



Staff Reports Details (With Text)

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Attachments: 1. ATCH 1 - Budget Adjustment Form No. BE2002501

Date	Ver.	Action By	Action	Result
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To: Honorable Mayor and Members of City Council

From: Phil Brun, Utilities Director

Prepared By: Kevin Miller, Materials Diversion Administrator

TITLE:
Budget Adjustment to Materials Diversion Fund for FY2019/20

RECOMMENDED ACTION:

Approve a revenue budget increase of \$2,504,000 and an expenditure budget increase of \$3,715,000 in the Materials Diversion Fund and an expenditure budget decrease of \$300,000 in the Non-Recurring Materials Diversion Fund, as documented in Budget Adjustment No. BE2002501.

DISCUSSION:

The Materials Diversion Facility (MDF) receives and processes all residential and commercial source separated recyclables and compostable organics generated within the City and collected by the City’s hauler, Napa Recycling & Waste Services LLC (NRWS). The MDF also receives and processes materials delivered by haulers servicing surrounding jurisdictions and by self-haul customers. The volumes of compostable and recyclables materials received and processed at the MDF in calendar year (CY) 2019 have greatly exceeded historical levels and triggered the need for a budget adjustment. More specifically, amount of high-value California Redemption Value (CRV) delivered to the City’s MDF is a primary driver in the recommended mid-year budget adjustment within the Solid Waste and Materials Diversion Enterprise Fund (MDF Fund).

The mid-year budget adjustments recommended by City staff for current FY2019/20 are as follows:

- \$1,048,000 increase in collection service rate revenue based on data of six-month actuals as well as the impact of approved collection rates as of January 1, 2020.

- \$843,000 increase in fee revenue due to increased self-haul gate fees, increased contractual gate fees and higher than expected volumes of compostable organic material delivered to the MDF for processing.
- \$613,000 increase in materials sales revenue driven primarily by amount of high-value CRV containers delivered to MDF from a local CRV buyback center.
- \$193,000 increase in Devlin Road Transfer Station disposal tips from high number of residential, commercial, multifamily and roll-off box collection service accounts as well as disposal “residue” from MDF operations.
- \$76,500 increase in operating and capital payments to NRWS reflecting a \$147,000 “true-up” reconciliation costs from higher fuel and energy cost in CY2019 per 2018 Contract Amendment to City-NRWS agreement.
- \$554,500 increase in contractual processing costs to be paid to NRWS because of higher volumes of recyclable and compostable organic materials received at MDF in CY2019. This increase is explained in further detail below.
- \$300,000 increase in transportation costs of hauling excess organic materials to a third-party composting facility while permit and system restrictions continue to limit the amount that can be composted on-site at the MDF. While the MDF recently received an operating permit from the Bay Area Air Quality Management District (BAAQMD), the permit was approximately four months behind the original timing reflected in the adopted FY2019/20 budget.
- \$2,531,000 increase in contractual payments for high-value CRV materials flowing through City MDF. This increase is explained in further detail below.
- \$60,000 increase in facilities repair and capital maintenance for significant repair of the grinder equipment portion of organics pre-processing system that is beyond warranty.
- \$300,000 decrease in non-recurring professional services. This decrease is related to the delay in the operational permit from the BAAQMD for the new covered aerated static pile (CASP) composting system at the MDF. This expenditure line item was intended for the extensive emissions testing required by the BAAQMD, particularly for the first twelve months of operation of CASP. The four-month delay defers some of these costs into FY2020/21 (and will be factored into any mid-cycle budget adjustments for FY2020/21) but it does result in reduced non-recurring costs during the remainder of the current FY2019/20.

More detailed descriptions of the underlying factors for some of the major recommended budget adjustments are addressed below.

GATE FEE REVENUE ADJUSTMENT

In CY 2019, the City experienced a record volume of recyclable and compostable materials delivered to the MDF, nearly 181,000 tons. This was an increase of nearly 11,000 tons vs. CY2018 levels that served as the original basis of the two-year budget projection. Of the 11,000 tons of increased

overall materials, staff identified 73% of the increase was in the recyclables processing area and 18% of the increase was in the composting processing area. All public self-haul gate fees were increased between \$2 per ton and \$5 per ton for recyclable and compostable materials as of November 1, 2019. Additionally, the City's recent MOU agreement amendment with Napa County resulted in increased contractual pricing for compostable organics and other recyclables that have been factored into the higher projected gate fee revenue. Additionally, approximately 28,000 tons of compostable organic materials that came into the MDF in CY2019 via Northern Recycling Operations & Waste Services ("Northern"). Northern has a processing agreement with the City (City agreement No. C2010 147) that sets a contractual price for both recyclable and compostable materials delivered to the City's MDF. The compostable organic materials contractual gate fees are tied to the City's agreement with Napa County (Northern is charged \$2 per ton above Napa County MOU pricing) and this additional revenue has also been factored into the recommended budget adjustment of \$843,000 for the remainder of FY2019/20.

