



California Used Mattress Recovery and Recycling 2018 Program Budget

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Submitted by:

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Submitted to:

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California Used Mattress Recovery and Recycling Plan Budget

Pursuant Cal. Pub. Res. Code § 42988 and 14 CCR §18963, the Mattress Recycling Council (MRC), a non-profit corporation, is pleased to submit to the California Department of Resources Recycling and Recovery (CalRecycle) its 2018 budget.

1. Introduction

In September 2013, California enacted SB 254, codified beginning at Section 42985 of the California Public Resources Code, which requires mattress producers to create a statewide recycling program (the Program) to collect and recycle mattresses and foundations discarded in the state. The Program is funded by a visible recycling charge collected from consumers and other purchasers on the sale of each mattress and foundation for use in the state.

In 2013, the mattress industry, through its trade association, the International Sleep Products Association (ISPA), formed MRC to design, implement, and administer recycling programs in states that have enacted mattress recycling laws. MRC is a tax-exempt non-profit corporation incorporated in the state of Delaware under Section 501(c)(3) of the Internal Revenue Service. Pursuant Cal. Pub. Res. Code § 42987, CalRecycle has certified MRC as a mattress recycling organization.

As required by Cal. Pub. Res. Code § 42987(a)(3)(B), MRC consulted with the mattress recycling advisory committee appointed by CalRecycle on June 6, 2017, prior to submission of this 2018 budget (and the annual report required by § 42990.1).

In terms of the content of this budget, Cal. Pub. Res. Code § 42988 provides that it must 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), 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.

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, as requested by 14 CCR §18962(a)(6).

2. Executive Summary

Based on MRC’s actual 2016 costs and revenues and projected costs and revenues through 2018, MRC proposes to reduce the charge from \$11 to \$10.50 per mattress or foundation unit in 2018, to be effective on January 1, 2018.

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

(Cal. Pub. Res. Code § 42988(a))

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

Revenue

Other than a small amount of interest income earned on reserves, the recycling charge collected on all sales of mattresses and foundations (collectively referred to as “Units”) is the Program’s only source of revenue.

This is MRC's third annual budget for the California Program, and MRC has now completed 18 months of operations in California. In preparing the Program's 2018 budgeted revenue, MRC has compared 2017 actual experience to date with our 2017 budgeted Program revenue and then estimated whether 2018 Program revenue will increase from that level.

Through the first quarter of 2017, actual Program revenue was 10% lower than 2017 budgeted revenue. Since Program revenue is directly related to unit sales, this means that reported first quarter 2017 unit sales in California were 10% lower than the quantity of units that MRC had anticipated would be sold during that quarter. (Similarly, we note that national data published by the International Sleep Products Association (ISPA), the trade association for the mattress industry, show that sales quantities during the same period were 4.4% below comparable 2016 first quarter data.) Although 2017 Program revenue is expected to may improve as the year progresses, MRC has conservatively assumed for purposes of preparing this 2018 budget that 2017 revenues will be 4.4% below the 2016 actual revenue, in line with ISPA's YTD data.

For 2018, MRC has assumed that Program revenue will increase over the above 2017 figure by 3%, which equals the average annual unit sales increase that the national industry has experienced since 2009. In other words, MRC has assumed that in 2018, California unit sales will increase by rates comparable to national trends.

Costs

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

- Collection
- Transportation & Processing
- Communications
- Research
- CalRecycle Oversight
- Administration

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

Collection:

This cost category covers the following activities:

- Solid waste facility handling fees
- Consumer incentive payments
- Collection/storage container rental fees and signage (fees will vary depending on the size of the containers used and location of the site)
- Illegally Dumped Mattress Collection Initiative

Transportation & Processing:

Transportation

MRC uses third parties to transport mattresses from collection sites to recyclers for processing. The per unit transport costs vary considerably depending on the transport distance and the quantities transported on a specific load. The total transport costs are also influenced by the total quantity of units transported.

MRC has budgeted 2018 transportation costs based on (1) 2016 actual per unit rates, plus general inflation and an amount to cover potential fuel cost increases between now and 2018, (2) an increase in the number of units transported, and (3) a contingency factor in case the Program incurs unforeseen added costs as the Program expands.

Processing

MRC's 2018 budget for mattress recycling expenses includes an increase in per unit processing costs over 2016 actuals to take anticipated inflation into account. In addition, it reflects the fact that we have budgeted for MRC-contracted recyclers to process larger volumes of mattresses in 2018, plus a contingency factor in case the Program incurs unforeseen added costs as the Program expands.

These services are provided by third parties. No MRC staff are directly involved in processing discarded mattresses, so no direct staff expenses are charged directly to these activities.

