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**Pittsburgh is Low-Balling its Garbage Costs**

The City of Pittsburgh is currently providing garbage pickup for the Borough of Wilksburg and will continue to do so through the end of 2010. The City claims it will save the Borough about a half a million dollars a year over what the Borough would have been paying its former private collector, and it wants to interest other municipalities in potential savings.

Based on the City of Pittsburgh's budget, which shows revenue of \$722,000 as an "Intergovernmental Services Fee" and the number of Borough households from which the City collects trash, 6,000 or so, the annual per household cost of the service to Wilksburg Borough is \$120. This is lower than the amount the private collector had planned to charge after implementing a rate increase: but is it the amount the City spends to pick up garbage for its own residents?

In order to arrive at an estimate of per household costs of trash collection in the City, we examined budget documents, financial reports, industry studies, and were able to construct an estimate of the per household cost of garbage collection in the City and concluded the City is not spending \$120 per household a year to pick up garbage within its own borders. In fact, the number is over \$200 a year.

As such, this raises doubts about the claims of efficiency from elected officials and City refuse employees and how much savings the City could deliver on trash and other services it is ambitious to expand.

Finding out how much it costs to pick up trash in the City of Pittsburgh was somewhat complicated given that officials in the City as well as the Borough were not forthcoming in releasing accounting information relating to the service. We were able to obtain the Intergovernmental Cooperation Agreement from the Borough and some basic information, but no data supporting the household collection cost in the Wilksburg contract was released.

So how did we arrive at the estimate? We started with a 2004 Mayoral Financial Forecast that contained performance indicators on all City functions, including Environmental Services. Those indicators showed that trash collection represented about 85 percent of the combined labor hours of refuse and recycling, so we estimated that about 85 percent of the Bureau's budget was related to trash collection, and that amounted to \$9.4 million.

The Bureau's budget does not account for the personnel related expenses of fringe benefits and workers' compensation—the latter being an expenditure notoriously high in garbage collection—those expenses were applied proportionately to the garbage operation, adding another \$9 million

to garbage collection expenditures. Likewise, fuel is a Citywide budget item but using a reasonable estimate of annual consumption per truck we estimated the refuse share at \$1.7 million. Finally, we constructed a capital cost for garbage vehicles, \$3.1 million, and placed annual maintenance at \$1.5 million. Combining these puts the City's true garbage operation cost at around \$23.2 million. Spread over 115,000 households, the City's per household cost is \$202, about 68 percent higher than the amount Wilkinsburg is being billed for collection service.

What are the implications of the City making a below cost foray into garbage collection beyond its municipal borders? For one, City residents are subsidizing the venture; in the case of Wilkinsburg, to the tune of about \$480,000 per year based on the fact that, if the City was charging \$202 per household in Wilkinsburg, the Borough would be looking at a remittance of \$1.2 million instead of \$722,000. The subsidy cost to City taxpayers will become even larger if the City expands service at the low rate to other municipalities. Second, the City loses its claims of being more efficient than the private sector. Third, it raises the issue of the City doing what it has always accused the private sector of doing; undercutting the competition with a lowball bid.

City officials remain bullish on the potential opportunities the Wilkinsburg agreement presents and that is the line they are selling. Not only do they want to expand garbage collection, they want to offer up animal control, building inspection, and other services to willing municipal buyers. The Mayor stated "You all know, as I do, that the cost of delivering government continues to rise". Ironically, many of the City's services are among the highest cost and least efficient in the County.

That's why it is so surprising that of all the functions the City performs it would lead with refuse collection as the "foot in the door" of contracted services. Studies going back to the 1996 Competitive Pittsburgh report through the Act 47 Quarterly Report of 2007 have found that garbage collection is an area ripe for reform. At various points these reports documented collection costs out of line with the private sector, high workers' compensation expenditures, low output compared to other cities, and so on. Now the operation is deemed efficient by virtue of its purportedly successful contract to provide service outside its borders and this is supposedly the springboard for moving into other areas. An accurate and complete accounting of the true cost of City produced services should prompt Council to take a second look.

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