



PRIVATIZATION: SAVING MONEY, MAXIMIZING EFFICIENCY & ACHIEVING OTHER BENEFITS IN SOLID WASTE COLLECTION, DISPOSAL, RECYCLING

Many local government budgets are facing extraordinary challenges as shrinking revenues and rising expenses lead to major shortfalls. One of the most logical responses is to reduce the cost and size of government by concentrating on providing critical municipal services such as police and fire protection. To achieve this, many cities are increasingly privatizing other activities for which the private sector is best prepared to provide improved service at a lower cost, increased efficiency and other benefits. Waste collection, recycling and disposal are among the most prominent candidates for privatization. More communities are privatizing these vital services now than at any other time during the last two decades.

A QUICK LOOK AT SOLID WASTE

Americans generate a lot of trash. Based on the U.S. Environmental Protection Agency's (EPA) most recent data, Americans generated about 250 million tons of "municipal solid waste" in 2010. Of that, 34 percent was recycled or composted, leaving 66 percent to be landfilled or combusted in waste-to-energy facilities.¹ Whether it is the collection of garbage, recyclables and compostables; the operation of transfer stations, materials recycling facilities, composting facilities for yard and food wastes; or the operation of disposal facilities, the private sector successfully manages most of America's discards.²

Where these materials come from often dictates who manages them. Municipal solid waste (MSW) is generated by businesses, institutions, such as colleges and hospitals, apartment houses, and single-family residences. EPA considers businesses, such as restaurants and office buildings, schools and facilities, such as airports and government buildings, to be "commercial" generators while single and multi-family housing are "residential" generators. Although a

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precise breakdown is unknown, EPA estimates that 55 to 65 percent of MSW is residential waste and 35 to 45 percent is commercial.¹ Virtually all of the garbage and recyclables generated commercially and by multi-family housing is collected by the private sector. In addition, more than half of all U.S. cities contract out all or part of their residential waste and recycling collection services.³ Finally, a majority of transfer stations, materials recycling facilities, and landfills are owned and operated by the private sector.²

PRIVATE COLLECTION

Collecting garbage and recyclables from single family housing is relatively simple. Individual residences tend to generate about the same amounts and types of garbage and recyclables.

They often use the same type of collection container, and their trash can be collected on a fixed schedule using the same collection trucks. As a result, many local governments provide garbage and recycling collection as a service to their single family residents. Still, because the private sector offers low costs and dependable service, it currently provides this service in a majority of American communities.



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Collecting trash from businesses and apartment buildings is more complicated. They generate different quantities and types of wastes, and have different needs for collection service. Consider two different types of commercial establishments, a restaurant and an office building. The restaurant can generate large amounts of wet food waste while the office building mostly generates paper and dry waste. They will have different service requirements for container size and frequency and time of collection. Apartment buildings can generate large amounts of waste and recyclables that also require specialized collection containers and hauling equipment. In these situations, the private sector is best equipped to use a diversified truck fleet to collect from a variety of specialized containers that need to be serviced under a complex schedule.

Business owners and building managers know their profitability relies on their ability to keep costs down while providing their customers and tenants with low prices and reliable solid customer service. They understand a competitive market for garbage and recycling collection allows them to find the service that meets their needs at the lowest possible price. They understand the power of competition because it is crucial to the success of their own businesses. As

a result, trash and recyclables from businesses and apartment buildings are collected by the private sector in almost all American cities.

THE TREND TOWARDS PRIVATIZATION

Many American communities provide residential waste and recyclable collection services through open competition among waste haulers or by contracting with one or more haulers for this service. Further, in response to budgeting pressures, many other local governments are considering privatizing solid waste collection. The reasons for privatizing are simple: a local government will achieve cost savings, have better protection from risks, have a better safety record, see faster adoption of new, more efficient technologies and have less debt.

Among the benefits of privatizing are the following:

Cost Savings: The Reason Foundation estimates that competitive delivery of solid waste services typically generates cost savings on the order of 20 to 40 percent. This is because private companies have the economies of scale to spread investment, environmental protection and procurement costs



Example: The newly incorporated city of Sandy Springs in Georgia shows the advantages of well-managed outsourcing. The city of 90,000 came into existence five years ago. All services except police, fire and 911 are provided by private contractors. According to *Governing* magazine, officials estimate that outsourcing saves taxpayers \$20 million a year and that savings in the operating budget have allowed the city to invest \$72 million in capital improvements since incorporation. Not a bad financial deal for Sandy Springs taxpayers.



