



California Used Mattress Recovery and Recycling 2019 Program Budget

July 1, 2018

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Submitted by:

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

Submitted to:

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



July 1, 2018

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

Dear Director Smithline:

The Mattress Recycling Council California, LLC (MRC) is a tax-exempt non-profit entity certified by CalRecycle as a "mattress recycling organization." MRC was established for the express purpose of designing, implementing, and administering mattress recycling programs for California and other states that have enacted mattress recycling laws.

Pursuant to Section 42988 of the California Public Resources Code, MRC hereby submits its proposed 2019 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 Plan Budget

Pursuant Cal. Pub. Res. Code § 42988 and 14 CCR §18963, the Mattress Recycling Council California, LLC (MRC), a non-profit entity, is pleased to submit to the California Department of Resources Recycling and Recovery (CalRecycle) its 2019 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 (units) 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. 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 Recycling Advisory Committee (Advisory Committee) several times in 2018, prior to the submission of the 2019 budget (and the 2017 annual report).

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

2. Executive Summary

MRC launched the Program on December 30, 2015. MRC prepared its 2019 budget based on its actual revenue and expense experience in 2016 and 2017, as well as first quarter 2018 (Q1) and projected expenses for the remainder of 2018.

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 multi-year period in a prudent and responsible manner. MRC’s expenses include collection costs, transportation and recycling, communications, research, CalRecycle oversight and administrative expenses.

In 2018, MRC projects that over 4.1 million units will be sold in California and that over 1.4 million units will be recycled through the Program. In 2019, MRC is projecting almost 4.2 million units sold and over 1.5 million units recycled. We note these figures anticipate that units recycled will grow faster than unit sales, with recycling increasing by 9%, and unit sales up by 2%.

MRC projects 2018 revenue of over \$43 million and budgets a 2% increase for 2019 based on national unit sales figures projected in the most recent Mattress

Industry Forecast (published by the International Sleep Products Association in May 2018) (the ISPA Industry Forecast).

MRC's 2019 budget increases annual expenses to \$44.5 million, which is over \$7.7 million (21%) more than our projected 2018 expenses of \$36.8 million. The largest increases are in the operational areas of collection, transportation and recycling, with approximately \$6.1 million in additional expenses budgeted in 2019 over 2018 projections in these expense categories.

MRC budgeted communications expenses for 2019 by reviewing Q1 actuals and adjusting those figures based on anticipated 2019 program activities. Overall, MRC's 2019 budget increases annual communications expenses to \$4.2, which represents over \$900,000 (28%) increase over 2018 projections. In 2019, 9.5% of MRC's total budgeted expenses are for communications.

MRC has budgeted almost \$950,000 in 2019 to fund an array of research projects. MRC seeks to focus its research in the areas of transportation efficiencies and recycling best practices, as well as exploring new and better uses for steel, foam, fiber and other materials removed from dismantled mattresses. The budget will support these research objectives by, among other things, collecting new data, considering a grant program to award funds to third parties, and investigating operational best practices and methods, while maintaining sufficient funds for newly identified opportunities throughout the year.

Based on our 2019 budgeted expenses of just over \$44.5 million, anticipated interest income of nearly \$300,000, and anticipated unit sales of nearly 4.2 million units, MRC anticipates that a \$10.50 per unit charge will fund this budget. In addition, MRC will withdraw approximately \$260,000 from reserves to fund a projected shortfall (deficit) between budgeted revenue (charge revenue plus interest revenue) and expenses.

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 modest amount of interest income earned on reserves, the recycling charge collected on all sales of mattresses and foundations is the Program's only source of revenue. MRC is budgeting Program revenue of \$43,982,799 for 2019.

In preparing the Program's 2019 budgeted revenue, MRC considered its first quarter 2018 actuals and the ISPA Industry Forecast. The ISPA Industry Forecast projects a 2% unit increase from 2018 to 2019. Based on this

information, MRC's budget assumes that 2019 California unit sales will increase by 2% over projected 2018 year-end unit sales of 4,106,704 to 4,188,838. Therefore, MRC's budgeted 2019 recycling charge revenue of \$43,982,799 is calculated by multiplying the 2019 budgeted units of 4,188,838 by the \$10.50 per unit charge.

