Education and Outreach | \$3,129,479 |

Sleep Products Sustainability Program:

In 2019, MRC launched the Sleep Products Sustainability Program (SP2), which is designed to help individual mattress manufacturers reduce their generation of waste materials, water and energy during the mattress manufacturing process. MRC’s SP2 works with mattress manufacturers to develop methods to analyze their processes to help identify steps they can take to reduce their environmental impact, define metrics for measuring the effects of those changes and learn from best practices.

Three participants completed training in 2019 and are currently working towards certification. In 2020, one participant registered with the program and will schedule SP2 training in 2021. Although a number of participants are interested in the program, they informed us that they could not start the SP2 process in 2020 because the COVID-19 pandemic placed significant temporary burdens on their staff and operations.

The 2022 SP2 budget of \$201,300 supports this initiative, including management

oversight, travel, program publicity, training for manufacturers and auditing participants for certification and recertification.

In addition, the 2022 budget supports SP2 activities to help make new mattresses easier to recycle at the end of their useful life. These 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 discussed and evaluated in a New Materials Recycling Committee and a Recyclable Mattress Design Forum, respectively.

TABLE 6: 2022 Sleep Products Sustainability Program Costs

| Category | Amount |
|---------------------------------------|------------------|
| Sleep Products Sustainability Program | \$201,300 |

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 \$1,060,297 in 2022, compared to a projected \$1,156,120 in 2021 and \$862,027 in 2020. The 2022 budget includes funds for 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 landfills and improve 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):** Continuation of the 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.
- **Transportation Efficiencies:** Annually, MRC’s transportation contractors haul about 12,000 loads of discarded mattresses. MRC continues to seek ways to improve the efficiency of our transportation network to decrease costs and reduce our environmental footprint and has budgeted funds in 2022 for such activities.
- **Lean Assessments:** MRC funds lean manufacturing events to help MRC recyclers reduce or eliminate activities that do not add value to the recycling process. Past lean assessments have shown that most recyclers have the potential to increase their productivity by an average of 30% by reducing non-value-added activities like excessive forklift movements and double handling of

materials.

- Network Development: MRC participates in events and meetings with similar organizations around the globe to investigate and explore best practices and research into new markets for mattress materials. These activities are extremely helpful in comparing experiences and sharing successful practices.
- Research Planning and Administration: MRC uses existing staff and third-party consultants to plan, manage and oversee the aforementioned research projects.

Details of the 2022 Research budget are as follows:

TABLE 7: 2022 Budgeted Research Costs

| Category | Amount |
|--------------------------------------------------|--------------------|
| Mattress Collection Facility Improvement Funding | \$50,000 |
| End-use Application Development Research | \$419,000 |
| Life Cycle Analysis | \$30,000 |
| Transportation Efficiency | \$45,000 |
| Lean Assessments | \$40,000 |
| Network Development | \$34,750 |
| Staff Expenses and Consultant Oversight | \$441,547 |
| Total Research | \$1,060,297 |

Administration Costs (Program Administration, Legal and CalRecycle Oversight):
Budgeted Administration costs for 2022 including program administration, legal, and CalRecycle oversight is \$6,496,025, 5.5% below 2021. This is primarily due to the reduction in legal expenses.

Program Administration:

In 2022, MRC is budgeting \$5,559,302 (10.7% above 2021) in program administration costs due to cost-of-living wage adjustments and the addition of new staff to comply with AB187 requirements and general expansion of the program. Of this amount, \$3,592,980 (a 14% increase from 2021 projections) is for 24.23 FTE (full time equivalent) staff that perform administrative and operational program oversight. This represents 89% of MRC's total staff expense of \$4,046,100, which pays salaries for a total of 28.89 FTEs. Staff expense for the additional 4.67 FTEs, who work on education and outreach, the illegally dumped mattress initiative, and research, are included and shown under those activity costs above. Administrative and overhead costs of \$681,118 include office space, telephone, utilities, insurance, depreciation, and other administrative expenses.

MRC also hires consultants and outside contractors to provide additional services and expertise including ProductCare Association (a not-for profit who manages the reporting, billing and collection of the charge), outside HR services, and fire safety consulting. MRC has budgeted \$433,020 in 2022 for this expense category. Program administration expenses include \$230,557 in computer and database expenses for the organization's finance and CRM systems used to manage program registrants, recycling data and financials. MRC also works with

California-based entities to provide industry and government relations support, specifically to assist MRC in responding to questions from legislators, informing elected officials and other stakeholders about the program and monitoring other California legislative and regulatory developments that may affect the program. MRC has budgeted \$149,640 for these activities.

