



June 30, 2023

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 2024 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 2024 Program Budget

June 30, 2023

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 2024 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 2024 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 2023, prior to the submission of the 2024 budget (and the 2022 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 2024 budget, MRC has taken into consideration not only its planned activities for 2024, but also its actual revenue and expense experience for 2022 and the first quarter of 2023 (Q1), as well as projections for the remainder of 2023.

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 2024, MRC anticipates that 3.6 million units will be sold in California, compared to 2023 projected units of 3.5 million. MRC also anticipates that 1.4 million units will be recycled through the program in 2024. These figures represent a 3.0% increase over the projected 2023 levels.

MRC budgets recycling charge revenue of \$38.2 million for 2024, a 3.0% increase over 2023 projections of \$37.1 million. We have budgeted \$35,000 for late fee revenue in 2024 (at the same level projected for 2023).

MRC’s total annual expenses for 2024 are budgeted at \$44.5 million, which is 4.7% more than our projected 2023 total expenses of \$42.5 million. Total expenses include operational expenses of \$34.2 million in 2024, to cover expenses related to collection and containers, the Illegally Dumped Mattress

Collection Initiative, transportation, and recycling. Operational expenses are expected to be 5.7% higher than the 2023 projected operating expenses of \$32.4 million, in part because we expect to recycle 3.0% more units in 2024 compared to 2023 and our operational costs have risen with inflation. The operational expenses represent 76.9% of MRC's total 2024 budgeted expenses.

MRC's 2024 budgeted operational expenses include \$5.2 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 3.8% increase compared to 2023 projections. Almost \$1.1 million has been budgeted in 2024 for MRC's Illegally Dumped Mattress Collection Initiative to compensate participating entities for collecting dumped units and reporting data on illegal mattress dumping, to fund pilot projects for innovative approaches to solving the illegally dumped mattress problem and to educate California residents about how to properly discard their used mattresses.

The 2024 budget for transportation expenses is \$9.3 million, a 3.7% increase from the 2023 projections due to the increase in units transported. The 2024 budget for recycling expenses is \$18.6 million, a 7.7% increase from the 2023 projections, due to both higher rates paid to MRC recyclers and unit volume increases.

MRC has budgeted \$2.8 million in 2024 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 5.0% increase from 2023 projections of \$2.7 million. In 2024, education and outreach expenses represent 6.3% of MRC's total budgeted expenses.

MRC has budgeted \$1.1 million in 2024 to fund an array of research projects. These funds are dedicated to developing new and better end uses for mattress components, process efficiency projects and 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 \$149,000 for the Sleep Products Sustainability Program to help mattress manufacturers reduce waste while increasing operational efficiency, as well as providing support for two circularity focused workgroups.

MRC's 2024 program administration expenses budget of \$5.6 million represents 12.7% of total expenses. Program administration expenses include staff expenses for both in-state operations staff and shared administrative staff, general 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 \$128,000 for legal expenses and \$640,000 to reimburse CalRecycle for program oversight.

Although equity and bond markets were in turmoil in 2022, MRC anticipates that

its conservative investment policy (weighted to over 80% fixed income investments) will produce positive returns (including interest, dividends, realized and unrealized gains) in 2023 and 2024. MRC's investments have performed well in the first and second quarters of 2023, earning \$836,000, bringing the cumulative rate of return since its inception to 7.3%. Based on existing investments and market conditions, MRC anticipates a \$1.8 million net investment return by year-end 2023. Similarly, in preparing our 2024 budget, MRC anticipates we will earn a net return on our investments of approximately \$2.1 million, primarily from our higher yield fixed income investments.¹

MRC intends to fund its 2024 budgeted expenses of \$44.5 million with a combination of \$38.2 million in recycling charge revenue, \$35,000 in late fee revenue, a net investment return of approximately \$2.1 million and \$4.2 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 \$38,189,046 for 2024. We note that MRC also projects a modest late fee revenue in 2024 of \$35,000, although we continue to encourage retailers and other sellers to make timely remittances to avoid these fees.

