Are Franchising Agreements the Future of Waste & Recycling in Urban Areas?

All eyes are on New York and Los Angeles to see how franchising agreements affect waste and recycling collection.

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By Allan Gerlat

Waste and recycling franchising has become a major topic of discussion in the two largest cities in the United States. Los Angeles is implementing a zone franchising system for businesses and large apartment buildings. Meanwhile, in New York City, an advocacy group has called for the city to adopt such a system.

The waste and recycling option of franchising allows a municipality to establish zones and then contract, typically exclusively, with a hauler within that zone. Proponents argue that franchising gives the public sector more control over the waste management collection process. While critics argue that by removing the free market and taking away businesses’ ability to pick their own haulers leads to higher costs and worse services for customers.

“Cities are finding that competitive franchises are a way to move toward their zero waste goals and improved service and run an efficient and cost-effective business. It’s a really effective way to get to those goals,” says Hays Witt, the Portland, Ore.–based director of the Transforming Trash project for the Partnership for Working Families, headquartered in Washington, D.C. Portland has had a franchising system in place for more than 20 years. The Alliance for a Greater New York (ALIGN), which is the group calling for franchising in New York City, is an affiliate of the partnership.

“When cities start looking closely at the idea, they see that they can also solve important problems like reducing trash trucks’ environmental impact and having uniform recycling opportunities for small businesses and folks who are living in apartments,” says Witt. “And, with the improved recycling outcomes, comes the opportunity to really expand the recycling economy and the kind of job creation that you can do with recycling.”

If there are long-term contracts with haulers, they have the incentive to make the infrastructure investments that are key to high diversion rates. Cities can force more clean-fuel trucks into service, and they can reduce road wear with less traffic through more efficient routing. Better data can be collected; facilities can be linked together.

“It gets some stability and predictability in the rate structure. Companies bid on a franchise knowing what the long-term looks like,” Witt says. “And then the efficiencies and economies of scale that come with it allow cities to hold rates down as well.”
Franchising for waste and recycling collection is established in certain parts of the country, but elsewhere there’s strong free-market competition between haulers, says David Biderman, vice president of government affairs/chapter operations and general counsel for the Washington, D.C.–based National Waste & Recycling Association (NW&RA). The marketplace keeps prices low and quality of service high.

“If a franchise is established, there is little incentive to provide good service, and there’s a question as to whether the price will remain low,” says Biderman. “I think it’s fairly obvious that creating franchises can inhibit innovation. So if a municipality enters into a franchise agreement, particularly one with a longer term with a particular company, and another company comes along and comes up with a new, more environmentally-friendly way to handle waste and recyclables, that company will be shut out of collecting waste in that particular jurisdiction.”

L.A. Story

Last April, Los Angeles adopted a franchising law that divides the city into 11 zones, with haulers bidding to collect the waste and recycling in each area. To win a bid, haulers had to provide bins for recycling and use vehicles powered by clean fuel.

The city said the recycling rate for commercial and large apartment buildings is 19 percent, compared with 75 percent for residential properties. The commercial market represents 63,000 properties, more than 600,000 multifamily households, and is valued at $250 million.

Los Angeles hopes to fully launch the plan by January 2017. California’s goal of 75 percent diversion of waste by 2020 is a major driver in the move.

“The current open market system does not provide the level of diversion or customer service needed to reach the city’s zero waste goals,” Karen Coca, solid resources division manager for Los Angeles Sanitation, said in an email. The franchise program “will provide clean-fuel vehicles and efficient routing, universal outreach and education, recycling and organics diversion programs, fair and equitable rates, and standards for facilities accepting city of Los Angeles-generated materials.”

She acknowledges that managing such a large number of accounts and households “will be a big challenge.”

Coca also says that under the current system-recycling is a separate charge for commercial businesses and multifamily units, and many customers choose not to recycle as a result. “The exclusive franchise system requires that all customers have recycling services, tailored to the needs of each business.”

In New York City, ALIGN is arguing for franchised commercial waste collection in the city, saying last October that currently it is collected “by a highly dysfunctional and outsized private system.” It claims that excess trash trucks on the road contribute to bad smog, violate clean air standards and cause strong noise pollution.
ALIGN says that a franchise system in New York City would not only reduce pollution, but make for cleaner and healthier communities, save money, improve waste worker wages and create quality recycling jobs. “It lets them set recycling goals and partner with haulers to achieve them,” Witt says.

