

TESSMAN ROAD LANDFILL REVENUES?

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"Tipping Fees"

Since they first went into business companies like BFI have sold themselves to Wall Street analysts and shareholders as being on the technical cutting edge of waste management. However they have spent practically nothing on research and development. Instead of growing by solving society's waste generating problems through innovative technology, they have simply chosen to increase their dumping capacity.

A company like BFI is basically a cash flow machine. Its simple philosophy is to capture as much of the waste stream as possible and get as much of that waste stream into landfills under its own control and where the prices charged customers to dispose the waste (the "tipping" fees) can be ratcheted up on a regular basis. Controlling landfill and landfill tipping fees has always been what the business is all about. The key to profitability.

Typically a 1993 BFI shareholders' report said: "North American landfills were the principal component of improved domestic operating results. Improved results in the landfill business were attributable to increased disposal volumes ... increased disposal of internally collected solid waste volumes, and lower landfill operating expenses ... The strategy of moving a greater percentage of internally collected solid waste volumes to disposal in Company landfills both conserves cash and lessens exposure to, and dependency on, outside disposal sites ... Improved landfill profitability ... is dependent in part of increased tip fee flexibility ..."

"Increased tip flexibility" is a polite way of describing the "monopolistic" ability of head office in Houston to increase disposal charges across the board to customers. This "monopolistic" capacity is derived from various strategies including the use of huge financial investments in build landfill banks, most often in the face of local opposition. A crude business of running rough shod over local communities in the service of grossly overpaid corporate executives, distant shareholders and a society incapable of seriously addressing the civil rights and environmental issues arising from the disproportionate burdens of waste disposal.

Historically BFI shareholders have come to expect a rate of return between 17% and 25%. At a 22 price to earnings ratio you can figure that an expanded Bexar landfill that earns --- say \$ 250,000,000 --- in extra tipping fee revenues over the life of the site adds \$5,500,000,000 to BFI's existing shares. So you get some idea of the high stakes for BFI and some measure of the pressure to downgrade your community's quality of life.

During a national class action price fixing lawsuit against BFI and another waste giant, evidence emerged about how senior BFI executives are able to monitor and

enforce pricing strategies. BFI's Houston head office "actually dictates the pricing and profit margin formulae to be applied by the BFI regions and districts nationally." Landfills contribute the highest rate of returns (sometimes as high as 50 per cent before interest and taxes) to companies like BFI compared to the returns earned from such other services as waste collection, incineration, recycling, medical waste treatment etc. Landfills are what give real value to the distant shareholders. Investors rely on returns from ever growing tipping fee revenues derived through ceaseless acquisition and expansion and through continual price increases made possible by increasing market dominance and a captive customer base.

Since the majority of BFI's profits are generated by burying waste in company-controlled mega dumps, there is tremendous pressure on senior BFI executives to overcome local opposition to hosting landfills. BFI's former chief financial officer once told the Wall Street Journal that the waste management industry's approach to siting landfills was to "Sneak around, option land, get a permit and shazam! Guess what folks — we're putting a landfill next to the school." In 1990, BFI's new broom CEO, William Ruckelshaus, announced a program called "Community Partnership." The program was supposed to guarantee locals the power to reject a proposed site through a vote, and, on the other hand, if they went ahead and agreed to be a willing host, they were to be provided compensation in the form of profit-sharing benefits. But even when this approach was tried, as it was in New York State, it met with unalterable local opposition.

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