



Staff Reports

File #: 1766-2019, **Version:** 1

To: Honorable Mayor and Members of City Council

From: Phil Brun, Utilities Director

Prepared By: Kevin Miller, Materials Diversion Administrator

TITLE:

Solid Waste and Recycling Collection Rates

RECOMMENDED ACTION:

Authorize the Utilities Director, or his designee, to issue a notice of public hearing to all rate payers and property owners of record regarding proposed solid waste and recycling collection rates to become effective August 1, 2019, January 1, 2020, January 1, 2021 and January 1, 2022.

DISCUSSION:

BACKGROUND

The City's Solid Waste and Materials Diversion Enterprise Fund (Solid Waste Fund) operates an enterprise with an annual budget of approximately \$33.5 million (based on City's FY2019/20 proposed budget) to provide solid waste/recycling collection, operate the City's Materials Diversion Facility (MDF), and manage state mandated diversion requirements and programs. Most services are provided through a contract with Napa Recycling and Waste Services, LLC (NRWS). Collection rates have historically been set annually based on contractual obligations, increased operating and other expenses and revenue projections. The current rates were approved by City Council on March 17, 2015, became effective January 1, 2016, and have not been adjusted in the intervening three and half year period.

Solid waste and recycling collection is an essential service provided by the City. Collection rates are established to recover the cost of providing the service to the customer. The Materials Diversion Division within the Utilities Department manages the expenditures and revenues such that a high level of service is delivered at the most reasonable cost to customers. Costs typically increase each year based on inflation, contractual obligations, and maintenance requirements of the MDF. While revenues from collection rates are fairly stable each year, revenue from the sale of recyclable materials (17-21% of total Fund revenue) is highly variable and is based on the global commodity market.

PROPOSED RATE ADJUSTMENTS

Staff has carefully reviewed projected revenues and expenses, programmatic impacts, debt service requirements and contractual obligations to establish a base adjustment to collection service rates

necessary to cover the needs of the enterprise, including prudent replenishment of reserves in the Solid Waste Fund. The detailed “Solid Waste & Recycling Collection Service Rate Study for 2019-2022” (“rate study”) underlying this base rate recommendation is contained in Attachment 1 to this report. The details of all proposed rates are also identified in Attachment 1. The proposed monthly rates for residential services are presented in table below:

PROPOSED MONTHLY RESIDENTIAL RATES FOR THE NEXT FOUR RATE YEARS

Monthly residential rates include weekly collection of solid waste (trash) and recyclable materials as well as compostable greenwaste, soiled paper, and food scraps.

Cart Size	Current Rate Adopted Jan 1, 2016	Proposed Rate Effective Aug 1, 2019	Change	Proposed Rate Effective Jan 1, 2020	Change	Proposed Rate Effective Jan 1, 2021	Change	Proposed Rate Effective Jan 1, 2022	Change	Cumulative Change
20 gallon	\$21.65	\$24.25	\$2.60	\$26.68	\$2.43	\$28.81	\$2.13	\$30.54	\$1.73	\$8.89
35 gallon	\$27.14	\$30.40	\$3.26	\$33.44	\$3.04	\$36.12	\$2.67	\$38.29	\$2.17	\$11.15
65 gallon	\$41.63	\$46.63	\$5.00	\$51.29	\$4.66	\$55.39	\$4.10	\$58.71	\$3.32	\$17.08
95 gallon	\$64.03	\$71.71	\$7.68	\$78.88	\$7.17	\$85.20	\$6.32	\$90.31	\$5.11	\$26.28

Staff has prepared a draft Proposition 218 notice based on the proposed rates and is prepared to mail it to all property owners and rate payers by June 8, 2019, in order to meet the 45-day public review period required by Proposition 218 and return to the Council on July 23, 2019, for a public hearing to adopt rates. The proposed notice is shown in Attachment 2.