In 2017, actual Program revenue was 4% below the initial 2017 budget submitted in 2015. Through the first quarter of 2018, actual Program revenue was less than 1% lower than YTD 2018 budgeted revenue. Since Program revenue is directly related to unit sales, this means that 2017 full year and 2018 first quarter unit sales in California were very close to the quantity of units that MRC had anticipated would be sold during those periods, giving us confidence in the methodology used to develop the 2019 revenue budget.

Costs

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

- Collection
- Transportation & Recycling
- Communications/Education and Outreach
- Research
- Administration
- CalRecycle Oversight

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

Collection:

This cost category covers the following activities:

- Solid waste facility handling fees
- Collection/storage container rental fees and signage
- Consumer incentive payments
- Illegally Dumped Mattress Collection Initiative

MRC's 2019 budget anticipates that solid waste facilities will account for 45.7% of the Program units, a 3% increase over the first quarter 2018 actuals. As of mid-2018, MRC had agreements with 181 no-cost consumer collection sites in California on terms that they and MRC determined were reasonable for accepting, collecting, storing and handling used mattresses for processing through the Program. This includes 158 solid waste facilities, 17 alternative sites (nonprofits, scrap metal processors, California Redemption Value sites, etc.), and 6 retail sites. MRC has budgeted for an increase in the average handling fee MRC pays these no-cost consumer collection sites to accommodate inflation of 3%.

As MRC continues to expand the Program, we will contract with additional

sites in 2019. However, our ability to contract with certain solid waste facilities is hampered because some:

- are under long-term contracts with municipalities that restrict their ability to agree to provide no-cost mattress collection (as required by Cal. Pub. Res. Code § 42987.1(o)),
- lack municipal resources to evaluate and complete the contracting process,
- lack space to accommodate a container for mattress storage,
- lack adequate staffing or equipment to handle mattresses for collection, or
- are unwilling to forego the revenue they currently earn when they charge residents various handling and/or tip fees to accept their discarded mattresses (Cal. Pub. Res. Code § 42987.1(o) requires MRC to negotiate reasonable compensation with facilities that offer no-cost collection options and does not permit those facilities to "double dip" by both collecting compensation from MRC **and** charging residents for handling and tip fees).

MRC's 2019 budgeted expenses include a 5% increase in container rental fees over 2018. MRC has budgeted \$3,100 for 2019 to provide appropriate signage and written guidelines to collection sites.

MRC set the per unit consumer incentive payment at \$3 following pre-Program discussions with the Advisory Committee in 2015. The incentive was set at this level in consideration of Cal. Pub. Res. Code § 42985(b), which prevents the Used Mattress Recovery and Recycling Act from undermining existing used mattress recycling, resale, refurbishing, and reuse operations. MRC and the Advisory Committee also considered safety concerns related to incentivizing consumers to haul mattresses on personal vehicles. MRC anticipates that units collected from consumers who are paid the incentive will account for 15% of Program units in 2018. In the 2019 budget, we have left the incentive at \$3 and assumed that 15% of units collected will be from consumers who are paid the incentive.

In its initial budget for 2016, MRC, with input from the Advisory Committee, set aside \$750,000 to fund the Illegally Dumped Mattress Collection Initiative (Initiative). When the California legislature enacted the Used Mattress Recovery and Recycling Act, they tasked the mattress industry with addressing the blight caused by illegally dumped mattresses in the state. But no reliable data existed at that time regarding the magnitude, prevalence or causes of illegal mattress dumping. To better understand the nature of the problem, MRC created the Initiative to provide an incentive for entities to collect and report data to MRC pinpointing where the dumping was occurring. MRC's objective was to develop strategies to address the dumped mattress problem based on

these statistics.

Despite the general perception that illegal mattress dumping is a persistent and serious problem in California, it has been difficult to motivate local authorities and other parties to provide MRC with needed statistical information. Under the Initiative, MRC initially compensated participating entities \$10 for each illegally dumped unit that they counted and picked up. Unfortunately, participation in the Initiative was lower than anticipated, resulting in only \$237,940 of the budgeted amount being paid as compensation (for example, although 95 entities registered to participate in the Initiative in 2016, only 40 actually provided data.).

In 2017, MRC took additional steps to encourage more voluntary participation and reporting entities increased by 18%, which resulted in MRC paying out \$420,160 in compensation through the initiative to 47 entities.

To further boost participation, MRC raised the per unit compensation in 2018 by 50% (up to \$15/unit) and increased the funds budgeted for the initiative by 33% (to \$1 million). Through June 2018, we have seen an increase in the number of entities reporting data to MRC, compared to the previous year.

