



Memorandum

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

Reviewed by: *[Signature]* Date: 3/15/19
for General Manager

DATE: March 15, 2019
TO: General Manager
FROM: Director of Operations
SUBJECT: Processing Fee and Residual Disposal Fees for Single Stream Recyclable Materials Delivered to MRWMD's Materials Recovery Facility

BACKGROUND

The District's recycling operation at the Materials Recovery Facility (MRF) has been in operation for over one (1) year, which has provided staff to reach a level of operational efficiency and financial understanding to begin to establish pricing for SSR processing services to the customers utilizing the MRF for recyclable processing services. For the first year of operations, the District has provided these processing services at no charge for all uncontracted materials being delivered to the facility from third-party haulers (Waste Management, Republic Services, City of Watsonville, and Recology), as well as paying the current Franchise hauler Greenwaste Recovery (GWR) \$40/ton for the materials that they deliver under the franchise agreement.

With the implementation of the Chinese National Sword initiative by the government of China in early 2018, the value of post-processed recyclable commodities has declined by approximately 50% below what was anticipated for the MRF when the facility was designed, and when the Franchise Agreement were entered into. The National Sword initiative has reset quality standards for marketed materials not only in China but in markets across the globe. This has required additional sorting staff to achieve those new standards and increasing labor costs above the original operating proforma that was established during the 2014 facility design. With these factors of increased operating costs for labor and lower than anticipated material sales revenue, staff is recommending that a new Tipping Fee be established for all SSR materials processed through the facility that covers the costs of operations and the associated allocation of Capital and Administrative expenses.

DISCUSSION

Staff is proposing to set a Processing Fee that the District would charge for SSR at a rate of \$40/ton for FY 2019/20. In addition, staff proposes establishing an acceptable threshold of incoming contamination/non-recyclable materials of 10%, and that haulers would be charged at the Solid Waste Disposal Fee (currently set at \$62/ton) for all materials in excess of that 10% allowance. The excess rate of contamination and the associated charges will be based upon an annual SSR waste composition study done by an independent contractor each June. The District contracted with SCS Consulting in 2018 to conduct a statistically significant analysis of all the incoming materials that would allow the District to have a basis to charge for excessive contamination. Currently the average rate of contamination is approximately 22% of the incoming stream of SSR delivered to the facility, so on average 12% would then be charged back to the haulers for the disposal of that material. This charge for the disposal of residual would equate to an approximate additional charge of \$7.50/ton for each ton delivered to the facility, resulting in an average total of Fees to be charged of \$47.50 per ton delivered.

Processing Fee and Residual Disposal Fees for SSR Materials

March 15, 2019

Page 2

In determining the appropriate Processing Fee to charge for the services, staff has looked at the overall staffing levels and equipment utilized for SSR processing activities versus the staffing and equipment utilized for Construction and Demolition (C&D) materials processing. Staff has determined that 60% of the MRF costs are related to SSR processing and 40% for C&D processing and have allocated all staff wage and benefit costs, as well as all MRF operating and maintenance costs, in accordance with those percentages staff has included and is allocating approximately \$1.75 million per year in Cost Recovery expenses for the Capital Costs associated with the MRF renovation and ongoing equipment replacement and process improvements to the MRF. Additionally, Staff has allocated approximately \$1.2 million per year of the Administrative costs into the MRF expenses for the purposes of setting this Processing Fee based upon total annual MRF expenses as a percentage of overall organizational expenses.

Costs in the Bay area are between \$45-\$87/ton, so staff feels that the Processing Fee being proposed is within the market rate and will not result in non-franchise haulers moving materials to other facilities or other markets.

Staff recognizes that the impact will be most significant on the Franchise agreements as the swing in the Processing Fee would move from a payment/credit of \$40 to GWR to a charge of approximately \$47.50/ton. The Board may want to consider a staged phase-in for Franchise jurisdictions that in FY 2019/20 involves eliminating the payment/credit of \$40/ton while introducing the Residual charge in excess of 10%, and in FY 2020/21 introduce the processing fee.

Staff is also recommending that the Processing Fees for SSR be established for one year at a time and be reset in each subsequent FY budget based upon changes in market conditions and values.

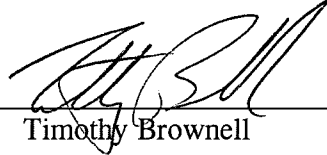
FINANCIAL IMPACT

If the Processing Fee is implemented and the volumes of SSR remain constant through FY 2019/20, the District would see additional revenues from non-franchise haulers in the amount of approximately \$1.97 million, and residual disposal charges of \$366,000. For GWR, this would eliminate the \$528,000/year payment/credit they are receiving, would include a residual charge of approximately \$98,000/year., and the Processing Fee of \$40/ton would add an additional \$528,000 in revenues. The table below outlines the specific financial impacts in year one of the new fees, assuming a phase-in for Franchise jurisdictions. Approximately 2/3rds of the financial impacts would be on non-franchise accounts and 1/3rd on Franchise accounts once fully implemented.

Source	Tons / Year	Processing Fee	Disposal Fee	Total
Revenues Increase			-	
Non- District SSR Materials	49,200	\$40		\$1,968,000
Non- District Residual	5,904		\$62	\$366,048
Greenwaste – SSR Materials	13,200	\$0		\$0
Greenwaste – Residual	1,584		\$62	\$98,208
Total New Revenue				\$2,432,256
Expense Reduction				
Greenwaste – SSR Credit	13,200	\$- 40		\$528,000
Total Financial Impact				\$2,960,256

CONCLUSION

Staff will be bringing forward a recommendation at the April Board meeting for the implementation of this Processing Fee structure to support the diversification of funding for services to represent their true costs for providing the services, as well as to incentivize the haulers delivering materials to the District to educate their customers to clean up the recyclable materials that they deliver to the District for processing.



Timothy Brownell