PRIMARY DRIVERS OF PROPOSED RATES

As noted above, solid waste and recycling collection service rates were last increased in January 2016. Since that last rate adjustment, many significant changes have occurred and solid waste and recycling collection service rates (“solid waste rates”) need to be adjusted to address those changes in the Solid Waste and Materials Diversion Enterprise Fund (“Solid Waste Fund”). While there are many changes to such a large Fund, the three primary drivers for the proposed solid waste rates are as follows:

1. **NRWS Contract Extension**: The 2018 Contract Amendment with Napa Recycling & Waste Services, LLC (“NRWS”) was approved by the Napa City Council in April of 2018. The contract amendment extended the City’s agreement with NRWS for 14 years (through end of calendar year 2031). This contract extension continues the City’s effort to achieve (or exceed) a 75% level of diversion from landfill disposal pursuant to both adopted City policy and State of California goals. Key cost drivers include: (1) replacement and/or refurbishment of heavy refuse and recycling collection fleet of (28 trucks); (2) new and/or upgraded collection equipment; (3) annual escalation of labor and non-labor operating costs each year with first five years fixed and agreed-upon inflation escalators thereafter; (4) new and/or upgraded sorting and processing equipment at the City-owned Materials Diversion Facility (“MDF”) and (5) enhanced processing payment to NRWS for tonnage received at the MDF over and above established thresholds. The total annual impact is projected at \$2.1 million per year. The impact of the 2018 Contract Amendment is described in more detail in section 3.1 of the attached rate study (Attachment 1).

2. **Significant Decline in Materials Sales Revenue:** Rapid and significant decline in global markets for certain recyclable materials began in late 2016 and has accelerated since that time. The rate-impacting material sales revenue received has decreased from an average of \$98 per ton (time of last solid waste rate setting process in 2014) to \$54 per ton (July-December 2018). These depressed market conditions appear to be the “new normal” and are projected to represent a \$1.2 million to \$1.4 million loss in material sales revenue for the foreseeable future. The impact of the recurring loss in materials sales revenue is described in more detail in section 3.2 of the attached rate study (Attachment 1).

3. **Major Capital and System Improvements:** In September of 2016, the City of Napa issued \$12.5 million in solid waste revenue bonds (“SWRB”) for several major capital and system improvements at the City’s MDF. Approximately \$8 million of the SWRB proceeds are being invested in a Covered Aerated Static Pile (“CASP”) system to process compostable organic materials at the MDF. The CASP system is necessary in order to process a wide range of compostable materials including food scraps, grape pumace, soiled paper and manure (along with traditional yard trimmings) to be in compliance with permit conditions imposed on the MDF (particularly solid waste facility, air district emission and stormwater management). Beyond the CASP system, approximately \$2 million of the SWRB revenue is dedicated towards a greatly improved stormwater management and treatment system at the MDF to meet the General Compost Order from the Regional Water Quality Control Board. The remainder of the SWRB proceeds has funded necessary roof extensions, additional concrete pad and loading dock improvements for storage and processing of recyclable materials at the MDF. The annual debt service for the 2016 SWRB is slightly under \$900,000 per year. The impact of the 2016 SWRB issuance is described in more detail in section 3.3 of the attached rate study (Attachment 1).

ADDITION OF RESIDENTIAL LOW/FIXED INCOME ASSISTANCE PROGRAM

City of Napa water rates began a low-income assistance program called “RateShare” in 2012. While the City’s solid waste/recycling rates have always considered the residential 20-gallon size as the “lifeline” option (and this might be true for seniors on a fixed income for example), it is not a truly equitable way to address larger low-income households that would presumably generate larger amount of non-recyclable, non-compostable Municipal Solid Waste (MSW). Given this inequity, City staff is recommending that a new low/fixed income assistance program modeled on Water’s RateShare program be implemented. In short, the low-income assistance program for solid waste would use qualification criteria based on the established Pacific Gas & Electric (PG&E) California Alternate Rates for Energy (CARE) program. It is staff’s understanding that approximately 3,600 residential households in the City of Napa currently qualify for PG&E’s CARE program and that approximately 900 of these households currently utilize Water’s RateShare program.

