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NAPA COUNTY BOARD OF SUPERVISORS Board Agenda Letter

TO: Board of Supervisors
FROM: Britt Ferguson for Nancy Watt - County Executive Officer
County Executive Office
REPORT BY: Greg Pirie, Local Enforcement Agency Coord, 253-4144
SUBJECT: Public hearing to consider adoption of resolutions establishing a franchise fee and a rate surcharge fee, and rates for collection of solid waste, recyclables and green waste for the Unincorporated Area of Garbage Zone One.

RECOMMENDATION

County Executive Officer requests the following concerning establishing fees and rates for the collection of solid waste, recyclables and green waste for the Unincorporated Area of Garbage Zone One:

1. Open Public Hearing regarding the proposed franchise and rate surcharge fees, and service rates; and
2. Close Public Hearing and adopt the following two resolutions:
 - a. Resolution establishing franchise and rate surcharge fees charged to the Zone One solid waste collection franchisee for County costs of management and enforcement; and
 - b. Resolution establishing rates for the collection of solid waste, recycling and green waste services applicable in Garbage Zone One, effective October 1, 2005, contingent upon Board approval of the Franchise Agreement with Napa County Recycling and Waste Services.

EXECUTIVE SUMMARY

On December 14, 2004, the Board authorized the County Executive Officer (CEO) to finalize a franchise agreement with Napa County Recycling and Waste Services (NCRWS). At that time, the Board also approved the concept of a 10% franchise fee and a 4.5% rate surcharge.

The action being recommended in this Board Agenda Letter is approval of two resolutions. The first resolution establishes a 10% franchise fee and a two-year rate surcharge of 4.5%. The second resolution sets collection rates for solid waste, recyclables, and green waste for Garbage Zone One, an unincorporated area of the County near American Canyon. These fees and rates will then be incorporated in the franchise agreement with NCRWS, which is being presented for your approval in a separate Board Agenda Letter.

The recommended franchise fee of 10% of gross rate revenues for the duration of the franchise and a rate surcharge of 4.5 % of gross rate revenues for the first two years of the franchise will reimburse and offset costs

expended from the County's General Fund for initiating and managing the franchise.

The proposed collection rates identified in Exhibit A reflect the rates stated in the franchise application and proposal by NCRWS, and include the 10% franchise fee and 4.5% rate surcharge fee (for the first two years only). The new residential garbage rate for the 32-gallon can is \$15.88, the 65-gallon can service rate is \$23.82, and the 96-gallon can service rate is \$35.73.

FISCAL IMPACT

Is there a Fiscal Impact?	Yes
Is it currently budgeted?	No
What is the revenue source?	Franchise Fees and Surcharges
Is it Mandatory or Discretionary?	Discretionary
Discretionary Justification:	The recommended franchise fee of 10% of revenue for the duration of the franchise and a rate surcharge of 4.5 % of revenue for the first two years of the franchise will reimburse and offset costs expended from the County's General Fund for initiating and managing the franchise.
Is the general fund affected?	Yes
Future fiscal impact:	The estimated revenue from the franchise fee is approximately \$198,000 or more per year. The estimated revenue from the rate surcharge is approximately \$102,500 per year for two years only.
Consequences if not approved:	Without the franchise fee and rate surcharge, costs for initiating and managing the franchise would be a General Fund expense.
Additional Information:	None

ENVIRONMENTAL IMPACT

There is no Environmental Impact for this item.

BACKGROUND AND DISCUSSION

On December 14, 2004, the Board of Supervisors authorized the County Executive Officer (CEO) to finalize a franchise agreement with Napa County Recycling and Waste Service (NCRWS) to provide solid waste and recyclable collection services in Garbage Zone One, located generally in the unincorporated areas of Napa County in the vicinity of the Cities of Napa and American Canyon. This action was taken pursuant to the recommendation of an Ad Hoc Selection Committee, composed of two members of the Board of Supervisors and three County Staff Members, to award the Garbage Zone One solid waste and recyclable collection franchise to NCRWS. The Ad Hoc Selection Committee's recommendation was based on the results of a Request for Proposals (RFP) conducted by the County to select a new Garbage Zone One franchisee. (The current franchise agreement expires in September 2005.)

