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*(Q1.2) How do local governments raise revenue? Where does the remainder of their income come from? Are local officials directly elected or appointed by a higher level of government?*

Common sources of income that are raised locally include: sales taxes, property taxes, and user or franchise fees.<sup>3</sup> In some states, counties and some local governments are allowed to collect income taxes.<sup>4</sup>

Additional sources of income come primarily from grants from higher levels of government. Some of these grants are for specific purposes, but many are generalized “block grants.” In some cases, local governments have to provide some degree of matching funds garnered from local sources to obtain

As noted above, restrictions on local government practices tend to be limited to civil rights, labor rights, and environmental issues or to criminal conduct standards. In these areas, the threat of withholding funds is the primary enforcement mechanism with respect to federal policies. Because local governments are creations of their respective states, state government mandates could be enforced directly through enforcement lawsuits or other disciplinary actions, but the threat of withholding grant money is commonly employed here as well.

There is little direct effort by higher levels of government to influence the way local governments operate in the areas of regulation and purchasing. If such measures were adopted by higher levels of government, withholding of funding is a likely enforcement measure. The options for applying this type of pressure on local authorities have been curtailed considerably, however, by the trend toward block grants and away from specific purpose grants that local governments have to apply for.

Under most block grants from higher levels of government, the local government has complete control over how the money is spent. Any savings can be spent as deemed appropriate by local government or returned to the people in the form of lower taxes. The primary restriction on using cost savings to lower taxes is that some grants require matching funds from local governments.

In general, there is relatively little pressure from higher levels of government for local governments to perform efficiently in regulation or procurement. However, there is a great deal of pressure for such efficiency enhancements from local taxpayers/voters and officials.<sup>9</sup>

This point is illustrated by survey data collected in the U.S. by the International City Manager's Association in 1997. Respondents were asked to identify factors spurring local government interest in adopting private service delivery (contracting out to private suppliers). The table excerpts the percentage citing each factor, across all respondents.

**Table 2. Factors Spurring Local Government Interest in Adopting Private Service Delivery<sup>10</sup>**

44%	External fiscal pressure
89%	Internal attempts to decrease costs

**Part II: Regulation and Procurement of Solid Waste Collection and Disposal Services**

**Background on survey statistics regarding provision of solid waste collection and disposal:** a useful data source for examining trends in the provision of local services in the United States is the series of

*(Q2.1) Who pays for solid waste collection services? Are they paid for by (a) local authorities; (b) customers (i.e. households and businesses); (c) some combination, or (d) some other source?*

The common patterns of payment for refuse collection include: a separate refuse collection assessment on each household or payment out of general tax revenues. (Note: there is a tax bias toward payment from general revenues. For individual tax payers who itemize deductions on their federal income taxes, local taxes are deductible in calculating taxable income while fees paid for similar services from private suppliers are not deductible.) Businesses often desire special forms of refuse collection and pay for these themselves. User fees collected by local government or by competing firms are somewhat more common in rural areas where government operated and financed services are somewhat less comprehensive than in urban areas.

*(Q2.2) Can other firms compete to provide solid waste collection services, either through a tendering process, or on a customer-by-customer basis? If so, how does the tendering process operate: What is the length of time between tenders? Are there any requirements on the tendering process designed to ensure adequate competition?*

Some degree of competition applies to residential refuse collection services in somewhat more than half of U.S. local governments. For various historical and cultural reasons, government employees are most likely to be the exclusive providers of residential refuse collection in larger cities in the Northeast and smaller cities in the South. Western cities of all sizes are more likely to utilize competition to procure residential refuse collection services. The proportion of services subject to competition rises to about 3/4 in refuse collection from commercial establishments.

There are many differing arrangements with respect to the method and frequency of tendering. As mentioned above, some local governments use a formal bidding system, while others rely on informal processes. Most local governments utilize contracts covering 3 to 7 years. Customer-by-customer competition is most common in collection of solid waste from commercial establishments.

