

spotlight

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BRING OUT YOUR TRASH

Wake County's Dilemma and Why Solid Waste Markets Matter

S U M M A R Y : Many cities and counties in North Carolina and throughout the nation have benefited from the ongoing revolution in solid waste management. Competition in the private sector has led to larger landfills that are better for the environment and less expensive. Only seven North Carolina counties have failed to take advantage of the market in landfill services. When the North Wake County landfill closes in 2007, the county should not replace it with a new county-owned facility. Instead, it should allow cities and towns to find the best value for their citizens in the landfill market.

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n orth Carolina and the nation have experienced a revolution in solid waste management. Federally imposed environmental controls during the 1970s dramatically increased the cost of landfilling solid waste and caused a fundamental change in the economics of solid waste management. Many local governments, especially small counties and cities, which had been in the mainstay of the solid waste business, found that they were unable to cover the increased environmental costs and the long-term environmental risks.

Private companies, in partnership with state and local governments, began building landfills that were on average 25 times larger than the existing, mostly county-owned, landfills. Over the last 15 years, more than 2,500 mostly small landfills have closed.

Local governments went from being providers to consumers of solid waste services. They could obtain better, cheaper, and environmentally safe waste services in the market from private entrepreneurs. This shift to private providers of landfill services has many advantages, chief of which is that landfill prices adjusted for inflation declined from 1998 to 2004.¹ This is especially true in the Southeastern states. (Figure 1)

Landfill Markets in North Carolina

In 1991, 89 of North Carolina's 100 counties disposed all of their solid waste in a landfill located inside the county and usually owned by the county.² By 2003, only 6 counties continued to rely entirely on landfill services within

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their borders. (Figure 2)³ Currently, 55 percent of North Carolina's solid waste is deposited in landfills outside of the county where it is generated, or out of state, including landfills in Virginia, Tennessee, Georgia, and South Carolina.

Many North Carolina cities and counties have also responded to the new solid waste market by embracing their new role of solid waste consumers. Currently, 93 counties use private landfills for some or all of their solid waste.⁴ North Carolina counties deposit their solid waste in 16 private landfills inside and outside of the state.⁵ The large private landfills have planned for the future. The space available in the private landfills is nearly four times that in the public landfills.⁶

The Proposed South Wake County Landfill

The North Wake County landfill is one of only 32 county-owned landfills remaining in the state. It is scheduled to close in 2007. Based on that reality, county decision makers have been struggling for 15 years with what to do with Wake's solid waste when the North Wake landfill closes. In the early 1990s, the county began buying land in the southwest part of the county for a potential South Wake County landfill.

To plan the new landfill, the county gathered representatives from 12 Wake County cities (the "Partners") that would potentially participate by sending their solid waste to the new landfill. These Partners studied the issue and developed a proposed agreement, called an Interlocal Agreement, to develop and operate the landfill.

The Interlocal Agreement, as it currently stands, contains the following provisions:⁷

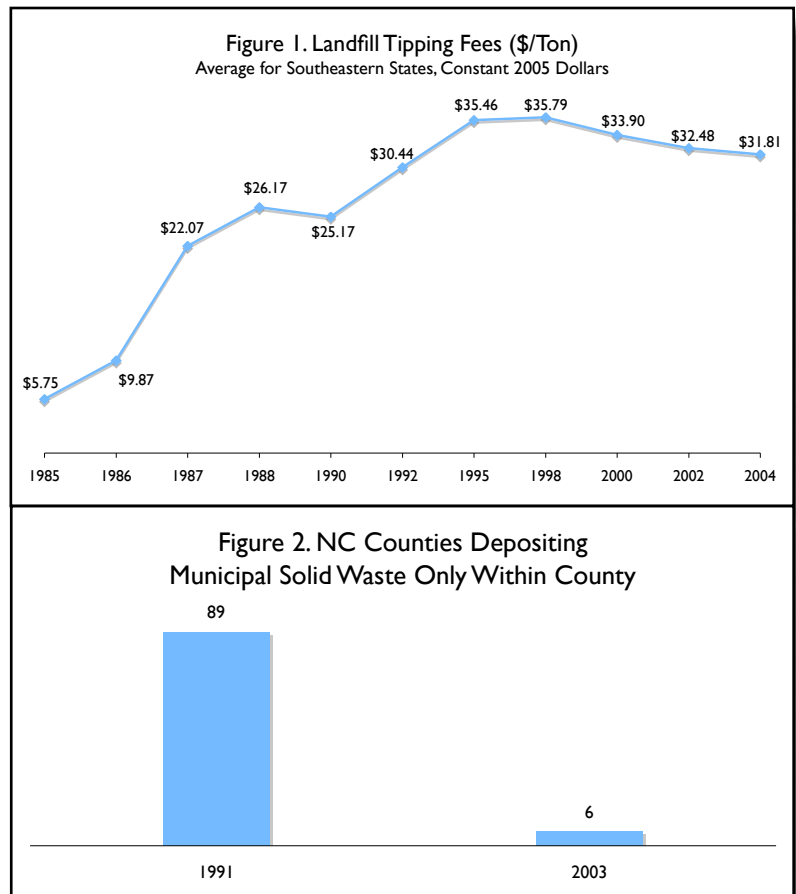
The landfill will be located on 471 acres in South Wake County near the NC Route 55 bypass and the proposed I-540 interchange.

