

# Section 7

## ALTERNATIVE STRATEGIES FOR FUNDING SOLID WASTE MANAGEMENT SERVICES

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### 7.1 Introduction

Carroll County currently funds their solid waste system entirely via tip fees charged on wastes delivered to County-owned disposal/processing facilities. Relying solely on tip fees results in upward pressure on tip fee rates as more and more system costs are lumped into the tip fees, and subsequent loss of waste if tip fees rise above the market rate for disposal.

The County is interested in better understanding alternative means of managing their solid waste system such that it can continue providing critical services while maintaining a sustainable source of funding. This document provides a detailed overview the range of solid waste management system strategies that may be considered by the County in the future to provide a higher degree of financial stability.

Specifically, this section describes the following solid waste system strategies, which address both service delivery and funding components. A brief definition for each strategy is shown below, and a full description of each of the strategies is set forth in this section of the Report.

#### ■ **Funding Strategies**

- **Tip fees:** Fees paid per ton or per cubic yard of solid waste delivered to a facility for processing or disposal.
- **System benefit charge:** An annual charge that is billed and collected as a special assessment on property tax bills.
- **User fee:** A monthly or quarterly charge that is billed and collected on a utility bill (often in conjunction with water, sewer, stormwater, electric, or some other existing utility service).
- **Impact Fee:** A one-time fee assessed to developers or builders at the time a permit is obtained for new construction. The impact fee is intended to offset the cost of infrastructure attributable to new growth in the jurisdiction.

#### ■ **Flow Control Strategies**

- **Hauler licensing/permitting:** Requirement for private haulers to acquire a specialized business license or permit as a condition of being authorized to provide collection services in a jurisdiction.

- Franchise/contract collection: Requirement for a contractual mechanism between the jurisdiction and private hauler(s) as a condition of providing service in that jurisdiction.

In addition, attached hereto as Appendix B is a discussion of the levels of various sources of revenues potentially available to the County from tipping fees, system benefit charges, and user fees, as well as an estimate of the cost per household associated with such charges.

## 7.2 System Benefit Charge

### Description

A System Benefit Charge (“SBC”) is an assessment charged to any and all customer classes within a municipality who receive benefits from having a municipally-provided solid waste management system infrastructure in place. SBCs are usually implemented as a non-ad valorem assessment for residential and/or non-residential customers on the property tax bill. SBCs are commonly employed by county governments to align with pre-existing taxing and collection functions, although cities can make use of SBCs as well.

Under an SBC, every customer is charged a fee for solid waste management services, regardless of who provides them with that service. An SBC is a flexible mechanism, in that it can be established to fund an entire solid waste management system, or specific portions of the waste management system. Often, it allows communities that own landfills to “unbundle” fees for non-disposal services that are rolled into the tip fee, allowing a reduction in the tip fee (i.e., allowing the tip fee to cover strictly the disposal costs).

For some communities, the SBC has been an effective strategy to ensure that adequate revenue is generated to manage a fully integrated solid waste management system, in the absence of flow control through collection contractual arrangements. The philosophy behind the SBC is that even those who do not use the service directly are benefited by the fact that the services are provided. For example, even if residents do not take advantage directly of a waste tire collection program, they benefit by not having waste tires disposed of illegally throughout the community. SBC’s are often used in conjunction with other types of funding mechanisms.

### Usage to Control Waste Flow

SBCs provide no direct control of waste flow. Rather, in communities that have historically recouped solid waste system costs largely or entirely by landfill tip fees, an SBC can have the effect of better controlling waste flow by providing a more market-competitive tip fee and thereby attracting more waste to the local landfill.

As a common approach, for communities that use tip fees to charge for their entire range of solid waste programs—drop-off recycling, bulk trash collection, public

education, etc.—an SBC could be implemented to recover the costs of these non-disposal services from the customer who benefits from the services. The tip fee could therefore be reduced, creating a market-based incentive for waste to continue being delivered to that jurisdiction’s disposal facility (or even attracting waste from surrounding jurisdictions).

As another approach, some counties have used an SBC to cover the cost of disposal for the waste generated by certain customer classes. By charging for disposal in the SBC, haulers who collect from that customer class are allowed to tip for free at the landfill. Although these haulers are not contractually bound to provide waste flow to the local landfill or transfer station, they have a market-based incentive to do so (as significant tip fees would need to be paid if they took the waste to another jurisdiction). Note that this form of flow control relies on a relatively elastic local disposal market where most or all of the haulers both within the local jurisdiction and also in surrounding jurisdictions are influenced by local disposal market prices.

## SBC Rate Structure Considerations

If used as a sole funding mechanism, revenue from an SBC must cover the costs of developing and maintaining the basic programs and facilities necessary to fulfill the County’s obligation to manage all solid waste generated within the County. SBCs must equitably charge customer classes for the service(s) received by each customer class. For example, if only a fraction of the single-family households receive a particular service (e.g., leaf vacuuming, drop-off recycling centers in select areas), then it is preferable to have separate SBCs for the customers with and without this service. Failure to differentiate the SBC between these customers raises equity issues that can undermine the SBC strategy. This can create administrative complexity in developing and implementing an SBC.

Because of the need to develop SBCs that equitably recoup costs from the customers who benefit from the services covered by the SBC, it is often necessary to separately assess by customer class, such as single-family, multi-family, or non-residential. Additionally, there may be a different level of benefits for customers in incorporated municipalities. As an example, Montgomery County, Maryland’s SBC differentiates between

- Customer class (single family residential, multi-family residential and non-residential);
- Incorporated vs. unincorporated municipalities;
- Areas receiving leaf vacuuming services; and
- Areas receiving County-provided collection services.

All Montgomery County properties receive a base SBC that covers basic solid waste management system infrastructure costs.

Palm Beach County Florida implemented a system benefit charge with four different residential categories, and several different commercial categories, which are assumed

to generate a particular amount of solid waste per square foot. The fees are based on results of waste characterization studies which provided the County with an understanding of the quantity of solid waste generated by each customer class, thus allowing the County to establish an equitable SBC.

An SBC can provide the County with a predictable, steady revenue stream that is flexible in nature, as it can be established to cover all costs, or just particular program costs. SBC's can even be charged just once to help pay for unexpected expenses or a capital improvement program. Citrus County, Florida used a sun setting SBC to fund landfill debt service until retirement of the debt.

## Stakeholders Impacted

System Benefit Charges can impact virtually every stakeholder in the County:

- **Waste Generators:** For each customer class to which an SBC is applied, there will be a separate line item on that customer's property tax bill reflecting the annual SBC amount. Although the SBC is being charged for a specific, defined service, the appearance of this charge on the tax bill can be perceived as an increase in local taxes. In the case of Carroll County, where most residential and commercial customers are only accustomed to paying their hauler to make their waste "go away," an SBC has the potential to be confusing and/or unappealing because it will be perceived as a cost increase.
- **Haulers:** Haulers are only impacted by an SBC to the extent the SBC allows the tip fee for waste from certain (or all) customer classes to be reduced. If the SBC includes, for example, disposal costs for residential waste and renders a zero tip fee for waste generated by this customer class, then every hauler that collects residential waste will be strongly influenced to deliver their residential waste to the County landfill.
- **County Solid Waste Management:** The County's waste management organization stands to gain a powerful source of revenue by implementing an SBC. However, there are numerous administrative and legal challenges to overcome in the establishment of such fees. SBCs often require detailed waste generation studies, a formal appeals process, and other costly functions to support the SBC.
- **County Tax Assessor/Collector:** Because the SBC is typically recouped on the property tax bill, County tax authorities will incur additional responsibility in maintaining certain data on the tax rolls that are required to develop the SBC, and also take on responsibility in the collection and dissemination of the SBC.