In a separate Board Agenda Letter on this agenda, the Board will be asked to approve the franchise agreement with NCRWS. That agreement will include a franchise fee, a rate surcharge and initial garbage collection rates. The County Code requires that franchise fees and collection rates be set by resolution, so this Agenda Letter asks the Board to approve resolutions establishing the franchise fee and surcharge and the collection rates. These fees and rates will then be included in the franchise agreement

FRANCHISE AND RATE SURCHARGE FEE

Staff has recommended a franchise fee of 10% of revenue to help offset staff costs in managing the franchise agreement. (These costs have previously been a general fund expense.) The recommended franchise fee of 10% of gross rate revenues is expected to generate an estimated \$198,000 annually. The franchise fee will be used to recover costs associated with Staff time for managing AB 939 reporting, staff management of the franchise, pickup and disposal of roadside debris dumping, and other administrative expenses.

Staff has also recommended a rate surcharge of 4.5% over the first two years of the contract in order to provide reimbursement to the County general fund for costs incurred for initiating and managing the franchise agreement. The estimated surcharge for each of the first two years of the contract is \$102,500.

SERVICE RATES

Exhibit B lists the initial customer service rates that will be included in the franchise agreement (these rates include the 10% franchise fee and 4.5% rate surcharge). As shown, the monthly rate for a 32 gallon can will be \$15.88, which is slightly less than the current 32 gallon can rate of \$16.16. Other rates included are \$23.82 for a 65 gallon can and \$35.73 for a 96 gallon can. All rates are marginally less or greater than existing rates.

These are the rates proposed by NCRWS in its response the County's request for proposals, adjusted to incorporate the surcharge and a franchise fee of 10% rather than the 7% contained in NCRWS' original proposal.

FRANCHISE AGREEMENT - RATE ADJUSTMENTS

Under the new franchise agreement, rate adjustments will be based on changes in the Consumer Price Index (CPI) for the San Francisco Bay Area, in accordance with the following methodology:

- 1 Rates will not change for the first two years of the agreement. The contractor is entitled to one rate adjustment annually beginning in October 1, 2007. Annual adjustments to the contractor's fee portion of the rate shall be no more than 75% of the annual increase in the CPI index (with a cap on annual increases to the CPI index of 4%, except as noted below). The County will adjust each rate up or down to reflect the change in the annual inflation rate as measured by the CPI, and any actual changes in any of the pass-through components of the rate. Pass-through adjustments include the solid waste tip fee, the net recycling processing fee, and the Green waste tip fee. Although reflected in the rate, the pass-through costs will not be subject to CPI.
- 1 In the event that the specific CPI index increases by more than four percent in any one year, the contractor shall receive an adjustment of the CPI component of each rate greater than four percent only to the extent that the contractor can demonstrate that the actual costs increased more than four percent during the previous 12 month period.
- 1 The County may initiate special rate adjustments should there be a change in collection costs due to an increase in State or Local fees or surcharges for disposal or processing, change in the scope of services, change to the franchise fee or surcharge fee, and change in Law for which the contractor compliance is mandatory.

This approach to rate increases is different than the current approach which utilizes a cost plus methodology (which involves the franchisee justifying actual cost increases and guaranteeing a certain profit margin). Staff believes that the new approach is preferable because it will allow for greater predictability and control of rates.

SUPPORTING DOCUMENTS

A . Resolution - Establishing Franchise and Rate Surcharge Fees

B . Resolution - Approving Rates for the Collection of Solid Waste, Recyclable Mater

CEO Recommendation: Approve

Reviewed By: Britt Ferguson