

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 1 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.

Some Factors to Consider

Evaluating the changes to a community’s cost structure from outsourcing or eliminating certain services (e.g., landfill or drop-off station operation) is relatively straightforward. The intangible factors, however, can be just as important as the cost factors in making a decision to outsource services or not. A discussion of the factors that could affect the

decision to outsource solid waste services is briefly provided below.

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

Exhibit 1. Advantages and Disadvantages of Privatization

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

Source: Rosen, 1997.



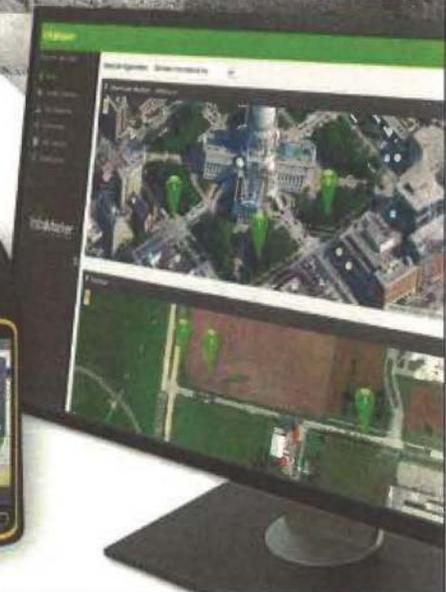
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rights to inspect the facility and require periodic tests to demonstrate guaranteed performance levels. It comes a subjective decision for the entity to weigh the public's reaction project control when making the ownership decision.

Impacts 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 or 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 staff necessarily be comparable to the pay and benefits currently 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 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-to-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 Maintain complete oversight of the system Maintain or enforce regulatory authority Create a context for running facilities like a business Tap into a breadth of public sector experience and knowledge May specific 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	Government may maintain some liabilities Remain responsible for capital needs May face difficulties maintaining operating expertise Monitoring costs for the agreement Potential lengthy contract negotiations

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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