



CITY OF NAPA

ATTACHMENT 2

955 School Street
Napa, CA 94559
www.cityofnapa.org

Staff Reports

File #: 277-2023, **Version:** 1

To: Honorable Mayor and Members of City Council

From: Joy Eldredge, Utilities Director

Prepared By: Kevin Miller, Materials Diversion Administrator

TITLE:

Solid Waste and Recycling Collection Rates

RECOMMENDED ACTION:

Authorize City Staff to Provide Written Notice by Mail of the Proposed Update to Solid Waste and Recycling Collection Rates in Compliance with all Requirements of State Law, and Schedule a Public Hearing to Consider Adoption of Updated Solid Waste and Recycling Collection Rates on June 17, 2025, at 6:30 pm.

DISCUSSION:

BACKGROUND

The City's Solid Waste and Recycling Enterprise Fund (SWR Fund) operates an enterprise with an annual budget of approximately \$52.6 million (based on City's Fiscal Year (FY)2025/26 proposed budget) to provide solid waste/recycling collection, operate the City's Materials Diversion Facility (MDF), and manage state-mandated diversion requirements and programs (SWR Enterprise). 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 expenses, capital improvement needs, and revenue projections. The current collection rates were approved by the Napa City Council on July 23, 2019, became effective January 1, 2022, 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 City's Solid Waste & Recycling)Division within the Utilities Department manages the expenditures and revenues of the SWR Enterprise to ensure 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, compliance with state laws and regulations as well as and maintenance and operational requirements of the MDF. While revenues from collection rates are fairly stable each year, revenue from the sale of recyclable materials (16-21% of total SWR Fund revenue) is highly variable and is partially based on the volatile global commodity markets.

PROPOSED RATE ADJUSTMENTS

Staff has carefully analyzed projected revenues and expenses, programmatic impacts, state

regulatory requirements, debt service requirements and contractual obligations to establish a base adjustment to collection service rates necessary to cover the needs of the SWR Enterprise, including prudent replenishment of reserves in the SWR Fund that were drawn down and then partially replenished over the last five-year period. The detailed “Solid Waste & Recycling Collection Service Rate Study for 2025-2029” (“Rate Study”) underlying this base rate recommendation and all proposed rates are contained in Attachment 1 to this report. The proposed monthly rates for residential services are presented in table below:

PROPOSED MONTHLY RESIDENTIAL RATES FOR THE NEXT FIVE 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 1/1/2022	Proposed Rate Effective 7/1/2025	Proposed Rate Effective 1/1/2026	Proposed Rate Effective 1/1/2027	Proposed Rate Effective 1/1/2028	Proposed Rate Effective 1/1/2029	Total Cumulative Change	Average Monthly Change per Year
20-gal	\$30.54	\$34.20	\$37.63	\$40.64	\$43.89	\$46.52	\$15.98	\$3.20
35-gal	\$38.29	\$42.88	\$47.17	\$50.95	\$55.02	\$58.32	\$20.03	\$4.01
65-gal	\$58.71	\$65.76	\$72.33	\$78.12	\$84.37	\$89.43	\$30.72	\$6.14
95-gal	\$90.30	\$101.14	\$111.25	\$120.15	\$129.76	\$137.55	\$47.25	\$9.45

Staff has prepared a draft written notice of public hearing to adopt proposed rates and is prepared to mail it to all property owners and rate payers by April 30, 2025, in order to meet the 45-day public review period required by Proposition 218. If approved for mailing, staff will return to City Council on June 17, 2025, for a public hearing to consider adoption of proposed rates. The proposed notice is shown in Attachment 3 to this report.

PRIMARY DRIVERS OF PROPOSED RATES

As noted above, solid waste and recycling collection service rates were last increased in January 2022. 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 the changes that directly impact the City’s ability to provide solid waste and recycling collection services to its customers. While there are many variables, the three primary drivers for the proposed Solid Waste Rate adjustments are as follows:

