



NAPA-VALLEJO WASTE
MANAGEMENT AUTHORITY

May 28, 2020

MEMO TO: NVWMA Board of Directors

FROM: Richard Luthy, Executive Director

SUBJECT: City of Napa Request for Deferral of FY 20/21 Rate Increase

BACKGROUND

In June 2011, the Board of Directors of the Authority adopted Resolution 2011-08 setting fees for disposal of waste at the Devlin Road Transfer Station (DRTS). As part of that resolution, the Board established an automatic annual \$1.00 fee increase. For member agency franchise customers, the rate increase takes effect on October 1 each year. For all other DRTS customers, the rate increase occurs on July 1, coinciding with the start of the Authority's fiscal year. The resolution also includes a provision allowing the Board to defer a rate increase in any given year.

The paragraph in the rate resolution that details the automatic increases reads as follows:

"BE IT FURTHER RESOLVED that the above fees shall be increased by \$1.00 per unit on July 1, 2012 and each July 1 thereafter for non-franchise customers, and \$1.00 per unit on October 1, 2012 and each October 1 thereafter for franchise customers, provided, however, that the Board of Directors of the Authority may vote in any given year to defer said increase(s) for the immediately following year if it finds that revenues are sufficient to meet the needs of the Authority without said increase(s)."

The attached letter from Phil Brun, City of Napa Utilities Director, requests that the Board of Directors consider deferral of the scheduled rate increase for FY 20/21. As justification, the City sites the negative financial impacts of the COVID-19 virus on their solid waste utility.

ANALYSIS

The rate resolution, as adopted, does not appear to provide the Board the option to defer a rate increase for any single member agency or rate category. A deferral, if adopted, would presumably apply to all members and rate categories. Any proposed deferral that does not

**1195 Third Street, Suite B10
Napa CA 94559
FAX 707 226 9025**

apply to all rate categories would have to be considered at a later date, and would require the drafting of an updated rate resolution.

The draft NVWMA Budget for FY 20/21 is based on an estimated 240,000 tons of incoming material to DRTS, producing total revenue from fees of approximately \$18 million. If the rate deferral were to be adopted across all rate categories, the loss of revenue in the first year would be about \$240,000 and would continue at about that same level in each subsequent fiscal year. If tonnage to the transfer station increases over time, the revenue impact would also increase. If rates are deferred only for member franchise haulers, the annual loss of revenue would be about \$140,000 per year.

Overall, the Authority's annual \$1 rate increase is not keeping pace with our inflationary cost increases. Rates are increasing at about 1.4 percent while inflation levels in recent years have been between 3 and 4 percent. For calendar year 2020, rates for DRTS operation and costs for disposal increased by a combined \$2.57 per ton. Although the Authority still has a net positive cash flow and has been able to fund badly needed repairs and improvements at DRTS, that cash flow is decreasing each year as costs go up.

The Authority has also been actively working toward construction of a new building for processing construction and demolition debris. That building, which will increase safety, reduce environmental impacts and benefit on-site traffic conditions, is estimated to cost between \$25 million and \$30 million. To avoid issuing debt, the Authority is planning to rely on its capital reserve to fund that project. At current budget projections, we are still several years away from that goal.

CONCLUSIONS

- Savings associated with a rate deferral would represent “only modest cost savings for the City of Napa...” (City of Napa Letter of May 26, 2020)
- A deferral across all rate classes would provide all customers about a 1.4 percent cost reduction for the coming few years.
- Financial impacts on NVWMA would not be significant in the short term, but will continue to accumulate and have some impact on capital accumulation for needed projects.
- The current \$1 per year increase in rates has not been keeping pace with inflationary pressure on NVWMA operating costs.(See attached Exhibit 1)

POTENTIAL BOARD ACTIONS

- Deny the City's request for a rate deferral.
- Approve a rate deferral for FY 20/21 across all rate classes.
- Propose a deferral for only some rate classes, which would require postponing action in order to allow preparation a revised rate resolution.

Please feel free to contact me if you have questions or concerns.

EXHIBIT 1

