



Staff Reports

File #: 4-2022, **Version:** 1

To: Honorable Mayor and Members of City Council

From: Phil Brun, Utilities Director

Prepared By: Kevin Miller, Materials Diversion Administrator

TITLE:

Recyclable Materials Gate Fees for Materials Diversion Facility

RECOMMENDED ACTION:

Adopt a resolution establishing recyclable materials gate fees at the City's Materials Diversion Facility, to become effective March 1, 2022.

DISCUSSION:

The Materials Diversion Facility (MDF), which is located south of the City, 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 (NRWS). The MDF also receives and processes materials delivered by haulers servicing surrounding jurisdictions (such as the County of Napa, Sonoma and American Canyon) and by private (self-haul) customers. Customers are charged a processing fee for use of the facility, which is usually based on the type and quantity of the material delivered.

As owner of the MDF, the City is responsible for determining what materials are accepted at the MDF and for setting the fees that are charged to customers that deliver materials to the MDF for recycling. The fees that are collected belong to the City and are used to cover facility related costs as well as costs of processing the materials. Rates charged to third party and contractual users of the MDF are usually referred to as a "gate fee." The rates need to be competitive with other facilities in order to promote usage of the MDF, and must be established to cover the costs of processing the materials as well as fixed City costs related to purchase and maintenance of MDF, including recent major capital and system improvements to the MDF.

For mixed recyclable materials, commonly known as "single-stream" recyclables, the City established a gate fee in 2020 because the global markets for materials had declined substantially while the processing costs continued to increase. In better market times, the City would pay out a competitive price for recyclable materials in order to attract and secure the flow of these type of recyclable materials and have the benefit of non-collection rate revenue for the Solid Waste and Recycling Enterprise Fund ("SWR Fund").

This recommended change in Recyclable Materials Gate Fees is spurred by good news in that

markets for recyclable materials have increased significantly (even while processing costs continue to increase). In calendar year (“CY”) 2019, which was the basis of how the 2020 gate fees were set for recyclable materials, the average market value for residential single-stream (mixed) recyclables was \$120 per ton while the over-baseline (“OB”) processing costs paid to NRWS was approximately \$85 per ton. By CY2021, the average value for residential single-stream recyclables had increased significantly to \$139 per ton and the OB processing costs paid to NRWS increased to \$89 per ton. The CY2021 market value reflected a significant increase in the value of paper fiber (such cardboard, newspaper and mixed paper) and plastics. As a result of the 2018 Contract Amendment with NRWS, processing costs have been enhanced via the amendment and inflated by contractual inflation indices. Revenues obtained from the sale of single-stream material is contractually shared between the City (70% share) and NRWS (30% share) and this structure means that both the City and NRWS share in the risks and rewards of ever-changing global markets for recyclables.

The benefit of the increased market value for recyclables in general (factoring in the impact of the increased contractual processing costs owed to NRWS) has prompted staff to recommend that the City adjust gate fee for single-stream recyclables brought to the MDF by contractual and third party users of the facility. As shown in the 2022 MDF Recyclable Materials Gate Fee Analysis (attachment 2 to this staff report), the average price for residential single-stream for 2022 (using CY2021 materials sales data) is projected at \$139 per ton and \$110 per ton for commercial single-stream recyclables (which have a higher percentage of lower value paper fiber such cardboard vs. higher value bottles and cans). The analysis also reflects \$4 million in capital improvements to the sorting facility in 2018/2019 at just over \$11 per ton for single-stream recyclable materials. The recommended gate fees include a 14% market volatility “buffer” to protect City rate payers and help assure that any third-party or contractual users of the MDF will result in a net positive revenue position to the SWR Fund.

As shown in Attachment 1 to this report, staff is recommending the following recyclable materials gate fees effective March 1, 2022:

Material	Current Gate Fees	Proposed Adjusted Gate Fees Effective 3-1-2022
Residential Recyclable Materials from Napa County (per City Agreement No. 8782)	\$15 per ton charge	\$9 per ton credit
Commercial Recyclable Materials from Napa County (per City Agreement No. 8782)	\$38 per ton charge	\$16 per ton charge
Source-Separated Commercial Green Glass from Napa County (per City Agreement No. 8782)	\$2 per ton credit	\$10 per ton credit
Source-Separated Commercial Clear Glass from Napa County (per City Agreement No. 8782)	\$2 per ton credit	\$10 per ton credit
Residential Single-Stream (“Mixed”) Recyclable Materials *	\$30 per ton charge	\$25 per ton charge
Commercial Single-Stream (“Mixed”) Recyclable Materials *	\$50 per ton charge	\$42 per ton charge

Minimum Charge per load *	\$21 per vehicle (load)	\$23 per vehicle (load)
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* Minimum Charge per load is applicable only to materials listed in the above chart with an “**”

Please note that the memorandum of understanding (MOU) agreement between the City and Napa County (City agreement No. 8782/County agreement No. 6430) guarantees preferential contractual pricing for Napa County vs. any other user of the City’s MDF. The gate fees recommended for Napa County reflect composition studies conducted specifically on Napa County single-stream materials. These Napa County specific studies show a higher market value (\$188 for residential single-stream and \$146 for commercial single-stream) and a lower market variability buffer (10%) since the City has more accurate and specific composition data for the County’s stream (as provided in the City’s MOU with Napa County).