Example: The City Council and Mayor of Toledo, Ohio, privatized Toledo's refuse operations in an effort to reduce trash collection costs for the city, bringing privately operated waste services to more than 180,000 households in northwestern Ohio. Toledo's Mayor said the switch to a private hauler will save \$2.8 million for the city budget and allow the city to hire an additional 25 police officers late in 2011.

across multiple contracts and facilities. In addition, they are not hindered by governmental bureaucracies. Time and again, surveys and news stories show that cost savings are the primary reason for privatizing.

Risk Protection: The private partner in a local government contract should assume primary responsibility for general liability and environmental compliance. Financial guarantees and insurance coverage requirements are also standard contractual mechanisms that minimize local government risks. When it comes to recycling, the private sector has more experience and ability at assuming and managing the commodity market risk than government officials. This is particularly important because recyclables are among the most volatile of all commodities.

Safety: According to data recently released by the U.S. Department of Labor's Bureau of Labor Statistics, solid waste management services operated by local governments have an incident rate that is more than four times greater than private sector solid waste management companies.⁴ In addition, the median

number of days away from work for an injured local government employee is 60 percent greater than for an injured private sector employee. As a result, privatizing allows local governments to lower their exposure to disability, workers compensation and other accident claims.

Greater Efficiencies and Newer Technologies: The private sector's desire to improve services, lower costs and increase safety often results in the adoption of new technologies such as alternate-fueled vehicles, single stream collection of recyclables, new truck technologies or computer systems to track and more efficiently manage the collection fleet. The private sector has better access to capital to improve or replace equipment and the ability to deploy assets such as collection trucks to different routes. In addition, the private sector is more likely to use better-trained work forces with incentive plans for workers and managers to obtain high performance levels and accept personal responsibility for maintaining their equipment. As a result, vehicle downtime for private companies is estimated to be far lower than for public operations.⁵

Less debt: The press has been awash with stories of publicly owned disposal facilities hard pressed to meet their debt obligations.^{6,7,10,11} These facilities were built to provide non-competitive service in a limited city or county geographic area and are having difficulty managing changes in the size and composition of the waste stream. Private sector waste services companies, with their long history in managing wastes and their ability to take advantage of economies of scale, are better prepared to handle risk, manage finances and assume a lower debt profile.

BARRIERS TO SUCCESSFUL PRIVATIZATION: MYTHS

Privatization Leads to Lower Recycling Rates: Cities with the highest recycling rates in the U.S., such as Seattle and San Francisco, have fully privatized recycling.⁸

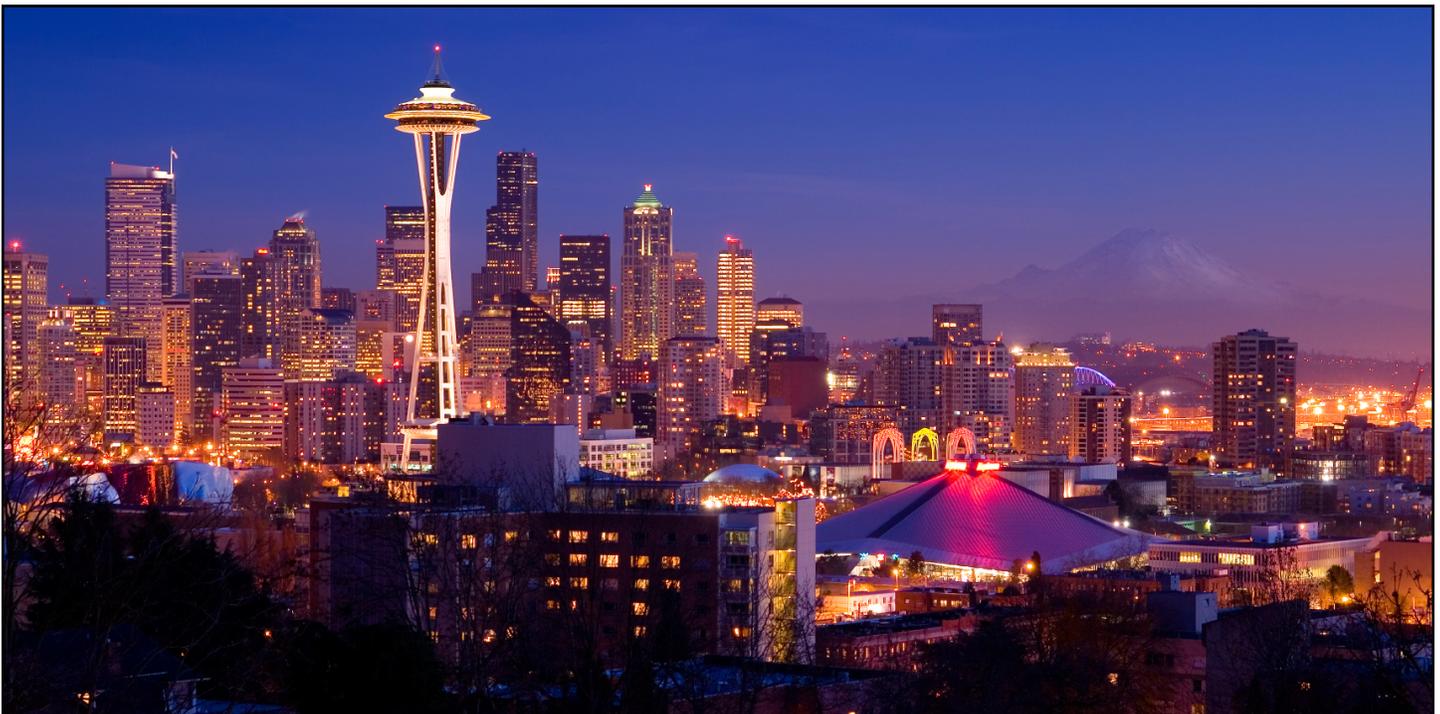
Privatization Leads to the Loss of Jobs: Normally when a private company replaces public operations the displaced public employees are given priority in filling jobs created by privatization.