1. The Partners will send all of their solid waste to the new landfill for 25 years and cannot send it to any other landfill.
2. The Partners cannot withdraw from the agreement unless all of the other Partners agree.
3. Wake County will own the landfill and manage the contract with the private company that will build and operate the landfill.
4. The Partners assume joint environmental responsibility for the landfill on closing and post-closure.
5. Approximately 350,000 tons per year are needed to establish an economically viable landfill that will keep tipping fees within predicted levels.
6. The Partners currently control only 250,000 tons of solid waste.
7. For the 25-year life of the agreement, Raleigh receives a landfill fee \$3 less than the other Partners.

The city governing bodies have begun to consider and vote on this Interlocal Agreement.

These provisions invite three areas of analysis. First, do they take advantage of solid waste markets? Second, do they make sense from a purely economic point of view? Third, do they make sense from a governmental point of view?

The agreement for the South Wake landfill does not take advantage of the dynamic market for solid waste. Mar-



kets are established when buyers and sellers can freely negotiate and, more importantly, renegotiate prices. The cities in Wake County, acting as buyers of landfill services, are locking themselves into a contract that, in effect, creates a 25-year monopoly for the county-owned landfill. It is likely that landfill fees will continue to decline. When they do, the cities in Wake will be unable to take advantage of lower prices. This is what has happened in two North Carolina counties that locked themselves into long-term contracts.

Davie and Jackson counties found themselves in disputes because they signed long-term agreements with landfills and then cheaper prices became available. In the case of Davie, its officials signed a 20-year contract in 1993 with Forsyth County to deposit its solid waste in the Hanes Mill Road landfill. The landfill and transfer station charges totaled about \$57 per ton. Davie then found a much lower price at the Rowan County landfill and signed a contract with it in 2003. Forsyth officials now want Davie to pay nearly \$1 million in damages for the loss of business. The Davie County manager stated that the county would continue using the Rowan landfill.⁸

A similar episode occurred in Jackson County when it agreed to send its solid waste to the Macon County landfill. Later, Jackson found that the landfill in Homer, Georgia charged less than one-half the price; \$21 per ton vs. \$43 per ton in Macon. In this case Macon sued. The case was settled out of court when Jackson agreed to pay \$250,000 in damages to get out of its agreement.⁹ The cities in Wake County are likely to find themselves in similar circumstances a few years from now.

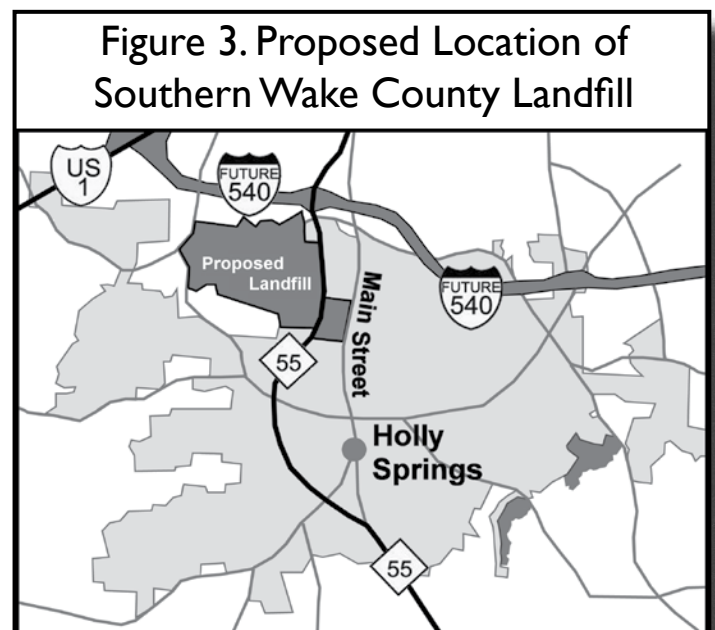
Another way to look at this 25-year contract is that it is a method of controlling the flow of solid waste that stifles the market in North Carolina. It requires all of the Wake County cities to send all of their solid waste to the South Wake County landfill for the duration of the 25-year agreement.

Ironically, the “not in my back yard” (NIMBY) syndrome that is most often associated with political pressure to stop new landfill construction is turned upside down by this agreement. Wake County and city officials are agreeing to prohibit solid waste from leaving the county. In other words, solid waste must be kept “in my back yard” and not sent out of county or out of state.