1. **NRWS Contract and Impact of SB 1383 Compliance**: The 2022 Contract Amendment with NRWS was approved by the Napa City Council in October 2022. Among other items, the 2022 Contract Amendment addressed operating and maintenance costs of the Covered Aerated Static Pile (CASP) and improved stormwater management system at the City’s MDF. Both major facility improvements were necessary to be compliant with solid waste, stormwater and air permits applicable to the MDF, particularly in order to receive, process and compost food scraps and soiled paper in addition to more traditional greenwaste. The 2022 Contract Amendment also increased compensation to NRWS for economic growth and defined parameters to measure that growth through an every-other-year “reconciliation review” process. Finally, the 2022 Contract Amendment fixed the annual contractual inflators for labor

at 3.5% per year and non-labor capital and operating payment at 2.5%. In order to avoid large fluctuations for both parties for non-labor costs, the Amendment also included a risk sharing procedure whereby the City and NRWS share non-labor costs increases 50%/50% when the index, the Consumer Price Index-All Urban Consumers - All Items less food and energy, San Francisco-Oakland-San Jose-CA (Series ID CUURA422SAOL1E), exceeds 5% in a given year (the “safety-valve”). This term applies to the current City-NRWS agreement which ends in Contract Year (CY)2031. The “safety valve” provision for non-labor costs was exercised in contract year (and calendar year) 2023 as the inflation rate was greater than 5% (6.0% that particular year). The capital and operating impacts of the 2022 Contract Amendment “reset” the baseline capital and operating by approximately \$900,000 per year (escalated at the 3.5% labor and 2.5% non-labor indices since CY2022). The “reconciliation review” growth provision payment to NRWS is currently \$205,516/year for residential growth, \$698,404/year for commercial growth and the most recent annual roll-off debris box service growth was a payment of \$68,466 to NRWS for CY2024 actuals.

Senate Bill (SB) 1383, California’s Short-Lived Climate Pollutant Reduction Strategy (Mandatory Organics Recovery), was signed into law in 2016 and the state-issued regulations to implement the statute became effective January 1, 2022 (SB 1383). SB 1383, focused on organics, is imposed on jurisdictions and solid waste generators (i.e., residential, commercial and institutional generators and collectors of solid waste/recyclable/compostable materials) that requires participation in recycling and organics recovery programs, including edible food recovery. The City submitted a Notification of Intention to Comply with SB 1383 to the state (CalRecycle) in February of 2022 and subsequent programmatic and contractual adjustments and additions were made to adhere to SB 1383 and the implementation plan approved by CalRecycle.

The SB 1383 Contract Amendment with NRWS was approved by the City Council in April 2023. This contract amendment continued the City’s effort to achieve (or exceed) a 75% level of diversion from landfill disposal pursuant to both adopted City policy and state goals. Key cost drivers included: (1) addition of one commercial compost collection vehicle and driver; (2) new and/or upgraded collection equipment for expanded collection of compostable organic materials; (3) addition of two NRWS compost equipment operators, two NRWS recycling outreach specialists and 1 ½ NRWS customer service representatives (half of one NRWS customer service representative was paid by south Napa County unincorporated rate payers); (4) new and/or upgraded sorting and processing equipment for recyclables at the City-owned MDF and (5) \$2.6 million of new organics processing equipment at the MDF (\$1.5 million of which was paid through a competitive grant secured from CalRecycle by the City).

The total annual impact was projected at approximately \$2.8 million per year. At current collection service rates, every \$310,000 in additional costs is approximately 1% of collection service rate revenue. Thus the

annual increase in costs for SB 1383 compliance has “reset” the base NRWS contract by approximately 9%. The impact of the SB 1383 Contract Amendment is described in more detail in section 3.1 of the Rate Study (Attachment 1).

2. Major Capital and System Improvements: In September 2016, the City issued \$12.5 million

in solid waste revenue bonds (“SWRB”) for several major capital and system improvements at the MDF. Approximately \$8 million of the SWRB proceeds have been invested in a CASP system to process compostable organic materials at the MDF. The CASP system is necessary to process a wide range of compostable materials including food scraps, grape pomace, soiled paper and manure (along with traditional yard trimmings) to be in compliance with permit conditions imposed on the MDF. Three major permits govern the MDF operation: solid waste facility, air district emissions, and stormwater management. Beyond the CASP system, approximately \$2 million of the SWRB proceeds was dedicated towards a greatly improved stormwater management and treatment system at the MDF to meet the General Compost Order from the San Francisco Bay Area Regional Water Quality Control Board. The remainder of the SWRB proceeds 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 SWRB is slightly under \$900,000 per year.