Privatization Penalizes Smaller Companies: In a fairly conducted “managed competition,” small companies with a lower corporate overhead often are successful

in winning contracts. Sometimes, local governments divide their city into collection districts and award contracts by district. However, this method will not produce the lowest overall costs for residents because it limits the value of economies of scale.⁹

Privatization Results in a Loss of Public Control: All disposal facilities are subject to the same state and federal environmental requirements, regardless of whether the public or private sector owns them. However, publically owned facilities in about half the states do not have to comply with safety standards issued by the U.S. Occupational Safety and Health Administration because compliance by the public sector is voluntary. As a result, it is a myth that publicly owned disposal facilities provide a higher level of environmental or employee safety protection.

Privatization is Bad Because Private Companies Are Profit-driven: This is the most absurd of all the myths because its logic is that making a profit is incompatible with caring and professional, legal and ethical behavior. Private companies are profit-driven, but they understand that high-quality service, reliability and environmentally protective operations generate profits, which create jobs, protect the environment, and pay for new and more productive equipment. Private sector solid waste companies are generous participants in local community activities.



Examples: Despite myths suggesting that privatizing solid waste collection and management erodes the quality of these services, the cities with the highest recycling rates in America, San Francisco, California, and Seattle, Washington (pictured above), have fully privatized recycling services.⁸

HOW DOES PRIVATIZATION WORK?

Privatization is usually accomplished through contracts or franchises. It can also be accomplished through “subscription service” which lets customers contract for their solid waste service.

Contracts: Local governments select a qualified company through an open, competitive bid process. The winning bidder and the local government then work out the final contractual details. Normally the bid includes collection frequency and most operational details. In many cases, bidders are allowed to offer alternatives and show how those alternatives would result in better service at a lower price.

Franchises: A franchise and a contract are essentially the same in regard to bidding and contracting procedure. The major difference is that in a franchise, the private contractor collects payments from individual customers and pays the local government a franchise fee. In a contract, the local government collects payments and pays the private company a contract fee.

Managed Competition: Another way to increase privatization is through “managed competition.” In this process, local solid waste departments compete with private contractors to provide solid waste services. While privatization does not occur if the public sector wins the contract, the intended result is that residents will benefit from the lower prices and increased services provided by a competitive bid.

In practice, managed competition often results in the public sector failing to take into account all the costs involved in providing solid waste services and some costs are underestimated. According to one study, this underestimation can be by as much as 30 percent. These “missed” costs include overhead, insurance and liability costs, fuel, oil and other supplies, maintenance costs and vehicles and equipment, whose costs are often covered in a separate municipal budget category. In the case of vehicles and equipment, those costs are often not fully amortized.

For a managed competition to work, the public sector bidder must be completely separated from the local government’s procurement office. The public bidder cannot receive any inside information or favors from that office.



Examples: Morris County, New Jersey, is becoming a hotbed of privatization efforts, as many towns, including Morristown, its county seat, privatize solid waste collection. According to William Dressel, Executive Director of the New Jersey League of Municipalities, “Privatization is not news to local government officials who, for decades, have been using this tool, where appropriate, to deliver citizen services effectively, efficiently, economically and ethically.”¹⁰ (Pictured above is the Ford Mansion in Morristown.)

OTHER RESOURCES

Learn more about privatization of solid waste management at NSWMA's website: www.environmentalistseveryday.org/privatization. If you have questions, contact NSWMA's Director of State Programs Chaz Miller at 202-364-3742 or cmiller@nswma.org.

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