



July 1, 2022

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 2023 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 2023 Program Budget

July 1, 2022

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 2023 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 2023 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 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 2022, prior to the submission of the 2023 budget (and the 2021 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 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 required by 14 CCR §18962(a)(6).

Executive Summary

In preparing its 2023 budget, MRC has taken into consideration not only its planned activities for 2023, but also its actual revenue and expense experience for 2021, the first quarter of 2022 (Q1), as well as projections for the remainder of 2022.

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

In 2023, MRC anticipates that 4.25 million units will be sold in California, compared to 2022 projected units of 4.17 million. MRC also anticipates that 1.64 million units will be recycled through the program in 2023. These figures represent 2.0% increases over the projected 2022 levels.

MRC budgets recycling charge revenue of \$44.6 million for 2023, a 2% increase over 2022 projections of \$43.8 million. We have budgeted \$30,000 for late fee revenue in 2023 (at the same level projected for 2022), although we continue to encourage retailers and other sellers to make timely remittances to avoid these

fees.

MRC's total annual expenses for 2023 are budgeted at \$48.7 million, which is 1.4% more than our projected 2022 total expenses of \$48.1 million. Total expenses include operational expenses of \$37.9 million in 2023, to cover expenses related to collection and containers, the Illegally Dumped Mattress Collection Initiative, transportation and recycling. Operational expenses are expected to be 1.6% higher than the 2022 projected operating expenses of \$37.3 million as we expect to recycle 2% more units in 2023 compared to 2022. The operational expenses represent 77.8% of MRC's total budgeted expenses.

MRC's 2023 budgeted operational expenses include \$5.9 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 3.4% increase compared to 2022 projections. Over \$1.1 million of the \$1.3 million MRC has budgeted in 2023 for its Illegally Dumped Mattress Collection Initiative will compensate participating entities for collecting dumped units and reporting data on illegal mattress dumping. The remainder of that amount will fund public awareness campaigns to educate California residents about how to properly discard their used mattresses and allocate \$100,000 to pilot projects that will test innovative approaches to help solve the problem of illegally dumped mattresses.

The 2023 budget for transportation expenses is \$9.4 million, a 5.6% decrease from the 2022 projections due to continued efficiency improvements despite the increase in units transported. The 2023 budget for recycling expenses is \$21.2 million, a 5.1% increase from the 2022 projections, due to both higher rates paid to MRC recyclers and unit volume increases.

MRC has budgeted \$3.0 million in 2023 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 1.3% decrease from 2022 projections of \$3.1 million. In 2023, education and outreach expenses represent 6.2% of MRC's total budgeted expenses.

MRC has budgeted \$1.3 million in 2023 to fund an array of research and development projects. Of this amount, \$1.1 million is dedicated to developing new and better end uses for mattress components and to provide funds for improvements to mattress collection sites. These improvements are intended to help divert more units from landfills and protect the quality of discarded units so that more mattress materials can be recycled. MRC has also budgeted \$158,000 for the Sleep Products Sustainability Program to help mattress manufacturers reduce waste while increasing operational efficiency.

MRC's 2023 program administration expenses budget of \$5.7 million represents 11.7% of total expenses. Program administration expenses include staff expenses, administration and overhead, computer and database expenses, financial and compliance audits and outside consultants who provide expertise

and program assistance. In addition, the MRC budget includes \$86,000 for legal expenses and \$706,000 to reimburse CalRecycle for program oversight.

Finally, the 2023 budget anticipates that MRC will have a net investment return of approximately \$1.3 million, representing a 3.3% return on its invested reserves.¹

MRC intends to fund its 2023 budgeted expenses of \$48.7 million with a combination of \$44.6 million in recycling charge revenue (based on budgeted unit sales of 4.25 million units at a \$10.50 per unit charge), \$30,000 in late fee revenue, a net investment return of approximately \$1.3 million, and \$2.7 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 \$44,627,100 for 2023. We note that MRC also projects a modest late fee revenue in 2023 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 2023 budgeted recycling charge revenue, MRC considered revenue and units sold for the past few years, as well as various economic indicators, including the International Sleep Products Association's (ISPA) May 2022 industry forecast. Based on actual revenues through the first quarter of 2022, MRC projects that 2022 California unit sales will be 4,166,863, a decrease of 5.0% from 2021 unit sales of 4,386,172. MRC expects reported sales from 2022 to be less than 2021 mainly due to economic uncertainty (inflation, high fuel costs, rising interest rates, supply chain disruptions and declining consumer confidence) and the fact that as the economy reopens from Covid-related restrictions, consumers have shifted their spending away from mattresses and furniture to travel and other products and services. MRC also projects that California unit sales will rebound slightly in 2023 to 4,250,200 units, a 2.0% increase over 2022. MRC's budgeted 2023 recycling charge revenue of \$44,627,100 is calculated by multiplying the 2023 budgeted units of 4,250,200 by the \$10.50 per unit charge.