Unfortunately, several major capital improvement projects (CIPs) have either been deferred or are now required because of combination of SB 1383 processing and increasingly stringent regulations and necessary permits (air, stormwater and solid waste facility permits). In consultation with NRWS as the contracted facility operator, the proposed rates support \$18.7 million in MDF CIPs over the next five years. In FYs 2025/26 and FY2026/27, the proposed rates would fund the following CIPs at the MDF: (1) \$2.8 million for installation of a 12 KV electrical system (as required by PG&E and deferred from 2020 because of the COVID-19 pandemic); (2) \$750,000 for a second phase for treatment and storage of MDF industrial stormwater; (3) \$500,000 for raising the height of the “compost contact” retention pond since no discharge is allowed for compost contact water, and (4) \$150,000 for a permanent equipment storage bay at the City’s corporation yard. In FYs 2027/28 through FY2029/30, the major MDF CIPs that need to be funded are: (1) \$13 million for next phase of CASP composting system (largely in response to air permit requirements to maximize on-site composting and avoid expense off-hauling of excess organic material to other composting facilities); (2) \$500,000 for MDF concrete pad partial replacement (first year of a 3-year \$500,000/year plan starting in FY2029/30 and continuing through FY2031/32); (3) \$400,000 for replacement/rehabilitation of the 20 year-old MDF scalehouse in 2026 which has been deferred previously; and (4) \$300,000 for partial replacement of perimeter MDF fencing (which has already been deferred several times). The original perimeter fencing will be 35 years old by CY2029 and cannot withstand additional deferral.

The City considered bond-funding for some of the above MDF CIPs, but the bond interest rates at nearly 6% interest are not favorable compared to the SWRB rate of 3.14%. The MDF CIP plan is described in more detail in section 3.2 of the attached Rate Study (Attachment 1).

3. **Dramatically Increased Fuel and Electricity Costs:** A rapid and significant increase in the cost of fuel for NRWS collection vehicles and electricity for operation of the MDF has been experienced since the time of previous rate setting and is expected to continue to increase in the next five years. Full reimbursement of actual NRWS fuel and MDF electricity costs (once documented and verified) is built into the City-NRWS Agreement. In CY2019 (time of previous multi-year SWR rate setting), the combined cost of fuel and electricity was \$1.22 million. By CY2024, the combined fuel and electricity cost had risen to \$2.46 million, a 101.6% increase. Projections for fuel cost are 5.35% increase per year for the next five years and an 11% per year increase for electricity for the next five years. If these projected increases materialize as

projected, the cost of fuel and electricity will be \$3.53 million in CY2029 (a 43.5% increase compared to CY2024 actual fuel and electricity costs) creating an additional \$1.07 million obligation for the SWR Fund. As noted above, at current collection service rates, every \$310,000 in additional costs is approximately 1% of collection service rate revenue. Thus a \$1.07 million increase constitutes a 3.45% increase by itself over current collection service rates. The impact of dramatically increased fuel and electricity costs is described in more detail in section 3.3 of the Rate Study (Attachment 1).

ADJUSTMENT TO RESIDENTIAL LOW/FIXED INCOME ASSISTANCE PROGRAM

City water rates began a low-income assistance program called “RateShare” in 2012. As part of the 2019 rate setting process, a low/fixed income financial assistance program was adopted. In short, the low-income assistance program for SWR Enterprise utilizes the qualification criteria based on the established Pacific Gas & Electric (PG&E) California Alternate Rates for Energy (CARE) program. The low/fixed-income assistance program for City/NRWS residential is available for eligible CARE households within the City on a first-come, first-serve basis. The current Council-approved SWR Enterprise low/fixed income assistance program is a flat \$10 per month (\$120 per year) assistance to qualified participating residential households. The current rate structure allowed up to 1,250 solid waste customers to participate in the low-income assistance program (as of March 2025, there were 1,222 customers utilizing the program). Given the number of eligible residential customers already utilizing the program and the higher costs of nearly all basic necessities today, City staff is recommending that the program be increased to \$15 per month (\$180 per year) and the maximum number of eligible households be increased from 1,250 households to 1,500 households. Materials sales revenue is proposed to be used as the source of revenue for this new low-income assistance program at a level of \$270,000 per year (1,500 households X \$180 per year for qualifying residential customers).