In preparing the program's 2024 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 2023 industry forecast. Based on the ISPA industry forecast issued in May of 2023, MRC projects that 2023 California unit sales will be 3,531,118, a decrease of 6.0% from 2022 unit sales of 3,756,022. Relying on the same forecast, MRC projects that California unit sales will rebound slightly in 2024 to 3,637,052 units, a 3.0% increase over 2023. MRC's budgeted 2024 recycling charge revenue of \$38,189,046 is calculated by multiplying the 2024 budgeted units of 3,637,052 by the \$10.50 per unit charge.

¹ We note that GAAP requires interest, dividends, and 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: 2024 Budgeted Program Revenue

Category	Amount
Recycling Charge Revenue	\$38,189,046
Late Fee Revenue	\$35,000
Total Revenue	\$38,224,046

Costs

MRC has budgeted \$44,491,141 in 2024 program costs, classified as follows:

- Operational Costs
 - Collection and container
 - Illegally Dumped Mattress Collection Initiative
 - Transportation and recycling
- Education and outreach
- Research
- Administration costs
 - Program administration
 - Legal
 - CalRecycle oversight

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

Operational Costs

Operational costs, including collection and container, Illegally Dumped Mattress Collection Initiative, transportation, and recycling, represent 76.9% of MRC’s total expenses in 2024, consistent with the level of spend projected for 2023.

Collection and Container

This cost category, totaling \$5,176,925, covers the following activities:

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

MRC’s 2024 budget includes \$3,218,226 in solid waste handling fees, a 6.7% increase over 2023. Currently, MRC has agreements with 225 permanent collection sites in California that are compensated 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 2024 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, the costs of which are also included in this category.

MRC contracts with a significant number of solid waste facilities throughout the

state, actively works to expand the collection network and anticipates that we will contract with additional collection sites in 2024. However, our ability to contract with certain Solid Waste Facilities (SWFs) is constrained for various reasons, including the lack of internal resources at the SWF to review and complete the contracting process and logistical constraints at the SWF facility.

MRC's 2024 budget also includes collection container and storage rental expenses of \$1,620,000, a 1.3% decrease from 2023 projections. The decrease is due primarily to MRC actively managing the supply chain, negotiating better rental fees and coordinating live load pick-ups to avoid paying storage fees.

MRC set the per unit consumer incentive payment 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 2024, MRC has budgeted \$315,756 for CIP costs for 105,252 units at the \$3 per unit incentive. MRC anticipates that units collected from consumers who are paid the incentive will account for 7.6% of program units in 2024, which is consistent with the previous two years.

Finally, MRC has budgeted \$22,943 for 2024 to provide appropriate signage and written guidelines for collection sites, including replacement signage needed due to damage and wear.

Illegally Dumped Mattress Collection Initiative

MRC compensates local municipalities and other entities 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 providing data is in an urban (\$15 per unit) or rural county (\$20 per unit). The 2024 budget anticipates participants will collect approximately 63,395 illegally dumped units, a 3.0% increase over the 2023 projection of 61,578 units. We anticipate this slight increase to correspond with additional mattress sales. The 2024 budget will continue to fund targeted advertising and outreach efforts to educate state residents about the environmental impact of illegally dumped mattresses and how to dispose of a discarded mattress properly, as well as related administrative costs.

MRC has allocated \$164,671 in 2023 to fund two pilot studies to explore methods to prevent the illegal dumping of mattresses. The 2024 budget includes \$100,000 for similar projects. All proposed pilot projects are in communities harmed by illegal mattress dumping. The scope of these projects may include improving 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 2024 budgeted Collection Costs are as follows in Table 2:

TABLE 2: 2024 Budgeted Collection Costs

Category	Amount
Collection and Container Costs	
Solid Waste Handling Fees	\$3,218,226
Collection Container and Storage Rental Expenses	\$1,620,000
Consumer Incentive Payments	\$315,756
Collection Site Signage	\$22,943
Total Collection and Container Costs	\$5,176,925
Illegally Dumped Mattress Collection Initiative	
Initiative Entity Compensation	\$966,775
Marketing/Advertising/Events	\$6,550
Consulting Services	\$7,220
Pilot Studies	\$100,000
Staff Expenses	\$12,759
Total Illegally Dumped Mattress Collection Initiative	\$1,093,304
Total Collection Costs	\$6,270,229

Transportation and Recycling

Both transportation and recycling costs are directly related to the number of units collected. MRC projects that 1,378,156 units (a 3.0% increase over 2023 projections) will be collected for recycling through the program in 2024. Of these units, approximately 92% (1,269,754) will be transported by an MRC transportation contractor; the remaining 8% are expected to be self-hauled (by individuals or retailers).

To avoid having pocketed coils go to landfill, MRC assists recyclers who lack the ability to remove the steel coils from the fabric pockets for recycling. Although pocketed coils contain recyclable steel, most scrap steel purchasers require that the steel be separated from the pocket fabric, but most mattress recyclers lack the ability to do this. MRC transports this material from recyclers who lack the ability to remove the steel coils from the fabric pockets to a processor that can perform this separation. One of our recyclers has begun processing their own pocketed coils. It is too early to determine if additional recyclers will begin doing the same or to what extent these developments will ultimately affect MRC’s cost. As a result, our 2024 budget for transportation and recycling conservatively reflects pocketed coil costs based on 2023 projections.

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.

Transportation costs are affected by the number of units per trailer, the distance the transporter travels to the recycling facility and the cost of fuel. For 2023, MRC projects transportation costs at an average rate of \$6.25 per unit for the over 1.2 million transported units, plus over \$1.2 million in pocketed coil transportation, for a total of \$8,965,901. The 2024 MRC budget includes a 3.0% increase in transported units at an average per unit rate of \$6.33, plus a similar amount budgeted for pocketed coil transportation. The total of \$9,301,611 in transportation costs is a 3.7% increase over 2023. MRC continues to focus on supply chain efficiency improvements in both whole unit and pocketed coil transportation, including maximizing the trailer loads and minimizing the distance traveled, which helps reduce transportation cost increases.

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 2024 recycling budget takes into account the 3.0% 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 2023, MRC projects a total of \$17,280,240 in recycling expenses, including approximately \$770,000 to recycle pocketed coils. The MRC 2024 recycling budget of \$18,615,692 includes a similar cost 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 2024 budgeted total operational costs (Collection and Containers, Illegally Dumped Mattress Collection Initiative, Transportation and Recycling) are as follows:

TABLE 3: 2024 Budgeted Total Operational Costs

Category	Amount
Collection and Container Costs	\$5,176,925
Illegally Dumped Mattress Collection Initiative	\$1,093,304
Transportation	\$9,301,611
Recycling	\$18,615,692
Total Operational Costs	\$34,187,532

Education and Outreach

MRC budgeted education and outreach expenses for 2024 of \$2,804,273, a 5.0% increase from 2023 projections of \$2,671,754. In 2024, approximately 6.3% 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 and mattress recycling are 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 2024, MRC plans to continue this multichannel strategy. Consumer outreach will continue to include multicultural outreach. 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 sends regular communications to all registrants prompting them to file their reports and remit payments on time.

The 2024 budget also includes funds for MRC to monitor and evaluate the effectiveness of its advertising and outreach efforts. This information guides MRC’s decisions on future advertising and marketing efforts so that it can be as cost effective as possible while meeting its communication targets.

Details of the 2024 Education and Outreach budget are as follows:

TABLE 4: 2024 Budgeted Education and Outreach Costs

Category	Amount
Advertising and Consumer Education	\$1,594,455
3 rd Party PR Agencies	\$622,012
Industry and Stakeholder Outreach	\$213,568
Conferences and Events	\$33,616
Annual Report	\$33,282
Sub-Total	\$2,496,933
Travel	\$31,662
Staff Expenses	\$275,678
Total Education and Outreach	\$2,804,273

Research

MRC seeks to enhance the sustainability of California’s mattress recycling program by improving the efficiency and effectiveness of the mattress collection network, promoting best practices in mattress recycling and identifying and developing new and better end uses for recycled materials. MRC has budgeted 2.4% of its expenses for these activities.