¹ We note that GAAP requires interest, realized and unrealized gains or losses 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: 2023 Budgeted Program Revenue

| Category | Amount |
|--------------------------|---------------------|
| Recycling Charge Revenue | \$44,627,100 |
| Late Fee Revenue | \$30,000 |
| Total Revenue | \$44,657,100 |

Costs

MRC has budgeted \$48,730,256 in 2023 program costs, classified as follows:

- Operational Costs
 - Collection and container
 - Illegally Dumped Mattress Collection Initiative
 - Transportation and recycling
- Education and outreach
- Research and development
- 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 Collection Initiative, transportation and recycling, represent 77.8% of total expenses in 2023.

Collection and Container

This cost category, totaling \$5,938,802, covers the following activities:

- Solid waste handling
- Collection container and storage rental
- Consumer incentive payments (CIP)
- Collection site signage

MRC’s 2023 budget includes \$4,011,659 in solid waste handling fees, a 4.1% increase over 2022. As of early 2022, MRC had agreements with 219 permanent collection sites in California under which MRC compensated them for accepting, collecting, storing, and handling used mattresses for processing through the program. This includes permanent collection sites that allow residents to drop off units at no cost and entities that collect units through no-cost curbside bulky item collection services. For purposes of preparing this 2023 budget, MRC applied the per unit handling fee to the number of units it expects to collect through each site. Additionally, MRC has contracted with organizations to provide labor at collection events and select collection sites.

As MRC continues to expand the program, we will contract with additional sites in

2023. 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 that is operating a SWF and is currently under a multiyear contract with the local municipality it serves to negotiate reasonable compensation terms with MRC while that contract remains in effect.
- Participating with the program is not logistically possible 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 2023 budget also includes collection container and storage rental expenses of \$1,491,624, a 1.4% decrease from 2022 projections. The decrease is due primarily to MRC actively managing the supply chain and negotiating better transportation contracts.

MRC set the per unit consumer incentive payment (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 2023, MRC has budgeted \$412,344 for CIP costs for 137,448 units at the \$3 per unit incentive. MRC anticipates that units collected from consumers who are paid the \$3 incentive will account for 8% of program units in 2023, which is consistent with the previous two years. The CIP expense has decreased since 2020 due to a lack of available discards in Southern California because of demand from renovators and discarded units being exported to Mexico for resale/reuse.

Finally, MRC has budgeted \$23,175 for 2023 to provide appropriate signage and written guidelines for collection sites, including replacement signage needed due to damage.

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.

The compensation varies based on whether the entity is in an urban (\$15 per unit) or rural county (\$20 per unit). The 2023 budget anticipates participants will collect approximately 74,799 illegally dumped units, a 2% increase over the 2022 projection of 73,332 units. The 2023 budget will continue to fund targeted advertising and outreach efforts to educate state residents about the environmental impact of illegally dumped mattresses, as well as related

administrative costs.

In 2021, MRC funded three illegal dumping mitigation pilot projects which cost \$114,260. Additionally, MRC has allocated \$199,417 in 2022 to complete these three pilots and fund two additional pilots. The 2023 budget includes \$100,000 for similar projects. All proposed pilot projects are in communities adversely affected by illegal mattress dumping. The scope of these projects includes improved access to mattress collection at multi-unit housing complexes, promoting awareness about existing mattress collection channels, enforcement of laws against dumping and establishing or improving mattress drop off programs.