Communication Expenses:

MRC uses comprehensive communication and consumer education and outreach efforts to inform the industry and consumers about the Program and opportunities for mattress recycling. Many of these costs are shared with MRC's other state programs, with the shared costs allocated to each state's program in proportion to each state's population. The California-allocated portion of those costs covers the following activities:

- PR agency services
- Advertising/media buys
- Marketing outreach
- Annual report preparation
- Website & online

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- Conferences & events
- Point of sale materials
- Customer service/CRM
- MRC marketing and communication staff
- Community collection events

Research Expenses

MRC seeks to improve the sustainability of mattress recycling through efforts focused on advancing the efficient collection, transport and recycling of discarded mattresses and identifying new and better uses for extracted mattress components. MRC supports applied research and development efforts intended to achieve one or more of the following objectives:

- Identify new or better uses for recycled mattress materials
- Reduce the costs and improve the efficiencies of collecting, transporting and recycling discarded mattresses
- Identify and promote mattress recycling best practices
- Foster innovation, cooperation and communication between suppliers, manufacturers, dismantlers and end-market commodity buyers

MRC research expenses support the goals outlined above.

In early 2017, MRC commissioned research to investigate potential uses for mattress materials for which limited recycling options are currently available, including post-consumer foam, fiber, quilt pads and wood. The potential opportunities identified by the research included such diverse categories as geotextiles, insulation, sporting goods and play surfaces, packaging materials, and additives to concrete and other building materials. MRC intends to build on this research in 2017 and 2018.

In addition, MRC is conducting a study to examine how the unit handling and dismantling efficiency can be improved, thereby improving the Program's sustainability.

MRC has included funds in its 2018 budget for these purposes.

Administration Expenses:

This cost category reflects MRC's costs to administer the Program, including overhead, staff and consultants, travel and other administrative costs. This cost category covers the following:

- Staffing and management
- Travel/field visits
- Legal fees
- Recycler and seller compliance activity (including audits)
- Annual financial audit of MRC and tax filing preparation
- Finance charges

Staffing and management includes the salaries and associated overheads of MRC staff and shared ISPA-MRC staff that administer the Program. Travel/field visits covers travel costs for staff to visit solid waste sites, recyclers, other operational service providers, and other business-related travel.

Legal costs cover fees for outside counsel that negotiate MRC contracts, advise MRC regarding necessary corporate compliance functions, etc.

MRC uses both in-house and outsourced providers to confirm whether vendors providing mattress processing services to MRC are complying with their contractual and other legal obligations and that retailers are properly registered with MRC and are collecting and remitting the charges they collect to MRC.

Separately, MRC's financial records are audited annually by an independent certified public accountant, and MRC incurs costs in preparing and filing necessary tax documents.

Finance charges covers bank fees.

CalRecycle Oversight:

Cal. Pub. Res. Code § 42988.2 requires that MRC reimburse CalRecycle for its direct costs incurred to implement and enforce the Act. The costs identified on this line item reflect estimates of these reimbursements for 2018 that CalRecycle has provided to MRC.

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

Cal. Pub. Res. Code § 42988 requires that MRC maintain sufficient funds to operate the Program over a multiyear period in a fiscally prudent and responsible

manner. Unforeseen circumstances, such as operational failures, changes in market dynamics for recycle components, and changes in sales volumes, can significantly affect the Program and its budget. For example, mattress sales unexpectedly decreased by over 4% in the first quarter of 2017.

To meet our statutory obligation to act in a fiscally prudent and responsible manner, and to protect the long-term viability of the Program, MRC has budgeted to gradually build a reasonable financial reserve, which is also reflected in the 2018 budget.

Based on these objectives, MRC proposes a funding level of \$39,973,452 in 2018 revenues to meet the requirements of Cal. Pub. Res. Code § 42988(b).

5. The amount of the mattress recycling charge and itemization of costs that each charge covers
(Cal. Pub. Res. Code § 42988(c))

Determination of Two Separate Charges

Cal. Pub. Res. Code § 42989(b)(2) gives MRC the discretion to either (1) set a single recycling charge that applies to all sizes and types of mattresses and foundations, or (2) set up to two different charges “to accommodate mattress size differentials.” MRC considered whether to exercise its authority to set two charges when it submitted its Plan in 2015, but decided to set a single charge for all sizes and types of mattresses and foundations. Likewise, MRC has set a single state-specific recycling charge for mattresses and foundations sold in the other two states in which it administers similar mattress recycling programs: Connecticut and Rhode Island. In its September 2016 approval of MRC’s 2017 budget, CalRecycle requested that MRC consider two separate charges when it prepared its 2018 budget and discuss this issue with the Advisory Committee.

MRC has considered whether to set two separate charges for calendar year 2018. For the following reasons, MRC has concluded that a single charge for all mattresses and foundations, regardless of size, is appropriate:

To date, MRC has received no complaints about applying the same charge to mattresses of all sizes.