For the 2019 budget, MRC has again allocated \$1 million to this initiative.

Transportation & Recycling:

Both transportation and recycling costs are directly related to the number of units collected. MRC projects that 1,557,000 units will be collected for recycling through the Program in 2019.

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. On average, the Q1 cost per unit for transportation was \$2.95, a 38% increase over 2017.

As the U.S. and California economies improve, inflation and transportation costs are increasing significantly. MRC has budgeted 2019 transportation costs at an average per unit transportation rate of \$3.24, an increase of 10%, based on Q1 actuals which incorporate inflation and increases in fuel costs. MRC then multiplied this rate by the number of units we expect to collect for recycling in 2019. To this amount, we have also added a 10% contingency to mitigate the risk of higher than expected costs, given that the 2017 to 2018 year-over-year transportation rate increased by

38%. As a result, MRC has budgeted a 2019 transportation expense of \$5,549,377.

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

Recycling

MRC-contracted recyclers' costs are increasing as labor markets tighten and wages increase, energy costs rise, factory space for the recycling plants becomes more limited in certain markets and other operational expenses are affected by inflation. In addition, the secondary markets for recycled materials are volatile, reducing the opportunities for recyclers to off-set some of their operational costs by selling the materials they reclaim from the dismantled units at favorable prices. Therefore, MRC's 2019 budget for mattress recycling expenses anticipates an increase in per unit processing costs over Q1 actuals, based on existing and anticipated changes to prices MRC pays its contracted recyclers.

Budgeted recycling expenses also are higher in 2019 because MRC expects that the number of units recycled will increase by 9%, from 1,428,000 in 2018 to 1,577,000 in 2019. These added expenses will allow MRC to serve more consumers, retailers and other large volume collectors.

Finally, the 2019 recycling budget includes additional expenses that the Program might incur if one or more contingencies occurs. The contingency represents 23% of the recycling budget for the following reasons:

- In 2017, MRC's budgeted recycling expenses included a 10% contingency for unanticipated cost increases. MRC's 2017 *actual* expenses, however, exceeded budget (including the 10% contingency) by 6% as a result of vendor price increases and other factors that were not anticipated when we prepared the 2017 budget. As we prepare this budget, the U.S. economy is operating with the lowest unemployment rate since 2000 which contributes to MRC's contracted-recyclers paying higher wages, energy costs and inflation are increasing, and the outlook for 2019 is that the same conditions will continue. Therefore, although MRC has built some inflation and input price increases into its budget, the 2019 recycling expenses also include contingency funds in case MRC experiences budget overages in 2019 that are similar to those we experienced in 2017.
- The commodities markets over the past two years have been volatile. MRC cannot predict with any certainty whether soft commodity markets will reduce the revenue our contracted recyclers earn from selling the recyclable materials they recover

from dismantled units, thereby increasing the likelihood that MRC may need to pay higher recycling rates. Therefore, the 2019 recycling budget contingency is intended to help MRC absorb some additional unforeseen costs that could result from further deteriorations in commodity prices.

- The contingency also includes funding in case MRC's recycling network experiences significant disruptions. For example, we are aware that recycling programs for other products have encountered problems when a large recycler has closed while leaving behind substantial quantities of unrecycled products in storage. Events like this can impose significant financial and operational stress on the recycling organization. In its 2019 budget, MRC has set aside funds in case it may be necessary to replace existing recycling capacity on short notice and take other immediate action to minimize service failures and maintain efficient operations.

Although MRC has budgeted for a level of uncertainty in its budget with contingencies to cover short-term cost increases such as these, the organization also maintains a reserve sufficient to allow the Program to remain sustainable over a multiyear period should situations arise where operational expenses increase beyond what the contingences can absorb, or planned revenues decrease as a result of factors beyond MRC's control.

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

Communications/Education and Outreach:

MRC's comprehensive communication and consumer education and outreach efforts inform the industry and consumers about the Program and how to recycle mattresses in California. MRC promotes the Program across the state with paid advertising campaigns, Public Service Announcements (PSA), direct mail, social media, and participating in community events. In 2019, MRC plans to increase its paid advertising frequency and target larger media markets including Los Angeles and Oakland/San Francisco, especially during key mattress sale weekends. The budget includes funds for MRC to monitor the effectiveness of its advertising through surveys that will measure consumer awareness.