Details of the 2023 budgeted Collection Costs are as follows in Table 2:

TABLE 2: 2023 Budgeted Collection Costs

| Category | Amount |
|--|--------------------|
| Collection and Container Costs | |
| Solid Waste Handling Fees | \$4,011,659 |
| Collection Container and Storage Rental Expenses | \$1,491,624 |
| Consumer Incentive Payments | \$412,344 |
| Collection Site Signage | \$23,175 |
| Total Collection and Container Costs | \$5,938,802 |
| | |
| Illegally Dumped Mattress Collection Initiative | |
| Initiative Entity Compensation | \$1,131,335 |
| Marketing/Advertising/Events | \$18,502 |
| Consulting Services | \$17,619 |
| Pilot Studies | \$100,000 |
| Staff Expenses | \$31,500 |
| Total Illegally Dumped Mattress Collection Initiative | \$1,298,956 |
| | |
| Total Collection Costs | \$7,237,758 |

Transportation and Recycling

Both transportation and recycling costs are directly related to the number of units collected. MRC projects that 1,635,593 units (a 2.0% increase over 2022) will be collected for recycling through the program in 2023. Of these units, approximately 91% (1,488,349) will be transported by an MRC transportation contractor; the remaining 9% 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, geographic location of the collection site and the container

type used to hold the discarded mattresses. In 2021, transportation costs increased by 10.9% over 2020 due to the increase in units transported, higher transport rates, new collection routes added to the network and fuel price increases.

In preparing the 2022 projections and the 2023 budget, MRC considered these costs as well as its plans to improve transportation efficiency throughout the program. For 2022, MRC projects transportation costs at an average rate of \$5.63 per unit, plus pocketed coil transportation² and a contingency to cover rising fuel costs, for a total of \$9,971,853. MRC has budgeted 2023 transportation costs at an average per unit rate of \$5.44 (a 3.4% decrease from 2022), plus pocketed coil transportation and a modest contingency for fuel surcharges, for a total of \$9,416,431. This decrease is due to a continued focus on supply chain efficiency improvements in both whole unit and pocketed coil transportation.

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

Recycling

MRC recyclers' costs have increased as wages have increased, factory space for the recycling plants has become more limited and expensive in certain markets and other operational expenses have increased due to inflation. The 2023 recycling budget takes into account the 2% increase in the number of units processed, processing of pocketed coils in an effort to improve the recycler efficiency rate, and anticipated processing rate increases paid to recyclers.

In 2022, MRC projects a total of \$20,193,807 in recycling expenses, including over \$1 million to recycle pocketed coils². This expense has continued as part of MRC's efforts to increase the recycler efficiency rate. The MRC 2023 recycling budget of \$21,217,385 also includes \$1 million 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 2023 budgeted total operational costs (Collection and Containers, Illegally Dumped Mattress Collection Initiative, Transportation and Recycling) are as follows:

² To avoid having pocketed coils go to landfill, MRC provided an interim solution to assist recyclers who lacked the ability to remove the steel coils from the fabric pockets for recycling. Since 2020, MRC has transported this material from recyclers to two entities that can separate the steel coils from the fabric.

TABLE 3: 2023 Budgeted Total Operational Costs

| Category | Amount |
|---|---------------------|
| Collection and Container Costs | \$5,938,802 |
| Illegally Dumped Mattress Collection Initiative | \$1,298,956 |
| Transportation | \$9,416,431 |
| Recycling | \$21,217,385 |
| Total Operational Costs | \$37,871,574 |

Education and Outreach

MRC budgeted education and outreach expenses for 2023 of \$3,040,133, a 1.3% decrease from 2022 projections of \$3,080,836. In 2023, approximately 6.2% of MRC’s total budgeted expenses are allocated to education and outreach.

MRC’s comprehensive education and outreach efforts inform the industry and consumers about how and where to recycle mattresses in California, why recycling is beneficial, and the impact MRC is making in the state.

MRC communicates with consumers using the Bye Bye Mattress brand and promotes the program across the state with paid advertising campaigns, public service announcements (PSA), media relations, direct mail, digital marketing, social media and participation in community and industry events. In 2023, MRC plans to continue this multichannel strategy. Consumer outreach will also continue to include multicultural outreach to the Latinx, Black and Asian-Pacific Islander communities, among others. MRC plans to run advertising campaigns in the spring and fall of 2023, 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 are conducted using the Mattress Recycling Council brand. MRC informs mattress retailers and other members of the industry about their legal obligation to register, collect, report and remit the recycling charge, as well as how they can recycle discarded mattresses they collect from consumers. MRC has robust protocols in place to identify potential new registrants (both traditional and online) and conducts outreach to enroll them in the program. Regular communications are sent to all registrants prompting them to file their reports and remit payments on time.

