Staff Reports Details (With Text)

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To: Honorable Mayor and Members of City Council

From: Jacques R. LaRochelle, Public Works Director

Prepared By: Kevin Miller, Materials Diversion Administrator

TITLE:
Budget Adjustment to Materials Diversion Fund for FY2017/18

RECOMMENDED ACTION:
Adopt a resolution authorizing adjustments to appropriations in the Solid Waste and Materials Diversion Fund for FY 2017/18 to account for an increase in revenue of $1,200,000.

DISCUSSION:
The Materials Diversion Facility (“MDF”) receives and processes all residential and commercial source separated recyclables and compostable materials 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 2018 Contract Amendment to the City-NRWS agreement approved by Council on April 17, 2018, contained increased compensation for operating and capital expenses that require a revision to the adopted FY 2017/18 Solid Waste and Materials Diversion Enterprise Fund. The 2018 Contract Amendment also incorporated several tonnage-based compensation enhancements and incentives for increased volumes of recyclable and compostable materials received and processed at the MDF in calendar year (CY) 2017. The volumes of recyclable and compostable materials collected within the City and received and processed at the MDF in CY 2017 greatly exceeded historical levels and has triggered the need for a budget adjustment. The mid-year budget adjustments recommended by City staff are as follows:

- $1,200,000 increase in collection service revenue recognizing higher than expected volumes of

solid waste, recyclable and compostable material collected within the City of Napa and either delivered to the MDF for processing or delivered to the Devlin Road Transfer Station ("DRTS") for disposal.

- $450,000 increase in additional contractual processing costs due to NRWS because of higher volumes of recyclable and compostable organic materials received at MDF in CY 2017 as well as the enhanced compensation provided in the 2018 Contract Amendment.

- $300,000 increase in capital and operating payment expenditures associated with the 2018 Contract Amendment to the City-NRWS agreement.

- $275,000 increase in payment for materials to Northern Recycling Operations & Waste Services ("Northern") for materials delivered and marketed through City's MDF.

- $100,000 increase for transportation costs of hauling compostable organic material to a third-party composting facility while permit and system restrictions limit amount that can be composted on-site at the MDF.

- $75,000 increase in municipal solid waste ("MSW") disposal costs at DRTS.

The impact to the budget is a net $0 since additional expenditures are fully offset by anticipated additional revenue. Budget adjustments based on increased collection service and volume of materials collected are being proposed based on CY2017 results and FY2017/18 year to date actuals. More detailed descriptions of each adjustment are addressed in the following sections of this staff report.

COLLECTION SERVICE REVENUE ADJUSTMENT

The City's adopted collection service revenue for the current FY2017/18 is approximately $18.18 million. With a stronger than expected local economy for the City, the actual collection service revenue through the first three quarters of FY2017/18 has been $14.44 million for an average of 4.81 million per quarter. Projecting another $4.81 million for the 4th quarter of FY2017/18 would result in a year-end revenue projection of $19.24 million, or roughly $1.1 million above adopted budget. Because construction and demolition debris collection services tend to be the highest in the spring and summer months, an additional $100,000 collection service revenue is anticipated to be collected in the fourth quarter of FY2017/18. Taken together, this calculates to a $1,200,000 year-end forecast of additional revenue above the adopted budget for FY2017/18.

OVERBASELINE PROCESSING FEE EXPENDITURE ADJUSTMENT

On an annual 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. As part of the 2018 Contract Amendment, the per ton OB processing payments were enhanced by $2 per ton to $13 per ton (depending on the processing areas and whether it was in the first or second level above baseline threshold). In general terms,

exceeding the baseline tonnages benefits both the City and NRWS because higher quantities of materials received and processed at the MDF means:

- 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 FY2017/18 budget assumed a total MDF throughput of approximately 135,000 to 145,000 for CY2017 with a total budget of $2.5 million (which has already been paid to NRWS). The actual OB eligible tonnage for CY2017 was slightly over 150,500 tons. (for CY2016 tonnage eligible for an over-baseline payment was slightly over 139,500 tons). The City must prepare for the impact of the "enhanced" OB processing payment, the overall OB eligible tonnage increase of 11,000 tons in CY2017 vs. the previous CY2016 and also allow for the contractual inflation of the processing costs due to NRWS.