Research Activities

MRC has budgeted \$730,690 in 2024, compared to a projected \$749,900 in 2023. MRC’s 2022 annual report describes progress and future research projects and areas of interest. The budget also funds small projects at collection sites that will advance program goals by increasing diversion of units from landfills and improve the recyclability of discarded units. In addition, to support its research objectives, MRC continues to participate in events and meetings with similar organizations in other countries to investigate and explore best practices and research into new markets for mattress commodities.

Sleep Products Sustainability Program

MRC’s Sleep Products Sustainability Program (SP2) is designed to help individual mattress manufacturers reduce their generation of material waste and consumption of 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 encourage collaboration among mattress component suppliers, product designers and mattress manufacturers to develop products that support recycling. With this in mind, MRC created the Industry Workgroup on

New Materials to identify any new materials or technologies recently introduced to the market that may pose end-of-life challenges and the Industry Workgroup on Circular Design which will focus on how mattress component suppliers and mattress designers can develop products that support recycling. The 2024 budget includes expenses related to these workgroups meeting both virtually and in-person.

The 2024 SP2 budget of \$149,448 supports these endeavors, including management oversight, funds to publicize the program, training for manufacturers and verifying participants for certification and recertification.

Details of the 2024 Research budget are as follows:

TABLE 5: 2024 Budgeted Research Costs

Category	Amount
Research Activities	\$500,000
Mattress Collection Facility Improvement Funding	\$45,000
Consulting	\$185,690
Sleep Products Sustainability Program	\$149,448
Subtotal Research	\$880,138
Staff Expenses	\$201,820
Total Research	\$1,081,958

Program Administration, Legal and CalRecycle Oversight

Budgeted Administration costs for 2024, including program administration, legal, and CalRecycle oversight, is \$6,417,378.

Program Administration

In 2024, MRC is budgeting \$5,648,770 (a similar level as 2023) in program administration costs, representing 12.7% of the total expenses. Of this amount, \$3,583,219 (a 9.1% increase from 2023 projections) anticipates 26 FTE (full time equivalent) staff that perform administrative and operational program oversight, including 10 FTE’s in California. This represents 86.5% of MRC’s total staff expense of \$4,141,218. An additional 4 FTEs (bringing the total to 30 FTEs) are 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 \$653,522 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 \$385,593 in 2024 for this expense category. Program administration expenses include \$373,498 in computer and database expenses for the organization’s finance and CRM systems

used to manage program registrants, recycling data and financials. Since 2022, MRC has analyzed its CRM systems used for administration and operational support. Based on that analysis, MRC is expanding its CRM system to improve efficiency and data collection.

Program administrative expenses also include \$280,080 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 also expects to incur \$30,900 in recycler compliance audit expenses and \$50,820 to conduct retailer payment reviews. The combined compliance costs for operational audits and participant reviews for 2024 is 7.2% more than the 2023 projections.

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 \$150,000 for these activities.

In addition, 2024 budgeted travel expenses of \$141,138 are expected to be 3.0% above 2023 projections as travel and events return to pre-pandemic levels.

Legal

Legal costs for 2024, budgeted at \$128,360, cover in-house counsel, as well as fees for outside counsel that negotiate MRC contracts, address contract compliance issues and advise MRC regarding corporate matters. This is 22.9% below 2023 projections of \$166,468.

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 May 1, 2023, MRC anticipates the total cost for 2023 to be \$621,600. The 2024 budget of \$640,248 is based on similar levels of activity in the last 18 months, adjusted for inflation. This represents 1.4% of the budgeted expenses.