In 2023, MRC will continue to provide customer education materials to retailers, distributors, renovators and manufacturers about program changes resulting from the enactment of AB 187. MRC will also survey retailers to measure their awareness of their legal obligations, their level of interest in recycling mattresses with the program and their overall satisfaction with MRC and available resources. MRC uses this feedback to continually improve its industry resources and outreach.

The 2023 budget also includes funds for MRC to monitor and evaluate the

effectiveness of its advertising and outreach efforts through surveys and other tools that collect metrics regarding the performance of our websites, the impact of social media and press coverage and results of digital advertising. MRC will analyze and use this data to guide decisions on future advertising and marketing efforts to be as cost effective as possible while meeting communication targets.

Details of the 2023 Education and Outreach budget are as follows:

TABLE 4: 2023 Budgeted Education and Outreach Costs

| Category | Amount |
|-------------------------------------|--------------------|
| Advertising and Consumer Education | \$1,927,359 |
| 3 rd Party PR Agencies | \$586,590 |
| Industry and Stakeholder Outreach | \$185,258 |
| Conferences and Events | \$74,950 |
| Annual Report | \$25,750 |
| Sub-Total | \$2,799,907 |
| Travel | \$32,690 |
| Staff Expenses | \$207,536 |
| Total Education and Outreach | \$3,040,133 |

Research and Development

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.

Research Projects

MRC has budgeted \$1,059,940 in 2023, compared to a projected \$1,188,531 in 2022. The 2023 budget includes funds for the following activities:

- **End-Use Application Development:** MRC anticipates a variety of projects will be funded in 2023 to develop new markets for recovered mattress materials. MRC funds creative proposals that demonstrate potential to use hard-to-recycle mattress components in new or reformulated applications and/or products. A detailed description of completed active and future research projects is included in MRC’s 2021 annual report.
- **Lean Assessments:** MRC funds lean manufacturing training to help its 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 reducing non-value-added activities, like excessive forklift movements and double handling of materials.
- **Network Development:** MRC participates in events and meetings with similar international organizations to investigate and explore best practices and research into new markets for mattress commodities. These activities

are extremely helpful in comparing experiences and sharing successful practices.

- **Mattress Collection Facility Improvement Funding:** MRC funds small projects at collection sites that will advance program goals by increasing the diversion of units from landfills and improve the recyclability of discarded units.
- **Research Consulting:** MRC uses third-party consultants to plan, manage and oversee the aforementioned research projects.

Sleep Products Sustainability Program

MRC’s Sleep Products Sustainability Program (SP2) is designed to help individual mattress manufacturers reduce their generation of waste materials, water and energy during the mattress manufacturing process. SP2 works with mattress manufacturers 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.

MRC will communicate with industry audiences about its work helping manufacturers adopt sustainable practices, raise awareness of end-of-life challenges recyclers are encountering with current mattress and foundation products, and bring together mattress component suppliers and mattress designers to develop products that support recycling. With this in mind, in 2022, MRC created the New Materials Recycling Committee to identify end-of-life challenges posed by current products and the Circularity Committee which will focus on how mattress component suppliers and mattress designers can develop products that support recycling.

The 2023 SP2 budget of \$157,994 supports these endeavors, including management oversight, funds to publicize the program, training for manufacturers and verifying participants for certification and recertification.

Details of the 2023 Research and Development budget are as follows:

TABLE 5: 2023 Budgeted Research and Development Costs

| Category | Amount |
|--|--------------------|
| End-use Application Development Research | \$738,000 |
| Lean Assessments | \$40,000 |
| Network Development | \$30,300 |
| Mattress Collection Facility Improvement Funding | \$45,000 |
| Consulting | \$206,640 |
| Sleep Products Sustainability Program | \$157,994 |
| Subtotal Research and Development | \$1,217,934 |
| Staff Expenses | \$113,400 |
| Total Research and Development | \$1,331,334 |

Program Administration, Legal, and Government Oversight

Budgeted Administration costs for 2023, including program administration, legal, and CalRecycle oversight, is \$6,487,215, 5.1% above 2022 projections. This is primarily due to increased program administration costs including computer and database, website and staffing costs to support operational activities.

