The decision to privatize solid waste services: a lessons learned approach

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The practice of privatization—delegating governmental functions and the fulfillment of public needs to private vendors—is not new. Throughout the nation's history, federal, state, and local governments have often hired outside contractors to perform essential public functions. States have privatized a great number of governmental functions such as public works, health care, prisons, building security, and public works. Virtually every function of local government has been delegated to the private sector at some time across the United States. Exhibit I lists some of the many advantages and disadvantages touted by proponents and critics of privatization.

Up until the mid-1800s in the United States, solid waste management was the responsibility of private citizens and scavengers. With the emergence of large urban cities and associated solid waste problems at that time, many cities across the country assumed the collection and disposal responsibilities for solid waste management. Today, across the United States, local governments use contracting for a variety of solid waste services.

**Exhibit 1. Advantages and Disadvantages of Privatization**

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost saving measure</td>
<td>Reduced service quality</td>
</tr>
<tr>
<td>Greater flexibility</td>
<td>Higher costs</td>
</tr>
<tr>
<td>Greater choice of providers</td>
<td>Illusory cost savings</td>
</tr>
<tr>
<td>Greater efficiency</td>
<td>Increased service interruptions</td>
</tr>
<tr>
<td>Greater productivity</td>
<td>Loss of flexibility</td>
</tr>
<tr>
<td>Lower initial costs</td>
<td>Loss of capital</td>
</tr>
<tr>
<td>Lower unit costs</td>
<td>Less accountability</td>
</tr>
<tr>
<td>Greater risk sharing</td>
<td>Less control</td>
</tr>
<tr>
<td>Increased services</td>
<td>Dual system</td>
</tr>
<tr>
<td>Specialized skills</td>
<td>Potential corruption</td>
</tr>
<tr>
<td>Greater quality at lower prices</td>
<td>Potential discrimination</td>
</tr>
<tr>
<td>More jobs</td>
<td>Displaces public employees</td>
</tr>
<tr>
<td>Less red tape</td>
<td>Necessity for competition</td>
</tr>
<tr>
<td>Increased tax revenues</td>
<td>Weakened policies and values</td>
</tr>
<tr>
<td>Competitive pressure</td>
<td></td>
</tr>
<tr>
<td>Reduces size of government</td>
<td></td>
</tr>
</tbody>
</table>


**Level of Service and Control.**

Solid waste facilities are particularly vulnerable to public scrutiny regarding "environmental concerns" and some public officials prefer to have more extensive control over the operation of a project than is afforded by private ownership in order to satisfy these public concerns. With public ownership, the community has control over all aspects of system operation and levels of public services. Some public officials prefer to distance themselves from public involvement in such projects and prefer private ownership. However, the community could only have limited control over operation of a privately-owned system. This typically includes only...
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Updates to County Employment. Outsourcing of solid waste services may result in a reduction in a community's workforce (salary and benefits). When implementing outsourcing, some positions could be transferred to a private contractor reassigned within the local government. However, it is unlikely that all the positions would transfer to a private company, nor would the benefits provided to the community's workforce necessarily be comparable to the benefits provided by the local government.

Impacts to Waste Reduction and Recycling Goals. Local government in most cases is ultimately responsible for providing the infrastructure and services to meet the state and local recycling goals. Under a publicly-operated program, the community has direct control over its progress towards these goals and its cost effectiveness. However, under an outsourced solid waste program, a contractor may have incentives that conflict with these waste reduction goals, depending on the structure of a contract.

Community Pride and Public Perception. Community pride and public perception are difficult to gauge with respect to solid waste services, except when there are complaints pertaining to problems with the quality of the services being provided or inconsistencies or changes in the level of service. The community's waste management staff is well known throughout the community. Its staff generally takes pride in the services they provide in dealing with special circumstances such as deferring some landfill disposal costs for nonprofit organizations or special community events ("free disposal"), or accepting nonhazardous, special wastes from other governmental entities (e.g., public works, municipal offices, etc.). Outsourcing solid waste services could change public perception, although private companies also take pride in the quality of the services they provide as well.