Details of the 2024 Program Administration, Legal and CalRecycle Oversight budget are as follows:

TABLE 6: 2024 Budgeted Administration Costs

Category	Amount
Staff Expenses	\$3,583,219
Administrative and Overhead Expenses	\$653,522
Outsourced Contractors/Consultants	\$385,593
Computer and Database Expenses	\$373,498
Annual Financial Audit and Tax Filings	\$280,080
Compliance Expenses (operational and retailer)	\$81,720
Industry and Government Relations	\$150,000
Field Visits and Program Travel	\$141,138
Total Administration	\$5,648,770
Legal	\$128,360
CalRecycle Oversight	\$640,248
Total Program Administration, Legal and CalRecycle Oversight Costs	\$6,417,378

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 2024 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 Reserve) that allow MRC to be prepared in case its operational expenses increase or planned revenues decrease as a result of external factors. The COVID-19 pandemic, significant increases in fuel and labor costs and inflationary factors adversely affecting sales are recent examples of situations beyond MRC’s control that affect 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.

MRC maintains approximately three months of operating cash as working capital, as well as a Board designated financial reserve. MRC’s network of recyclers and transporters relies on the stability of MRC’s funding 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 relies on Board designated financial reserve to address the various financial risks it may encounter.

As Table 7 below shows, MRC’s 2024 budget assumes a net loss of \$6,267,095 (change in Net Operating Assets). Factoring in a budgeted Net Investment Return of \$2,100,000 (approximately 6%), the change to Net Assets is a decrease of \$4,167,095. Therefore, MRC anticipates that \$4,167,095 from reserves will be necessary to supplement the recycling charge revenue to fund its 2024 budgeted expenses.

MRC’s Change in Net Operating Assets and Change in Net Assets projected for 2023, 2024 and 2025 are as follows in Table 7:

TABLE 7: 2023 thru 2025 Net Operating Assets and Change in Net Assets

Category	2023 Projections	2024 Proposed Budget	2025 Forecast
Total Revenue	\$37,111,968	\$38,224,046	\$38,987,827
Total Program Costs	\$42,487,152	\$44,491,141	\$46,101,393
Change in Net Operating Assets	(\$5,375,184)	(\$6,267,095)	(\$7,113,566)
Net Investment Return	\$1,800,000	\$2,100,000	\$1,500,000
Change in Net Assets	(\$3,575,184)	(\$4,167,095)	(\$5,613,566)
Net Assets at the Beginning of the Year	\$37,406,137	\$33,830,953	\$29,663,858
Net Assets at the End of the Year	\$33,830,953	\$29,663,858	\$24,050,292

Based on the objectives discussed previously regarding MRC's budgeted costs and reserve needs, MRC has budgeted recycling charge revenue of \$38,189,046 (total revenue of \$38,224,046, including \$35,000 in late fee revenue) in 2024 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 2024 proposed budget brings the Board designated financial reserve to 41.7% of annual operating expenses. Net assets include both a 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 2025 also indicates that expenses are again expected to exceed revenue, requiring the reserve to fill the gap.

The Board designated financial reserve as a percent of annual operating expenses (Total Program Costs) for 2022 Actuals through the Forecast for 2025 are as follows:

TABLE 8: Total Reserves

	2022 Actuals	2023 Projections	2024 Proposed Budget	2025 Forecast
Net Assets as of Year End	\$37,406,137	\$33,830,953	\$29,663,858	\$24,050,292
Undesignated Net Assets ²	\$10,948,823	\$10,621,788	\$11,122,785	\$11,525,348
Board Designated Financial Reserve	\$26,457,314	\$23,209,165	\$18,541,073	\$12,524,944
Board Designated Financial Reserve as a % of Annual Operating Expenses	60.4%	54.6%	41.7%	27.2%

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 2023 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.

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

² Undesignated Net Assets, or working capital, is equal to 25% of annual operating expenses (total program costs).