OVERBASELINE PROCESSING FEE EXPENDITURE ADJUSTMENT

On a calendar year (CY) basis, the total throughput of materials received and processed at the MDF is compared against a contractual "baseline" tonnage threshold of 80,550 tons in four processing areas (Clean MRF, Composting, Wood, and Source Separated Construction and Demolition Debris). If the tonnage received exceeds the threshold, NRWS is paid a contractual "overbaseline" (or OB) processing payment. In general terms, exceeding the baseline tonnages benefits both the City and NRWS because higher quantities of materials received and processed at the MDF mean:

- Higher materials sales revenue to be shared between the City and NRWS.
- Additional "non-collection rate" gate fee revenue to the City rate payer from the additional material delivered to the MDF.
- NRWS receives additional compensation for materials processed at the MDF.
- Higher volumes of recyclable and compostable materials recovered for the highest and best use.

The City's FY2019/20 budget assumed a total MDF throughput of approximately 170,000 for CY2019. Because the actual CY2019 tonnage received and processed at the MDF exceeded the conservative budget expectation substantially (approximately 11,000 tons as noted previously), the OB processing fee will need to be increased by \$554,500.

IMPACT OF CALIFORNIA REDEMPTION VALUE (CRV) BUYBACK CLOSURES

A critical circumstance behind the proposed budget adjustment was the closure of local CRV buyback centers at the beginning of August 2019. While the closures occurred statewide (with 284 such centers closing the same day throughout California), the closure of two larger CRV buyback centers in Napa and Vallejo has had major ripple impacts for the current MDF Fund budget. As noted previously in this report, Northern has a processing agreement with the City of Napa which includes guarantees to bring certain types of recyclable materials to the City's MDF for final processing and shipment to market. Among these guaranteed recyclables are high value CRV containers which are part of the State of California's bottle bill. Northern operates a buyback center adjacent to the Devlin Road Transfer Station. When the Napa and Vallejo buyback centers closed, Northern saw the

amount of CRV materials (particularly aluminum cans and #1 PETE plastic bottles) coming into its buyback center immediately double and in some months triple.

Under the terms of the City's processing agreement with Northern, the City retains a 1% share of the high value CRV materials and 9% of lower value paper products that must be baled at the City MDF. While this net benefit may not sound like much, the market value for aluminum cans consistently exceeds \$4,000 per ton, meaning that the City share's is \$40+/ton in net revenue for each additional ton of aluminum flowing through the City's MDF, which is good news for City solid waste rate payers. In terms of budget expenditures, however, 99% of the market value is paid out to Northern or NRWS (as NRWS automatically receives a 30% share of these type of recyclables). The results have been a 73% increase in the average monthly payments to Northern since the closure of the local buyback centers. This dramatic increase is reflected in the recommended expenditure increase of \$2,531,000 in the current FY2019/20 budget to meet contractual obligations. Because there is a 45-90 day time lag between receipt of added CRV materials at the MDF, preparation/baling at MDF, shipment from MDF to buyers and payment from buyer for CRV materials, the true positive impact on City material sales revenue will likely be pushed back into the first quarter of City FY2020/21. That said, the increased CRV material flow from Northern appears to be a sustained trend and will need to be addressed during the mid-cycle budget adjustment process for FY2020/21 as well.

FINANCIAL IMPACTS:

As detailed in Attachment 1 to this staff report (Budget Adjustment No. BE2002501), approval of the recommended action will result in a revenue budget increase of \$2,504,000 and an expenditure budget increase of \$3,715,000 in the Materials Diversion Fund and an expenditure budget decrease of \$300,000 in the Non-Recurring Materials Diversion Fund. The recommended actions are necessary to fulfill contractual obligations, particularly for payments to NRWS and Northern as described in the discussion section of this staff report.

While the immediate impact of the recommended budget adjustments in isolation is a \$911,000 net loss (deficit), City staff has performed preliminary analysis of the entire Solid Waste Enterprise Fund based on 6-month actuals and projects the Fund's overall revenues and expenditures to balance by fiscal year end. Staff will continue to closely monitor the Fund's budget and refine projections as part of the mid-cycle budget adjustment process which includes formal fiscal year end projections being reported to City Council.

CEQA:

The Utilities Director has determined that the Recommended Action described in this Agenda Report is not subject to the California Environmental Quality Act pursuant to Public Resources Code Section 21080(b)(8).

DOCUMENTS ATTACHED:

ATCH 1 - Budget Adjustment Form No. BE2002501.

NOTIFICATION:

Courtesy Copy to:

Greg Kelley, General Manager/Managing Partner, Napa Recycling & Waste Services
Mike Murray, Chief Financial Officer, Napa Recycling & Waste Services