## Advantages

The following are advantages to SBCs:

- **Equitability:** SBCs should be designed to equitably charge all customer classes for the benefits they received from the solid waste management system. In

contrast, general-fund transfers for solid waste management services are less equitable, because general fund revenues are millage-based, not service level-based.

- **Financial Stability:** SBCs are a powerful means of securing a predictable revenue stream for a jurisdiction beyond tip fees and general fund transfers.
- **Rate Unbundling:** Ideally, SBCs should help unbundled extraneous charges from the tip fee, leaving the tip fee to strictly cover the cost of transfer and disposal of solid waste.
- **Economic Flow Control:** By placing the costs of disposal (or a subset of disposal costs, such as debt service or long-term care on a closed landfill) on an SBC and reducing the corresponding tip fee, SBCs provide a mechanism to lower tip fees and attract or retain waste flow via market forces.
- **Ease of Collection:** Because they are assessed through the tax rolls, system benefit charges are reasonably straightforward to collect. Compared to direct utility billing for solid waste services, which often have significant bad debt levels, SBCs achieve bad debt levels in alignment with property taxes.

## Disadvantages

The following are disadvantages to SBCs:

- **Complex/Costly to Implement:** Because rate equitability is so critical to establishing a legally defensible SBC, there can be high costs and long lead times associated with implementing an SBC. Determining an equitable fee for all customers—especially non-residential customers—may involve a waste generation study, which can be time consuming and costly.
- The primary cost of implementing an SBC comes from the potential need to develop defensible waste generation rates for each customer class. In the absence of verifiable data from a closed solid waste management system (i.e., where all customers are known to deliver all wastes to a local facility such that the customer counts and total tons are known, and therefore waste generation per customer or per cubic yard can be defensibly derived), waste generation analysis involves sampling waste set-outs from a representative cross-section of each customer class over a period of time to develop defensible estimates. For single family households, such statistical sampling is usually straightforward and can be coordinate with the route of a local hauler. Multi-family sampling is slightly more complex because of the need to collect normalize set-out quantities at a particular property by the number of dwelling units at the property. Non-residential generation is the most difficult to estimate, because generation rates differ significantly among different classes of business, and also because of the need to normalize results by some means (typically square footage).
- The cost of single family and multi-family waste generation studies will be impacted by the need to perform seasonal sampling. If waste generation does not vary significantly by season, the costs of a single season study can be relatively

modest. If it is necessary to perform two-season or even four season sampling the costs will increase proportionately. For planning level purposes, the cost of a single family study may range from \$30,000 to \$100,000.

- Non-residential waste generation studies pose significant logistical challenges on top of the complexity of the statistical analysis. Sampling must include both waste generation of a wide range of targeted properties, as well as research into the type of business, square footage (or other normalizing metric). Counties that have developed their own statistically-based non-residential generation rates have spent hundreds of thousands of dollars in support of such analysis.
- **Complex/Costly to Maintain:** Over time, critical parameters of the solid waste system may change, requiring the County to regularly update the basis for its SBCs. For example, waste generation patterns and/or County services may change, requiring the SBC to be revised on a regular basis every one or more years. Additionally, some SBC structures can create incentive for haulers to cheat the system—for example, recouping residential waste disposal through an SBC and reducing the tip fee to zero for residential waste creates an incentive for local haulers to add non-residential waste to “residential” waste to obtain free disposal.
- **Political Backlash:** As with any new fee imposed on a customer class, an SBC may be perceived as a new tax for services that have previously been provided “for free.” For example, in situations where customers are assessed for disposal costs in addition to paying for collection costs, the customers may feel they are “paying twice” for services. Public education and outreach during the SBC implementation process is critical to minimize this potential for backlash.
- **Reduction of Incentive for System Efficiency:** Because an SBC creates a captive, predictable revenue source, it can reduce the incentive to operate efficiently. For example, in a purely market-driven system, the most cost-efficient system configuration may eliminate recycling programs because the material revenues are not sufficient to cover the cost of administering the program. An SBC allows less efficient programs to be provided, because the rate structure can be altered to cover the costs—as long as the SBC rate is equitable..

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Advantages and disadvantages of systems benefit charges are summarized in Table 7-1.

**Table 7-1**  
**Advantages and Disadvantages of a System Benefit Charge**

Advantages	Disadvantages
Predictable source of revenue	Developing defensible, equitable charges for different generator categories can be costly and time consuming May increase tax bill at a time when local legislation is attempting to decrease taxes Creates a new administrative function Subsidizes technologies or system components that may not be supported by the market Additional fee may be perceived by public as an increase in taxes – may not be palatable to the public Customers may feel they are “paying twice” for solid waste management services
Can accumulate in a fund until needed	
Can be used in addition to or in lieu of a tipping fee	
Improved ability to collect	
Flexible way to allocate funds to needed areas of service	
Can decrease tip fees, making landfill tip fees more competitive	
Can be used to pay for debt service	
May indirectly help control the flow of waste to the County disposal facilities	
Can charge residents and businesses via an existing vehicle – the property tax	
Generally seen as more equitable than an ad-valorem tax.	
High payment rate (low bad debt)	
Lien can often be put on property if SBC not paid – effective enforcement tool.	

Funding strategy works best when:

- There is an enterprise fund for all solid waste management functions, including refuse and recycling collection as well as disposal and processing.
- It is only necessary to implement the fee for residential customer classes and exclude non-residential customer classes. This is because residential waste generation rates are relatively uniform, and waste generation analysis can be performed cost effectively. Non-residential generators have far greater variance in their generation rates, so the level of effort associated with developing defensible generation rates for the non-residential sector can be significant..
- Collection of solid waste/recyclables is provided by the jurisdiction or under managed contract or franchise.
- An addition to or itemization of the tax bill is likely to be accepted by the public.
- The local government already sends a tax bill to the same residents and businesses that would be charged the system benefit charge or can work with the local government that does.

## Steps to Implement the Strategy

The following steps need to be taken in order to implement a system benefit charge.

- Ensure political support for this funding approach.
- Determine the type and amount of program costs that will be covered by the fee.
- Determine the customer classes to be charged the SBC (businesses, residents, etc.).
- Determine the basis for quantifying each customer class (number of dwelling units, developed square footage, etc.).
- Determine the generation rates attributable to each customer class. It is likely that this will entail a County-specific waste generation study for each impacted customer class either before or soon after implementation of the SBC.
- Calculate rate for each customer.
- Explain SBC basis to affected stakeholders.
- Utilize stakeholder feedback to fine tune fee structure, as appropriate.
- Obtain elected official approval of final fee structure.
- Monitor costs and fee revenues, and adjust fees periodically, as needed.

## 7.3 User Fees

### Description

User fees are closely related to SBCs. Where SBCs are typically charged on the property tax bill as a non-ad valorem assessment, user fees are charged on a local utility bill, often in conjunction with other local utilities like water, sewer and/or electric. Because most counties do not provide a county-wide utility, user fees are a less common instrument for county governments.

Like and SBC, user fees are designed to charge households and businesses directly for the element(s) of the solid waste management system from which they are directly benefiting—often collection and disposal. For this reason, user fees are often employed when the jurisdiction is actively providing collection services, either through a franchise/contract or with municipal crews.

The user fee system of funding solid waste services promotes equity by linking the cost of specific waste management services to the level of service received by a household or business. User fees generally are not used as the sole funding mechanism for a solid waste management system, but instead are part of a system that also includes franchising, contracting with private service providers, pay-as-you-throw, or some combination of these.

User fees are typically implemented as monthly or quarterly payments. Periodic recurring user fees can be imposed and collected by a local governmental entity via billing through government-owned utilities. Pay-as-you-throw user fees are generally paid directly by customers to the local government utility when the customer purchases the required sticker, tag, or bag, or selects a specific sized cart for refuse disposal.