Throughout the year, MRC also uses public service announcements, social media and online advertising to communicate with consumers. In addition, it allocates advertising funds to smaller local or regional campaigns that promote new collection sites and events. MRC expects to increase the number of collection events in 2018 and 2019, reaching

portions of the state that are not yet serviced by a permanent collection site. In addition to consumer outreach, MRC will continue to communicate with mattress retailers and other members of the industry regarding their legal obligations to register, report, and remit the recycling charge, as well as how they can recycle the discarded mattresses that they collect from consumers with the Program. The California marketing and communication expenses cover the following activities:

- Advertising and Consumer Education
- 3rd Party PR Agency
- Industry and Stakeholder Outreach
- Community Collection Events/Conferences and Events
- Other Marketing and Communications Expenses
- MRC marketing and communication staff

MRC budgeted communications expenses for 2019 of \$4,221,915, which represents a \$921,674 (28%) increase over 2018 projections of \$3,300,241. In 2019, 9.5% of MRC's total budgeted expenses are allocated to communications.

Research:

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 mattress components recovered from the dismantled units. MRC supports applied research and development efforts intended to achieve one or more of the following objectives:

- Reduce 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
- Identify new or better uses for recycled mattress materials

Planned MRC 2019 research projects which support these objectives outlined above are as follows:

1. Best Practices - In early 2018, MRC participated in events and meetings with similar organizations around the globe to investigate and explore best practices and new markets research initiatives. These activities are extremely helpful in comparing experiences and sharing successful practices. MRC plans to continue these activities in 2019 and the future. Activities include speaking and exhibiting at the IMM home furnishings event in Cologne, Germany as well as other events,

and sharing experiences and best practices with similar organizations from around the world that manage large mattress recycling programs.

2. Transportation Optimization – With two years of Program experience in California, MRC plans to improve the efficiency of our operations. Given that transporting light and bulky products like discarded mattresses over long distances is expensive, MRC plans to analyze its collection network in an effort to optimize its freight operations. MRC will task consultants with identifying steps MRC can take to be more efficient in allocating freight resources around the state.
3. Market Intelligence and Convenience - MRC is conducting a study to examine whether communities that offer no-cost bulky item curbside collection services have lower incidences of illegal mattress dumping. This study will involve the use of data that MRC has collected from participants in its Illegally Dumped Mattress Initiative and a survey of solid waste collection programs across California. MRC will incur costs for the curbside collection study in 2018 and 2019 and has allocated funds for this purpose in the 2019 budget.

In addition, if MRC has sufficient participation by data collectors in the Initiative in 2018, MRC plans to analyze the data collected. This will help MRC and policy makers better understand where illegal mattress dumping occurs, the magnitude of the problem, whether seasonal variances exist, etc. This information may be useful in formulating policy recommendations to address the problem, helping MRC allocate additional collection efforts to specific parts of the state and helping MRC improve the effectiveness of its public relations efforts to combat illegal dumping.

MRC is also mapping the locations of mattress retailers throughout California. Pinpointing these locations will help MRC understand how the retailer take-back obligation makes the Program's collection network convenient and efficient. MRC will then use that information to identify underserved areas and prioritize our operational and public relations activities as we seek to improve Program accessibility throughout California.

In the Fall of 2018, MRC will complete an evaluation of the age of mattresses being recycled through all three of MRC's state mattress recycling programs. This important statistical information will provide a baseline to understand the lifespan of

discarded mattresses. In 2019, MRC intends to build on this analysis to improve its ability to forecast unit discard trends, with the objective of improving its budgeting process and longer-term planning for its collection and recycling networks. This analysis may also help MRC’s contracted-recyclers better anticipate how the relative quantities of materials they recover from dismantled units will change as the mattress market product mix changes.

4. Recycling Efficiencies - MRC initiated a project in 2018 to compare the time, costs and efficiencies of manual and mechanized mattress dismantling approaches. MRC intends to complete that project in 2019, at which time it may also expand the study to include other aspects of mattress collection and dismantling operations.
5. Secondary Commodity Markets - In the third quarter of 2018, MRC will hire consultants to initiate a research program to identify new markets and uses for post-consumer materials, thereby increasing the recyclability of used mattresses. This program will continue in 2019 and beyond. This initiative includes an evaluation of possible research topics, timelines required for completion, projected costs and challenges presented by each topic, as well as legal implications. Upon further review, this may include a grant program to award funds to third parties.