Program Administration

In 2023, MRC is budgeting \$5,695,265 (5.8% above 2022) in program administration costs. Of this amount, \$3,455,815 (a 5.4% increase from 2022 projections) is for 24.47 FTE (full time equivalent) staff that perform administrative and operational program oversight. This represents 91% of MRC's total staff expense of \$3,785,740. An additional 2.82 FTEs (bringing the total to 27.29 FTEs) is for staff who work on education and outreach, the illegally dumped mattress initiative, and research activities, which are included and shown under those activity costs above. The budgeted administrative and overhead costs of \$821,626 include office space, telephone, utilities, insurance, depreciation (including websites) and other administrative expenses.

MRC also hires consultants and outside contractors to provide additional services and expertise. MRC has budgeted \$332,616 in 2023 for this expense category. Program administration expenses include \$437,344 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 \$149,352 for these activities.

MRC expects to incur \$22,660 in recycler compliance audit expenses and \$159,000 to conduct a review of retailer payments. The combined compliance costs for operational audits and participant reviews for 2023 is 13.5% more than the 2022 projections.

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), which CalRecycle's regulation 14 CCR§ 18964(b)(11) requires MRC to perform as a necessary component of the annual audit. MRC has budgeted \$231,752 for these expenses. In addition, 2023 budgeted travel expenses of \$85,100 are expected to be 13.6% above 2022 projections as travel and events continue to return to pre-pandemic levels.

Legal

Legal costs for 2023, budgeted at \$86,400, cover fees for outside counsel that negotiate MRC contracts, address contract compliance issues and advise MRC regarding corporate matters. This is 19.5% below 2022 projections. The 2023 budget anticipates no legal or litigation expenses related to arbitration with a former recycler.

CalRecycle Oversight

Cal. Pub. Res. Code §42988.2 requires that MRC reimburse CalRecycle for its direct costs incurred to implement and enforce the Used Mattress Recovery and Recycling Act. Based on 2021 invoiced costs and historical expenses received through June 1, 2022, MRC anticipates the total cost for 2022 to be \$685,000. The 2023 budget of \$705,550 is based on similar levels of activity adjusted for inflation.

Details of the 2023 Program Administration, Legal and CalRecycle Oversight budget are as follows:

TABLE 6: 2023 Budgeted Administration Costs

| Category | Amount |
|---|--------------------|
| Staff Expenses | \$3,455,815 |
| Administrative and Overhead Expenses | \$821,626 |
| Outsourced Contractors/Consultants | \$332,616 |
| Computer and Database Expenses | \$437,344 |
| Annual Financial Audit and Tax Filings | \$231,752 |
| Compliance Expenses (operational and retailer) | \$181,660 |
| Industry and Government Relations | \$149,352 |
| Field Visits and Program Travel | \$85,100 |
| Total Administration | \$5,695,265 |
| | |
| Legal | \$86,400 |
| CalRecycle Oversight | \$705,550 |
| Total Program Administration, Legal and CalRecycle Oversight Costs | \$6,487,215 |

- 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 2023 budget takes into account anticipated revenue and expenses, as well as a reserve that MRC established to maintain sufficient funds to operate the program over a multiyear period in a

fiscally prudent and responsible manner.

The MRC Board has 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 and significant increases in fuel and labor costs are recent examples of situations beyond MRC's control that impact operations and the budget.

The 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., MRC must request a proposed change, CalRecycle must approve the 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 these vendors 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 for services 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 an unanticipated increase in expenses. MRC must rely on its 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 Table 7 below shows, MRC's 2023 budget assumes a net loss of \$4,073,156 (change in Operating Net Assets). Factoring in a budgeted Net Investment Return of \$1,347,296 (approximately 3%), the change to Net Assets is a decrease of \$2,725,860. Therefore, MRC anticipates that \$2,725,860 from reserves will be necessary to supplement the recycling charge revenue to fund its 2023 budgeted expenses.