In an open collection system such as Carroll County, private haulers charge residents and businesses user fees for collection and disposal. Although the County has no hand in the collection, County constituents are already accustomed to paying user fees.

## Usage to Control Waste Flow

Like SBCs, user fees provide no direct control of waste flow. Rather, in communities that have historically recouped solid waste system costs largely or entirely by landfill tip fees, user fees charged by the County in conjunction with County-managed contract collection, can have the effect of better controlling waste flow by allowing costs to be shifted out of the tip fee, thereby attracting more waste to the local landfill.

- **Example:** A customer pays a user fee to the local government for curbside collection serviced by a franchised or contracted hauler:

Those haulers are most likely required by the stipulations of the contract (see section on Franchise/Contract Collection) to deliver waste collected under the contract to a publicly-owned disposal facility.

## Revenue Considerations

When considering the implementation of user fees, the County must first determine:

- **Services to be Covered by the Fee:** The fee could be a full fee, where the customer pays the entire cost of collection and disposal through one billing source (such as a utility bill) or partial, where the customer pays a monthly fee on a water bill for collection services and also pays an annual assessment on through taxes to cover disposal costs, for example.
- **The Customer Base:** The user fee could apply to residential customers only, commercial customers only, or both.
- **Fee Structure:** The fee could be the same for all customers, or it could vary depending on customer type and/or level of service. Regardless of the cost of the user fee, it should remain standard from month to month, or for whatever period of time the customer will be billed for services.
- **Mechanism for Collecting Fee:** Next, the County would need to establish how the user fee is to be collected. Options include:
  - Payment on an existing utility bill (generally monthly or quarterly);
  - Establishment of a new billing mechanism; or

- Sale of special refuse bags, tags, or stickers (in the case of a pure pay-as-you-throw system).

Advantages of flat and variable rates are summarized in Table 7-2.

Table 7-2  
Advantages and Disadvantages of Flat Vs. Variable User Fees

Fee Type	Advantages	Disadvantages
Flat	<ul style="list-style-type: none"> <li>Results in a more predictable revenue stream</li> <li>More simple to administer</li> <li>Customers able to predict/budget easily</li> </ul>	<ul style="list-style-type: none"> <li>Perceived to be like a tax</li> <li>No incentive to recycle or reduce waste</li> </ul>
Variable	<ul style="list-style-type: none"> <li>Perceived as more equitable</li> <li>Depending on structure, may provide financial incentive to recycle or reduce waste</li> </ul>	<ul style="list-style-type: none"> <li>More complex billing</li> <li>More difficult to predict revenues</li> <li>May involve sales points for bags, tags, or stickers, which can be complicated and time-consuming</li> <li>May require additional enforcement, such as PAYT at convenience sites</li> <li>More difficult for customers to budget/predict cost of services.</li> </ul>

## Stakeholders Impacted

### Waste Generators

- Even in an open (subscription) collection system, many households and almost all businesses will already have hired a private hauler to collect and dispose of their waste, so the concept of a user fee is usually not foreign to the customer base. However, in jurisdictions where the option exists to self haul, the imposition of a user fee may be perceived as burdensome additional regulation. Additional fees are not generally welcome, however user fees are more positively perceived than taxes. Similarly, if a fee is associated with a level of service received, that is more positively perceived.
- Generators can budget better for flat fees vs. variable fees.
- May be encouraged to minimize waste and recycle if user fees are linked to amount of waste disposed via a variable rate or pay-as-you-throw system.

## Haulers

Haulers are impacted to the extent that they either

- Are responsible for collecting the user fee;
- Benefit from a lower tip fee because some service fees are “unbundled” from the current tip fee; or
- Face a franchise/contract collection scenario in conjunction with user fees.

## County Solid Waste Management

- The County’s waste management organization stands to gain a powerful source of revenue by implementing a user fee (in conjunction with contract collection)
- Assuming an appropriate utility exists on which to piggyback user fee billing, the County can use user fees to incent recycling if a variable rate structure is established, thereby decreasing the quantity of waste to the landfill
- Numerous administrative options must be considered, such as:
  - Development of equitable user fees; and
  - Development or adaptation of billing mechanism or bag/tag/sticker sales outlets.

## Existing County Utilities

- May become involved in the user fee billing function;
- Would need to interface with solid waste management department to convey non-payment issues, etc.

## Advantages

The following are advantages to user fees:

- **Equitability:** User fees should be designed to equitably charge all customers for a service they receive. This is considered more equitable than a millage, which is based on property value.
- **Guaranteed Source of Revenue:** Although the amount of revenues can be less predictable than system benefit charges, all customers receiving particular services will be expected to pay the established user fee.
- **Rate Unbundling:** Ideally, user fees should help unbundled extraneous charges from the tip fee, leaving the tip fee to strictly cover the cost of transfer and disposal of solid waste.
- **Economic Flow Control:** To the extent that implementing a user fee result sin the “unbundling” of service costs from the tip fee, thereby reducing the tip fee, user fees can encourage economic flow control to the County landfills.

- **Creates Platform for PAYT:** Once the user fee is established and an appropriate utility billing mechanism is in place, the fee structure can be converted to being volume based, which has been shown to increase diversion and recycling.

## Disadvantages

- **Requires Existing Utility that Covers Geographic Area:** In order to bill and collect user fees, there must be a utility billing capability that covers the jurisdiction's entire customer base. While this is often the case for cities that provide certain utilities, most counties do not operate county-wide utilities.
- **Less Comprehensive than an SBC:** SBCs are better able to recoup some portion of solid waste system costs from virtually every residential and non-residential property within the jurisdiction. User fees are typically only charged to customers who are receiving collection service (although it is possible to include the costs of other non-collection services on a user fee).
- **May be Resisted by the Public:** Although a user fee is generally more palatable than a tax to residents, establishment of a new fee may be perceived as a tax by those who are accustomed to self-hauling their waste.
- **Can be Difficult to Predict Revenues (Variable Rate only):** If the user fee is implemented as a volume-based rate, it can be difficult the County to predict revenues and for customers to budget for solid waste management services. This is particularly true with pure variable user fees (i.e., by the bag or tag).
- **Greater Risk of Non Payment:** Because user fees are charged on the local utility bill, they will typically experience the same level of bad debt as the other charges on the utility bill. Because of the billing and collection mechanism, user fees generally have a greater risk of nonpayment than system benefit charges charged on property tax bills.

Advantages and disadvantages of user fees are summarized in Table 7-3.

Table 7-3  
Advantages and Disadvantages of a User Fee

Advantages	Disadvantages
<p>Guaranteed source of revenue</p> <p>Can be part of a contract collection program which may be effective in directing waste to County landfills</p> <p>Seen as more equitable than a tax, particularly if variable rates used</p> <p>Can be based on quantity of waste disposed, which encourages recycling and waste reduction</p>	<p>In a partial user fee system, customers may feel like they are “paying twice”</p> <p>Requires a billing mechanism</p> <p>Billing mechanism is usually used more frequently –e.g. monthly or quarterly, vs. annually – a heavier administrative burden</p> <p>If user fees are variable, such as PAYT, may be difficult to predict revenues, and revenue stream may be sporadic</p> <p>Non payment more likely than with fees charged on tax bill</p> <p>Requires the development of a protocol for non payment, or to ensure proper bags, tags, stickers used in PAYT program</p> <p>Limited ability to collect for vacant properties that have turned off water or electric service</p>

Funding strategy works best when:

- A billing mechanism covering the geographic customer base already exists.
- The County is providing collection services, either via contract or municipal collection
- The cost of providing the service per customer type can be determined and conveyed to customers.
- The services charged on the utility bill are mandatory for all customers in a particular customer class and care has been taken to build customer support for the service provided and for paying the fee so that non users will not be motivated to opt out.
- There is an enterprise fund for solid waste management that includes refuse and recycling collection as well as disposal and processing.

