



LETHBRIDGE
CHAMBER of COMMERCE®

Solicit Bids from Private Industry on Recycling Contracts

Issue

The City of Lethbridge's Infrastructure Services Department has recommended to Council that they institute a city-run residential recycling service without issuing a call for proposals to explore the option of using private contractors in order to ensure that the taxpayers of Lethbridge receive the best value for their dollar.

Background

Over the past 12 months the City of Lethbridge has moved towards instituting a city-wide residential recycling service and the creation of a city-owned 14 million dollar, 10 tonne-per-hour MRF located at the civic Waste and Recycling Centre. In recent months it has become apparent that, acting on the recommendation of the City Administration, Council is poised to approve the provision of these services as an extension of the municipal garbage collection and waste services without exploring bids from private contractors.

The Lethbridge Chamber of Commerce is concerned by this trajectory and is calling for Council to direct the City Administration to issue requests for proposals for the proposed contracts to private industry before recommending a final plan for Council to review.

Note

The Lethbridge Chamber of Commerce wishes to emphasize that we support responsible municipal waste diversion/recycling and support the Residential Waste Diversion Strategy as set forward by the City of Lethbridge (November 30, 2015).

Justifications

The following list of reasons forms the basis of our request that City Council direct the administration to issue a call for proposals to private industry for the proposed recycling services.

1. Most Lethbridge residents want the City to put out a request for proposals

In the month of April, 2017 the Chamber of Commerce conducted an online poll of the general population of Lethbridge. This poll solicited enough feedback to be reasonably representative of the population as a whole with an estimated 95% confidence level (+ or – 3.37%) based on mixed snowball and random sampling via Facebook distribution algorithms and widespread posting through numerous online community forums

**“70% of
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recycling**

The poll returned the following results:

- 94% of residents regularly recycle
- 60% of residents are not happy with current recycling options
- 73% of residents think the city needs curbside recycling for all residents
- **70% of residents think the city should ask for bids from recycling businesses**

**Please note that these results are representative of the population of Lethbridge as a whole and are not necessarily the adopted positions of the Lethbridge Chamber of Commerce or its membership.*

2. The City has a responsibility to taxpayers to explore all options

The study conducted by Skumatz Economic Research Associates Inc. into feasible options for providing curbside recycling recommended that the City pursue the public option based on a scoring of the various recycling alternatives. However, the assessment includes a number of unjustified assumptions. These include the assumption that profit margins for private industry would offset the increased cost of city-run labour and overhead, that stranding city assets by reducing garbage collection services or reducing city-staff employment are negative factors, that the city can provide better customer service, and that the city can provide more effective customer outreach.

In addition, the same study looked at numerous comparable cities to see how they are conducting their waste diversion. Cities using private options and cities using public options reported a wide range of situations, reporting both positive and negative outcomes from public and private options. Significantly, the study offered a glowing report of the situation in Red Deer, Alberta, where the municipality has had a very successful relationship with a contracted hauler.

The factors which yield success or failure in any of these scenarios seem to have much more to do with the quality and conscientiousness of the parties involved rather than whether or not the option is private or public. If this is the case, the City would be doing its citizens a disservice by defaulting to the public option and not exploring all options in order to ensure that they are giving residents the best deal for their dollar.

“The City would be doing its citizens a disservice by defaulting to the public option without exploring all possible arrangements.”

3. Private industry should shoulder the risk instead of the tax payer

If recycling contracts were to be issued to private industry, the financial risk of the project would be largely shouldered by the companies involved. This risk is a fantastic motivating factor to encourage companies to innovate and build systemic efficiencies that keep costs down in order to preserve their profit margin. If return on investment for private industry is unsupportable, they are forced to find or develop new efficiencies or else face going out of business. With a city-run option, if the system is unable to pay for itself, *it is highly probable that taxpayers will shoulder the shortfall – even if there is no market for the recyclables*. Additionally, if various factors divert recyclables to alternate processing facilities such that the MRF is not able to work at capacity, this will put financial pressure on the city-run system which could also lead to increased costs for tax-payers.