MRC's Change in Operating Net Assets and Change in Net Assets projected for 2022, 2023 and 2024 are as follows in Table 7:

TABLE 7: 2022 thru 2024 Operating Net Assets and Change in Net Assets

| Category | 2022 Projections | 2023 Proposed Budget | 2024 Forecast |
|-----------------------------------|------------------|----------------------|---------------|
| Total Revenue | \$43,782,062 | \$44,657,100 | \$45,549,642 |
| Total Program Costs | \$48,055,258 | \$48,730,256 | \$49,299,634 |
| Change in Operating Net Assets | (\$4,273,196) | (\$4,073,156) | (\$3,749,992) |
| Net Investment Return | \$884,321 | \$1,347,296 | \$1,257,343 |
| Change in Net Assets | (\$3,388,875) | (\$2,725,860) | (\$2,492,649) |
| Net Assets Beginning of the Year | \$44,216,036 | \$40,827,161 | \$38,101,301 |
| Net Assets at the End of the Year | \$40,827,161 | \$38,101,301 | \$35,608,652 |

Based on the objectives discussed previously regarding MRC's budgeted costs and reserve needs, MRC has budgeted recycling charge revenue of \$44,627,100 (total revenue of \$44,657,100, including \$30,000 in late fee revenue) in 2023 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 2023 proposed budget brings the Board designated financial reserve to 53.2% of annual operating expenses. Net assets includes both Board designated financial reserve, as well as an amount equal to 3 months of expenses to be set aside as working capital. A preliminary forecast of 2024 also indicates that expenses are again expected to exceed revenue, requiring the reserve to fill the gap.

Total reserves (Board designated financial reserve) and the reserves as a percent of annual operating expenses (Total Program Costs) for 2021 Actuals through the Forecast for 2024 are as follows:

TABLE 8: Total Reserves

| | 2021 Actuals | 2022 Projections | 2023 Proposed Budget | 2024 Forecast |
|--|---------------------|-------------------------|-----------------------------|----------------------|
| Net Assets as of Year End | \$44,216,036 | \$40,827,161 | \$38,101,301 | \$35,608,652 |
| Board Designated Financial Reserve | \$32,335,405 | \$28,813,346 | \$25,918,737 | \$23,283,743 |
| Reserves as a % of Annual Operating Expenses | 68.0% | 60.0% | 53.2% | 47.2% |
| Undesignated Net Assets ³ | \$11,880,631 | \$12,013,815 | \$12,182,564 | \$12,324,909 |

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 amended plan in 2022 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.

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

When CalRecycle approved MRC’s 2017 budget, the agency requested that MRC consider two separate charges when it prepared its 2018 budget and discuss this issue with the Advisory Committee. Pursuant to CalRecycle’s request, MRC discussed this topic with the Advisory Committee in June 2017 and explained its rationale for retaining the single charge for calendar year 2018. Likewise, MRC has decided in preparing its 2023 budget to continue to set a single charge, as it is authorized to do by Section 42989.

Itemization of the Mattress Recycling Charge

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

The itemized cost components discussed above that comprise MRC’s 2023 budgeted expenses are as follows in Table 9:

TABLE 9: Itemized Costs of 2023 Proposed Budget

| Cost Category | Percent of Each Cost Category |
|---|--------------------------------------|
| Collection and Container Costs | 12.2% |
| Illegally Dumped Mattress Collection Initiative | 2.7% |
| Transportation and Recycling | 62.9% |
| Education and Outreach | 6.2% |
| Research and Development | 2.7% |
| Program Administration | 11.7% |
| Legal | 0.2% |
| CalRecycle Oversight | 1.4% |
| Total | 100.0% |

Amount of the 2023 Charge

The 2023 MRC budget takes into account 2021 actuals and 2022 projections, based on the months of data gathered since the 2022 budget was submitted for approval in July of 2021. MRC projects 2023 recycling charge revenue of \$44,627,100 and expenses of \$48,730,256. The MRC budget anticipates that the recycling charge will be collected on 4,250,200 units sold to California consumers, an increase of 83,337 units over 2022, and that the number of units processed through the program will increase by 32,604 units to 1,635,593.

Table 10 demonstrates that a charge of \$10.50 will be sufficient to cover MRC’s 2023 budgeted expenses of \$48,730,256, after funding the net deficit with the additional revenue from collected late fees as well as the anticipated net investment return, and a portion of the reserves.

