



## Staff Reports

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**File #:** 201-2023, **Version:** 1

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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:**

Gate Fees for Materials Diversion Facility

**RECOMMENDED ACTION:**

Adopt a resolution establishing self-haul gate fees at the City's Materials Diversion Facility to become effective February 1, 2024, July 1, 2024, July 1, 2025, July 1, 2026, July 1, 2027, and July 1, 2028.

**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 charged by the City are used to cover the estimated costs of processing the materials. Fees charged to self-haul customers are posted at the entrance to the facility and are usually referred to as "gate fees." Although the gate fees need to be competitive with other facilities in order to promote usage of the MDF for the benefit of the solid waste enterprise, the gate fees must also cover the operating costs for processing the materials as well as fixed City costs related to purchase and maintenance of MDF, including recent contract amendments with NRWS as well as major capital and system improvements to the MDF that directly handle self-haul materials processing.

Most of gate fees currently being charged at the MDF were set in November of 2019 (R2019-116). During the four years plus period since that time, several factors have been analyzed and included into the recommended revised MDF gate fees. First, the 2022 and SB 1383 Contract Amendments to the City-NRWS agreement were approved by the City Council. As related to the MDF gate fees, these Amendments reset and enhanced the volume-based "over baseline" processing payment to be paid to NRWS when certain "baseline" tonnage thresholds are exceeded in a given calendar year. The per ton over-baseline processing payments vary depending on the type of material and the

particular processing area at the MDF. For self-haul materials, the relevant processing areas are (1) compost, (2) wood and (3) source-separated construction and demolition debris recycling, each of which has its own per ton processing rate. The processing fee paid to NRWS is adjusted annually based on changes in the Producer Price Index (PPI). Since the time of the last major gate fee adjustment, the contractual processing costs have increased a cumulative of 19.7%, or average of 3.9% over five years. The previous analysis supporting the 2019 gate fee adjustment assumed a cumulative increase of 11.3%, or average of 2.3% per year over five years.

In addition to contractual processing costs, the proposed MDF gate fee adjustments have considered the processing cost impacts of the 2022 NRWS Contract Amendment (approved by Council in October 2022) as well as the SB 1383 NRWS Contract Amendment (approved by Council in April 2023). Self-haul tonnage data from calendar year (CY) 2020, CY2021 and CY2022 was tabulated and averaged to serve as the basis of the allocation. Self-haul tonnages accounted for approximately 19% of all inbound received at the MDF during this three-year period. Some of the 2022 and SB 1383 capital equipment and operating improvements only impacted certain processing areas (such as CASP for the composting area) while other improvements were more universal (such as stormwater management upgrades impacting the entire MDF property). The cost impact of allocated MDF CIP costs (on a per ton basis) and inflationary PPI adjustments can be reviewed in attachment 2 to this staff report (Summary Table from "MDF Gate Fee Analysis"). The combined per ton increased processing cost of the 2022 & SB 1383 Contract Amendments is approximately \$21 per ton for organic materials utilized new Covered Aerated Static Pile (CASP) system and \$2.48 per ton for other tons such as concrete and dry wall that do are not processed through CASP system (as shown in fifth column of summary table of MDF Gate Fee Analysis). Attachment 2 also shows the projected future inflationary projection of 3.63% for the next five years. This inflation projection is based on the published Bureau of Labor Statistics for California Bay Area CPI and is the average of the previous five years for this region. The cumulative estimated increase in costs looking forward to 2028 are spread out evenly over the proposed gate fees. For example, the increased cost per ton for yard trimmings is estimated at \$24.32 per ton through 2028. The \$24 per ton (rounded) increased costs are recovered through a \$5 per ton increase each year effective 7/1/2024, 7/1/2025, 7/1/2026, 7/1/2027 and a \$4 per ton increase the final year of proposed gate fees effective 7/1/2028.

"Packaged Organics" is one new material type and has a new proposed related gate fee. Packaged Organics refers to compostable food material that is trapped in outer packaging, most commonly plastic, metal or paper packaging. The MDF has an organics "de-packager" that has been operating for several years now and can extract compostable food material from the outer packaging. Imagine separating the cereal from the plastic liner and outer paper box as an example of how the facility's organics de-packager can separate the compostable food materials from typical outer packaging. NRWS has reported that the typical average disposal for the outer packaging (which is typically non-compostable plastics) is 30 percent by weight. The proposed gate fee for Packaged Organics considers these additional disposal costs in addition to the existing and projected costs of processing compostable food materials. If approved by the City Council, this new self-haul MDF gate fee for Packaged Organics would become effective February 1, 2024.

The proposed gate fees can be viewed as Exhibit A to the Resolution (Attachment 1 to this staff report). Please note that minimum per load charges recognize "fixed" City costs and vehicle permit limits and apply until the per ton gate fee exceeds the minimum charge incurred by the customer.

The proposed MDF self-haul gate fee structure is presented in the first attachment to this staff report. In order to provide notice to MDF customers, the rate schedule would be posted at the gate in late June 2024 and also be mailed to MDF customers with accounts.

It is staff's opinion that the proposed rate structure is competitive with rates currently being charged by other facilities and would promote highest and best usage of the facility, and that the revenue that would be generated by the gate fees would cover and not exceed the associated operating costs of the MDF.