4. Private industry is able to expand to provide regional services

Smaller centres around Lethbridge and Southwestern Alberta might also be keen to participate in a waste diversion strategy. Private industry has the regulatory flexibility to operate and compete in multiple municipalities at a time. A Lethbridge-based private hauler could easily expand to provide regular recycling services to nearby communities, further improving the environmental return on the initiative for our region and off-setting costs.

5. Private industry has a natural imperative to innovate to remain efficient and competitive

If the commodity price of recyclables collapses, private industry has every incentive to find new markets for their products in order to move their goods and protect their profits. On the other hand, city run services are far less motivated to innovate, since their fiscal imperative is merely to break-even. In this sense, private industry is far more likely to develop innovative ways to use or market recyclables, and therefore private industry is likely to produce a greater environmental return. It is

“The loser will always be the tax-payer who must shoulder any budgetary shortfalls.”

likely that if the City is unable to divert a recyclable product due to fluctuating commodity prices, it will be funnelled into the landfill or be placed in long-term storage.

6. The City should not have a monopoly on waste diversion

The creation of a city recycling service brings with it the effective monopolization of the waste diversion industry for our local area by that city service. Private enterprise is hardly likely to compete with a city-run and city-subsidized hauler that can operate with the freedom of not having to worry overmuch about their bottom line. With an effective monopoly on waste diversion in place, the city is free to set their rates to always yield break-even budgets, regardless of cost increases, inefficiencies, and fluctuating market prices which private enterprise would have to adapt to. The loser will always be the tax-payer who must shoulder any budgetary shortfalls. The environment could also lose out if growing diversion costs force local businesses to seek alternative waste diversion options outside of the region – provided by private enterprise. If this were to occur, the city service’s return on investment would drop, prompting further tax increases to subsidize the department’s budget. *This is a very real risk if more companies move into the waste diversion industry and find ways to undercut municipal diversion rates.*

An additional fear is that the sheer size of the proposed MRF will necessitate that it must operate at or near capacity in order to fiscally justify its existence, which could lead to the city moving into commercial and industrial waste diversion – especially if private contractors in this market-segment opt for diverting their recyclables through a different facility other than the city-owned MRF.

7. The City should not be in competition with private enterprise

It has been a long-standing policy of the Lethbridge Chamber of Commerce that the Municipality should not compete with private industry, but should rather be a facilitator of local commerce. A city-run service threatens to put at least three local companies out of business without even offering them the opportunity to bid on the contracts, despite the demonstrated ability of at least one of these companies (eFutures) to secure capital for rapid expansion. We believe that wherever possible

the city should encourage the provision of services by private industry with the belief that private industry can generally provide services that are more cost effective, more efficient, and more innovative.

7. Private Enterprise can have a greater environmental impact than the City

The City is proposing to build their MRF on the same property as the City Waste and Recycling Centre. This location is highly convenient for diverting waste, but not for moving recyclables to market. It is very likely that without a clear strategy for transporting these goods to market, and without a fiscal imperative to be profitable, many products will sit in a stockpile, costing the tax payers money. Private industry would be motivated from day 1 to move profitable goods to market and to find ways to make this process as efficient as possible. Additionally, private industry would be strongly motivated to find new markets and/or new uses for less profitable waste products. Additionally, private industry would be highly motivated to find ways to divert additional waste to increase the scope and profitability of their operations. It is therefore likely that employing a private contractor would yield a greater environmental impact than relying on a city-run service.

As an additional note, private industry is strongly motivated to gain resident participation in the program and is likely to work hard to educate and encourage residents to expand their use of the curbside recycling program in order to divert more waste and thus increase their profit margins.

8. Moving ahead with the public option without considering private industry would violate the City of Lethbridge's 2014-2017 Strategic Plan¹.