TABLE 10: Recycling Charge

| | |
|---|---------------|
| A. Budgeted 2023 Expenses | \$ 48,730,256 |
| B. Budgeted 2023 Recycling Charge Revenue | \$ 44,627,100 |
| C. Net Deficit (Funded by Net Investment Return and Reserves) | (\$4,073,156) |
| D. Adjust for Additional Revenue from Late Fees | \$30,000 |
| E. Adjust for Net Investment Return | \$1,347,296 |
| F. Amount Drawn from Reserve | \$2,725,860 |
| G. Net Expenses Funded by Charge (G = A - D - E - F) | \$ 44,627,100 |
| H. Projected Unit Sales | 4,250,200 |
| 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
 Manager and CFO
 Mattress Recycling Council California, LLC
 501 Wythe St.
 Alexandria, VA 22314-1917
 703-683-8371
 clyons@mrc-us.org
www.mattressrecyclingcouncil.org

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 beginning 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 beginning on page 17.

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 11: 2020 and 2021 Actual Expenses and 2022 Projections

| EXPENSES: | 2020 Actuals | 2021 Actuals | 2022 Projections |
|---|-------------------------|-------------------------|-----------------------------|
| Operational Costs | | | |
| Collection and Container Costs | | | |
| Solid Waste Handling Fees | \$ 3,219,965 | \$ 3,676,255 | \$ 3,853,863 |
| Collection Container and Storage | \$ 1,765,858 | \$ 1,660,855 | \$ 1,512,408 |
| Consumer Incentive Payments | \$ 593,432 | \$ 359,781 | \$ 354,453 |
| Collection Site Signage | \$ 26,361 | \$ 5,049 | \$ 23,399 |
| Total Collection and Container Costs | \$ 5,605,616 | \$ 5,701,940 | \$ 5,744,123 |
| Illegally Dumped Mattress Collection Initiative | \$ 1,204,518 | \$ 1,281,784 | \$ 1,375,883 |
| Transportation and Recycling | | | |
| Transportation | \$ 9,124,866 | \$ 10,118,840 | \$ 9,971,853 |
| Recycling | \$ 22,190,864 | \$ 19,957,037 | \$ 20,193,807 |
| Total Transportation and Recycling | \$ 31,315,730 | \$ 30,075,877 | \$ 30,165,660 |
| Total Operational Costs | \$ 38,125,864 | \$ 37,059,601 | \$ 37,285,666 |
| | | | |
| Education and Outreach | | | |
| Advertising and Consumer Education | \$ 2,104,399 | \$ 1,818,724 | \$ 1,972,922 |
| 3rd Party PR Agencies | \$ 704,341 | \$ 589,234 | \$ 586,590 |
| Industry and Stakeholder Outreach | \$ 274,240 | \$ 118,255 | \$ 176,624 |
| Conferences and Events | \$ 13,081 | \$ 36,604 | \$ 80,700 |
| Annual Report | \$ 44,481 | \$ 34,789 | \$ 25,000 |
| Travel | \$ 7,435 | \$ 4,318 | \$ 23,000 |
| Staff Expenses | \$ 255,406 | \$ 194,591 | \$ 216,000 |
| Total Education and Outreach | \$ 3,403,383 | \$ 2,796,515 | \$ 3,080,836 |
| | | | |
| Research and Development | | | |
| Research | \$ 441,838 | \$ 457,015 | \$ 907,973 |
| Collection Facility Improvement Funding | \$ 123,744 | \$ 38,589 | \$ 79,164 |
| Consulting | \$ 207,238 | \$ 219,874 | \$ 201,394 |
| Sleep Products Sustainability Program | \$ 108,494 | \$ 104,848 | \$ 218,053 |
| Staff Expenses | \$ 89,207 | \$ 147,766 | \$ 108,000 |
| Total Research and Development | \$ 970,521 | \$ 968,092 | \$ 1,514,584 |

