A Tradition of Stewardship
A Commitment to Service

Agenda Date: 9/24/2019
Agenda Placement: 9B
Set Time: 9:15 AM PUBLIC HEARING
Estimated Report Time: 10 Minutes

NAPA COUNTY BOARD OF SUPERVISORS
Board Agenda Letter

TO:	Board of Supervisors
FROM:	David Morrison - Director Planning, Building and Environmental Services
REPORT BY:	Peter Ex, Solid Waste Program Manager - 253-4419
SUBJECT:	Public hearing to consider adoption of a resolution adjusting rates for collection of solid waste, recyclables, green waste and food waste for the Unincorporated Area of Garbage Zone One.

RECOMMENDATION

Director of Planning, Building and Environmental Services requests adoption of a resolution increasing rates by approximately 24%, effective October 1, 2019, for the residential and commercial operational cost associated with the collection of solid waste, recyclables, green waste, and food waste applicable to the Unincorporated Area of Garbage Zone One, a service which is provided by Napa County Recycling and Waste Services, LLC.

EXECUTIVE SUMMARY

On June 4, 2019, the Planning, Building, and Environmental Services Department received an application for an adjustment of rates for the operational cost associated with the collection of solid waste, recycling, green waste, and food waste services from Napa County Recycling and Waste Services, LLC (NCRWS).

The Auditor-Controller's Office completed their review of the request pursuant to Amendment No. 3 to Franchise Agreement No. 180215B (Franchise Agreement). In accordance with the approved Franchise Agreement, rates are recommended to increase by approximately 24% for both residential and commercial collection. Residential rates would increase for the 20-gallon cart from $25.07 to $32.26; the 35-gallon cart from $28.29 to $35.74; the 65-gallon cart would increase from $43.76 to $53.49; and the 96-gallon cart would increase from $64.66 to $77.76. The proposed residential and commercial rates are set forth in Exhibit A of the attached Resolution.

PROCEDURAL REQUIREMENTS

1. Open Public Hearing.
2. Staff reports.
3. Public comment.

4. Close Public Hearing.
5. Motion, second, discussion and vote on the item.

FISCAL & STRATEGIC PLAN IMPACT

Is there a Fiscal Impact?	Yes
Is it currently budgeted?	Yes
Where is it budgeted?	Fund 2180 - Zone 1 Garbage
Is it Mandatory or Discretionary?	Discretionary
Discretionary Justification:	Approving the rates allows for an increase in franchise fee revenue consistent with the terms of the franchise agreement. Fees are used to offset costs incurred by the County on behalf of Zone 1 rate payers.
Is the general fund affected?	No
Future fiscal impact:	The County receives franchise fee revenue that equals 10% of the fee revenue collected by NCRWS. Franchise fee revenue is currently estimated to be approximately $446,000 and is recorded in the Zone 1 Garbage special revenue fund. The franchise fees are utilized to reimburse the County for expenses incurred related to Zone 1. This action would increase the County's franchise fee revenue by approximately 24%, or $107,000 a year.
Consequences if not approved:	The County will not receive the additional franchise fee revenue generated by the proposed 24% increase to offset costs incurred by the County on behalf of Zone 1 rate payers.
County Strategic Plan pillar addressed:	Effective and Open Government
Additional Information:	

ENVIRONMENTAL IMPACT

These fees are not subject to the California Environmental Quality Act pursuant to Title 14 of the California Code of Regulations, Section 15273(a)(1) and (2).

BACKGROUND AND DISCUSSION

This item is specifically exempt from the voting requirements of Article XIIIC of the California Constitution because these fees are imposed by a private third party, Napa County Recycling and Waste Services, LLC (NCRWS), under the Franchise Agreement as granted by the County to NCRWS on May 3, 2005 and amended and restated on December 19, 2017. Pursuant to Government Code section 66016, the resolution, data, and rates to be considered were made available to the public.

NCRWS Rate Package - Summary:

On June 4, 2019, the Planning, Building, and Environmental Services Department received an application for an adjustment of rates for the operational cost associated with the collection of solid waste, recycling, green waste, and food waste from NCRWS in Garbage Zone One (Zone One), which serves much of the south county. The Auditor-Controller's Office completed their review of the application, pursuant to Article 6 - Contractor Compensation and Customer Rates, of the amended and restated Franchise Agreement between the County and NCRWS. Under Article 6, NCRWS is entitled to request one rate adjustment annually. Per the amended and restated Franchise Agreement, the County shall adjust rates, either up or down, to reflect:

1. Contractor Compensation as proposed in Article 6 and Exhibit M of the amended and restated Franchise Agreement. NCRWS proposed a three year recovery for the new fixed assets required under the amended and restated Franchise Agreement with the rates being trued up after the fourth year; and
2. Actual changes in any of the pass-through components of each rate. The component applied to each rate is dependent on the services rendered.

Contractor Compensation and Pass-Through components of the proposed rates are described more fully below.

The proposed Resolution increases both residential and commercial rates by approximately 24% for the operational cost associated with the collection of solid waste, recycling, green waste, and food waste services in Zone One.