New York Naivete

Biderman argues that the wide variety of customer needs, particularly in a densely-populated city like New York, make franchising impractical. “You can have, on a single block, an industrial facility that requires pickup at three in the afternoon, a restaurant that requires pickup in the middle of night, and a bunch of other stores who close at 9:00 p.m. or 10:00 p.m. and put their trash out then and might require service earlier in the evening,” he says. “It’s very naïve for the proponents of franchises in New York City to think that a single company or even a small number of companies can effectively collect the wide variety of waste and recyclables placed out every day by New York City businesses.”

He points to the work the city has done in the past 15 years to eliminate the organized crime-backed waste cartel and develop a highly regulated, competitive market for waste services. “Now restaurants and office buildings and others get to choose who their carter is. Which is not the way it necessarily was a generation ago. And what franchising would essentially do is eliminate that freedom of choice.”

In May, a study by the nonprofit Citizens Budget Commission helped the private sector cause by concluding that the private sector costs $133 per ton for collection and disposal in the city, while the public sector Department of Sanitation cost is $431 per ton.

One option, says Biderman, is that, instead of franchising, the city could use a law it already has to encourage carters to subcontract work out to other carters. That could address the issue of reducing truck traffic identified by franchise proponents.

Portland Goes a Different Route

While New York City and Los Angeles explore waste and recycling franchising as a new management option, Portland, Ore., has been doing it for more than 20 years. But the city does it for residential collection rather than commercial. It began in 1992, and the real selling point to the city council, at that time, was the chance to implement a curbside recycling program, says Bruce Walker, solid waste and program recycling manager for the city.

“Different programs from different haulers and an uncoordinated approach throughout the city would not be successful,” he says. “We developed a very thorough and game-changing model.”

Today, Portland has 18 haulers that provide service, from small local companies to Houston–based Waste Management Inc., Phoenix–based Republic Services Inc. and The Woodlands, Texas–based Waste Connections Inc.; Waste Management has about 40 percent of the residential business there.
“Commercial collection hasn’t been franchised basically because businesses don’t want it,” Walker says. “They’re afraid they won’t have the hauler they want or be able to negotiate rates. Businesses said, ‘I feel that an open market system works better for me.”

Walker says business generally do a very good job of recycling and meeting city goals, and he feels it works well for Portland. “There’s some who would say for the commercial, you could have greater clarity of who’s providing service, you might have some greater route efficiency if haulers were consolidated in a certain area,” he says. “My concern is that it would be a challenge to gain greater cooperation in some of the aggressive goals we’ve set with the business community. I’d venture to guess that some of the goals that have been set by our city council and requirements on haulers may well exceed that of some other cities, with more regulation already in place.”

Different City Streets

Walker believes franchising is a good option but really depends on the city. “I think there’s value in having clear goals for the commercial sector,” he says. “Now, other communities haven’t achieved that and, in my mind, in some cities that even have greater regulation than we do, I question, why don’t they have better program performance? There’s that balance between, do you have buy-in from your business community, do you have support from your city council, and do you have the full range of services provided by haulers that will allow high recovery?”

Walker acknowledges franchising would give the city more control. But the uniformity advantage with residential doesn’t exist with commercial. “I won’t say that Portland will never go to a more regulated commercial sector. But I don’t always think that’s the panacea either.”

Biderman says a city’s population density can be a big factor in the viability of franchising. Los Angeles is big, but it doesn’t have the density issues of New York, Chicago and Washington, D.C. “I wish Los Angeles well,” he says, “but just because something is being experimented with by the city of Los Angeles doesn’t mean that it’s going to work in New York City.”

A franchise program needs to be tailored for each city, Witt says. Los Angeles, for example, puts a high priority on a public process for the matter. “I think the exclusive franchise is an important component of it,” Witt says. “A lot of the benefits that come from the system really depend on that as a framework.”

The consensus is that franchising will grow as a waste management option for cities in the future. “I think the upsides to it are so strong, and it’s such a powerful tool for how cities accomplish their goals,” Witt says.

Coca points out that the majority of jurisdictions in California already have exclusive franchise systems. “To reach high levels of diversion, the exclusive franchise model allows us to mandate disposal reduction, not just calculation of a diversion number,” she says. “It allows us to monitor the franchisees and hold them accountable for meeting ambitious goals and providing excellent customer service.”
Biderman sees the interest in franchising continuing as well, but he says the NW&RA will continue to oppose it when directed by its members. The NW&RA will argue strongly to maintain the current open market system in New York City. “There are organized interest groups who see it as a panacea for certain things, but don’t necessarily recognize the problems associated with it,” he says.