Because the actual CY2017 tonnage received and processed at the MDF exceeded the conservative budget expectation substantially, the FY2017/18 OB processing fee expenditure account will need to be increased by $450,000.

INCREASE IN CONTRACTUAL CAPITAL AND OPERATING EXPENDITURE COSTS

As noted above in this staff report, the 2018 Contract Amendment to the City-NRWS agreement was approved by Council at its April 27, 2018 meeting. As presented to Council during that meeting, the 2018 Contract Amendment included several increased costs including a fixed 3.5 percent increase in NRWS labor costs and 2.5 percent increase in NRWS non-labor costs. It also included major capital items including 20 new and 8 refurbished refuse and recycling collection vehicles and approximately $4.5 million dollars in upgrades to the main sorting facility and other major pieces of NRWS processing equipment at the MDF, including equipment used in the composting, wood recycling and heavy construction and demolition debris recycling areas. This is estimated at approximately $300,000 in increased costs for current FY2017/18.

INCREASE IN PAYMENT FOR MATERIALS TO NORTHERN

The City has a processing agreement with Northern Recycling Operations & Waste Services ("Northern") for certain recyclable materials to be delivered, processed and marketed through the City's MDF. The current City's contract purchase order has encumbered $1.75 million for payment of materials through the City-Northern processing agreement. The actual expenditures through the end of the third quarter of FY2017/18 have been $1.58 million meaning there is only $168,000 left unspent. City staff recommends a supplement of $275,000 in the payment for materials expenditure account to address this shortfall in current available FY2017/18 budget.

HAULING COSTS TO OFF-SITE COMPOSTING FACILITY ADJUSTMENT

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As council may recall with the recent solid waste revenue bond issuance, the City's MDF will be installing a new covered aerated static pile (CASP) composting system to replace the current open-air, turned window composting system. Primarily because of the air permit governing the facility, the MDF is currently restricted to a historical permit tonnage until the new CASP system is installed and fully operational. In order to be compliant with this interim restriction (but not lose the additional long-term revenue from new gate-fee-paying users of the MDF), the City and NRWS have had to ship compostable organic materials off site to a third-party composting facility. The transportation costs are roughly $15 per ton so the temporary costs of hauling the additional new organic material is estimated at additional $100,000 for the current FY2017/18 budget.

INCREASE IN MUNICIPAL SOLID WASTE (MSW) DISPOSAL COSTS

The current FY2017/18 adopted budget for disposal of MSW at the DRTS was $3.2 million. Actual disposal costs have been approximately $2.4 million through the first three quarters of FY2017/18. However, the last quarter of FY2017/18 is expected to be higher than the average of the first three FY quarters because of three reasons: (1) fourth quarter disposal costs are $1 per ton higher ($67 per ton) than the first FY quarter (which was $66 per ton), (2) fourth quarter construction and demolition debris volumes are likely to be higher with increased activity in warmer/less rainy months of April through June 2018 and (3) with China pulling back purchases of certain low grades plastics such as post-consumer plastic bags, NRWS and the City will be forced to landfill this material due to lack of available markets. Taken together, City staff recommends that MSW disposal expenditure budget for FY2017/18 be increased by $75,000.

FINANCIAL IMPACTS:
The projected impacts and adjustment to the Solid Waste and Materials Diversion Enterprise Fund are summarized in the first section of this staff report and are also detailed in the resolution (see attachment # 1). The net impact of the proposed adjustments in the Solid Waste and Materials Diversion Enterprise Fund budget is $0 for the current FY2017/18.

CEQA:
The Public Works 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 - Resolution

NOTIFICATION:
Courtesy Copy to:
Greg Kelley, General Manager/Managing Partner, Napa Recycling & Waste Services
Mike Murray, Chief Financial Officer, Napa Recycling & Waste Services