One of the most interesting cases of contracting out of refuse collection services occurs in the city of Phoenix, the ninth largest city in the U.S. (1990). Since 1978, Phoenix has provided a tendering system in which private suppliers compete with city departments to provide services including residential solid waste collection.<sup>12</sup> Separate tenders are allowed for six sections of the city. A contract for refuse collection lasts for 5 to 7 years and one or more areas of the city come up for tender every other year. For each multi-year contract, private suppliers and the city's public works department submit bids to supply the service. The city then selects the winning bidder and contracts with that bidder. Both private suppliers and the city public works department have won bids. Private parties may serve up to half of the city at any one time. In the case of the bids of the city's public works department, there is a separate auditing department with the responsibility to ensure that the bid of the department is consistent with anticipated costs of providing the service. This helps 1) to ensure that the city department will not win the tendering by offering an unrealistic low bid, and 2) to encourage private parties to undertake the costs of preparing a bid.

*(Q2.3) Which prices are controlled by the tender? Are these prices fixed, or can they vary with changes in cost or demand? Does the contract specify how prices will be changed over time? Is the incumbent operator allowed to keep the benefits of any cost savings it makes? How does the government ensure that quality standards are maintained? How does the government avoid claims by the bidder ex post that it is unable to provide service at the current prices, which must be raised? Does the government own any facilities which are to be operated and maintained by the successful bidder? How does the government ensure that these facilities are maintained toward the end of the tender period? Has the local government established a separate institution for carrying out such tenders and enforcing the terms and conditions of tenders? If so, what is the nature and function of that institution?*







*(Q2.6) Are the prices charged to customers for solid waste collection regulated or set by government in some way?*

In three of the fifty states (Montana, Washington, and West Virginia), refuse collection prices are

construct and operate solid waste incineration facilities. The local government then sells the heat (or steam) produced from these facilities.

*(Q2.9) How is the market for recycling organized? What national or local legislative mandates provide incentives for recycling? Is recycling carried out separately from other waste management? Who pays for the service? Is there competition for recycling services? Are these services tendered? What is the nature of the tendering?*

The extent and organization of recycling varies considerably in different parts of the country. Some areas have extensive programs that collect and separate aluminum, steel, a wide range of plastics, cardboard containers, newspapers, and other paper. Much recycling is driven by environmental concerns and by avoiding costs of disposal. Recycling programs have arisen in part because of state and local government mandates to reduce the volume of refuse going into landfills. The state mandates typically do not specify how local governments must approach recycling. Some local governments have made recycling mandatory for commercial establishments in order to reach recycling targets.

Recycling is commonly carried out on a separate schedule from other solid waste disposal and usually employs separate equipment that allows collection personnel to sort the recycling items by separating plastics, metals, and paper. The range of materials collected for recycling varies considerably from city to city.

Recycling programs seek to be self-supporting, although success in this regard depends to a large extent on volatile prices for the recycled items, disposal fees that are avoided, and on public participation rates in the recycling program (route economies). In most cases, participation by individual households in the local government's recycling program is voluntary. However, local governments may employ various inducements to encourage citizens to participate. (For instance, one local government awards small cash prizes to randomly selected households that participate in the recycling program.) To the extent that financial support is needed for a recycling program, general revenues are typically used. Some federal and state funding is available to launch recycling programs. For example, funds from higher levels of government are sometimes used to provide consumers with recycling containers at the beginning of the program.

In the Phoenix example, recycling has been combined into the solid waste collection competitive bid process. Typically, waste collection and recycling are subject to the same type of procurement or combined as in Phoenix. In Phoenix, bidders are required to collect refuse one day per week and to collect recycled items one day per week. The contractor brings the recycled items to the city's recycling centers for processing. The city thus retains the functions of sorting and selling recycled items.

### **Part III: Market Structure and Competition Issues in Solid Waste Collection**

*(Q3.1) In those cases where the local government tenders for the right to provide solid waste collection services, how many bids are typically received? Do the same companies all regularly bid against one*

private bids.<sup>14</sup> The identity of the bidders largely has remained the same, but the city has a program seeking to encourage additional viable private bidders. More generally, local governments that are concerned about the number of bidders may be able to increase their number by developing a wider bid solicitation process or by modifying the terms of future contracts to encourage more bidders.

Because solid waste collection markets are local in nature and many continue to be served primarily by local government departments, competitive conditions in relevant markets are unlikely to

hauling. It was alleged that each of the defendants, acting with specific intent, used and enforced contracts containing restrictive provisions to exclude and constrain competition and to maintain and enhance their market power. BFI settled the case by agreeing to modify its contracts in those two markets. The types of