This work could benefit the Program by developing additional uses for recycled mattress materials and potentially make recyclers more self-sufficient and with the possibility of lower prices for recycling services in the future.

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

	Projects	Expense
1	Best Practices	\$ 39,500
2	Transportation Optimization	\$ 30,000
3	Market Intelligence and Convenience	\$110,000
4	Recycling Efficiencies	\$100,000
5	Secondary Commodity Markets	\$470,000
6	Research Planning and Administration	\$200,000
	TOTAL	\$949,500

Administration:

This category reflects MRC's expense to administer the Program. This cost category covers the following:

- Management and Staffing
- Travel/field visits
- Legal costs
- Government Affairs
- Annual Financial Audit and Tax Filing Preparation
- Compliance and Service fees
- Bank Fees

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

Legal costs cover fees for outside counsel that negotiate MRC contracts, address contract compliance issues and advise MRC regarding corporate matters. Government affairs activities include communicating with members of the California legislature and executive branch agencies regarding MRC's plans and accomplishments, addressing their concerns, participating in recycling and related policy discussions, and providing input on specific legislative proposals.

MRC's financial records are audited annually by an independent certified public accountant. MRC also incurs costs in preparing and filing necessary tax documents. Separately, MRC uses both in-house and outsourced providers to confirm whether vendors providing mattress processing services to MRC are complying with their contractual and other legal obligations. The 2019 budget reflects MRC staff and third-party costs associated with conducting these activities.

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 expense identified on this line item reflects MRC's estimate of these reimbursements for 2019.

4. A recommended funding level sufficient to cover the plan's budgeted costs and to operate the mattress recycling program over a multiyear period in a prudent and responsible manner

(Cal. Pub. Res. Code § 42988(b))

Cal. Pub. Res. Code § 42988 requires that MRC maintain a reserve that is sufficient to fund the Program's operations over a multiyear period in a fiscally prudent and responsible manner. The amount that MRC sets aside in this reserve is influenced by several factors.

First, the Program must be able to adjust to unforeseen circumstances that can have a substantial impact on MRC's expenses. These circumstances could include accidents and disasters or operational and financial failures of MRC's systems, recyclers, retailers and other sellers that collect the charges, etc. Significant or sudden changes in market dynamics that affect costs (e.g., fuel) or failure of secondary markets for recycled components, political uncertainties,¹ or any combination of the above could also significantly affect the Program and its budget.

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 a fee change and the 180-days required to notify the public, MRC has determined that a reserve sufficient to operate the program during such a transition is imperative.

MRC's ability to operate prudently over a multi-year period depends in part on MRC's forecasted operating and administrative expenses for several years into the future. For the next several years, MRC expects to increase its expenditures at a higher rate than revenue increases, as it develops the Program's collection network, broadens its geographic coverage, and increases the number of units collected and recycled.

In addition, MRC must be prepared in case its revenue stream (that is, recycling charges collected on the sale of mattresses) is significantly or suddenly disrupted. This could include a downturn in the U.S. economy (which hurts mattress sales) or other events that are external to the Program itself, like legislative or regulatory initiatives that disrupt sales. For example, the California legislature considered a bill this year (Assembly Bill 2998) that as originally drafted would have prohibited the use of flame retardants in mattresses and

¹ For example, the ongoing trade war between the United States and our trading partners could have dire global consequences for commodity prices generally, and in particular U.S. recyclers that sell their materials in international markets. Likewise, the ballot in this year's California state election will include a proposition that, if approved, could initiate a process to divide California into three separate states. Such an outcome could pose innumerable and costly operational and financial challenges for the Program.

other products. Under federal law, all mattresses sold in the United States must meet federal flammability standards. Those rules functionally necessitate the use of some flame retardants. The initial version of the bill that passed the Assembly earlier this year would have created an irreconcilable conflict between a mattress manufacturer's ability to meet the federal standards and comply with California law. Had that version been enacted into law, no mattresses could be sold in California after January 1, 2020, thereby eliminating MRC's funding source. Although the bill was amended late in the legislative process to resolve this problem, this legislation nevertheless illustrates how MRC's revenue source is vulnerable to changes in state laws and regulatory policies.

