Victor Valley Materials Recovery Facility
Tip Fee Analysis

Background

Apple Valley and Victorville own the Victor Valley Materials Recovery Facility (MRF), which is operated under the 2016 Materials Recovery Facility Operating Agreement between the Mojave Desert and Mountain Recycling Authority and Burrtec Waste Industries (Facility Operating Agreement). Apple Valley and Victorville comprise the North Desert Project Committee and are responsible for all MRF financial obligations under a separate Authority Operating Agreement with the two municipalities.

The Facility Operating Agreement guarantees capacity to Authority members, with priority for the two owners. Residential and commercial recycling is processed from all Authority communities except Needles. Deliveries arrive through arrangements with designated haulers who pay a tip fee to the Authority for processing and receive rebates for the value of recovered material less disposal charges.

The MRF Tip Fee is a service fee paid by haulers delivering materials for processing. The current tip fee is $75 per ton, set in 2003. The Operating Agreement provides for the fee to be determined and adjusted by the Authority in its sole discretion. The current fee includes a component for processing charges and a contribution to capital. The Consumer Price Index has increased 71% since then. Had the 2003 rate been adjusted solely by CPI, it would be $128.

Analysis

1. Operating cost component: Burrtec receives monthly operating fee payments from the Authority under the Facility Operating Agreement that change as incoming tonnage increases. The operating fee schedule is adjusted annually using the March Los Angeles Area Consumer Price Index. Under the current schedule, the first 2000 tons are processed at a cost of $175,896; or $88/ton. The cost to process 4000 tons would be $247,872; equal to $62/ton.

During the most recent 12 months the effective operating fee paid was $67.50. The total paid was $2,550,815 to process 37,804 tons. Tip fee deliveries constitute 40% of total processed incoming material.

California's minimum wage has risen from $10 per hour to $15.50 since 2017 and will continue to increase. Burrtec's increased minimum wage costs are reimbursed as a change in law under the Operating Agreement. The most recent 12 months of minimum wage reimbursement totaled $504,725; equaling $13.35/ton.

Supplemental onsite security costs add another $1.64 to operating costs.

The combined current effective operating rate is $82.50, without any capital cost contribution.

2. Capital cost contribution; The Authority also pays for capital improvements and major maintenance (costs over $7,500).

The original MRF processing design relied on manual sorting with a single conveyor, a magnet and baler. Upgrades in 2006 increased capacity and reduced operating costs with mechanical separation using screens and optical sorters.

The current MRF processing system involves dozens of interrelated steps to remove contamination and recover marketable material. Repairs become more frequent as equipment ages and ultimately becomes inoperable. Advances in equipment offer enhanced efficiency.

- The V-Screen makes the initial separation between beverage containers and fiber, using rotating disc screens. The V-Screen is no longer manufactured, so replacement disc screens are increasingly scarce and expensive.
- The Fiber Sort was used to separate newspaper from mixed paper. However, newspaper markets have disappeared as have replacement parts. The Fiber Sort is obsolete not functioning as intended.
- Equipment improvements since 2006 can reduce operating costs and increase recovery. Aluminum can eddy current separation, glass breaking screens, cardboard post sort, infeed drums and polypropylene optical sorting are identified needed improvements.

The Facility Operating Agreement provides for annual review of capital improvements by the Authority and Operator. The most recent review estimates for $6 million for replacement and upgrade over a five-year period commencing in 2024. Including capital costs of $1.2 million annually allows for incremental improvements without overburdening ratepayers. Including $32/ton in the tip fee would cover its 40% pro rata share of capital improvements.

Recommendation

A service fee charged by the Authority must be the reasonable cost of the service provided, plus overhead.   The total service recommended fee is $114 per delivered ton. Increasing the tip fee may result in material going to another facility, which would lead to capital fund and minimum wage offset shortfalls. The recommended $114 fee is in line with tip fees at other MRFs, as is the revenue share for marketed materials.

The total recommended tip fee is $114/ton, as shown below.

Processing	Minimum Wage	On-site Security	Capital Improvements	Total
$67.50	$13.35	$1.64	$32	$114

The increased tip fee will be effective July 1, 2024, so that haulers can make necessary arrangements.

The capital improvement charge should be accumulated in an account separate from other operating charges, with only short term (60 day maximum) transfers if necessary to pay current operating expenses.

The cost-of-living adjustment and the change in law provisions in the Burrtec Operating Agreement should be used to keep the tip tee updated annually. The Authority Board may adopt a revised tip fee in accordance with applicable law.