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Used Mattress Recovery and Recycling Program Regulations

Thank you for submitting a standardized regulatory impact assessment and other related documents for the proposed Used Mattress Recovery and Recycling Program Regulations. While we agree that the impacts would not meet the major regulations threshold, we appreciate your efforts in providing information to help the public and stakeholders understand the tradeoffs that were made in the regulatory design.

Based on Finance's understanding, the proposed regulations would detail specific requirements and administrative procedures for the implementation of the Used Mattress Recovery and Recycling Act set out in the Public Resources Code, including the regulation of a "mattress recycling organization" (MRO). The MRO would choose how to implement their own recycling programs in compliance with the law, and a consumer fee that will pay for certain relevant recycling costs incurred by MRO, as well as those incurred by CalRecycle in the implementation of this program. The MRO is to develop and implement plans for recycling mattresses, including the provision of used mattress drop-off points for consumers at no charge. CalRecycle considered two possible scenarios to model the effects of these recycling programs: one at a 20 percent recycle rate and one at an "upper-edge" 50 percent recycle rate. Based on disposal fees of around \$9 per mattress, CalRecycle estimated that there would be \$2.4 to \$3.8 million diverted revenue from landfills to recyclers in 2016, which would increase to \$7.7 to \$19.3 million in 2024.

Generally, Finance agrees with CalRecycle's conclusions that landfills will lose revenue, mattress recyclers will increase output, and consumers will not be affected very much if the MRO is able to recycle on the scale assumed without fee increases. However, the analysis could be strengthened with additional clarification on several points as follows.

First, the report should outline the expected method of operation for the MRO. This should include CalRecycle's estimate of the timing of the formation of the MRO and their general structure, including how they will interact with consumers and what service level they will provide. This is crucial for understanding how the mattress recycling industry will scale up from the current 5 percent of mattresses to 20-50 percent of mattresses, and for understanding why the market had not already implemented mattress recycling programs. If fees paid by consumers do not increase, it is unclear why the MRO would now undertake this new activity, since there are existing recyclers who could expand if it were profitable. Without sufficient incentives to consumers and producers, the projected benefits may not materialize. It would also benefit the public's understanding of how the regulation fits in with other recycling initiatives to report the avoided volume in landfill dumping. This would allow the reader to understand how much the mattress recycling program contributes to the 75 percent reduction in landfill waste by 2020.

Consumers currently pay the disposal fees and will continue to do so—either directly or indirectly—under the proposed regulations. Therefore, the proposed regulations would result in no impact on consumers unless fees increase. The report notes that two direct impacts of the regulation are infrastructure costs and labor costs for recyclers, which are omitted from the REMI model. Including these costs would necessitate higher fees for consumers. If fees increase above the current disposal fees due to the operation of the MRO, that would have to be modeled separately as an impact on consumers, and the benefits of the regulation may be overstated.

Beneficiaries of the disposal fees would switch from landfills to mattress recyclers under the proposed regulations. Because both sectors reside in the same sector in the model that CalRecycle has used for the analysis, there should be no impact of the disposal fees on this sector, although there may be an increase in labor intensity from breaking down mattresses rather than dumping. It is also unclear whether the negative impacts to landfills are taken into account with respect to jobs and output. The overall output impacts may thus be overstated. Additional distributional impacts include how the MRO would implement a plan to bring used mattresses to recyclers to avoid illegal dumping when there is no new mattress purchase involved—the efficacy of these mechanisms would affect the recycling rate, and thus the economic impacts.

The report could usefully expand the discussion on the fiscal impact to state and local government of the proposed regulations, which may extend beyond the required CalRecycle staffing costs for oversight, education, and outreach. CalRecycle should identify the impact of the regulations on other governments or agencies, such as the impact on correctional facilities, or the avoided clean-up costs of illegal dumping for local governments. Furthermore, it is incorrect to assign increases in staffing costs to the REMI variable for increases in final demand for the office administrative services industry. Rather, the additional staff represents an increase in state employment that is to be paid for by the fees assessed.

These comments are intended to provide sufficient guidance outlining revisions needed in this analysis and for future analysis. If any significant changes to the proposal result in revisions to the economic impacts in the report, CalRecycle is reminded that the revised economic impacts must be reflected on the Standard Form 399 for the rulemaking file submittal to the Office of Administrative Law. A copy of our comments will be posted on Finance's website as well. Please let us know if you have any questions regarding our comments.

Sincerely,



Irena Asmundson
Chief Economist

cc: Ms. Panorea Avdis, Governor's Office of Business and Economic Development
Ms. Debra Cornez, Office of Administrative Law
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