In accordance with Proposition 218, a water or solid waste customer is to pay only for the cost of service provided to that customer. Thus, to maintain Prop 218 compliance an assistance program can only be funded by a non-rate based source, to prohibit one rate paying customer from subsidizing another customer. Materials sales revenue is proposed to be used as the source of revenue for this new low-income assistance program at a level of \$150,000 per year. Like Water’s RateShare program, the low-income assistance program for solid waste would use eligible CARE households within the City on a first-come, first-serve basis. Staff is proposing a flat \$10 per month

(\$120 per year) level of assistance to participating residential households. This would allow up to 1,250 solid waste customers to participate in the low-income assistance program

SPECIAL ADJUSTMENT FOR COMMERCIAL MUNICIPAL SOLID WASTE (MSW) CART RATES

In the course of developing commercial food scrap collection rates in 2014/2015, it was confirmed that the City's rates for commercial solid waste cart service were understated by approximately 25% compared to the rate for the comparable cost per cubic yard of solid waste bin service. This discrepancy presented a problem for implementing the commercial food scrap collection program because the program must contain an economic incentive for restaurants/food generating businesses to put in the time and focus required to participate. Staff recommended that the City Council adopt a 5-year phased plan to increase the rate for commercial solid waste cart service by 5% per year, in order to bring the commercial cart rate into alignment with the rates for bin service. Rates adopted for 2015 and 2016 addressed the first two years of the 5-rate year phase in plan. To complete the five-year phase in plan, all proposed rates with the exception of 2022 will include this special adjustment in addition to the proposed base adjustment for all rates.

For example, for rates effective August 1, 2019, the special adjustment for a commercial business with a 95-gallon solid waste cart emptied one time per week, would be 5% of the current rate of \$89.40 per month, which equals \$4.47 per month. This amount would then be added to the proposed base adjustment for this rate category. Full details of all proposed rates with this special adjustment included are shown in Attachment 1. Under the 5-year phase in plan, the fourth implementation year will be for rates effective January 1, 2020 and the final (fifth) year will be applied for MSW commercial cart rates effective January 1, 2021. There would be no additional special adjustment of MSW cart for solid waste rates effective January 1, 2022.

STAFF'S RECOMMENDATION

Staff recommends the issuance of a public notice that includes the proposed rates as shown in Attachment 1 to cover the base contractual and programmatic obligations of the Solid Waste Fund. While the proposed rates would use some reserve funds in the initial years, they will also replenishment reserves in later years to arrive at approximately the same dollar level of projected total solid waste reserves by the end of City FY2021/22 (\$7,268,206) as the Solid Waste Fund had in total reserves at the end of City FY2017/18 (\$7,215,579).

Council is not setting collection rates at this time with the recommended action. Council is only authorizing the mailing of a public notice regarding the proposed rates (please see Attachment 2 for draft notice). A public hearing will be held on July 23, 2019 to officially set the rates to be effective August 1, 2019, January 1, 2020, January 1, 2021 and January 1, 2022.

FINANCIAL IMPACTS:

The proposed rates will not generate revenues in excess of funds required to provide the services listed and reflect the cost of providing these services. The proposed collection service rates are projected to generate \$3,449,600 in additional collection service revenue for FY2019/20 as compared to FY2018/19, \$2,063,488 in additional revenue for FY2020/21 as compared to FY2019/20, and \$1,748,257 in additional revenue for FY2021/22 as compared to FY2020/21.

Total Solid Waste Fund reserves were \$7,215,579 at the end of FY2017/18 (\$5,047,644 in operating

reserves, \$1,817,935 in rate stabilization reserve and \$350,000 in liability reserve). Under proposed rate adjustments, total Solid Waste Fund reserves are projected to be \$4,725,296 by the end of FY2018/19, \$3,622,374 by the end of FY2019/20, \$4,865,961 by the end of FY2020/21, and \$7,268,206 by the end of FY2021/22 (with \$5,310,206 in operating reserves, \$1,608,000 in capital improvement reserves and \$350,000 in liability reserves). More detailed discussion on reserves and impact of proposed rate adjustments on projected reserve balances is contained in sections 4.3 and 5.3 of rate study (Attachment 1).

CEQA:

The Utilities Director has determined that the Recommended Action described in this Agenda Report is not subject to CEQA, pursuant to CEQA Guidelines Section 15060(c).

DOCUMENTS ATTACHED:

ATCH 1 - Solid Waste & Recycling Collection Service Rate Study for 2019-2022

ATCH 2 - Draft Proposition 218 Notice

NOTIFICATION:

Greg Kelley, General Manager, Napa Recycling & Waste Services (courtesy copy)

Mike Murray, CFO, Napa Recycling & Waste Services (courtesy copy)

Karen Dotson, Napa County Auditor-Controller Office (courtesy copy)

Peter Ex, Napa County Local Enforcement Agency (courtesy copy)