

CITIZENS LEAGUE
84 South 6th Street, Room 530
Minneapolis, MN 55402
338-0791

January 21, 1985

SOLID WASTE DISPOSAL--GETTING ECONOMICS INTO THE ENVIRONMENTAL SOLUTION

Summary

The Metropolitan Council is designing a solid waste disposal plan for the Twin Cities metropolitan area that would:

- * Prohibit placement of unprocessed solid waste in landfills after 1989. This means waste would be burned and the resulting ash placed in landfills.
- * Assign each hauler a designated disposal site based on where the waste is collected--unlike today's system, in which haulers can choose among competing disposal sites.
- * Make cost reimbursement largely automatic for owner/operators of disposal plants or for county governments, by allowing them to pass on cost increases to haulers, who in turn will pass on the increases by means of higher collection fees to household and business customers.

This plan is dangerous economically because it is totally insensitive to economic concerns. The plan and law create monopolies, eliminate competition and seem to ensure a system under which escalating costs will simply be passed along automatically through rising user fees or taxes. The environmental risks of the present system are real, and we should reduce them. But under the plan now emerging, costs could easily get out of control.

Ironically, just as a concern to slow the increases in costs of public services appears to be spreading to all levels of government, the metropolitan counties and the Metropolitan Council are moving rapidly to a system for solid waste disposal that--though not intentionally--sacrifices sound economics to the solution of an environmental problem. Government will be making more than a market; it will be determining market share, guaranteeing a supply of waste to specific processing or incineration facilities. Government will be, in short, creating a monopoly.

The proposed system lacks sufficient accountability, politically or economically. It may fix an environmental problem, but it surely will expose the community to out-of-control costs.

No waste disposal system merits support that does not demonstrate sensitivity to economic as well as environmental concerns.

The Citizens League through its previous reports and current study has adopted the following positions:

- * That the Legislature repeal statutory language that permits counties and the Metropolitan Council to designate the specific geographic site where waste from a given area must be delivered.

- * That the Metropolitan Council adopt standards to assure that unprocessed waste is not deposited in landfills.
- * That the Council only require haulers to use facilities that have Council approval, letting haulers choose among eligible facilities.
- * That the Legislature allow the Council to impose surcharges on existing landfills during the transition to the new system to assure that substandard facilities aren't given an unfair competitive advantage.

The Existing System Works

Solid waste disposal in the Twin Cities area is largely a success story.

Waste disposal now is conducted almost exclusively in a private, competitive market. It is competitive both on the "sellers'" side and on the "buyers'" side. Households and businesses or their local governments, as "sellers" of waste, have their choice of haulers. Haulers, in turn, resell the waste to their choice of "buyers", either landfills or recycling centers. In coming years, haulers' choice of buyers could be expanded to include operators of processing or incineration facilities. Or their choice of buyers could be restricted by governmental action. So far enough competition has been present among sellers and buyers to keep prices in line.

(Recycling has not yet achieved its potential for reducing the waste stream, but it has made progress commercially and recently shown signs of succeeding in raising household participation rates in some cities. To spur significant increases in recycling toward the goal in the Metropolitan Council's policy, positive inducements will be needed.)

The cost of the the present system is so low that most users cannot tell you what they pay.

So what's wrong? The problem is the threat that landfills pose to groundwater, combined with opposition to any proposed new landfill sites by nearby residents and the resulting political reluctance of county commissioners to site landfills. The result is the proposed shift to a new system for disposal.

The Proposed Changes

Three key elements make up the proposed new system:

- * Moving from burying waste to burning waste.
- * Imposing very large increases in the capital and operating costs of waste disposal in the region, because of the threat to the quality of the region's groundwater.
- * Replacing a system which has relied upon competition to control costs with a government-created monopoly, without cost-control incentives.

The Waste Management Act of 1980 was designed in part to force decisions on this problem, to confront the public with the necessity of phasing out existing and presumably unsafe landfills. Proposed solutions are now taking shape. In

each case, they leap from current landfills to burning--passing over a new generation of "model" landfills, which feature state-of-the-art linings and treatment of leachate, designed to minimize any groundwater threat. Leaning on the authority of the 1980 act, counties are moving to burn most (but not all) of the waste.