The total compliance audit expense (operational and participant audits) for 2022 are expected to be \$200,591. MRC expects to incur \$24,770 in recycler compliance audit expenses and \$175,821 to conduct retailer participant audits in 2022, following up on a framework audit process developed in 2020 and 2021. Implementation of retailer participant audits were delayed and slowed in 2020 and 2021 due to the COVID-19 pandemic.

Program administrative expenses also include costs to prepare annual tax filings and conduct the annual financial audit, including MRC's SOC1 audit (conducted by PwC, a global audit and accounting firm), which CalRecycle's regulation 14 CCR§ 18964(b)(11) requires MRC to perform as a necessary component of the annual audit. MRC has budgeted \$223,076 for these expenses. In addition, 2022 budgeted travel expenses of \$43,820 are expected to be 83% above 2021 levels as states re-open after the COVID-19 pandemic and travel and events begin to return to normal.

Legal:

Legal costs for 2022, budgeted at \$86,688, cover fees for outside counsel that negotiate MRC contracts, address contract compliance issues and advise MRC regarding corporate matters. This is \$971,083 (92%) below 2021 expenses. The prior years' expenses were significantly higher due to legal and litigation costs associated with defending MRC's interests against substantial monetary claims asserted in a complex arbitration proceeding involving a former MRC recycler and the recycler's principal, and other MRC legal matters. These arbitration-related legal and litigation expenses concluded in 2021 and do not affect the 2022 budget.

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. Considering the 2020 and Q1 2021 actuals, MRC anticipates the total cost for 2021 to be \$796,753. The 2022 budget of \$850,035 is based on pre-pandemic levels adjusted for inflation.

Details of the 2022 Program Administration, Legal and CalRecycle Oversight budget are as follows:

TABLE 8: 2022 Budgeted Administration Costs

| Category | Amount |
|---------------------------------------------------------------------------|--------------------|
| Staff Expense | \$3,592,980 |
| Administrative and Overhead Expenses | \$681,118 |
| Outsourced Contractors/Consultants | \$433,020 |
| Computer System and Database Expenses | \$230,557 |
| Annual Financial Audit and Tax Filings | \$223,076 |
| Compliance Audits (operational and retailer) | \$200,591 |
| Industry and Government Relations | \$149,640 |
| Field Visits and Program Travel | \$48,320 |
| Total Program Administration | \$5,559,302 |
| | |
| Legal Costs | \$86,688 |
| CalRecycle Oversight | \$850,035 |
| Total Program Administration, Legal and CalRecycle Oversight Costs | \$6,496,025 |

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 provide 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. MRC’s 2022 budget takes into account anticipated revenue and expenses, as well as a reserve that MRC established in order to maintain sufficient funds to operate the program over a multiyear period in a fiscally prudent and responsible manner.

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 allow MRC to be prepared in case its operational expenses increase or planned revenues decrease as a result of external factors.

The reserve allows MRC to be prepared for unforeseen circumstances that could have a substantial impact on its revenue and expenses, such as failures of MRC’s operational systems, natural disasters and economic crises. The COVID-19 pandemic is a recent example of a situation beyond MRC’s control that affected operations and the budget.

The MRC reserve protects the long-term viability of the program by setting aside money that can fund 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.

In fact, MRC’s network of recyclers and transporters relies on the stability of MRC’s funding, as most of them do not have substantial financial resources of their own and could experience serious financial distress if, due to financial constraints, MRC were to miss or be late making even a single payment to them due to a lack of funding. 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 that result from reduced (or delayed) participant payments or unanticipated increases in expenses. 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, MRC maintains approximately three months of operating cash as working capital, as well as a board designated reserve.