Ability to Respond To Technological, Regulatory, and Socio-Economic Changes. Private companies tend to respond quicker than government agencies to...
changes in technology (e.g., LFG-toset
energy), regulatory initiatives (e.g.,
disposal bans), and socio-economic
changes (e.g., downturn in the
economy). When change requires
capital investment (e.g., new landfill
disposal equipment, drop-off station
improvements, etc.), the private
sector is typically able to more quickly
respond to these financial needs with
more readily available access to private
capital. Due to its nature, use of public
capital is subject to careful budgeting,
planning, and the political process.
Local government operations also have
the added step of gaining consensus
and approval of the political decision-
makers before implementing major
program changes. The political process
can affect the speed of change.

Some Possible Options

County Ownership and Private
Operation. Across the United States,
local governments use contracting
for a variety of solid waste services.
Currently, about 60 percent of
publicly-owned landfills are managed
or operated by private firms. Exhibit
2 shows a comparison of general
advantages and disadvantages to this
arrangement.

For landfills, many local governments
have entered into long-term
agreements ("end-of-life agreements"),
which in essence specifies that the new
landfill operator is responsible to meet
operating/regulatory conditions.

Asset Sale. Under this management
alternative, the community would
issue a Request for Proposal (RFP)
requesting proposals/bids from private
companies for the operation and
ownership of the community's solid
waste assets, including closure and
post-closure care of all landfill areas.
Once the business arrangement is
completed, the community could
request that its escrow funds for
closure and post-closure care be
returned to the community from the
state. The private company will then
have full responsibility to the state for
closure of the landfills. Some items
that the community could possibly
negotiate for under this option include
the following:

- Guaranteed disposal for all solid
  waste.
- Long-term preferred rate (tipping
  fee) for the disposal of solid waste
  generated in the community.

- Set limits on the amount of solid
  waste that the private company
  can bring in from outside the
  community.

What's the Process?

While privatization has been
implemented in different ways by
various public agencies, a structured
approach consisting of the following
basic steps tends to improve the
chances of successful privatization:

- Develop a document
  (performance statement of work) that
  provides a comprehensive
  description of the types and level
  of service it provides, and clearly
  articulate the expectations it
  would have of a contractor were
  it to outsource all or part of the
  services it currently provides.
  This document could serve as the
  framework for a bid specification.

No one ever wants to accept
liability for potential risks (e.g.,
contamination) that exists on a
site because of prior events and
activities. The typical approach
is to do a "baseline" study to
define the existing conditions
and then provide this in either
the procurement document or

| Exhibit 2. Public Ownership and Private Operation of Solid Waste Facilities |
|-----------------------------------------------|-----------------------------------------------|
| **Advantages**                                    | **Disadvantages**                               |
| Maintains all assets                              | Government may maintain some liabilities       |
| Maintain complete oversight of the system        | Remain responsible for capital needs           |
| Maintain or enforce regulatory authority          | May face difficulties maintaining operating expertise |
| Create a context for running facilities like a business | Monitoring costs for the agreement           |
| Tap into a breadth of public sector experience and knowledge | Potential lengthy contract negotiations      |
| May specify in the contract controls on their solid waste stream and prices charged |                                                                 |
| Benefit from innovative techniques without going through government bureaucracy |                                                                 |
| Takes advantage of competitive opportunities to save money |                                                                 |
contract that the asset purchaser has no liability for pre-existing conditions. Another option is to sell the sites "as is." I generally do not recommend this approach for maximizing the sale price. Indeed, one would expect the purchase price to be significantly reduced in cases where the contamination is bad, or not well defined, or subject to major uncertainties affecting the cost of cleanup.

- Get input from the community and the private sector regarding the service level descriptions and expectations.
- Develop and issue an RFP and allow the community the flexibility to award or not award a contract depending on the results of the bids.
- Perform a comparison study of in-house versus contractor costs.
- Evaluate bids based on costs, level of services, track record, and the intangible factors described above.
- Develop a thorough contract monitoring system.

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References