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 2024 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 2024 budgeted expenses are as follows in Table 9:

TABLE 9: Itemized Costs of 2024 Proposed Budget

Cost Category	Percent of Each Cost Category
Collection and Container Costs	11.6%
Illegally Dumped Mattress Collection Initiative	2.5%
Transportation and Recycling	62.8%
Education and Outreach	6.3%
Research	2.4%
Program Administration	12.7%
Legal	0.3%
CalRecycle Oversight	1.4%
Total	100.0%

Amount of the 2024 Charge

The 2024 MRC budget takes into account 2022 actuals and 2023 projections, based on data gathered since MRC submitted the 2023 budget for approval in July of 2022. Based on this information, MRC budgets 2024 total revenue of \$38,224,046 (recycling charge revenue of \$38,189,046 and late fee revenue of \$35,000) and expenses of \$44,491,141. The MRC budget anticipates that the recycling charge will be collected on 3,637,052 units sold to California consumers, an increase of 105,934 units from 2023, and that the number of units processed through the program will increase by 39,513 units to 1,378,156.

Table 10 demonstrates that a charge of \$10.50 will be sufficient to cover MRC’s 2024 budgeted expenses of \$44,491,141, after funding the net deficit with the additional revenue from collected late fees, the anticipated net investment return and a portion of the reserves.

TABLE 10: Recycling Charge

A. Budgeted 2024 Expenses	\$ 44,491,141
B. Budgeted 2024 Revenue	\$ 38,224,046
C. Net Deficit (Funded by Net Investment Return and Reserves)	(\$6,267,095)
D. Adjust for Additional Revenue from Late Fees	\$35,000
E. Adjust for Net Investment Return	\$2,100,000
F. Amount Drawn from Reserve	\$4,167,095
G. Net Expenses Funded by Charge (G = A - D - E - F)	\$ 38,189,046
H. Projected Unit Sales	3,637,052
I. Per Unit Charge (I = G/H)	\$10.50

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

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

The MRC Budget is submitted by:

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

See Part 1 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: 2021 and 2022 Actual Expenses and 2023 Projections

EXPENSES:	2021 Actuals	2022 Actuals	2023 Projections
Operational Costs			
Collection and Container Costs			
Solid Waste Handling Fees	\$ 3,676,255	\$ 3,376,209	\$ 3,015,318
Collection Container and Storage	\$ 1,660,855	\$ 1,594,769	\$ 1,641,962
Consumer Incentive Payments	\$ 359,781	\$ 298,836	\$ 306,559
Collection Site Signage	\$ 5,049	\$ 25,345	\$ 21,435
Total Collection and Container Costs	\$ 5,701,940	\$ 5,295,159	\$ 4,985,274
Illegally Dumped Mattress Collection Initiative	\$ 1,281,784	\$ 1,026,507	\$ 1,123,333
Transportation and Recycling			
Transportation	\$ 10,118,840	\$ 9,418,346	\$ 8,965,901
Recycling	\$ 19,957,037	\$ 18,056,285	\$ 17,280,240
Total Transportation and Recycling	\$ 30,075,877	\$ 27,474,631	\$ 26,246,141
Total Operational Costs	\$ 37,059,601	\$ 33,796,297	\$ 32,354,748
Education and Outreach			
Advertising and Consumer Education	\$ 1,818,724	\$ 1,712,860	\$ 1,489,293
3rd Party PR Agencies	\$ 589,234	\$ 589,874	\$ 603,035
Industry and Stakeholder Outreach	\$ 118,255	\$ 215,297	\$ 207,282
Conferences and Events	\$ 36,604	\$ 54,073	\$ 37,546
Annual Report	\$ 34,789	\$ 23,240	\$ 32,250
Travel	\$ 4,318	\$ 32,745	\$ 30,680
Staff Expenses	\$ 194,591	\$ 252,611	\$ 271,668
Total Education and Outreach	\$ 2,796,515	\$ 2,880,700	\$ 2,671,754
Research			
Research Activities	\$ 457,015	\$ 447,606	\$ 500,000
Collection Facility Improvement Funding	\$ 38,589	\$ 76,587	\$ 72,000
Consulting	\$ 219,874	\$ 192,189	\$ 177,900
Sleep Products Sustainability Program	\$ 104,848	\$ 111,453	\$ 130,649
Staff Expenses	\$ 147,766	\$ 184,933	\$ 198,883
Total Research	\$ 968,092	\$ 1,012,768	\$ 1,079,432