The options being considered are only: (1) mass incineration, with unburnable material and ash residue from burning taken to a landfill, and (2) intermediate processing of suitable waste at a special plant producing a refuse-derived fuel (RDF). RDF then is burned as fuel.

Underlying the current activity is the assumption, codified in the 1980 act, that burn plants, which cost far more than existing landfills, cannot compete and must be granted a monopoly. Thus, all current proposals would guarantee a specific share of the waste stream to each plant. This is called "designation," because a solid waste district is designated for each plant.

The Metropolitan Council has overall responsibility for these developments and is recommending a specific waste disposal strategy consisting of a percentage goal for recycling, including compostable material, but featuring the promise that no unprocessed waste will go into a landfill after 1989. So most of the action centers on the necessity of getting an alternative system in place as rapidly as possible.

The Fundamental Danger in This Course of Action

The region is inevitably moving to a waste disposal system that is significantly more expensive, a shift not unlike the disappearance of cheap oil and gas in the 1970s.

We are willing to pay higher prices to protect groundwater and, in light of current attitudes, believe that we must deal with the proposal to move from current landfills to burning. (We note, however, that a less-expensive option--second-generation, improved landfills--is being rejected without serious investigation or consideration.)

But we are not willing to allow costs to get out of control. The combination of the new burning technology with monopolistic "designation" is a dangerous strategy. The leverage the public has historically enjoyed on cost control is sacrificed for the short-term expediency of political confidence in getting the plants built.

How Would Costs Get Out of Control?

The system now emerging would be essentially a cartel. It would rely on centralized management to divide up the market, guarantee market share in advance, and block entry to the market of any newcomers. It would be a cartel regardless if it were (a) publicly owned and operated, (b) publicly built and privately operated or (c) privately built and operated but publicly subsidized.

The owner/operators of the plants would be guaranteed reimbursement of all costs, with the cost increases passed on automatically to haulers and, of course, through them to those who ultimately will be responsible to absorb the cost increases: households and businesses.

It is this system, with its built-in invitation to simply pass on future increases in costs to taxpayers, laid on top of an already costly switch from landfills to burning plants, to which the community ought to object.

Counties claim that they will protect the public from exorbitant cost increases through the contracts which they are negotiating with the owner/operators of the plants. What evidence exists analogously suggests that often contracts can be renegotiated when pressures arise. This has been the experience in virtually every contract between municipalities in the metropolitan area and their franchised cable TV firms, for example. Or, it is not unlikely that the owner/operators of facilities will insist that their contracts assure automatic increases in their service fees for virtually all situations where future cost increases are uncertain.

If we make a cartel, we should not be surprised when it behaves like one. If we design the new disposal system as an interconnected monopoly, we should not expect it to respond as though it were subject to competitive, performance, or efficiency pressures. We have had enough opportunity through the struggles in changing other major service systems to learn not to do this. While no analogies are perfect, even a cursory reflection on the pressures to redesign the health-care system suggests the enormity of the problem created when we insure that some important service is delivered by guaranteeing reimbursement of costs through some third party. That is exactly the kind of system the Metropolitan Council's proposal will cause.

Further, the policy of "designation" sends an unfortunate signal to the hauler industry. As smaller firms see that government is centrally controlling the waste stream, they could well conclude that only large firms will be able to do business under this new system; they get that sort of message, as well, directly from larger firms eager to buy out small haulers. "Designation" then, by monopolizing the stream of waste, creates the potential for monopoly results on the hauler side as well.

Is There Another Way?

Finding an alternative starts with remembering what the issue is. The problem at hand is not settling on how to get burn plants or RDF plants built. THE PROBLEM IS DISPOSING OF SOLID WASTE IN AN ENVIRONMENTALLY ACCEPTABLE AND FINANCIALLY EFFICIENT MANNER. With that mission in mind, "designation" becomes a problem, not a solution. "Designation" is the piece of the policy package that militates against efficiency; what it does is insulate haulers, operators, and regulators from the consequences of competitive practices by guaranteeing a monopoly. This shifts the threat from groundwater to the community's financial resources.