The key factors contributing to the rate increase include, but are not limited to:

1. Cost recovery for 2018 for NCRWS at 20% to include costs associated with:
    a. Purchasing new compressed natural gas collection vehicles.
    b. Purchasing and replacing carts, bins, and boxes.
    c. Adding a free service for the pickup of bulky items comparable to the City of Napa's Recycle More program.
    d. Fiscal impact of expanding the zone and providing the same services as those received by zone customers prior to amendment of the Franchise Agreement and zone expansion.
2. Loss of Single Stream Recycling Revenue from $39 to $4 per ton.

The new purchases and programs are requirements of the amended and restated Franchise Agreement and are influenced by consistency with Napa County's draft Climate Action Plan to reduce green house gases, vehicle requirements of the California Air Resources Board, container replacement to prevent leakage, and bulky item pickup to reduce illegal dumping.

The public was notified of the public hearing and consideration of the resolution to increase rates for the collection of solid waste and recyclables. The public notices were and/or will be published (newspaper and website) in the Napa Valley Register on September 13, 2019 and September 19, 2019. The public notice indicates that all relevant documents regarding the proposed rate increase will be available at the Clerk of the Board. Pursuant to the amended and restated Franchise Agreement, NCRWS has posted the change of rates on their website and will be providing all customers with written notice of approved rate adjustments with their September bill. However; due to changes to the rate package submitted by NCRWS and described below, NCRWS received the final updated rates on September 5, 2019 and therefore could not meet the required 30-day notice period to its customers.

<u>Contractor Compensation Component</u>

The amended and restated Franchise Agreement provides for contractor's cost recovery for purchases and new programs in accordance with Article 6.4 and Exhibit M, utilizing NCRWS projected revenues and expenses for

calendar years 2017 through 2020.

Year one (2018) was projected to be a 41% increase for 12 months, but NCRWS revised the projection during the rate-setting process and adjusted the increase to 25% for a 9 month period [January 1, 2018 to September 30, 2018] in an effort to project the expenses closer to actual.

Year two (October 1, 2018 to September 30, 2019) was set at a 21% increase in accordance with Exhibit M of the amended and restated Franchise Agreement.

Year three (October 1, 2019 to September 30, 2020, the current year being considered), as calculated per the amended and restated Franchise Agreement was set at a 38% increase; however, NCRWS has requested the percentage be set at 20% to mitigate rate shock.

In years four (2020/2021) and five (2021/2022), 2019 and 2020 audited financial statements, respectively, will be utilized to determine if NCRWS has achieved a 9.5% profit, as set in the amended and restated Franchise Agreement. If the profit percentage is other than 9.5%, the contractor's compensation component will be adjusted in accordance with the amended and restated Franchise Agreement and by the Consumer Price Index (CPI).

Thereafter, the contractor compensation component will adjust by the (CPI).

Pass-Through Components

In addition to the contractor compensation component which allows for cost recovery for purchases and new programs, the amended and restated Franchise Agreement also provides a mechanism to recover pass-through costs and credits for the Solid Waste, Food Waste, Recycling, and Carpet Tip Fee Components. The pass-through costs for solid waste disposal at Devlin Road Transfer Station are recovered through a Solid Waste Tip Fee Component. On June 2, 2011, the Napa-Vallejo Waste Management Authority (NVWMA) approved an annual rate increase of $1 per ton for franchise haulers (effective October 1 of each year).

Additionally, the Agreement provides mechanisms to recover the cost of delivering materials to the City of Napa's Material Diversion Facility for the processing of recyclable materials, green waste, food waste, and carpet. Based on the recent Memorandum Of Understanding with the City of Napa, the approved rates for the processing of green waste, food waste, carpet, and recyclable materials to the City of Napa's Material Diversion Facility were updated effective June 1, 2019.

The pass-through rates have changed as follows:

	Current Year	**Prior Year**	
Components	**2019/2020**	**2019/2018**	**% Change**
Napa-Vallejo Waste Management Authority			
Solid Waste Tip Fee	$ 69.00	$ 68.00	1.50%
City of Napa - Materials Diversion Facility			
MOU with County of Napa (60 Day notice dated 03-27-19)			

Net recycling processing fee	$ (4.00)	$ (39.00)	89.7%
Green waste tip fee	$ 39.00	$ 35.00	11.4%
Food waste tip fee	$ 49.00	$ 47.00	4.3%
Carpet tip fee	$ 56.00	$ 55.00	1.8%

Rate Comparison of Napa County Jurisdictions:

Below is a comparison of rates among different jurisdictions in Napa County. The table also shows what rates would have been if NCRWS had utilized the 38% contractor compensation component as established in the amended Franchise Agreement rather than selecting to utilize a 20% increase to mitigate rate shock.

			Rates for Comparison Purposes		
	By Agmt. Zone 1 County 38% CC	**Alternate Proposed Zone 1 County 20% CC**	**Eff. 8/1/2019 City of Napa**	**Eff. 7/1/2018 UVDS County**	**Eff. 7/1/2018 UVDS Pope Valley**
20 Gallon	$ 36.01	$ 32.26	$ 24.25	n/a	n/a
35 Gallon	$ 39.67	$ 35.74	$ 30.40	$ 35.43	$ 46.03
65 Gallon	$ 59.43	$ 53.49	$ 46.63	$ 70.86	$ 92.06
95 Gallon	$ 86.65	$ 77.76	$ 71.71	$ 106.29	$ 138.09

CC = Contractor Compensation % Change

SUPPORTING DOCUMENTS

A . Resolution

CEO Recommendation: Approve

Reviewed By: Leigh Sharp