The basic economics of this proposal are also troublesome. One of the reasons for locating the landfill in southwest Wake County was that 15 years ago the land was relatively inexpensive. The county paid approximately \$2.8 million for the land in the early 1990s. But this is now one of the fastest growing parts of the county. It is prime land at the intersection of two major highways, the NC Route 55 Bypass and the proposed I-540 outer beltline. (Figure 3) Land values have increased anywhere from six to eight times. A developer recently offered \$17 million for the land¹⁰ and a recent appraisal is in the neighborhood of \$22.9 million.¹¹

Is a landfill the best use of this land now? Suppose an investor bought land for \$1 million for a junkyard. He held the land for 15 years and the land increased in value 8 times to \$8 million. Faced with the new situation, what would the investor do? Will he build a junkyard on the land or sell it for \$8 million and buy cheaper land for the junk yard elsewhere?

Does this decision make sense from a strictly governmental point of view? Building a landfill on this land keeps it off the county tax base. Selling the land to the private sector for another use moves it on the county tax base. If the county wanted the land to be used for a landfill, it might make sense to sell the land to a private landfill company thus reaping the tax benefits from the land.



A second governmental consideration concerns the state mandates for solid waste reduction. The Solid Waste Management Act of 1989 as amended in 1991 established a 40 percent waste reduction goal to be met from 1991 to 2001. No reductions have been made and, in fact, waste has increased 18 percent between 1991 and 2004. The state intends to implement programs to meet this goal.¹² In addition, waste production is significantly influenced by the condition of the economy. In a good economy, such as North Carolina experienced in the 1990s, production of waste increases rapidly. In a bad economy, it doesn't. If either state-sponsored programs to reduce waste become more effective or the economy goes into recession, waste will be reduced. And who is brave enough to bet that the state will be recession-free for the next 25 years. If either or both events occur, the 350,000 tons per year needed to make the landfill economically viable will not be met. Once the volume falls under that threshold, prices soar—making private sector landfill space even more attractive.

The mark of any quality decision is exploration of all of the options, including the “do nothing option.” In other words, what would happen if Wake County closed the North Wake County landfill in 2007 and did not open a new landfill? Wake County would join the other 68 counties in North Carolina without a county-owned landfill.

Of the seven counties that border on Wake County, only Johnston County has its own county landfill. The other six rely on a total of 11 landfills, four of which are in Virginia, Georgia, and South Carolina.¹³ It appears that landfill space for Wake County's 350,000 tons per year is not a problem. The remaining capacity of the four largest in-state landfills used by these surrounding counties is more than 50 million tons. This represents 36 percent of the total landfill capacity in the state.¹⁴

By allowing the 12 cities in the county to shop around and secure the best landfill prices, Wake County would be contributing to the dynamic landfill market in the state. Each city would seek the most cost-efficient and environmentally friendly landfill services for its citizens.

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Notes

1. Edward W. Ripa, “NSWMA's 2005 Tip Fee Survey,” Washington, DC: National Solid Wastes Management Association, March 2005, p. 1.
2. Scott Joseph Morrissey, “One Person's Trash is Another's Treasure: What Landfill Capacity Statistics Mean to Different Levels of Government” University of North Carolina at Chapel Hill, Environment Finance Center, Research Paper, March 23, 2005.
3. Data obtained from the “County Waste Disposal Report: 2003-2004,” Division of Waste Management, North Carolina Department of Environment and Natural Resources, February 2005.
4. Ibid.
5. Ibid.
6. “Municipal Solid Waste Landfill Capacity Report,” Division of Waste Management, North Carolina Department of Environment and Natural Resources, November 1, 2003. at Note 4
7. “Draft Interlocal Agreement” among Wake County and the cities of Apex, Cary, Fuquay-Varina, Garner, Holly Springs, Knightdale, Morrisville, Raleigh, Rolesville, Wake Forest, Wendell, Zebulon. October 12, 2005
8. Titan Barksdale, “Utility Group Charges Davie; Forsyth County Says Its Neighbor Broke Waste-Disposal Pact,” *Winston-Salem Journal* December 22, 2004, p. 1.
9. Sarah Kucharski, “Jackson Pays \$250,000 to End Landfill Pact,” *Smoky Mountain News*, February 16, 2005.
10. Ryan Teague Beckwith and Josh Shaffer, “Landfill Site Gets Private Interest” *Raleigh News and Observer*, October 19, 2005, p. 1B.
11. Charles Holliday, Appraisal of land minus right-of-ways, 457.19 acres for \$22,860,000, September 6, 2005.
12. “North Carolina Solid Waste Management Annual Report 2003-2004” Division of Waste Management, North Carolina Department of Environment and Natural Resources, p. 8.
13. Op.cit. at note 3.
14. Op.cit. at note 6. It is difficult to know exactly how much of this capacity is available since a portion may be unavailable due to contract commitments or other arrangements. See Op.cit. at note 2.