EXPENSES:	2021 Actuals	2022 Actuals	2023 Projections
Program Administration			
Staff Expenses	\$ 3,000,322	\$ 3,052,594	\$ 3,282,864
Administrative and Overhead Expenses	\$ 773,181	\$ 686,525	\$ 699,491
Outsourced Contractors/Consultants	\$ 421,365	\$ 485,559	\$ 451,097
Computer and Database Services	\$ 311,288	\$ 395,147	\$ 511,498
Annual Financial Audit and Tax Filings	\$ 194,765	\$ 290,089	\$ 290,000
Compliance Expenses	\$ 99,751	\$ 67,467	\$ 76,200
Industry and Government Relations	\$ 144,855	\$ 144,797	\$ 145,000
Field Visits and Program Travel	\$ 58,937	\$ 162,047	\$ 137,000
Total Program Administration	\$ 5,004,464	\$ 5,284,225	\$ 5,593,150
Legal Costs	\$ 1,010,068	\$ 181,730	\$ 166,468
CalRecycle Oversight Fees	\$ 677,962	\$ 639,572	\$ 621,600
Total Expenses	\$ 47,516,702	\$ 43,795,292	\$ 42,487,152

2024 Mattress Recycling Council California, LLC Budget

TABLE 12: Proposed 2024 Program Budget

	2024 Budget	Expense Allocation
REVENUE:		
Recycling Charge Revenue (\$10.50/unit)	\$ 38,189,046	
Late Fee Revenue	\$ 35,000	
Total Revenue	\$ 38,224,046	
EXPENSES:		
Operational Costs		
Collection and Container Costs		
Solid Waste Handling Fees	\$ 3,218,226	
Collection Container and Storage Rental	\$ 1,620,000	
Consumer Incentive Payments	\$ 315,756	
Collection Site Signage	\$ 22,943	
Total Collection and Container Costs	\$ 5,176,925	11.6%
Illegally Dumped Mattress Collection Initiative	\$ 1,093,304	2.5%
Transportation and Recycling		
Transportation	\$ 9,301,611	
Recycling	\$ 18,615,692	
Total Transportation and Recycling	\$ 27,917,303	62.8%
Total Operational Costs	\$ 34,187,532	76.9%
Education and Outreach		
Advertising and Consumer Education	\$ 1,594,455	
3 rd Party PR Agencies	\$ 622,012	
Industry and Stakeholder Outreach	\$ 213,568	
Conferences and Events	\$ 33,616	
Annual Report	\$ 33,282	
Travel	\$ 31,662	
Staff Expenses	\$ 275,678	
Total Education and Outreach	\$ 2,804,273	6.3%
Research		
Research Activities	\$ 500,000	
Collection Facility Improvement Funding	\$ 45,000	
Consulting	\$ 185,690	
Sleep Products Sustainability Program	\$ 149,448	
Staff Expenses	\$ 201,820	
Total Research	\$ 1,081,958	2.4%

	2024 Budget	Expense Allocation
Program Administration		
Staff Expenses	\$ 3,583,219	
Administrative and Overhead Expenses	\$ 653,522	
Outsourced Contractors/Consultants	\$ 385,593	
Computer and Database Services	\$ 373,498	
Annual Financial Audit and Tax Filings	\$ 280,080	
Compliance Expenses	\$ 81,720	
Industry and Government Relations	\$ 150,000	
Field Visits and Program Travel	\$ 141,138	
Total Program Administration	\$ 5,648,770	12.7%
Legal Costs	\$ 128,360	0.3%
CalRecycle Oversight Fees	\$ 640,248	1.4%
Total Expenses	\$ 44,491,141	100.0%
Operating Net Assets	\$ (6,267,095)	
Net Investment Return	\$ 2,100,000	
Net Assets	\$ (4,167,095)	