## Steps to Implement the Strategy

The following steps need to be taken when implementing a user fee:

- Determine costs for services to be covered by the service fee.
- Determine how different types of customers will be billed for service (e.g., single-family, multi-family, mobile homes, etc.).

- Determine the billing system that will be used and the frequency of billing, as well as who will perform billing function, and any fees paid to other departments for this service.
- Ensure enforcement mechanisms in the case of non-payment.
- Ensure enforcement mechanisms for PAYT provisions in place, such as at convenience sites, if applicable.
- Determine how vacant units or seasonal units will be handled.
- Involve stakeholders throughout the process to build understanding and support for a user fee-based approach to funding.

## 7.4 Hauler Licensure/Permitting

### Description

A licensed or permitted waste hauler is a person or legally recognized entity who has been granted a license by the County to collect and haul County-generated municipal waste pursuant to the County's Solid Waste Management Ordinance. In general, permitted or licensed haulers pay a permitting or licensing fee to the jurisdiction on an annual basis. The benefit of a permitting or licensing program is that the jurisdiction is able to have some control over the services provided to residents and/or businesses in the jurisdiction, without the loss of competition.

Some communities have implemented hauler licensing/permitting because they wanted to limit the number of haulers operating in their jurisdiction. Other jurisdictions use the licensing/permitting process to ensure that certain levels of service are provided (such as ensuring that haulers who collect refuse also offer curbside recycling services), and to have some recourse (revocation of permit/license) in the case that the hauler does not provide the level of service stipulated in the permit/license agreement.

### Usage to Control Waste Flow

Although Beck does not employ any attorneys and cannot provide legal counsel, we understand that courts have ruled that permitting or licensing agreement may not require a hauler to deliver waste to a particular disposal site. Thus, permitting and licensing provide no flow control

### Revenue Considerations

Implementation of a licensing/permitting program does not raise revenues, as the revenues raises are generally insignificant relative to the cost of delivering solid waste management services.

- **Example:** In Athens-Clarke County, Georgia, fourteen (14) haulers are permitted to service residential and commercial waste and recycling in the County. Haulers are charged \$50 per year to operate in the County. The \$700 in revenues resulting from this permitting program covers the expenses associated with administering the program.

When administering such a program, communities should consider:

- **Fee Amount:** The amount of the permitting/licensing fee should, at a minimum, cover the cost of administering the program, and should be of a similar magnitude to that charged in nearby areas, if applicable.
- **Fee Type:** Some communities charge per hauler, while others charge per vehicle. A per-vehicle charge may be perceived as a disadvantage to haulers with larger fleets.
- **Implications:** Haulers may see a permitting or licensing fee as insignificant, however may see it as a reason to pass fee increases on to their customers.

## Stakeholders Impacted

### County Solid Waste Management

- The County must be prepared to handle all of the paperwork, collection of fees, and compliance involved with such a system.

### Haulers

- Depending on the licensing/permitting criteria, some haulers may be unable to meet the criteria, thus forcing them to discontinue service.
- Some haulers may see the fees as burdensome, or simply refuse to pay them, creating enforcement problems for the County.

### Waste Generators:

- Customers may see an increase in the level of service due to stipulations of the permitting/licensing agreement.
- Customers may also see an increase in collection fees as a result of the licensing/permitting fees and stipulations.
- If haulers choose not to or are unable to obtain a permit/license, customers would have to seek another hauler.

## Financial Impact on Stakeholders

The waste haulers will feel the most financial impact from a license or permitting fee. Depending on how the fee is assessed (monthly, annually, or per fleet vehicle), this could place a financial burden on the hauler. It is likely, however, that, in an open system, the haulers would pass these increases in costs along to the customer.

## Advantages

The following are advantages to a licensing/permitting program:

- **County Gains Some Control:** By requiring haulers to be licensed or permitted to provide solid waste services, the County is in a position to make operating in the County contingent upon certain criteria. The ability to revoke a license or permit gives “teeth” to the agreement. Counties can also limit the number of haulers operating in the County.
- **Service May Improve:** Depending on the stipulations of the permit/license agreement, customers may see an increase in the level of service provided or the addition of a new service.
- **Competition Remains Intact:** Because several haulers still operate within the same jurisdiction, competition remains intact.
- **Customers Choose Own Hauler:** Customers retain the right to select their own hauler.

## Disadvantages

The following are disadvantages of a licensing/permitting program:

- **No Real Revenue Gains to County:** Although licensing/permitting programs generally include a fee, the fees are generally nominal – just enough to cover administration of the program.
- **Not a Means to Control Waste Flow:** A licensing/permitting agreement cannot stipulate that waste will be disposed at one of the County landfills, thus such a program would not ensure the flow of waste to the County landfills.
- **Administrative Burden to County:** A licensing/permitting agreement places administrative burdens on the County.
- **Haulers May be Unable or Unwilling to Obtain Permit/License:** Depending on the cost and stipulations of the permit/licensing agreement, some haulers may be unable or unwilling to obtain a permit/license. This could result in customers having to seek new haulers.
- **Haulers May Pass Cost on to Customers:** Although are that licensing /permitting fees are not generally significant, some haulers may see this as a reason to increase their costs.

A summary of the advantages and disadvantages of hauler licensing/permitting is provided in Table 7-4.

Table 7-4  
Advantages and Disadvantages of Hauler Licensure/Permitting

Advantages	Disadvantages
County has control over how many haulers are servicing the area	Not a significant source of revenue
Competition remains	Not a means of controlling the flow of waste
Residents and businesses can select their own hauler	Some haulers may be unable to or choose not to obtain permit/license, leaving customers to seek a new hauler.
County can develop some stipulations for providing service within the County	Poses an administrative burden on the County
Level of service may improve	Some haulers may use fee as a reason to increase rates

## 7.5 Franchise/Contract Collection

### Description

Many jurisdictions retain private haulers to provide solid waste collection services via a franchise or contract. Whether called a franchise or a contract, both are forms of contractual arrangements that dictate the collection services that can be provided, the rates that can be charged, and who owns the material that is collected. There are innumerable combinations of terms that may govern a franchise or a contract. This section will attempt to review major considerations.

The differences between franchise agreements and contracts are subtle, and may vary depending on the region of the country. In general, a franchise agreement gives more control to the hauler, and is a looser form of collection system management for the local jurisdiction. A contract gives full control of the waste collection to the jurisdiction, although places greater responsibilities on the jurisdiction that are handled by haulers in a franchise or open system.

For the purposes of this discussion we differentiate between a franchise and a contract by whether or not the contracting jurisdiction is a so-called “market participant” in providing collection services:

- **Franchise Collection:** If the jurisdiction seeking private collection services leaves the responsibility for all customer interaction to the hauler—performing the actual collection service, maintaining customer service lines, and billing/collections—then the jurisdiction is not a collection market participant and this is defined as franchise collection. At no time does the governmental body come into direct contact with the customer. In a franchise, the hauler is agreeing to some minimum level of reporting, possible franchise fee payments, and (in the case of exclusive franchises) lower rates in exchange for being granted the privilege to service the area. In a franchise, the hauler “owns” the waste and can deliver collected materials wherever the hauler pleases.

- **Contract Collection:** If the jurisdiction is directly engaged with the customers in a meaningful way—primarily as the customer service, billing and collection agent—then the jurisdiction is considered a market participant and the agreement with a private hauler is defined as a contract. In a contract, the hauler is simply carrying out the specific directives of the jurisdiction, exactly as specified by the jurisdiction. In a contract, the jurisdiction owns the waste that is collected and can require delivery of that waste to any facility it desires.

