



### Privatizing Garbage Deserves another Look

As city governments across the nation battle budget issues, the notion of privatizing some services is once again making its way to the fore. Detroit, which is in bankruptcy, agreed earlier this year to contract with two private waste haulers for residential trash and recycling pickup services and is expected to save taxpayers \$6 million annually. Flint, Michigan, operating under an emergency manager, took the same path in 2013 with expected savings of around \$1 million annually. While Pittsburgh is not facing bankruptcy, it is still operating under financial distressed status, going on ten years now. It's time to give garbage privatization a look, or in the case of Pittsburgh, another look.

This is not the first time the subject of the City privatizing waste removal has been suggested. The Allegheny Institute first wrote a full length report on the subject in 1996 (*Report #96-18*), and subsequently a *Brief* in 2007 (*Policy Brief, Volume 7, Number 56*), and a report in 2008 (*Report #08-02*). Of course we are not the only ones to take up this mantle. Two task forces also made the suggestion: Competitive Pittsburgh in 1996 and Pittsburgh21 in 2002. The Act 47 team, working with the City while in distressed status, issued a directive (PW-04) called “Managed Competition of Solid Waste Services” to have private service providers submit bids for the southern neighborhoods.

As we wrote 2007, “In stage one, only private haulers would be permitted to bid in order to allow for ‘an opportunity to evaluate contracted services’. This would be followed by stage two, encompassing a larger service area, and ‘the City workforce shall be included among the bidders in competition with private contractors’.” But the City did not let it play out that way as the City’s Department of Environmental Services (DES) won a combined bid—stage one was never launched and the public did not have a chance to see how much a private company would have charged for collection services and how it would have compared to DES.

In the City’s 2014 operating budget we find a breakdown of DES expenses<sup>1</sup>. The two largest expenses are salaries and wages, projected to be \$7.88 million, and property services (disposal fees) at \$3.5 million. The remaining categories such as supplies, property, professional and technical services push the Department’s total to \$11.7

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<sup>1</sup> City of Pittsburgh 2014 Operating Budget, page 262.  
[http://apps.pittsburghpa.gov/cbo/2014\\_Operating\\_Budget.pdf](http://apps.pittsburghpa.gov/cbo/2014_Operating_Budget.pdf)

million. Keep in mind that two large expenses are not included in this total: employee benefits and workers' compensation costs. We had mentioned in our 2008 report that benefit costs are roughly one-third the value of salaries. Thirty percent of the above mentioned wages and salaries would be approximately \$2.3 million. Accounting for benefits runs the total up to \$14 million. But there is one more component to consider—to wit; workers' compensation costs.

In a 2004 study performed on behalf of Pittsburgh's other overseer, the Intergovernmental Cooperation Authority (ICA), the results found that while the DES comprised 5.8 percent of the City's workforce, they were responsible for 52 percent of workers' compensation claims. Furthermore the report notes that over a third of those claims results in a change in work duty status for the claimant. For fiscal year 2013, the amount of workers' compensation claims for the City came in exceeding \$19.3 million with claim payments of more than \$22.7 million. This amount has been fairly consistent for quite some time. When we wrote the *Brief* in 2007 we noted that it was about \$20 million and the 1996 report showed the amount at \$18.9 million for 1995 and \$20.3 million in 1994—not much has changed over the last twenty years.

Thus if we estimate workers' compensation costs for DES at roughly half of the 2013 claims, we can add another \$9 million to the Department's expenditure estimate for a total of \$23 million. Broken down to a per-property served basis, for the 115,200 residential properties served (five dwelling units or less, the Housing Authority, the Borough of Wilkinsburg, and City government buildings) the per unit annual cost is just under \$200. Of course the City's contract with the Borough of Wilkinsburg is expected to bring in \$904,000, so even if that amount is removed from the gross of \$23 million, it still leaves a net cost to City taxpayers of \$22.1 million or a per residential property amount of \$202 (removing the 6,000 residential properties in the Wilkinsburg contract). Looking at it from a per City resident basis, with 305,700 residents the per capita amount is slightly more than \$72.

So in a City that is looking to save every nickel it can, now is the time to give privatization a fair chance. In addition to Detroit and Flint, Michigan, other cities are contracting with private firms to remove their refuse and recyclables. Omaha, Nebraska, one of our four Benchmark cities, has privatized its waste collection. In Omaha, the contract with the private hauler, who services residential properties only, is worth \$14 million. Their department of public works does still engage in oversight of the program and pays landfill fees, so the total cost of waste removal is \$17.5 million (conversation with Omaha finance official). For a city with 421,500 residents this amounts to a per capita cost of roughly \$41.50.

While we can only speculate about how much a private hauler would bid to take over the City's garbage collection, we can use the Omaha experience as a rough guide. If a private company can do the job for \$41.50 per resident—\$30 lower than the DES is currently spending—the cost to the City would be \$12.7 million. The savings would be about \$9.4 million or roughly the same amount the City is paying in workers' compensation payments attributable to DES. Keeping in mind that the savings wouldn't

follow immediately as claims already in the system will have to be satisfied, but there would be no new claims. Thus, over time the enormous worker compensation savings will be realized and help the City enormously. Then too, the employees would no longer be on the City payrolls reducing the buildup of pension liabilities. Cutting the City's employee to resident ratio to a level closer to that of well managed US cities is a probably the best way to assure Pittsburgh's long term financial stability.

The benefits of outsourcing are reduced costs to City taxpayers which of course includes the corresponding reduction to workers' compensation claims/payments. The City should revisit the Act 47 team's directive, mentioned above, to solicit bids for the southern neighborhoods. When the bids come in and are compared to the DES's costs, all DES costs should be taken into account including employee benefits and workers' compensation. While private companies try to keep costs down to earn profits to the benefit of owners/shareholders, public sector agencies should try to keep costs down to benefit their citizens/taxpayers.

With the City still under financial oversight and still struggling to keep expenditures in check, no opportunity to produce savings now and into the future should be off the table.

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