As seen in Table 9 below, MRC’s 2022 budget assumes a net loss of \$2,717,596 (change in Operating Net Assets). Factoring in a budgeted Net Investment Return of \$921,851, the change to Net Assets is a decrease of \$1,795,745. Therefore, MRC anticipates that \$1,795,745 from reserves will be necessary to supplement the charge revenue to fund its 2022 budgeted expenses. (In addition, very preliminary forecasts for 2023 anticipate that an additional \$2,148,135 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 2021, 2022 and 2023 are as follows in Table 9:

TABLE 9: 2021 thru 2023 Operating Net Assets and Change in Net Assets

| Category | 2021 Projections | 2022 Proposed Budget | 2023 Forecast |
|-----------------------------------|-------------------------|-----------------------------|----------------------|
| Total Revenue | \$46,959,679 | \$47,333,844 | \$48,279,957 |
| Total Program Costs | \$49,185,356 | \$50,051,440 | \$51,329,928 |
| Change in Operating Net Assets | (\$2,225,677) | (\$2,717,596) | (\$3,049,971) |
| Net Investment Return | \$959,098 | \$921,851 | \$901,836 |
| Change in Net Assets | (\$1,266,579) | (\$1,795,745) | (\$2,148,135) |
| Net Assets Beginning of the Year | \$43,553,066 | \$42,286,487 | \$40,490,742 |
| Net Assets at the End of the Year | \$42,286,487 | \$40,490,742 | \$38,342,607 |

Based on the objectives discussed previously regarding MRC's budgeted costs and reserve needs, MRC has budgeted charge-related revenue of \$47,303,844 (total revenue of \$47,333,844, including \$30,000 in late fee revenue) in 2022 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 2022 proposed budget brings the Board Designated Financial Reserve to 55.9% of annual operating expenses. Net Assets includes both Board Designated Reserves, as well as an amount equal to three months of expenses to be set aside as working capital. A preliminary forecast of 2023 also indicates that expenses are expected to exceed revenue, requiring the reserve to fill the gap, and reducing the Board Designated Reserves further below the 60% level set in Section 42998.3(b).

Total reserves (Board Designated Financial Reserve) and the reserves as a percent of annual operating expenses (Total Program Costs) for 2020 Actuals through the Forecast for 2023 are as follows in Table 10:

TABLE 10: Total Reserves

| | 2020 Actuals | 2021 Projections | 2022 Proposed Budget | 2023 Forecast |
|-----------------------------------------------------------------|-------------------------|-----------------------------|-------------------------------------|--------------------------|
| Net Assets as of Year End | \$43,553,066 | \$42,286,487 | \$40,490,742 | \$38,342,607 |
| (a) Undesignated Net Assets ³ | \$12,478,767 | \$12,296,339 | \$12,512,860 | \$12,832,482 |
| (b) Board Designated Financial Reserve | \$31,074,299 | \$29,990,148 | \$27,977,882 | \$25,510,125 |
| Annual Operating Expenses | \$49,915,070 | \$49,185,356 | \$50,051,440 | \$51,329,928 |
| Reserves as a % of Annual Operating Expenses | 62.3% | 61.0% | 55.9% | 49.7% |

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.

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 Mattress Advisory Committee in June 2017 and explained its rationale for retaining the single charge and the Advisory Committee agreed with this approach. Since nothing has substantially changed since that time, MRC has decided in preparing its 2022 budget to continue to set a single charge, as it is authorized to do by Section 42989.

³ Undesignated Net Assets, or working capital, is equal to 25% of annual operating expenses (total program costs).

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 2022 budgeted expenses as follows in Table 11:

TABLE 11: Itemized Costs of 2022 Proposed Budget

| Cost Category | Percent of Each Cost Category |
|-------------------------------------------------|--------------------------------------|
| Collection and Container | 10.5% |
| Illegally Dumped Mattress Collection Initiative | 3.3% |
| Transportation and Recycling | 64.4% |
| Education and Outreach | 6.3% |
| Sleep Products Sustainability Program | 0.4% |
| Research | 2.1% |
| Program Administration | 11.1% |
| Legal | 0.2% |
| CalRecycle Oversight | 1.7% |
| Total | 100.0% |

Amount of the 2022 Charge

The 2022 MRC budget takes into account 2020 actuals and 2021 projections, based on the months of data gathered since the 2021 budget was submitted for approval in September of 2020. MRC projects 2022 charge-related revenue of \$47,303,844 and expenses of \$50,051,440. The MRC budget anticipates that the recycling charge will be collected on 4,505,128 units sold to California consumers, an increase of 73,624 units over 2021, and that the number of units processed through the program will increase by 34,659 units to 1,767,595.