Franchise and contract collection can be implemented with one service area, or with multiple service areas. In some cases franchises allow for multiple (competing) haulers serving one district (non-exclusive franchise agreement), while in other cases a single hauler is granted a service area monopoly in exchange for better operating efficiency and lower rates. Other differences between franchise and contract collection are described below. Otherwise, because franchising and contracting are so similar, much of this section treats them as the same mechanism

### Franchise Collection

Under a franchise collection system, the County would establish one or more franchise areas and would award a collection franchise through negotiations or through a competitive procurement with a single hauler for the entire area, or multiple haulers who would provide service in designated areas of the County.

The franchise is a property right for the designated hauler(s) for the term of the franchise agreement. Thus, if the County determines at any time during the franchise agreement to discontinue the franchise (except for reasons of non-performance), the franchisee would need to be compensated for lost earnings.

Under a franchise system, the responsibility for billing and collections falls on the franchisee. The franchisee retains ownership of the collected waste, and can deliver this waste to any acceptance facility. Other than the submission of reports and/or franchise fees to the authorizing jurisdiction (and maintaining minimum equipment and health/safety standards), the franchisee would continue to do business similar to the way they would in an open collection system.

Many options exist under a franchise system:

- The franchise can be exclusive or non-exclusive. In an exclusive franchise, the franchisee would be the only acceptable service provider for the designated services. In a non-exclusive franchise, multiple franchisees would be authorized to compete within the designated service territory. As a rule of thumb, the fewer number of franchisees, the lower the rates that would be expected to be available to customers within the service area.
- Participation can be mandatory or non-mandatory. In a mandatory franchise, all customers would be required to use the franchisee(s)' services. In a non-mandatory system, those customers that elected to receive the services would be required to use the franchisee(s).

- Franchises can include some or all services and generators. Franchises can address all collection services to all sectors (residential and commercial) or be limited to a specific generating sector (e.g., residential only) or waste stream (e.g., bulky waste, yard waste, etc.).
- A franchise can be bid or negotiated. A franchise system can be established through a negotiated agreement with an existing hauler (or haulers), or via a competitive procurement process.
- Franchises can be long-term. Franchises are most commonly established over a long period of time, in some cases as long as 20 years. Some long-term franchises may involve an annual renewal fee or renewal fee every 5 years.

### Contracted Collection

Many cities contract with private haulers to provide a specific, contractually-defined set of services with associated performance criteria. Under a contract collection system, it is possible to establish more than one service area, which could include residential and/or commercial collection services. Communities typically award collection contracts through a competitive procurement process. Contract collection is very similar to franchise collection, with the following notable characteristics:

- **Contracts are exclusive:** In a contract, the contractor would be the only acceptable service provider for the designated services in the designated service area(s).
- **Mandatory or non-mandatory:** In a mandatory contract arrangement, all customers would be required to use the contracted services. In a non-mandatory system, those customers that elected to receive the services would be required to use the designated contractor(s).
- **Include some or all services and/or sectors:** The collection contract could address all collection services to all sectors or be limited to a specific generating sector (e.g., residential) or waste stream (e.g., bulky waste, etc.). In some communities, for example, only refuse collection or only recycling collection is provided under contract, and in some cases refuse and recycling collection services are both provided under the same contract.
  - With most contracts, the municipality typically has the responsibility for billing and collections for at least the residential component of the service area. By retaining billing responsibility, the local municipality remains a market participant and therefore owns the waste that is collected. As owner of the waste, the jurisdiction can require the contract holder to dispose of collected materials to a specified facility; and
  - Usually, the local government pays the hauler directly based on the number of customers and/or the type of services provided. It is most common for the governing jurisdiction (i.e., the County) in a contract system to bill customers directly and bear the administrative burden and costs of billing, collections, customer turnover, and complaint management, at least for the residential sector.

Contracts typically last for a base period (usually between three and ten years), and have one or two optional renewal periods. Based on research reported by the Solid Waste Association of North America, contract terms that more closely approximate the useful life of vehicles (e.g., seven years, on average) tend to result in lower contract rates. Through the RFP process and bidder selection, the County sets the criteria for services and therefore is able to better leverage and negotiate collection and/or disposal rates with the interested bidders.

## Usage to Control Waste Flow

If the County is a collection market participant, then contracting for waste collection services provides complete control of the waste flow to that jurisdiction. Regardless of the tip fee at a local landfill, if the collection service is being provided via a contract, the jurisdiction can direct the waste to be delivered to that landfill. Contractual flow control through collection contracts has been widely adopted by cities and counties across the country.

Although Beck does not employ attorneys and cannot offer legal counsel, we understand that a jurisdiction can be considered a market participant by providing billing services at least to the residential customers within the jurisdiction. Even if commercial customers are left to be billed by the contract hauler, the waste collected is still owned by the County and can be directed to any facility specified by the County.

All of the terms of the contract, including the requirements for delivery of waste to a particular facility, would need to be specified in the procurement process and contract documents. When contracts are secured via a competitive procurement process, the County can issue its RFP stating that the selected hauler will deliver its waste to a specific disposal facility. The private haulers then can make the determination whether to submit a bid, and can consider the disposal site when developing a price. This is generally perceived in courts as a more acceptable way to direct the flow of waste, as the private hauler is knowingly and willingly agreeing to enter into such a contract.

## Revenue and Cost Considerations

Depending on the structure of the franchise or contract, there are numerous means of implementing the system.

Neither a franchise nor a contract system provides significant direct revenue to the jurisdiction. Many jurisdictions require a “franchise fee” be paid by the selected hauler—typically three to 20 percent of gross receipts—which can be a meaningful supplementary revenue source for the County. However, the primary cost benefit of franchise and contract collection is achieved by the customers.

Table 7-5 illustrates variations in average costs that were observed in a survey of individual subscription (e.g., open) and contracted solid waste collection systems recently conducted by Beck in the Commonwealth of Pennsylvania. Based on the results it is clear that, on average, the cost per household for contracted collection is

significantly less than for open subscription programs such as that currently existing in Carroll County. Prices are reduced due to the competitive procurement process, combined with the assurance to the hauler that he will receive long-term revenues, and due to the fact that operation efficiencies are gained by being the sole hauler in an entire region. This is but one of many examples of how jurisdictions can obtain lower prices—in some cases significantly lower prices—by granting exclusive contracts or franchises.

Table 7-5  
Comparison of Average Collection Cost per Household – Pennsylvania Averages

Options	Annual Cost per Household	Quarterly Cost per Household	Monthly Cost per Household
Subscription System	\$192.00	\$48.00	\$16.00
Contract Collection	\$123.00	\$31.50	\$10.50

If the jurisdiction opts to charge a franchise fee, such fee may be calculated based on the number of customers served, a percentage of gross revenues, or on the number of vehicles operated by the franchisee. The County will need to:

- Calculate how much of its gross revenue will be fees from franchises, and if other sources of revenue (i.e. existing landfill tipping fees) will be needed to cover the remaining costs of solid waste services, and
- Calculate the number of total customers who will be served by the franchised hauler(s) and what the per-customer, per-month cost of services are.

Ultimately, a jurisdiction implementing a franchise or contract will still need another primary revenue source—either a user fee, SBC, tip fees, or some combination.

## Stakeholders Impacted

The stakeholders that will be directly impacted by a franchise agreement are:

### Haulers

Haulers will be impacted whether a contract or a franchise is ultimately implemented. Franchises typically place the burden of billing and collections on the franchise hauler, who is required to collect fees directly from their customers. In this regard, they are similar to Carroll County’s current, open system, where customers already pay the hauler directly. A contract would shift customer service and billing to the County, reducing the administrative burden to the hauler.