Finally, it is important to note that MRC's network of recyclers and transporters rely on timely payments for services rendered. Many MRC vendors are small enterprises that lack the financial resources that can tolerate payment delays. Therefore, to keep the Program functioning, and its vendors paid and operating, it is critical that MRC hold sufficient cash reserves to cover cash flow shortfalls. Unlike a government entity or more mature organization, MRC does not have access to government or adequate bank financing that may be required to cover substantial unexpected shortfalls and must rely on its reserve to address various financial risks it may encounter.

For these reasons, MRC has budgeted to build a reasonable financial reserve equal to twelve months of annual operational expenses that it anticipates it will incur over the next several years. Once the program has operated over a multi-year period with a more predictable level of expense, MRC may consider adjusting its reserve level and (if necessary) may propose to change the charge.

As discussed further below, MRC's 2019 budget assumes that over \$260,000 from reserves will be necessary to supplement budgeted charge revenue and interest revenue to cover our 2019 budgeted expenses. (In addition, very preliminary forecasts for 2020 anticipate that an additional \$300,000 from reserves will be needed to supplement revenue in that year's budget.)

Based on the objectives discussed above regarding MRC's budgeted operational expenses and reserve needs, MRC has budgeted charge-related revenues of \$43,982,799 in 2019 (that is, total revenues, excluding interest and other gains on MRC's reserves) to meet the requirements of Cal. Pub. Res. Code § 42988(b).

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

(Cal. Pub. Res. Code § 42988(c))

Determination of Two Separate Charges

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

When CalRecycle approved MRC’s 2017 budget, the agency requested that MRC consider two separate charges when it prepared its 2018 budget and discuss this issue with the advisory committee. Pursuant to CalRecycle’s request, MRC discussed this topic with the Advisory Committee in June 2017 and explained the rationale for retaining the single charge for calendar year 2018. Likewise, MRC has decided in preparing its 2019 budget to continue to set a single charge, as it is authorized to do by Section 42989.

Itemization of the Mattress Recycling Charge

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

The per unit charge can be distributed over the different cost components discussed above that comprise MRC’s 2019 budgeted expenses as follows:

Cost Category	Percent of Per Unit Charge Itemized to Each Category
Collection	12.2%
Transportation & Recycling	66.0%
Communication/Education and Outreach	9.5%
Research	2.1%
Administration	8.6%
California Oversight	1.6%
Total	100.0%

Amount of the 2019 Charge

MRC has gained valuable experience from its first two and a half years of operations in California regarding how best to structure the Program for continued growth, improved efficiency and effective consumer outreach. The 2019 budget takes into account the last 12 months of data since MRC submitted its 2018 budget, and projects 2018 charge-related revenue of \$43,120,394 and expenses of \$36,795,923. MRC projects unit sales of 4,106,704 by year-end 2018 and units collected of 1,428,000.

The 2019 MRC budget anticipates that the volume of units on which the charge will be collected will be 4,188,838, an increase of 82,134, and that the number of units processed through the Program will increase by 129,000 units, to 1,557,000. Total Program expenses in 2019 will increase by \$7.7 million over the projected 2018 annual expenses of \$36.8 million.

The following table demonstrates that a charge of \$10.50 will be sufficient to cover MRC’s 2019 budgeted expenses of \$44,540,667, after adjusting for 2019 interest revenue and funding the net deficit from the reserves:

A. Budgeted 2019 Expenses	\$ 44,540,667
B. Amount Drawn from Reserves	\$ 262,068
C. Budgeted Interest Revenue	\$ 295,800
D. Net Expenses Funded by Charge (D = A – B – C)	\$ 43,982,799
E. Projected Unit Sales	4,188,838 Units
F. Per Unit Charge (F = D / E)	\$10.50

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

The MRC Budget is submitted by:

Catherine Lyons
Manager
Mattress Recycling Council California, LLC
501 Wythe St.
Alexandria, VA 22314
703-683-8371
clyons@mattressrecyclingcouncil.org
www.mattressrecyclingcouncil.org

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

(14 CCR §18963(b)(2))

See Part 3 above.

8.

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

See Part 5 above.