The SWR Fund cannot be put in a position to lose money for materials delivered and processed at the City’s MDF. Staff has performed the necessary analysis and concluded that the above gate fee structure is competitive with fees currently being charged by other facilities and would promote the highest and best usage of the facility. The revenue generated by the gate fees and materials sales will fully cover the associated operating costs of the MDF.

FINANCIAL IMPACTS:

The projected revenue benefits and impacts of the proposed gate fee adjustments on the Solid Waste and Recycling (SWR) Enterprise Fund in the current FY are as follows:

Recyclable Materials Gate Fee to Napa County: In CY2021, unincorporated south Napa County delivered approximately 5,800 tons of commercial single-stream and/or other recyclable materials (with 1,500 tons being glass) and 3,000 tons of residential single-stream materials. For the remaining four months of current City Fiscal year (FY) 2021/22, this translates into approximately 1900 tons of commercial recyclables and 1,000 tons of residential recyclables delivered to the City’s MDF from Napa County. At the proposed contractual gate rate of \$16 per ton for commercial and \$9 per ton for residential single-stream recyclables, the projected gate fee revenue for FY 2020/21 will be reduced by approximately \$98,000.

Recyclable Materials Gate Fee for other 3rd party MDF users: In CY2021, all other 3rd party users (not including Napa County) delivered a little more than 10,000 tons of single-stream recyclable materials to the MDF. For the remaining four months of current City Fiscal year (FY) 2021/22, this translates to 3,400 tons of third-party recyclables delivered to the City’s MDF. The vast majority of the single-stream recyclables are residential single-stream materials, so at the proposed \$25 per ton gate fee, projected gate fee revenue for FY 2020/21 will be reduced by approximately \$17,000.

Benefits of Additional Materials Sales Revenue: Actual materials sales revenue for the first six months of FY2021/22 (July 2021 through December 2021) was \$4,991,974 which is 21.3% above approved budget. All indications at this time are that the markets are strong and will remain so for the balance of FY2021/22. If the trend continues, it would result in approximately \$1,751,000 in revenue in excess of the approved budget for material sales for the current FY. Of the projected \$1,751,000 excess in revenue for all of FY2021/22, staff estimates that an additional \$189,000-\$252,000 would be generated by the better-than-expected materials sales revenue specifically

associated with tonnage from the proposed gate fees for the final four months of the current FY.

Overall Benefits and Impacts: The proposed MDF gate fees is a reduction of \$115,000 in MDF gate fees for the last four months of FY2021/22 (vs. total approved budget of \$5,057,500 for entire 12 months of FY2021/22). However, materials sales revenue is expected to be \$189,000-\$252,000 higher for the last four months of FY2021/22 and will thus more than cover the \$115,000 in reduced gate fees. Taken together, the approximate net benefit is \$74,000-\$137,000 in additional proceeds for the SWR Fund. These funds would be used to offset capital and operating expenditures associated with the processing of specified recyclable materials delivered to the MDF. A more detailed "2022 MDF Recyclable Materials Gate Fee Analysis" spreadsheet is the second attachment to this staff report.

The above estimates assume no reduction in contractual or third party MDF tonnage volumes as a result of the new recyclable materials gate fees. Staff feels this is a reasonable assumption since we are taking these steps to reflect in the increased market value of recyclables (which MDF users are aware of) and increased facility processing costs are universal impacts for the industry. Additionally, disposal of recyclable materials at transfer stations or landfills is 2-5 times as expensive throughout Northern California.

Staff is not recommending a budget adjustment to the MDF Gate Fee revenue at this time since the net impact is minimal for current FY 2021/22 and will be factored into the normal budget process for FY2022/23.

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 California Public Resources Code Section 21080(b)(8).

DOCUMENTS ATTACHED:

ATCH 1 - Resolution

EX A - MDF Recyclable Materials Gate Fees Effective 3/1/2022

ATCH 2 - 2022 MDF Recyclable Materials Gate Fee Analysis

NOTIFICATION:

A legal notice of the public hearing was published in the Napa Valley Register on Friday, February 4, 2022. If new gate fees for recyclable materials are approved by Council, a notice will be sent to Napa County (per MOU agreement) and other third-party users of the MDF will be sent advance electronic notices.

Courtesy Copy to:

Greg Kelley, General Manager/Managing Partner, Napa Recycling & Waste Services
Mike Murray, Chief Financial Officer, Napa Recycling & Waste Services
Steve Lederer, Public Works Director, County of Napa

Dave Briggs, Resource Conservation Specialist, County of Napa