Especially in instances where there are many local haulers competing in an open collection system, the most significant impact will be the possibility of reducing the number of haulers in the market. Open collection systems are patently inefficient insofar as they result in overlapping and duplicative capital investment and service

area coverage. However, eliminating this inefficiency means either (1) reducing the number of service providers, or (2) dividing the jurisdiction into enough service areas to give all existing haulers a chance to compete and win at least some territory. In practical terms, it is reasonable to expect some contraction in the number of haulers serving the local market if exclusive contracts or franchises are implemented.

## Customers

Generally, in a managed collection system, the customer benefits in three ways. First, the customer is “guaranteed” better service, since the contracted/franchised hauler is obligated to adhere to the service criteria set out by the County in the agreement. If the customers do not receive satisfactory service, there is a chance that the hauler may not be considered to provide services again when the agreement/contract expires. The customers also benefit financially from contracts/franchises. Since the hauler services the entire County or a contiguous region within the County, the hauler is able to achieve economies of scale and operating efficiencies due to improved routing, resulting in a lower cost to the customer. Finally, the customer’s geographic location is serviced by the same hauler, so customers notice a reduction in the number of vehicles operating on their road, which decreases noise, traffic, and road wear.

## County

The County gains significantly in its ability to manage wastes. Whether contract or franchise, at a minimum the County has the potential to require regular reporting and improve its awareness of waste generation and waste flow in the County. In contract situations, the County also gains firm control over its waste flow—an extremely powerful tool for establishing sustainable revenues via other mechanisms. However, the County also incurs the administrative challenges and costs of entering the market as a billing and customer service agent.

## Financial Impact on Stakeholders

### Haulers

A franchise agreement or contract with the County would be a financial benefit to the hauler(s) selected to provide solid waste services. The franchise agreement/contract would ensure the hauler business and revenue for a term set by the contract with the County. A franchise/contract would allow the hauler to achieve operational efficiencies and enjoy economies of scale due to being the only hauler serving a region or the entire County. A contracted hauler that went through the RFP process has pressure to agree to provide services for a relatively low price, however, in order to win the bid.

Also, if the County takes over the billing, the hauler is able to provide the service for a lower fee, as the hauler is dedicating less administrative resources to billing customers.

## Customers

As mentioned in Section 4.4, the financial benefit to the customer is usually a reduced rate for collection services. Since the hauler will be servicing a larger area with a larger number of households, and is guaranteed through the agreement/contract with the County to service that designated area for an extended period time, there is little chance that the cost of services will increase over the span of the agreement beyond an allowed adjustment that is usually tied to a consumer price index, or allowed in the case of exorbitant fuel price increases.

## Advantages

- **Procures Operational Expertise:** Contract/franchise collection services would be similar to the current system in that the County would not have the burden of purchasing, operating, and maintaining collection equipment.
- **Improved Control of Solid Waste System:** In either contracted or franchised systems, the jurisdiction gains better awareness of the wastes generated.
- **Reduces Collection Costs to Customers:** It is virtually assured that the County's customers will achieve cost savings under a franchise or contract. The customer may reap the most benefits of a franchised system. Since the County will be selecting the hauler to provide services, this takes the burden from the customer in having to choose the "best" hauler. The hauler is also expected to provide a higher level of service to the customer under the franchise agreement. With a franchise agreement the potential exists to reduce costs to homeowners and businesses that currently have exclusive collection service, because they are now part of a larger service area and/or service agreement
- **Environmental Benefits:** An added benefit to franchising is the reduction of the number of collection vehicles that travel on the County's streets each week or month. This may reduce the amount of street repairs required or perhaps prolong the time between street repairs and assessments.
- **Secured Waste Flow for Contracted Services:** Contracts are a proven means of securing waste flow. The benefit of long-term agreements/contracts gives the County more control over the services offered, and secures a certain tonnage of material being delivered to its disposal facilities for the life of the agreement.
- **Reduced Illegal Dumping:** Franchise agreements/contracting usually is implemented in conjunction with mandatory service, which means the County might see a decline in illegal dumping if collection were managed.

## Disadvantages

- **Loss of Business Among Local Haulers:** To the extent there are fewer service areas being contracted/franchised than there are local haulers, it is inevitable that at least some haulers may be displaced from the County or will permanently lose business.

- **Reduced Long-term Competition:** Although this is not the case everywhere, over time the number of franchise haulers may consolidate, leaving fewer and fewer haulers to bid on subsequent service areas that come available for re-bid. It has been suggested that this may lead to higher prices in the very long run, although it is not clear if this has played out.
- **Reduced Selection of Service Provider:** If customers prefer selecting their own waste hauler, contracts and franchises will either limit the customers’ choice of hauler or eliminate their choice altogether, as their services will be provided by a “mandated” hauler. The customer may also see a change in services or service level, as most franchise agreements involve the County instituting some type of mandatory collection. This takes the choice away from the customer if they prefer to self-haul their waste to a disposal facility of their choice. Since Carroll County residents currently select the hauler that they feel offers them the best services at the best price, they may feel that a franchise agreement is a higher cost alternative to the current system, or may resent being told who their hauler will be.

Table 7-6 summarizes the advantages and disadvantages of franchise/contract collection of solid waste.

**Table 7-6  
Advantages and Disadvantages of Collection Franchising/Contracting**

Advantages	Disadvantages
Provides higher level of service Reduced cost for customer Effective in securing flow of waste County has more control over collection services Collection is usually mandatory – illegal dumping may decrease. Hauler(s) more responsive to County Reduces environmental impact by reducing the number of collection vehicles in operation	Residents may not want services Perceived as additional governmental regulation despite the financial and SWM benefits to be gained Customers may no longer be able to select their own hauler Increased administrative burden on County Some haulers may not be able to compete, or could be put out of business

Strategy works best when:

- Costs of open system collection can be shown to be significantly higher when compared to a contract or franchise rate.
- There are relatively few service providers operating in the jurisdiction.
- Some competition exists.
- Customers are willing to switch service providers to reduce costs.

## Steps to Implement the Strategy

- Ensure that customers and stakeholders are aware of potential benefits from the beginning of discussions.
- Include prospective service providers in discussions early-on.
- Identify services desired, and develop RFP, considering:
  - Services desired;
  - Disposal options;
  - Reporting requirements;
  - Billing requirements;
  - Opportunities for creation of service zones;
  - Opportunities for joint contracting with other jurisdictions;
  - Opportunities to share risk with contractor; and
  - Opportunities to share revenues.
- Issue RFP.
- Select service provider(s).
- Monitor service provision and ensure compliance with agreement terms.

## Additional Contract/Franchise Considerations

If the County chooses to franchise/contract for solid waste collection services, it would most likely require undergoing a competitive procurement process. The procurement process should, at a minimum, include the following phases:

**Phase 1 - Background Research and Stakeholder Consensus Building:** Contracting will have impacts on the haulers and potentially all customers. It is strongly recommended that the County be prepared to involve stakeholders (i.e., residents, homeowners' associations, multi-family property owners, business associations, haulers, etc.) relatively early in the planning process to build political consensus for the desired program.

**Phase 2 - Procurement Planning/Decision-Making:** Armed with stakeholder consensus and the data needed to proceed with the procurement process, key County decision-makers must make some critical decisions as to the procurement format and scope of services. Examples of decisions that must be identified include:

- Will a one-step or two-step procurement process be utilized (i.e., will contractors first be short-listed based on qualifications and then those who qualify be asked to submit a proposal)?
- How will the proposals be evaluated?
- What is the term of the contract?

- What, if any, problems or failures will result in the assessment of liquidated damages and what are the specific penalties and dollar amounts?
- Who will be responsible for billing (County or collection contractor)? and
- What reports must the contractor submit to the County and how frequently?