The decision by the City of Lethbridge to not put out a call for proposals for waste diversion contracts would, arguably, be contrary to many of the strategic goals laid out in the city's 2014-2017 Strategic Plan. We have outlined the conflicts below.

a. Strategic Goal 1.2

(City Council will...) *"Engage with citizens early and often using a variety of engagement tools and resources"*

City Council has moved ahead towards instituting a publicly run recycling service without genuinely engagement with the public on the issue of public vs. private. Local businesses currently providing recycling services were informed of the city's decision after the option had already been selected, rather than consulted in advance of the decision to not put out a call for proposals.

¹ <http://www.lethbridge.ca/City-Government/City-Council/Documents/City%20Council%202014-2017%20Strategic%20Plan.pdf>

(City Council will...) *“Identify and engage stakeholders in the decisions of City Council, and encourage active participation”*

The City has not engaged with local stakeholders regarding the decision to proceed towards a public option. As noted, the meetings held with local waste diversion businesses were held after the decision to proceed with the public option had ostensibly been made. Additionally, local interest groups and associations, such as the Chamber of Commerce - groups whose membership will likely be affected by these decisions, were not consulted on the issue of public vs. private. Furthermore, to our knowledge, the city did not consult with surrounding municipalities to consider the effects of the public option on regional partnerships and regional plans.

b. Strategic Goal 2.0

(City Council will...) *“Budget to achieve the current and future priorities of our community by ... Exploring the strategic risks and benefits of alternative funding options.*

In this issue, the private option has not been fully explored and so the City cannot claim to have achieved this strategic goal.

(City Council will...) *“Budget to achieve the current and future priorities of our community by ... Promoting financial best practices to achieve economic sustainability”*

Best practice in this matter would have involved fully exploring the options available by putting out a call for proposals to private industry to better understand the options available – particularly since the most comparable city (Red Deer, AB) in the Skumatz study enjoys a thriving cooperation with private contractors who provide their waste diversion contracts.

(City Council will...) *“Review services levels to maximize community value”*

Without analyzing proposals from private industry, the city cannot know if it is maximizing service levels for its citizens and giving them the best value for their dollar on waste diversion services.

(City Council will...) *“Provide opportunity for the community to better understand the value proposition in taxes, service fees, and utility rates”*

Our call for a motion in this paper specifically arises from the fact that the City has not demonstrated that the course which we seem to be on represents the

best value for citizens of Lethbridge. Without fully exploring the private option, there is a hanging question as to whether or not citizens are receiving the best deal – especially when comparable cities are getting good value from a private option.

c. Strategic Goal 4.2

(City Council will...) *“Consider ways to streamline city processes and make them more business-friendly”*

This initiative increases the size and scope of the city administration without due consideration to how the services could be outsourced to private industry. Additionally, it sends a very negative message to industry, and discourages the growth of private industry in the waste diversion market for our region.

(City Council will...) *“Increase our engagement and consultation with the business community”*

This goal has simply not been pursued on this issue. No consultation was conducted with local business or interest groups on the decision to pursue a private or public option *before the decision was made*. The only consultations with local businesses followed the decision and were to inform those businesses that the decision had already been made and to indicate to them where market gaps might exist that they could divert their efforts into.

d. Strategic Goal 5.1

(City Council will...) *“Investigate the implementation of curbside recycling”*

Our contention here is that the City will not have done their due diligence without fully exploring the options provided by private contractors.

Recommendation

The Lethbridge Chamber of Commerce recommends that City Council move to direct City Administration to issue Calls for Proposals for all proposed Waste Diversion Services which are being contemplated in support of the City’s Waste Diversion Strategy. Our chief concern is for the City to explore all options on behalf of the tax payer and our membership.

Corollary

To avoid any confusion The Lethbridge Chamber of Commerce wish to make it perfectly clear that we are not opposed *in principle* to a city-run recycling service ***if and only if it is demonstrably the most efficient option*** which yields the greatest value for the tax-payer. This cannot be determined without a request for proposals from private industry.