SB1383-COMPLIANT COMMERCIAL ORGANICS RATE STRUCTURE

In the course of developing commercial food scrap collection rates in 2014/2015, the City commissioned an independent study to establish those rates when the full program became available to all City (NRWS) commercial customers in April of 2015. That study recommended that the commercial food scrap collection rates be 75% of the Municipal Solid Waste (MSW) landfill service collection rates based on service cost at the time and the desire for there to be sufficient savings to encourage voluntary participation in the program. With the passage of SB 1383, all commercial generators of compostable organic materials (i.e., yard trimmings, food scraps and soiled paper) are now required to subscribe and participate in the City’s organics collection program(s). As with commercial recycling, commercial customers have historically been offered service of yard trimmings at no additional charge (much like residential customers have a “bundled” rate that includes recycling and compost collection services). However, since SB 1383 made the collection of the full spectrum of compostable organic waste mandatory, it was recognized that the “no charge” commercial yard trimmings service needs to be consolidated and merged with the current commercial food scraps collection service rates (currently 75% of commercial MSW collection rates). This also applies to multi-family (apartment) complexes that are serviced like commercial properties. The results of the updated independent study are detailed in Attachment 2 to this staff report.

After extensive independent analysis, the recommended 5-year rates for commercial organics (Attachment 2) is anticipated to achieve the optimal cost-recovery rates for SB 1383’s new

mandatory collection requirements for commercial and multifamily customers. The recommended rates are anticipated to sufficiently cover the collection and processing costs of the commercial and multifamily food scraps and yard trimming services, while also incentivizing compliance with SB 1383's mandatory requirements. The rates also incorporate increased costs to NRWS for operation impacts and equipment capitalization necessary to expand its food scraps and yard trimmings collection routes and processing at the MRF. It is anticipated that by the fifth year, commercial and multifamily customers will be able to co-collect their food scraps and yard trimmings into the same container, thereby reducing route collection costs at that time. Accordingly, staff recommends the new food scraps collection rates be reduced over time to 45% (or less) of MSW collection rate structure.

STAFF RECOMMENDATION

Staff recommends the issuance of a public notice that includes the proposed Solid Waste Rates as shown in Attachment 1 and Attachment 3 to cover the base contractual and programmatic obligations of the SWR Fund. While the proposed Solid Waste Rates would require use of the SWR Fund reserves in the initial years, they will also replenish reserves in later years to meet SWR Fund reserve targets for operating expenses, debt liabilities and emergencies. The proposed rates would also provide adequate funding to cover major CIPs over the next five years. Finally, the proposed Solid Waste Rates would replenish and restore the rate stabilization/undesignated fund reserve as the City approaches the end of the current agreement with NRWS (which ends in CY2031.) In looking ahead, a new fleet of collection vehicles and new and replacement MDF processing equipment must be purchased and installed as the current vehicles and equipment are nearing the end of their useful life.

Council is not setting collection rates at this time with this recommended action. Council is only authorizing the mailing of a Public Notice to Consider Adoption of Updated Solid Waste and Recycling Collection Rates on June 17, 2025 (please see Attachment 2 for draft notice). If the proposed rates are adopted, rates would be effective July 1, 2025, and each January 1, in years 2026 through 2029.

FINANCIAL IMPACTS:

There is no direct impact associated with the authorization to issue a Notification to property owners. However, future associated actions will have significant impacts on the ability to cover operating costs associated with the Solid Waste Recycling program and the ability to make capital investments in the MDF. For example, the proposed budget (with no rate adjustment assumed) shows a \$5.2M deficit in FY2025/26. Proposed rates are necessary to address this deficit position and establish a rate stabilization fund to withstand volatility in the material sales market.

A 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 15378 and 15273 and Public Resources Code Section 21080(b)(8) because (1) the increase in charges are for the purpose of meeting operational and maintenance expenses of solid waste services; and (2) the charges constitute the creation of a funding mechanism/other government fiscal activity that does not involve any commitment to any specific project that may result in a potentially significant physical impacts on

File #: 277-2023, **Version:** 1

the environment.

DOCUMENTS ATTACHED:

ATCH 1 - Solid Waste & Recycling Collection Service Rate Study for 2025-2029

ATCH 2 - Development of SB 1383 5-Year Commercial Organics Rate Structure

ATCH 3 - Draft Proposition 218 Notice

NOTIFICATION:

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

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

Steve Lederer, Napa County Public Works Director (courtesy copy)

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