**FINANCIAL IMPACTS:**

The projected revenue impacts of the proposed gate fee adjustments on the Solid Waste and Materials Diversion (Recycling) Enterprise Fund are as follows:

Composting Area Gate Fee Increase: The self-haul materials included in the composting area are Compostable Food Material and Yard Trimmings (inclusive of subcategories of yard trimmings, food scraps/soiled paper, manure, grape pumice and cannabis). Based on three-year tonnage averages (CY2020 through CY2022), the self-haul tonnage average was 13,453 tons per year going to the composting processing area of the MDF. At a conservative 13,000 tons per year, the first major gate fee adjustments effective July 1, 2024, is proposed as a \$5/ton increase. Assuming self-haul tonnage remains on par with historical averages, this would result in \$65,000 in additional gate fees for the first City fiscal year. Subsequent proposed gate fees for the composting area increase at \$5/ton per year which result in additional \$65,000 per year until the final proposed year at a \$4/ton. Thus, the proposed total gate fee revenue from composting area materials would be projected at \$65,000 for City FY2024/25. Additional composting area materials gate fee revenue would be projected at approximately \$130,000 for FY2025/26, \$195,000 for FY2026/27, \$260,000 for FY2027/28 and \$312,000 for FY2028/29.

Wood Area Gate Fee Increase: The self-haul materials included in the wood processing area are Wood (untreated) and Chipped Wood (inclusive of subcategories of clean wood, pre-chipped wood, sawdust and stumps). Based on three-year tonnage averages (CY2020 through CY2022), the self-haul tonnage average was 4,023 tons per year going to the wood processing area of the MDF. At 4,000 tons per year, the first major gate fee adjustments effective July 1, 2024, is proposed as a \$5/ton increase. increase. Assuming self-haul tonnage remains on par with historical averages, this would result in \$20,000 in additional gate fees for the first City fiscal year. Subsequent proposed gate fees for the wood processing area increase at \$5/ton per year which result in additional \$20,000 per year until the final proposed year at a \$4/ton. Thus, the proposed total gate fee revenue from the wood processing area materials would be projected at \$20,000 for City FY2024/25. Additional composting area materials gate fee revenue would be projected at approximately \$40,000 for FY2025/26, \$60,000 for FY2026/27, \$80,000 for FY2027/28 and \$96,000 for FY2028/29.

Source-Separated Construction and Demolition Materials Gate Fee Increase: The self-haul materials included in the source-separated construction and demolition debris processing area are Concrete/Asphalt, Carpet and Dry Wall. Based on three-year tonnage averages (CY2020 through CY2022), the self-haul tonnage average was 3,660 tons per year going to the source separated construction and demolition debris recycling processing area of the MDF. Assuming a conservative 3,500 tons per year, the first gate fee adjustment effective July 1, 2024, is proposed as a \$2/ton increase. Assuming self-haul tonnage remains on par with historical averages, this would result in

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\$7,000 in additional gate fees for the first City fiscal year. Subsequent proposed gate fees for the source separated construction and demolition debris recycling area materials increase at \$1/ton per year which result in additional \$3,500 per year. Thus, the proposed total gate fee revenue from composting area materials would be projected at \$7,000 for City FY2024/25. Additional source-separated construction and demolition recycling processing area materials gate fee revenue would be projected at approximately \$10,500 for FY2025/26, \$14,000 for FY2026/27, \$17,500 for FY2027/28 and \$21,000 for FY2028/29.

The above estimates assume no reduction in self-haul customer tonnage due to the higher gate fees. Staff feels this is a reasonable assumption since there are limited available options for MDF self-haul users and the gates would continue to be preferential to the adjacent Devlin Road Transfer Station (which currently has a minimum load charge of \$43/load and a self-haul disposal charge of \$76/ton). The Devlin Road Transfer Station per ton self-haul disposal charges are anticipated to increase by \$5/ton as of July 1, 2024, and July 1, 2025 and then increase at \$3/ton beginning July 1, 2026 to accommodate increased processing and capital costs for its facility and contractual facility operator. If adopted by the Napa-Vallejo Waste Management Authority, this pattern would result in a self-haul disposal fee of \$95/ton as of July 1, 2028.

The total positive net impact of all of the proposed gate fee increases on the Fund would be approximately \$92,000 of additional revenue to the City's Solid Waste and Materials Diversion Enterprise Fund in FY2024/25. The total projected additional gate fees from MDF self-haul customers to the Fund would be projected at approximately \$180,500 for FY2025/26, \$269,000 for FY2026/27, \$357,500 for FY2027/28 and \$429,000 for FY2028/29. These fees will be used to fund expenditures associated with the processing of materials that are self-hauled by the public to the MDF. A more detailed "MDF Gate Fee Analysis" spreadsheet is contained as the second attachment to this staff report. Based on the MDF Gate Fee Analysis, the proposed increases to MDF gate fees will not exceed the overall cost of providing the recycling services to self-haulers.

Staff is not recommending a budget adjustment to the MDF Gate Fee revenues at this time since this category includes jurisdictional and contractual user revenue which is much larger and more impactful on the total gross revenue received by the City. Instead, staff recommends review of actual MDF Gate Fee revenue at the end of third quarter of FY2023/24 and making possible adjustments to the FY2024/25 budget at that time if warranted and along with other mid-cycle budget adjustments that may come before City Council prior to the beginning of FY2024/25.

**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 authorizing self-haul gate fees at the City's MDF for 2024 to 2028

ATCH 2 - MDF Gate Fee Analysis (basis for proposed MDF gate fees effective July 1, 2024 to July 1, 2028)

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**NOTIFICATION:**

A legal notice of the public hearing was published in the Napa Valley Register on Saturday, January 6, 2024. Additionally, the new MDF gate fees will be posted at the entrance to the MDF, and notices will be mailed to customers with a billed account at the facility prior to July 1, 2024.

Courtesy Copy (via email) to:

Greg Kelley, General Manager/Managing Partner, Napa Recycling & Waste Services

Mike Murray, Chief Financial Officer, Napa Recycling & Waste Services

Peter Ex, Local Enforcement Officer, County of Napa

Steve Lederer, Public Works Director, County of Napa