What has been nearly invisible in the public discussion of this issue is potential cost. The Metropolitan Waste Management Committee of the Metropolitan Council estimates that capital expense for a complete metropolitan system would be about \$345 million, and annual operating cost, \$122 million. The capital expense is roughly the same as that estimated for three legs of a proposed light rail transit system for the metropolitan area. It is approximately six times the capital expense of the Metrodome. The annual operating expense would be comparable to that of the Metropolitan Transit Commission.

The annual operating expense would exceed the current operating expense for existing landfill disposal by at least a factor of three and possibly by a factor of six or seven.

Clearly, these numbers are so large that any shift, up or down, in efficiency means a lot.

The commitment that policy makers feel toward "designation" is understandable. They have been told repeatedly that "designation" is absolutely necessary in order to insure that investors will provide the financing. But that is only an assertion, not a fact. We think evidence is abundant in other fields, such as hospital bonds, for example, where bond buyers haven't insisted on a guaranteed market share as the price for their investing in a project. And given the problems it presents for putting together a rational disposal system, monopolistic "designation" should be rejected as a foundation on which to build policy or plants. However, the owner/operators of such plants would have every right and strong incentives to pursue non-monopolistic approaches to assure delivery of an adequate supply of waste. For example, they would be able to arrange long-term contracts with haulers at mutually agreeable rates.

Under "designation", waste haulers lose the right they have today to select a disposal site based on price and service. Instead they are told which site to use and are required to pay whatever price is charged. Consequently, higher charges are passed through to householders and businesses.

In a competitive system of supplying waste, haulers would be able to select based on price and service which environmentally acceptable facility to use. A further advantage of a "designation"-free system is that owner/operators of plants would have an incentive to attract waste haulers wherever they might be located, instead of being limited to processing waste from within prescribed geographic boundaries. In fact the existence of "designation" means that private parties would likely never establish plants on their own, because they would not be allowed to seek additional customers beyond their assigned market.

It is possible to combine sensible economics and realistic politics and get the community's solid waste disposal mission accomplished.

The Legislature should:

- * Repeal existing statutory language that permits monopolistic "designation".
- * Direct the Metropolitan Council to adopt performance standards to protect groundwater. The Council would prescribe the steps to assure that unprocessed waste is not deposited in landfills and that incinerators do not pollute the air.
- * Require that the waste stream (exclusive of material that is recycled) be directed exclusively to facilities which satisfy the performance standards set by the Metropolitan Council, but without prescribing which haulers must use which facilities. In effect, the Council would be guaranteeing that all waste is deposited in environmentally acceptable facilities, but allowing each hauler to choose among competing facilities.

* Impose surcharges--such as the new surcharge being imposed in 1985--on landfills which, during the time of transition to environmentally acceptable facilities, will continue to be in operation. Such surcharges can be adjusted to assure that substandard facilities, because of lower prices charged to haulers, aren't given an unfair competitive advantage over the coming-on-board, environmentally acceptable, facilities.

In the meantime, the Metropolitan Council, which is charged by law with approving long-term contracts between counties and owner/operators of facilities, should outline specifically the potential economic risks to the taxpayers contained in these contracts. Such action should be taken irrespective of whether the Council believes a proposed contract should be approved or rejected. In effect, the Council will be giving the public a warning signal about what might happen.

The law need not provide a mechanism to direct what waste goes to which facility. Owner/operators will be able to negotiate agreements with haulers for delivery of waste. This is a normal business relationship and can assure owner/operators of sufficient supply to support construction of plants.

If public policy were to mandate region-wide "designation" (rather than guaranteeing monopolies), we believe that burn plants would be built. Plant operators would negotiate contracts with haulers to assure their supply of waste. During the transition period toward the new system, existing landfills can be surcharged so that they lose their economic advantage compared with the new system coming on line.

Let's accomplish the environmental mission without sacrificing the successes that distinguish the present system.