

CITIZENS LEAGUE
530 Syndicate Building
Minneapolis, MN 55402

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Statement Concerning Alternatives To
Solid Waste Flow Control

Recommendation

We recommend that the legislature amend the 1980 Waste Management Act to require that those who propose to implement flow control in the Twin City metropolitan area demonstrate to the satisfaction of the Metropolitan Council that alternative ways of supporting the economics of resource recovery facilities are not adequate to make facility construction possible.

Findings & Conclusions

Communities throughout Minnesota are in the process of changing, in very basic ways, their systems for disposing of trash. They are in the early stages of shifting away from burying trash in landfills to burning it in facilities that generate steam or some other energy. A crucial decision policymakers need to make is: Whether the government should bolster the economics of these facilities, called resource recovery plants, by requiring people to use them.

Policymakers could easily be feeling today that they have no choice in terms of this decision. The political opposition to landfills is so strong that it could seem to any official essential to discontinue landfilling and move to resource recovery as fast as possible. Government planners are nearly unanimous in their contention that the authority to require people to use a resource recovery facility is necessary to make construction of a plant possible.

We disagree. We think good choices do exist that enable communities to move toward resource recovery with deliberate speed, and to set up systems that provide good disposal service at reasonable cost.

There are significant potential disadvantages to flow control.

First, by guaranteeing a resource recovery operator a supply of waste, the government relieves the operator of a major economic incentive to control costs and provide good service: the risk of losing haulers to other providers of disposal service.

Second, flow control, to the extent that it is imposed over a geographic area, places the burden of subsidizing a facility only on the people who live in that geographic area. This seems to us unfair, because all people in the region benefit from the resource recovery facility to the extent that it extends the life of landfills.

Third, flow control will be very difficult to enforce. Any time a hauler can realize significant savings by going to a disposal place that is less expensive than a resource recovery plant, the temptation will exist to do so. Public officials will not be able to follow after the 100 or so haulers operating in the Twin Cities today, to make sure they go to a resource recovery facility.

Fourth, flow control also makes it possible for a resource recovery facility to get built without the public being aware of, or debating, the actual impact on the costs for collection and disposal. When flow control goes into effect, no

one will be able to know for sure what the costs will be to haulers to rearrange their routes in order to use the facility.

The fact that flow control hides increased costs associated with resource recovery facilities makes it attractive to those people who want to make resource recovery possible. Flow control makes it possible for these increases to be passed along to homeowners and businesses without taxes being increased. We think this is a major disadvantage of flow control. Good public policy demands that increases in costs due to a change in service be visible to everyone and debated publicly before they go into effect.

There do not seem to be any strong advocates of flow control. Public officials are told that flow control is necessary to make possible the sale of government bonds to finance construction of a facility. It is the technique used to assure potential investors that the facility will receive waste and will sell energy, and therefore will be able to repay the bondholders. Some planners even suggest flow control will not need to be implemented, but only that the authority for implementation must exist in order to attract investors.

It is possible to have resource recovery without having flow control if you can contract with haulers for a supply of waste.

A contractual agreement can be established which stipulates the conditions under which haulers of refuse agree to dump their trash at a resource recovery facility. Collection and disposal of waste in Minneapolis is handled under such an arrangement today. The resource recovery plant in Saugus, Massachusetts, the one generally recognized as the most successful in operation in the United States today, also relies on contracts for its waste stream.

The contract can be drawn through negotiations with a consortium of haulers or on an open bid basis with separate haulers.

If contracting is not adequate to make resource recovery possible, there are at least two ways of subsidizing a facility which does not involve requiring people to use the facility.

First, governments could borrow money to finance construction through the sale of general obligation bonds and then ask private contractors to bid an operating subsidy to build, assume title to and operate a facility and pay debt service on the bonds sold to finance its construction. Under this plan, if a contractor defaulted on the agreement the government could take title to the plant, and advertise for new bids on its operation. Haulers would not be required to dump their waste at the plant. The operating subsidy would be financed through a government tax levy or some other revenue source. This subsidy would go to the facility operator. This arrangement is not totally unlike the arrangement used now for subsidizing the MTC. In the case of the MTC, however, there is no risk for the operator in losing his operating privileges if he fails to provide service within the subsidy level provided him.

A second alternative involves a minor change in the first. Construction of the plant would be financed the same way, and bids would be taken for subsidies required to build, assume title to, operate the plant, and pay debt service. Under this plan, however, instead of the operating subsidy going directly to the facility operator, it would be delivered to the haulers in the form of vouchers redeemable at any resource recovery plant. Under this kind of arrangement, facility operators would have to provide good service, or they would not attract haulers. Haulers would be free to go to landfills or other resource recovery facilities if they felt the service was better there.