Table 12 demonstrates that a charge of \$10.50 will be sufficient to cover MRC's 2022 budgeted expenses of \$50,051,440, after funding the net deficit with the additional revenue from collected late fees, the anticipated net investment return and a portion of the reserves:

TABLE 12: Recycling Charge

| | |
|---------------------------------------------------------------|---------------|
| A. Budgeted 2022 Expenses | \$50,051,440 |
| B. Budgeted 2022 Charge Revenue | \$47,303,844 |
| C. Net Deficit (Funded by Net Investment Return and Reserves) | (\$2,717,596) |
| D. Adjust for Additional Revenue from Late Fees | \$30,000 |
| E. Adjust for Net Investment Return | \$921,851 |
| F. Amount Drawn from Reserve | \$1,795,745 |
| G. Net Expenses Funded by Charge (G = A - D - E - F) | \$47,303,844 |
| H. Projected Unit Sales | 4,505,128 |
| I. Per Unit Charge (I = G/H) | \$10.50 |

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

- 5. 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
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- 6. 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.

- 7. 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 18.

8. 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 13: 2019 and 2020 Actual Expenses and 2021 Projections

| EXPENSES: | 2019 Actuals | 2020 Actuals | 2021 Projections |
|----------------------------------------------|-------------------------|-------------------------|-----------------------------|
| Operational Costs | | | |
| Collection | | | |
| Solid Waste Handling Fees | \$ 3,040,984 | \$ 3,219,965 | \$ 3,111,385 |
| Collection Container and Storage | \$ 2,527,032 | \$ 1,765,858 | \$ 1,594,372 |
| Consumer Incentive Payments | \$ 596,097 | \$ 593,432 | \$ 494,252 |
| Collection Site Signage | \$ 22,732 | \$ 26,361 | \$ 14,496 |
| Total Collection Costs | \$ 6,186,845 | \$ 5,605,616 | \$ 5,214,505 |
| Illegally Dumped Mattress Initiative | \$ 1,048,164 | \$ 1,204,518 | \$ 1,626,360 |
| Transportation and Recycling | | | |
| Transportation | \$ 6,639,711 | \$ 9,124,866 | \$ 10,043,762 |
| Recycling | \$ 19,396,086 | \$ 22,190,864 | \$ 21,006,444 |
| Total Transportation and Recycling | \$ 26,035,797 | \$ 31,315,730 | \$ 31,050,206 |
| Total Operational Costs | \$ 33,270,806 | \$ 38,125,864 | \$ 37,891,071 |
| | | | |
| Education and Outreach | | | |
| Advertising and Consumer Education | \$ 6,182,100 | \$ 2,104,399 | \$ 1,910,466 |
| 3rd Party PR Agencies | \$ 523,038 | \$ 704,341 | \$ 571,371 |
| Industry and Stakeholder Outreach | \$ 709,392 | \$ 274,240 | \$ 138,727 |
| Community Events/Conferences | \$ 231,490 | \$ 13,081 | \$ 96,059 |
| Annual Report | \$ 51,972 | \$ 44,481 | \$ 54,793 |
| Travel | \$ 58,649 | \$ 7,435 | \$ 8,100 |
| Marketing and Communications Staff | \$ 460,151 | \$ 255,406 | \$ 300,000 |
| Total Education and Outreach | \$ 8,216,792 | \$ 3,403,383 | \$ 3,079,516 |
| | | | |
| Sleep Products Sustainability Program | \$ 153,730 | \$ 108,494 | \$ 181,200 |
| | | | |
| Research | | | |
| Research | \$ 1,115,630 | \$ 441,838 | \$ 693,703 |
| Collection Facility Improvement Funding | \$ 116,354 | \$ 123,744 | \$ 60,000 |
| Staff and Oversight Expenses | \$ 375,181 | \$ 296,445 | \$ 402,417 |
| Total Research | \$ 1,607,165 | \$ 862,027 | \$ 1,156,120 |

