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| **Creating a Competitive Environment** |
| ***Working outside of the traditional contracting box*** |
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| **Jack J. Nettis, Jr., Administrator** |
| **8/2/2010** |
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**Cover Sheet Information**

Case Study Title: Creating a Competitive Environment

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**Synopsis**

It should be emphasized that while the numbers involved in the case below are not significant to some larger communities, the process involved in creating a competitive environment is one for all sized communities.

Concord Township, a community of 19,500 residents in Northeast Ohio, was faced with a dilemma of increasing costs to collect and process recyclables. These costs had increased from a $50,000 budget item to over $160,000 in a period of five years. The County had been supporting this effort for the past 15 years; however, in 2005 they began to decouple themselves from the process. For the next five years they offered a subsidy to communities who wished to manage their own programs and to eliminate the County’s management of the recycling. Concord was the first of 17 communities to take on this effort. For five years the Township struggled with managing various types of recycling programs from curbside to having residents bring their recyclables to a designated drop-off site - first two sites and in 2010 a single site. By mid 2009 the costs had escalated to a projected $210,000 for 2009. Immediate cost containment was initiated and by the end of 2009 those costs were decreased to $160,000. The County continued its full subsidy through 2009, which amounted to approximately $74,000; but even with the subsidy, the costs were severe for Township’s budget. The budget situation became even more pressing as Ohio’s triennium property appraisals in 2009 came back with a devaluation of nearly $200,000 which would further strain the Township – admittedly not great for some communities.

The triennial reduction was not without expectation. Although Northeast Ohio has not seen the same property declines as some locations in the nation, it was still expected that some reduction would occur. In Ohio townships derive a large portion of their budgets from inside millage which is basically the property taxes.

With these expectations, the Townships Board of Trustees solicited a citizens’ committee to study the recycling issue over the summer of 2009. Acting as a facilitator to the Committee was the Township’s Administrator. After nearly five months of meeting and studying various options, the Committee reported to the Board with two major recommendations: 1) Reduce drop-off recycling sites from two to one; and, 2) determine a means to re-institute a curbside recycling program.

It was the curbside program that posed the greatest challenge. Several communities in the region had recently pursued a curbside program by coupling it to a single-hauler trash company that would collect trash and provide recycling as well, but this would require 100% participation by the community. The system seemed to favor a national firm with the assets to pursue this commitment. However, there was a cultural challenge. While Concord Township is the 28th largest Township in the State of Ohio, it is only within the last decade and a half that it has evolved from a semi-rural community. Many of the newer residents were accustomed to their previous communities arranging for trash disposal. The longer-term residents were very opposed to any such arrangements. Many called and even came to Town Hall complaining of government intruding on their ability to contract with whomever they wished. The residents were resolute in their objections to being forced into using a single trash hauler. Many individuals recalled when Company X had picked up the extra trash from the graduation party or the old stuffed chair and did not charge them for the service. They had several decades of loyalty as a result of customer satisfaction.

An alternative would be to have the Township pick-up the cost of the curbside recycling program while allowing individuals to keep their current trash hauler. The cost for this had already been researched in the past and it was determined to be too excessive for the Township budget – such a service would cost approximately $400,000+.

Faced with these dilemmas of increased costs, desires by the residents for curbside recycling, and an adamant intent to not have government specify a trash hauler, a new contract bid was set to go out in February of 2010 with selection set for mid-April 2010. To meet the many challenges and to provide validity for the decision the bid included five options: 1) weekly curbside, 2) bi-monthly curbside, 3) drop-off service, 4) voluntary, subscription curbside, and 5) single trash hauler with curbside recycling. Items 1,2 and 5 would provide the curbside service but directly out of the Township budget. Item 3 would provide pricing for the single drop-off site currently in use. Item 4, a subscription service, was basically an add-on to an individual’s trash service.

In the end two small, local trash hauling firms provided bids opposing a national firm. One local firm beat out the national firm for the drop-ff service even though the national firm had all of the infrastructure in place for the drop-off service. In addition, the two local firms submitted offers for the subscription curbside business. Eventually both firms would engage in a competitive process in which they would provide both weekly trash hauling along with weekly curbside recycling for a rate less than they had previously provided weekly trash hauling.

The result of creating this competitive environment was that the residents were better served by increased service at a lower price. The Township was able to reduce its recycling costs, projected to be 20% less than last year; with hopes of eventually reducing by 80% the recycling service it currently provides.

**PRESENTATION COMPONENTS**

1. **Innovation/Creativity**: Concord Township demonstrated a willingness to go out of the traditional bid specification “box” and develop a bid specification that permitted multiple options with various levels of service. This allowed smaller firms to be selective in their bids.

In addition, the bids contained an option that was more of an offer of service from which the derived quotes were to then be advertised to the public as public records. This created an announced competitive market environment.

While it was assumed by most that the smaller companies could never compete against the large national firm, a situation known as “Up-Market Migration”1 was created. The larger firm did not want to participate in the lesser profit margin environment and insisted on an all or nothing approach. The smaller firms recognized opportunity: the witling away of market share of the larger firm by providing greater service at lower pricing.

(1 The Innovator’s Solution, ClaytonM. Christensen and Michael E. Raynor, Harvard Business Press, 2003)

1. **Outcomes Achieved:** The creativity in contracting resulted in a competitive environment. Such an environment often results in benefits to the consumer: improved service, better pricing, innovation of product/service, greater quality. This situation achieved all of these results for the residential consumer as well as the Township. Today residents are migrating to a weekly combined trash hauling and curbside recycling program that is less expensive than their past trash hauling.
2. **Applicable Results:** This approach is highly available to any community’s contracting process. The ideal contracting situation is not one that meets all legal and engineering requirements but one that creates a market competitive environment.

Measurements of successful performance is demonstrated by the competitive bids.

1. **Case Study Presentation:** PowerPoint