All these alternatives to flow control include incentives for facility operators to control costs and provide good service.

Under a contractual arrangement facility operators would have incentives to provide good service and control costs in order to attract haulers at favorable terms. Haulers would continue to have choices about where to dispose of their trash.

In the first subsidy alternative--financing construction with general obligation bonds and providing operating subsidies to operators--incentives exist for cost control, because the operators would have to finance out of their own pockets the difference between operating costs and revenues (revenue from energy sales, dumping charges, and subsidies). In addition, the subsidies would be clearly visible from the start, and any increases in subsidies would be debated publicly. Incentives to provide good service would also exist, considering that haulers would not be required to go to resource recovery facilities.

The second option--whereby subsidies go to the haulers instead of to the operators--includes the incentives for cost control and good service present in the first alternative for the same reasons: facility operators have financial risks because subsidies are defined and limited, and haulers have choices about where to take their trash.

In both these options, essential to preserving incentives for facility operators is that haulers have choices about where to take their trash. If no choice exists, facility operators become, in effect, monopoly suppliers of service. Assured of customers, they have little economic incentive to operate efficiently and responsively. It is important to keep this in mind as debate occurs over who will own the new landfills in the region. If, as is expected now, the public owns all these landfills and the new resource recovery facilities, it could be difficult to retain choices for haulers in terms of disposal sites.

Another factor that could limit the effectiveness of either alternative would be a lack of vendors who could competitively bid for the right to operate a resource recovery facility. Without competitive bidding the public would have to continually negotiate the subsidy level with a sole operator, requiring public officials to develop expertise in the business of operating resource recover facilities. If competitive bidding exists among prospective plant operators, public officials can rely upon market forces to determine what subsidy level is appropriate.

There is no landfill crisis here, forcing the community to adopt flow control and move immediately to build resource recovery facilities.

The public outcry concerning the current landfill siting process may have convinced some officials that the community cannot move gradually toward resource recovery, following any of the alternative methods we have outlined. Some officials may feel that resource recovery facilities must be built as soon as possible, and that if flow control is necessary for construction then flow control should be permitted.

We think that, while resource recovery facilities may, and probably should, eventually be the principal method for disposing of trash, it is possible to continue landfilling until the right mix of resource recovery, landfilling and recycling has been established.

The principal objection to landfilling is that it could lead to pollution of

ground or surface water. We found, however, that it is possible to build landfills that protect the environment. Indeed, all the new landfills now being planned will be built with impermeable bases and collection systems to control leachate contaminants. The new landfills will be "closed systems" that prevent environmental damage.

It may also be possible to safely expand the existing landfills. Among the eleven landfills now operating in the Twin Cities area, it has been estimated that three or four have some pollution problems. Other landfills, however, such as the Pine Bend Landfill, have been constructed in areas where there is little chance of pollution occurring, even if expansion were permitted.

Our estimation of the environmental capacity to landfill in this region, based upon estimates made by the Metropolitan Council, and conversations with staff at the Pollution Control Agency and with landfill operators, is that the region has enough landfill capacity now, including expansion space, to continue landfilling at current rates through 1990. The construction of new landfills could extend that capacity to the year 2000.

We do not recommend landfilling as a preferred method of disposal. Our information indicates, however, that there is no need for people to look to resource recovery as a "quick fix." There is no disposal crisis here. The environmental capacity to landfill exists. The key question is whether the region has the political capacity to continue landfilling. We think the region should muster the political capacity to move gradually toward resource recovery, siting environmentally sound landfills in adequate number to permit the region time to set up the right arrangements for resource recovery.

Policymakers clearly do have choices about how to proceed toward resource recovery plants.

Communities in the Twin Cities and in Minnesota that want resource recovery do not have to panic and rush to build facilities. Landfilling is an alternative that can give communities time to try out different resource recovery technologies and plan for the right mix of resource recovery, landfilling and recycling.

Communities that want resource recovery do not need flow control to get it. They can contract subsidize facilities in other ways to make construction possible. A combination of contracts for waste, and or subsidies might also be feasible.

The Legislature should improve the 1980 Waste Management Act by changing it to require that local policy makers thoroughly debate the alternatives to flow control, before flow control can be implemented.

The Act already stipulates that attempts be made to contract for waste before flow control can be implemented. We suggest that the other alternatives to flow control also be specified in the law.