| EXPENSES: | 2019 Actuals | 2020 Actuals | 2021 Projections |
|-------------------------------------------|-------------------------|-------------------------|-----------------------------|
| Program Administration | | | |
| Staff Expense | \$ 2,028,277 | \$ 2,470,323 | \$ 3,151,754 |
| Administrative and Overhead Expenses | \$ 675,582 | \$ 595,659 | \$ 636,647 |
| Outsourced Contractors/Consultants | \$ 332,480 | \$ 501,777 | \$ 386,325 |
| Computer and Database Services | \$ 170,222 | \$ 159,118 | \$ 229,210 |
| Annual Financial Audit and Tax Filing | \$ 240,352 | \$ 223,621 | \$ 225,048 |
| Compliance Audits | \$ 2,888 | \$ 102,893 | \$ 222,486 |
| Industry and Government Relations | \$ 186,728 | \$ 144,904 | \$ 145,000 |
| Field Visits and Program Travel | \$ 161,513 | \$ 53,805 | \$ 26,455 |
| Total Program Administration | \$ 3,798,042 | \$ 4,252,100 | \$ 5,022,925 |
| | | | |
| Legal and Litigation Support Costs | \$ 1,432,166 | \$ 2,392,963 | \$ 1,057,771 |
| | | | |
| CalRecycle Oversight Fees | \$ 823,677 | \$ 770,239 | \$ 796,753 |
| | | | |
| Total Expenses | \$ 49,302,378 | \$ 49,915,070 | \$ 49,185,356 |

Mattress Recycling Council California, LLC 2022 Budget

TABLE 14: Proposed 2022 Program Budget

| | 2022 Budget | Expense Allocation |
|-------------------------------------------------|----------------------|---------------------------|
| REVENUE: | | |
| Fee Revenue (\$10.50/unit) | \$ 47,303,844 | |
| Late Fee Revenue | \$ 30,000 | |
| Total Revenue | \$ 47,333,844 | |
| | | |
| EXPENSES: | | |
| Operational Costs | | |
| Collection | | |
| Solid Waste Handling Fees | \$ 3,033,775 | |
| Collection Container and Storage Rental | \$ 1,670,172 | |
| Consumer Incentive Payments | \$ 556,794 | |
| Collection Site Signage | \$ 19,096 | |
| Total Collection Costs | \$ 5,279,837 | 10.5% |
| | | |
| Illegally Dumped Mattress Collection Initiative | \$ 1,640,435 | 3.3% |
| Transportation and Recycling | | |
| Transportation | \$ 9,735,364 | |
| Recycling | \$ 22,508,703 | |
| Total Transportation and Recycling | \$ 32,244,067 | 64.4% |
| Total Operational Costs | \$ 39,164,339 | 78.2% |
| | | |
| Education and Outreach | | |
| Advertising and Consumer Education | \$ 1,918,800 | |
| 3rd Party PR Agencies | \$ 589,659 | |
| Industry and Stakeholder Outreach | \$ 81,592 | |
| Community Collection Events/Conferences | \$ 135,000 | |
| Annual Report | \$ 33,928 | |
| Travel | \$ 20,500 | |
| Marketing and Communications Staff | \$ 350,000 | |
| Total Education and Outreach | \$ 3,129,479 | 6.3% |
| | | |
| Sleep Products Sustainability Program | \$ 201,300 | 0.4% |
| | | |
| Research | | |
| Research | \$ 568,750 | |
| Collection Facility Improvement Funding | \$ 50,000 | |
| Staff and Oversight Expenses | \$ 441,547 | |
| Total Research | \$ 1,060,297 | 2.1% |
| | | |

| | 2022 Budget | Expense Allocation |
|----------------------------------------------|--------------------|---------------------------|
| Program Administration | | |
| Staff Expense | \$ 3,592,980 | |
| Administrative and Overhead Expenses | \$ 681,118 | |
| Outsourced Contractors/Consultants | \$ 433,020 | |
| Computer and Database Services | \$ 230,557 | |
| Annual Financial Audit and Tax Filing | \$ 223,076 | |
| Compliance Audits (operational and retailer) | \$ 200,591 | |
| Industry and Government Relations | \$ 149,640 | |
| Field Visits and Program Travel | \$ 48,320 | |
| Total Program Administration | \$ 5,559,302 | 11.1% |
| | | |
| Legal and Litigation Support Costs | \$ 86,688 | 0.2% |
| | | |
| CalRecycle Oversight Fees | \$ 850,035 | 1.7% |
| | | |
| Total Expenses | \$ 50,051,440 | 100.0% |
| | | |
| Net Operating Assets | \$ (2,717,596) | |
| | | |
| Net Investment Return | \$ 921,851 | |
| | | |
| Net Assets | \$ (1,795,745) | |