- The single charge is clear and simple to communicate to consumers, retailers and other stakeholders.
- The single charge has simplified the reporting process and minimized remittance compliance errors by retailers. Conversely, different charges would complicate the collection process and would require longer and more elaborate audits of retailers to confirm that the charge has been properly collected and remitted.
- The Program likely experiences no cost savings when smaller mattress

units are processed. In fact, the net cost to recycle a smaller mattress is likely more than the cost to recycle larger units. This is because the per unit cost for transporting and handling a mattress is approximately the same regardless of size. At the same time, the scrap value of the recycled mattress components reclaimed from smaller mattresses is less than the value of comparable materials from larger mattresses. Therefore, if anything, charges that “accommodate” a net cost-justified approach to “mattress size differentials” would likely result in MRC charging a higher charge on smaller units because they are more costly (on a net basis) to recycle.

- Industry sales statistics compiled by the International Sleep Products Association indicate that nearly 80% of mattress sales are sized full, queen or king (including California king). Therefore, if MRC were to set a lower charge for twin size mattresses and a higher rate for other sizes, MRC could achieve its revenue target only by raising the charge for 80% of the mattresses sold in California (even though net recycling costs would dictate the opposite result). In addition, MRC would need to educate retailers about how to apply, collect and report the two charges. This would require retailers to reprogram their sales reporting data infrastructure as well, forcing them to incur added costs.
- MRC sets the charge at a rate necessary to fund the current recycling of discarded mattresses of all sizes, as well as all other aspects of the Program. The size of mattresses purchased is often different from the size of mattresses discarded by consumers.

MRC discussed with the Advisory Committee the potential impact of two different charges based on mattress size at the June 6, 2017 Advisory Committee meeting. For the reasons detailed above, MRC is retaining the single charge for calendar year 2018. MRC will continue to monitor the charge as a percentage of the purchase price.

Itemization of the Mattress Recycling Charge

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

The per unit charge can be distributed over the different cost categories discussed above that comprise the expense items in MRC's 2018 budget using the following percentages:

Cost Category	Percent of Total Costs
Collection	13%
Transportation & Processing	65%
Communication Expenses	10%
Research Expenses	1%
Administration Expenses	9%
California Oversight	2%
Total	100%

Amount of the 2018 Charge

MRC has gained valuable experience from its first year of operations in California regarding how best to structure the Program for continued growth and improved efficiency. Although the 2018 budget anticipates that the volume of units processed through the Program will increase in 2018 and in future years, and that some of MRC's operational costs will increase, we also anticipate that other operational aspects of the Program will be more efficient than we had originally anticipated. As a result, MRC proposes to reduce the mattress recycling charge to \$10.50/unit beginning January 1, 2018.

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

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7. **Anticipated revenues and costs. Describe anticipated revenues and costs of implementing the program, including related programs, projects, contracts, and administrative expenses**
(14 CCR §18963(b)(2))

See Part 3 above.

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

See Part 5 above.

**MRC California
2018 Budget**

	2018 Budget
Revenue	
Charge Revenue (\$10.50/unit)	\$ 39,723,452
Interest Income	\$ 250,000
Total Revenue	\$ 39,973,452
Expenses	
Collection	
Solid Waste Facility - Handling Fee	\$ 1,985,792
Consumer Incentive Payment	\$ 702,317
Collection Containers and Storage	\$ 827,735
Illegal Dumped Mattress Collection Initiative	\$ 750,000
Total Collection Expenses	\$ 4,265,844
Transportation & Processing	
Transportation	\$ 4,234,825
Recycling	\$ 17,359,967
Total Transportation and Processing Expenses	\$ 21,594,792
Total Operational Expenses (Collection/Trans & Processing)	\$ 25,860,636
Administration	
Staffing and Management	\$ 1,989,075
Travel / Field Visits	\$ 90,082
Legal	\$ 112,874
Compliance Audits	\$ 625,000
Annual Financial Audit and Tax Filing Preparation	\$ 89,250
Bank Charges	\$ 26,400
Total Administration and Legal Expenses	\$ 2,932,681
CalRecycle Oversight	
State Regulatory Oversight Fees	\$ 695,000
Cal Recycle Staff Travel	\$ 5,000
Total CalRecycle Oversight Fees	\$ 700,000

Communications

PR Agency	\$	225,000
Advertising/Media Buys	\$	1,800,000
Marketing Outreach	\$	316,412
Annual Report	\$	35,000
Website & Online	\$	60,000
Conferences & Events	\$	72,075
Community Collection Events	\$	77,440
Point of Sales Materials	\$	220,000
Customer Service / CRM	\$	90,000
Marketing and Communications Staff	\$	412,054
Total Communications Expenses	\$	3,307,981

Research

Research Studies	\$	278,000
Total Research and Advisory Expenses	\$	278,000

Total Expenses	\$	33,079,299
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Net Income (Reserve)	\$	6,894,154
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