| | | | |
|--|----------------------|----------------------|----------------------|
| | | | |
| Program Administration | | | |
| Staff Expenses | \$ 2,470,323 | \$ 3,000,322 | \$ 3,279,077 |
| Administrative and Overhead Expenses | \$ 595,659 | \$ 773,181 | \$ 787,614 |
| Outsourced Contractors/Consultants | \$ 501,777 | \$ 421,365 | \$ 326,592 |
| Computer and Database Services | \$ 159,118 | \$ 311,288 | \$ 383,592 |
| Annual Financial Audit and Tax Filings | \$ 223,621 | \$ 194,765 | \$ 225,000 |
| Compliance Expenses | \$ 102,893 | \$ 99,751 | \$ 160,000 |
| Industry and Government Relations | \$ 144,904 | \$ 144,855 | \$ 145,000 |
| Field Visits and Program Travel | \$ 53,805 | \$ 58,937 | \$ 74,916 |
| Total Program Administration | \$ 4,252,100 | \$ 5,004,464 | \$ 5,381,791 |
| | | | |
| Legal Costs | \$ 2,392,963 | \$ 1,010,068 | \$ 107,381 |
| | | | |
| CalRecycle Oversight Fees | \$ 770,239 | \$ 683,784 | \$ 685,000 |
| | | | |
| | | | |
| Total Expenses | \$ 49,915,070 | \$ 47,522,524 | \$ 48,055,258 |

2023 Mattress Recycling Council California, LLC Budget

TABLE 12: Proposed 2023 Program Budget

| | 2023 Budget | Expense Allocation |
|---|--------------------|---------------------------|
| REVENUE: | | |
| Recycling Charge Revenue (\$10.50/unit) | \$ 44,627,100 | |
| Late Fee Revenue | \$ 30,000 | |
| Total Revenue | \$ 44,657,100 | |
| | | |
| EXPENSES: | | |
| Operational Costs | | |
| Collection and Container Costs | | |
| Solid Waste Handling Fees | \$ 4,011,659 | |
| Collection Container and Storage Rental | \$ 1,491,624 | |
| Consumer Incentive Payments | \$ 412,344 | |
| Collection Site Signage | \$ 23,175 | |
| Total Collection and Container Costs | \$ 5,938,802 | 12.2% |
| Illegally Dumped Mattress Collection Initiative | \$ 1,298,956 | 2.7% |
| Transportation and Recycling | | |
| Transportation | \$ 9,416,431 | |
| Recycling | \$ 21,217,385 | |
| Total Transportation and Recycling | \$ 30,633,816 | 62.9% |
| Total Operational Costs | \$ 37,871,574 | 77.8% |
| | | |
| Education and Outreach | | |
| Advertising and Consumer Education | \$ 1,927,359 | |
| 3 rd Party PR Agencies | \$ 586,590 | |
| Industry and Stakeholder Outreach | \$ 185,258 | |
| Conferences and Events | \$ 74,950 | |
| Annual Report | \$ 25,750 | |
| Travel | \$ 32,690 | |
| Staff Expenses | \$ 207,536 | |
| Total Education and Outreach | \$ 3,040,133 | 6.2% |
| | | |
| Research and Development | | |
| Research Projects | \$ 808,300 | |
| Collection Facility Improvement Funding | \$ 45,000 | |
| Consulting | \$ 206,640 | |
| Sleep Products Sustainability Program | \$ 157,994 | |
| Staff Expenses | \$ 113,400 | |
| Total Research and Development | \$ 1,331,334 | 2.7% |
| | | |

| | 2023 Budget | Expense Allocation |
|--|--------------------|---------------------------|
| Program Administration | | |
| Staff Expenses | \$ 3,455,815 | |
| Administrative and Overhead Expenses | \$ 821,626 | |
| Outsourced Contractors/Consultants | \$ 332,616 | |
| Computer and Database Services | \$ 437,344 | |
| Annual Financial Audit and Tax Filings | \$ 231,752 | |
| Compliance Expenses (operational and retailer) | \$ 181,660 | |
| Industry and Government Relations | \$ 149,352 | |
| Field Visits and Program Travel | \$ 85,100 | |
| Total Program Administration | \$ 5,695,265 | 11.7% |
| | | |
| Legal Costs | \$ 86,400 | 0.2% |
| | | |
| CalRecycle Oversight Fees | \$ 705,550 | 1.4% |
| | | |
| Total Expenses | \$ 48,730,256 | 100.0% |
| | | |
| Operating Net Assets | \$ (4,073,156) | |
| | | |
| Net Investment Return | \$ 1,347,296 | |
| | | |
| Net Assets | \$ (2,725,860) | |