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

EXPENSES:	2016 Actual	2017 Actual
Collection, Recycling, Transportation Costs		
Solid Waste Handling Fee	\$ 767,783	\$ 1,294,345
Collection Containers and Storage	\$ 274,818	\$ 465,910
Collection Site Signage/Guidelines	\$ -	\$ 32,374
Consumer Incentive	\$ 359,461	\$ 606,628
Illegally Dumped Mattress Collection Initiative	\$ 237,940	\$ 420,160
Transportation	\$ 2,295,482	\$ 3,635,235
Recycling	<u>\$ 8,181,819</u>	<u>\$ 13,839,520</u>
Total Collection, Recycling, Transportation Costs	\$ 12,117,303	\$ 20,294,172
Administration & Legal		
Management and Staffing Expenses	\$ 1,773,633	\$ 2,196,679
Line of Credit Interest	\$ 50,296	\$ -
Travel / Field Visits	\$ 62,558	\$ 59,647
Legal	\$ 69,567	\$ 89,488
Government Affairs	\$ 15,000	\$ -
Annual Financial Audit and Tax Filing Preparation	\$ 3,478	\$ 106,857
Compliance and Service Fees	\$ 2,233	\$ 100,233
Bank and Brokerage Fees	<u>\$ 5,557</u>	<u>\$ 46,938</u>
Total Administration & Legal	\$ 1,982,322	\$ 2,599,842
Cal Recycle Oversight		
State Regulatory Oversight Fees	<u>\$ 1,853,965</u>	<u>\$ 447,048</u>
Total Cal Recycle Oversight Fees	\$ 1,853,965	\$ 447,048
Communications/Education & Outreach Costs		
Advertising and Consumer Education	\$ 845,259	\$ 1,289,505
3rd Party PR Agencies	\$ 142,989	\$ 152,207
Industry and Stakeholder Outreach	\$ 195,694	\$ 96,476
Community Collection Events/Conferences & Events	\$ 95,548	\$ 186,233
Other Marketing & Communications Expenses	\$ 19,702	\$ 11,173
MRC Marketing & Communications Staff	<u>\$ 95,798</u>	<u>\$ 165,985</u>
Total Communication/Education & Outreach Costs	\$ 1,394,990	\$ 1,901,579
Research & Development Costs		
Research & Development	<u>\$ 22,123</u>	<u>\$ 54,776</u>
Total Research Development Costs	\$ 22,123	\$ 54,776
Total Expenses	\$ 17,370,703	\$ 25,297,417

Mattress Recycling Council California LLC 2019 Budget

	<u>2019 Budget</u>	<u>Expense Allocation</u>
REVENUE:		
Fee Revenue (\$10.50/unit)	\$ 43,982,799	
Interest & Dividend Income	\$ 295,800	
Total Revenue	\$ 44,278,599	
EXPENSES:		
Collection, Recycling, Transportation Costs		
Solid Waste Handling Fee	\$ 2,198,785	
Collection Containers and Storage	\$ 1,046,052	
Collection Site Signage/Guidelines	\$ 3,148	
Consumer Incentive	\$ 1,167,750	
Illegally Dumped Mattress Collection Initiative	\$ 1,000,000	
Transportation	\$ 5,549,377	
Recycling	\$ 23,859,969	
Total Collection, Recycling, Transportation Costs	\$ 34,825,081	78.2%
Administration & Legal		
Management and Staffing Expenses	\$ 2,787,061	
Travel / Field Visits	\$ 80,386	
Legal	\$ 175,000	
Government Affairs	\$ 300,000	
Annual Financial Audit and Tax Filing Preparation	\$ 100,578	
Compliance and Service Fees	\$ 272,825	
Bank and Brokerage Fees	\$ 122,771	
Total Administration & Legal	\$ 3,838,621	8.6%
Cal Recycle Oversight		
State Regulatory Oversight Fees	\$ 705,550	
Total Cal Recycle Oversight Fees	\$ 705,550	1.6%
Communications/Education & Outreach Costs		
Advertising and Consumer Education	\$ 2,535,494	
3rd Party PR Agencies	\$ 535,370	
Industry and Stakeholder Outreach	\$ 99,677	
Community Collection Events/Conferences & Events	\$ 688,894	
Other Marketing & Communications Expenses	\$ 100,015	
MRC Marketing & Communications Staff	\$ 262,465	
Total Education & Outreach Costs	\$ 4,221,915	9.5%

Research & Development Costs		
Research & Development	<u>\$ 949,500</u>	
Total Research & Development Costs	<u>\$ 949,500</u>	2.1%
Total Expenses	<u>\$ 44,540,667</u>	100.0%
Operating Net Assets	<u>\$ (262,068)</u>	