



Blue Cart Recycling Program Managed Competition Issue Paper

Managed Competition Generally

Managed competitions have been used by a number of governmental agencies to improve service delivery to taxpayers and lower costs. In a managed competition, government agencies that provide direct services to residents compete with private companies that provide the same services. In order to be able to properly evaluate managed competitions, the competitors must be playing on a level playing field. Governmental agencies are often at a disadvantage from the beginning because they do not have time to prepare bid responses on top of the work they already perform, and they lack the expertise to prepare a proper bid response.

Additionally, despite great efforts to ensure private bidders provide the same services the governmental agencies do, this proves to be difficult because government workers are often deployed to provide services in emergency situations that go beyond the scope of the bid services, or when service demands unexpectedly increase, whereas private companies are only available to provide the services as outlined in their contracts which often are drafted for static conditions.

Finally, the allegiances of government and private companies are inherently different from each other and it is unclear whether managed competitions fully account for these differences. One purpose of governmental agencies in the United States is “to promote the general welfare” of the people of the United States. Whereas, private companies’ are primarily beholden to their shareholders, who may be residents of other countries. Certainly, in order to remain competitive,

private companies must serve their customers, however, customer service will always ultimately be in service to making more money for these entities’ owners.

For these reasons, it’s important to carefully craft managed competitions before bidding out services to make sure bidders can make serving the taxpayers paying for the services their priority over their shareholders. Once services are awarded, it is equally important to ensure clear service levels are included in the contracts and that compliance is carefully monitored throughout the entire performance of the award to ensure services are provided at the requisite levels, and that taxpayers are paying the lowest cost for those services.¹ This is especially important because, though cost savings through privatization of services is often reported at the beginning of the contract term, over the long-term the use of private contractors for goods and services previously provided by the government typically is more costly for taxpayers.¹

Chicago’s Blue Cart Recycling Program Managed Competition

In 2011, former Mayor Rahm Emanuel announced that Waste Management and Metal Management Midwest, Inc. (MMMI) were hired to take over recycling services for certain service areas of the City’s Blue Cart Recycling program. Waste Management was awarded a contract for service areas one, three and six. MMMI was awarded a contract for service area five.¹

Waste Management has a contract with the City of Chicago to provide waste transfer stations and landfills payable on a “price per ton basis”.¹ Current contract value is over \$56 million annually.¹

In Emanuel’s words the purpose of the recycling managed competition was to “deliver the best (recycling) services in the most cost-effective way possible” and to make “recycling collection available citywide”.

What was meant by “best” was not made clear, however, **given that the City makes recycling services available separate from waste pickup, there is an implication that maximizing recycling rates and revenue from sales of Blue Cart Materials are logical objectives toward the ultimate goal of providing Chicago residents with the best recycling services.**

Only a few months after the beginning of the recycling managed competition, Mayor Emanuel declared it a success, touting savings of \$1 million in the first three months.¹ How these savings were determined was not disclosed, nor has any information been made publicly available to determine whether the reported savings held in the following 7+ years of the competition.

The only information that the City has provided on this managed competition has been the “Blue Cart Managed Competition Results” reports.

Chicago’s recycling rates, already among the lowest for similarly-sized cities in the U.S., have decreased from 2014 through to the present. The most recent results are only available through July 2018 at this time.

Contracts with Waste Management and MMMI were to expire in July 2018 but were extended for one year. In October 2018 the Better Government Association published a report showing that Waste Management has financially benefitted from labeling blue carts as contaminated and generating revenue from landfilling the contents of those carts.



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Resources

Managed Competition, A Civic Federation Issue Brief, available at civicfed.org

Bad Business: Billions of Taxpayer Dollars Wasted on Hiring Contractors, Project on Government Oversight, available at pogo.org

Mayor Emanuel Announces Plans to Make Recycling in Chicago More Cost Effective with Long Term Goal of Providing to Chicagoans Across the City, July 18, 2011, available at cityofchicago.org

City of Chicago Awarded Contracts, available at cityofchicago.org: Waste Management of Illinois Contract No. 12202 (for Transfer Stations and Disposal Sites), Contract No. 24288 (for Blue Cart Materials); Midwest Metal Management, Inc. Contract No. 24994

City of Chicago Reported Landfill Diversion Rates by Blue Cart Areas, 2007 – April 2017, available at <https://www.cityofchicago.org/city/en/depts/streets.html>

Recommendations

Chicago Recycling Coalition (CRC) recommends that a comprehensive waste audit be completed as soon as possible; the last city-wide waste audit was done over 10 years ago. Additionally, the Office of the Inspector General of the City of Chicago (OIG) should undertake an audit of the managed competition. The City of Chicago now has over seven years of data which is ample to determine the results of this managed competition.

The scope of this audit should include a full accounting of all services provided by the Department of Streets and Sanitation (DSS) with respect to the Blue Cart Recycling program, which presumably includes overseeing the performance of Waste Management and MMMI. At a minimum, the following information should be evaluated before a decision is made to continue the Blue Cart Recycling program managed competition:

- Actual savings gained from the managed competition, if any.
- Recycling rates, residual rates, revenue from sales of recyclable materials and residual materials disposal costs by competitor.
- Transfer stations and disposal sites used by competitors for residual materials.
- Recycling market analysis.
- MBE/WBE Usage Reports by competitor.
- Customer satisfaction.
- Educational materials and campaigns of each competitor, including costs and results.
- Waste studies done by competitors either with the City or independently.