**Phase 3 - Procurement Implementation:** During this phase, the various steps to execute the procurement would occur. Examples of the steps required include:

- Developing a draft (or multiple drafts) of the Request for Proposals (RFP) or Request for Bids (RFB) and the contract for review;
- Noticing the RFP/RFB as required by local ordinance/state law;
- Facilitating a pre-bid meeting;
- Responding to vendor questions following the pre-bid meeting;
- Evaluating vendor qualifications and costs proposals;
- Facilitating a meeting of Selection Committee members to rank proposals;
- Presenting Selection Committee recommendation to County elected officials (as necessary);
- Negotiating a contract with the top-ranked vendor(s);
- Execution of collection contract(s);
- Determining the public education responsibilities (what is the County responsible for and what is the contractor responsible for); and
- Contract monitoring (to ensure the selected contractor has, or will obtain, the necessary equipment to provide service on the commencement date).

**Phase 4 - Program Commencement:** Despite the County's best efforts to educate residents regarding program changes, significant feedback (in the form of questions, complaints, etc.) can be expected. The County (especially elected officials) must be prepared during the initial stages of program commencement to handle the volume and type of feedback that may occur.

**Phase 5 - Contract(s) Management:** Perhaps the most forgotten step in procuring collection services is ensuring appropriate staffing to administer the contract(s) following commencement. Activities associated with this step include ensuring that the contractor is handling complaints in a timely manner, ensuring that franchise fee payments are made accordingly (if applicable), meeting with the collection contractor(s) frequently to discuss relevant issues, ensuring that contractor reports (regarding service levels, routes, tonnages, etc.) are provided on a timely basis, etc.

The phases above will all need to be considered by the County during the implementation phase.

## 7.6 Tip Fees

### Description

Tipping fees are unit charges that are typically assessed per ton, per cubic yard, or per unit of waste at the point(s) of disposal and/or processing. Tip fees are equitably borne by any hauler that chooses to deliver waste to the facility, because each hauler pays strictly for the weighed or measured quantity of waste delivered. Almost any entity that owns a landfill, transfer station, waste to energy facility, composting facility, or even a MRF is likely to set tip fees to cover the cost of disposing of and/or processing material delivered to the facility.

Some jurisdictions that own landfills, however, often rely on tip fees to fund more than just the facility operational costs, and in some cases even attempt to fund the entire solid waste management system. This can result in tip fees that may be artificially above the market rate for disposal, particularly if the County is competing with private disposal facilities which are not trying to fund other solid waste management programs (but are attempting to earn a profit), or if the County is competing with other publicly owned landfills that do not rely entirely upon tip fees to fund their solid waste management system.

### Usage to Control Waste Flow

Because tip fees represent the “market price” for disposing of a ton of waste (or other unit of measure of solid waste), they can only control waste flow to the extent the market for that waste is elastic and the tip fees can be set at a low enough level to attract material in the free market. As tip fees increase at or beyond comparable levels in surrounding disposal facilities, local haulers will begin to calculate the transportation costs associated with transporting their waste to more distant facilities. Should tip fees in a jurisdiction increase to the point where they exceed the sum of travel costs plus tip fees at a more distant facility, waste will likely begin to flow to these other, more economically attractive facilities.

Note that the impact of tip fee increases (or decreases) will be minimized in areas where many or all of the surrounding jurisdictions have implemented other forms of flow control (i.e., system benefit charges or collection contracting) that may control the waste flow in the adjoining jurisdiction and thereby prevent waste from crossing jurisdictional borders.

### Revenue Considerations

Carroll County is surrounded by other jurisdictions that rely on market-based tip fees to manage waste flow. In this regard, the County is somewhat constrained in how high or low their tip fee can be set, as an outlier rate will tend to increase imports (if the tip fee is low) or exports (if the tip fee is high).

However, the County currently funds its entire solid waste management system solely on revenue from landfill tipping fees. Because of the market constraints in the region, this means the County may not be able to set tip fees to cover all of their solid waste management system costs, as doing so would artificially drive up their tip fee and begin to discourage waste deliveries.

Increasingly problematic, as waste flows move to other disposal facilities and the County's waste deliveries decrease, it would be necessary to continue increasing tip fees to make ends meet—driving even more waste away. This “death spiral” must be avoided.

## Stakeholders Impacted

### Haulers

In an open disposal market, haulers tend to select their disposal facility based on the lowest net cost of transportation plus disposal. Thus, if the County developed a more competitive tip fee, assuming elastic demand, the likely result would be increased waste being delivered to the landfills.

### County Waste Management

If tip fees are the sole funding mechanism and disposal is elastic, there is significant potential for cost overruns for tip-fee funded systems such as Carroll County. Raising tip fees to cover costs may drive waste away.

Unbundling other solid waste system costs from the tip fee would affect the County Waste Management Department, as it would likely necessitate that fees for other services be secured via another funding mechanism.

If a tip fee is implemented that truly covers the costs associated with operating the landfill, then the landfill tends to be operated more like a business. Landfill managers have tools to examine expenditures and revenues, and identify areas to cut costs and increase efficiencies.

### Customers

Tip fees will influence the cost paid by residential and commercial customers, as disposal fees are typically passed on in the collection dates charged by haulers. Of course, self-haulers will be directly impacted by tip fee changes.

If other service costs are unbundled from tip fees, it is likely that customers will have to pay another type of fee or assessment for solid waste management services.

## Advantages

Advantages of using tip fees as a funding source include:

- Tip fees are simple to administer.

- Tip fees are equitable if they only cover the direct disposal (or processing) costs.
- To the extent that tip fees reflect the true cost of disposal, revenues from tip fees can be spur operational efficiency.
- Nonpayment of tip fees, unlike user fees, is generally not an issue.

## Disadvantages

The disadvantages of using tip fees as a funding source include:

- Tip fees are not necessarily equitable if they are recouping more than just the direct disposal costs. If other system costs are being recouped by the tip fee, then only the users of that particular facility are paying for the entire system. Private haulers who dispose of waste in another jurisdiction may be avoiding paying legitimate solid waste management system costs of the jurisdiction where the material was collected.
- Relying on tip fees can make it difficult to predict revenues. Because haulers are always trying to reduce their costs, a relatively low tip fee at a nearby disposal facility could have a large negative impact on another landfill's revenues.
- To the extent that tip fees are relied upon to fund more than disposal costs, they can become uncompetitive, resulting in a loss of waste to the disposal site.

Table 7-7 summarizes the advantages and disadvantages of using tip fees as a solid waste management system funding strategy.

**Table 7-7**  
**Advantages and Disadvantages of Tip Fees**

Advantages	Disadvantages
Easy to understand Easy to administer Nonpayment not an issue Once tipping fees are established, they are rarely reduced Unbundling tip fees will result in more tons being delivered to landfills, potentially raising overall revenues. If tip fee truly reflects disposal costs, it can be a tool and motivator to operate the landfill as a business.	Revenues can be unpredictable Relying on tip fees solely to fund a solid waste management system can result on uncompetitive tip fees, thus lower total revenues. If the costs of other services are "bundled" within the tip fee, there is little incentive to manage the landfill as a business. If tip fees are used to cover other programs, this may be perceived as inequitable.

Strategy works best when:

- A local government owns a solid waste management facility.

- The local government “owns” the local waste flow, either because they collect waste via a public operation or because they have contractual control with a private hauler.
- The costs to be recouped by the tip fee are at or below the prevailing market rate for disposal/processing.

## Steps to Implement Strategy

- Determine whether current tipping fees could support solid waste management program costs without an increase.
- If not, determine the increase in fees necessary to support such services.
- Compare proposed tip fees to fee schedules at competing facilities and other competition factors such as transportation costs.
- If revenue shortfalls would exist, or market can not bear increased tip fee, consider alternative funding mechanisms, in addition to tip fee.
- If decision is made to increase tip fee, provide customers with notice of increased tip fee.
- Monitor and assess revenue stream.

## 7.7 Impact Fees

### Description

Impact fees are imposed by communities on developers or builders to pay for or offset the cost of infrastructure needed to provide service to the developed area. Impact fees can only be assessed for capital improvements that are a direct consequence of the new development and cannot exceed the proportionate share that serves the new development. Impact fees may also be scheduled charges applied to new residential and commercial development. Most impact fees are typically assessed on a per-unit or square-footage basis. Communities may need to pass an ordinance in order to establish an impact fee.

- **Approach:** Brevard County, Florida’s Department of Solid Waste Management imposes an impact fee on all residential and commercial occupiable construction. This one-time fee is charged when the certificate of occupancy is issued. The solid waste department issues this bill in the unincorporated areas, and the municipal building departments collect this fee and remit it to the County in the municipalities. The impact fees for residential properties are:
  - \$120 per condo or apartment unit;
  - \$160 per single-family dwelling.

For commercial properties, the comparable types and sizes of businesses are identified, and the amount of solid waste generated per year is assumed to be

similar to the average of these “comps.” The fee is then assessed at \$6 per cubic yard.

The impact fees are strictly for upgrades, expansions, and construction of solid waste management facilities servicing the property owner.

- **Approach:** The City of Phoenix has an ordinance that allows villages or sections of villages to charge impact fees for infrastructure development and enhancement for required services, including solid waste management. The Planning Department developed the ordinance and creates infrastructure financing plans. When development is occurring, the development department calculates the number of units and fee per unit per service. Developers pay the impact fee before their building permit is issued. Currently impact fees are \$182 per unit in the northern portion of the City, and \$174 per unit in the southern portion of the City.

(Note: Another type of fee associated with construction that can be used to help fund solid waste management programs, particularly C&D recovery or disposal, is a construction Permit Fee. Many communities in California have used a portion of permit fees to encourage recycling of C&D materials. If a certain percentage of materials were recycled, a developer or homeowner completing renovations could receive a partial rebate of their permit fee. Funds that were not rebated are used to help develop C&D recycling and manage C&D waste. Many cities seem to have used this type of program initially, eventually requiring that a certain percent of C&D waste generated on site be recycled. Again, this type of fee is a useful supplement to the solid waste management programs.)

## Usage to Control Flow

Since impact fees are used to fund facility construction and/or expansion or renovation, there is no effect on the amount of waste entering the County’s landfill. Therefore, impact fees have no relevant use in relegating the flow of waste to the disposal facility.

## Revenue Considerations

The financial impact of such fees could be nominal or significant, depending on the type of program implemented, and the amount of new construction taking place. However, the fees would be to cover services associated with new development, so would only supplement other funding mechanisms. Depending on how organized planning in the community is, these fees might be quite predictable. In the case of Phoenix, for example, fees are based on development plans, so infrastructure costs can be divided among units being constructed.

Permit fees would generally result in less revenue than impact fees, and would also be less predictable in nature.

## Stakeholders Impacted

### Haulers

This type of fee would not impact haulers.

### County Waste Management

Impact or permit fees would require the waste management department to interface with other departments, such as the planning department or development department. It would also require significant administration efforts.

In the case of impact fees, the department could be guaranteed a certain amount of revenue for solid waste management infrastructure, as development occurred.

### Customers

Impact fees would be passed along to property owners. Such fees are generally acceptable, as the customer is choosing to purchase a property, and the impact fee is simply part of the price. Developers, however, would likely oppose such a fee, as they would have to “front” the fee.

In the case of permit fees, some waste generators would be likely to recycle C&D materials if they were to receive revenue, in the form of a permit rebate, for doing so. This would depend on the magnitude of the rebate relative to the cost of recovering vs. disposing of the materials.

## Advantages

The advantages of fees associated with construction and development are:

- Revenues can be raised to fund infrastructure to the extent that new development occurs. This can be especially beneficial when the County is expanding significantly, as new solid waste management facilities could be required.
- Depending on how well planned development is, these fees could be quite predictable.
- Impact fees are generally more acceptable, politically, than increased taxes.
- If charged during permit process, nonpayment is not an issue.
- Usually permit fee mechanism is already in place, so impact and permit fees can be an expansion of an existing mechanism.

## Disadvantages

Disadvantages of fees associated with construction/demolition are:

- Cannot be relied upon to fully fund a solid waste management system.

- Are generally a one-time fee, which must be used for facility construction or enhancement, and do not fund ongoing operations.
- In the case of permit fees, and if development is erratic, it may be difficult to predict revenues.
- Requires administration and potentially cooperation among several different departments during the County and/or municipalities.
- May require an ordinance and/or approval by state legislature.

Table 7-8 summarizes the advantages and disadvantages of impact fees.

**Table 7-8**  
**Advantages and Disadvantages of Impact Fees**

Advantages	Disadvantages
Politically accepted	May require an ordinance
Provides revenues if area experiences significant growth	Would only be used to supplement costs
If paid upon permit issuance, nonpayment is not an issue	Some states require approval by state legislature
If growth and infrastructure needs are well planned, revenues can be significant and predictable	Not flexible – can only be used for facility construction or expansion.
	Requires administration and cooperation among different departments/municipalities

## 7.8 Conclusion

Carroll County already charges tip fees at their facilities, and these fees will continue to provide revenues for the County’s solid waste management system.

Given that the County is seeking additional revenue mechanisms, it will almost certainly be necessary to consider implementing either an SBC or a user fee for solid waste system management so that it is possible to bill waste generators directly for the services provided by the County. Additionally, the County may find that the establishment of collection franchises or contracts will further improve its ability to manage wastes and secure waste flow. Several of the most common combinations of flow controlling and funding strategies are described below.

- **System Funding with a Partial SBC, plus Tip Fees**—If it is not politically feasible to organize collection and control waste flow to the local landfill via a contract, then establishment of an SBC may be the only way to fund non-disposal related services or to offset tip fee charges to maintain a market-competitive tip fee. The partial SBC would recoup sufficient costs so that the local landfill tip fee could be set at a market rate that attracts sufficient waste to allow the landfill to operate at or above a break-even level. At a minimum, the partial SBC may cover services that are provided by the county that benefit every residential and non-

residential customer in the county, such as recycling drop-off sites and yard waste processing.

- **Contract Collection (Flow Control) Funded by User Fees/SBC, plus Tip Fees**—A jurisdiction that provides collection and disposal services to its customers via a contract with private haulers is considered a market participant. To fund such services, jurisdictions generally implement user fees or an SBC. User fees are typically implemented when there already exist a local utility that performs residential and non-residential billing of other utility services for the entire jurisdiction—for this reason many incorporated cities and towns use user fees as their revenue mechanism. Because SBCs are implemented via the county property taxes, this is a more common billing mechanism for counties.
- **Entire System Funded by SBC**—If an SBC is used to collect all system costs - including transfer and/or disposal – then tip fees can be dropped to zero for in-county waste and the entire system will be SBC funded. Zero tip fees will assure that all county-generated waste is delivered to the local landfill, securing flow to that facility to maintain economies of scale. However, such a system would generally require some form of hauler regulation—either permitting, franchising or contracting—that would enable the county to enforce a policy of accepting only in-county wastes.

In general, the County should seek to develop a funding system that is equitable, simple to administer, and easy to predict. Because the County owns two landfills, establishing a strategy to assure that waste is directed to these facilities and thus ensuring ample revenues to operate them, is crucial to a financially sustainable program. Appendix B of this Report presents a supplementary analysis of how tip fees, SBCs and impact fees may be structured in Carroll County.