



Once upon a time, a group of folks realized that there was an opportunity in their community to sell a certain commodity. So they decided to start a company in order to meet that need. They decided who among them would sit on the board and run the company. They worked with consultants to lay out a sales territory and figure out what infrastructure they would need to build in order to produce the commodity and then get it delivered to the customers. They figured out how to borrow the money to build production and distribution facilities. They even went door to door in order to get advance purchase commitments for the commodity. They calculated pricing. They researched the government regulations they would have to follow. They borrowed money in order to build the production and distribution facilities. They hired employees to handle sales, send out customer invoices, handle deliveries and maintain the infrastructure. They reviewed their pricing and raised their prices as needed in order to cover production costs, make long term upgrades, service debt, and build reserves for future expansion.

So what were these folks selling? Cattle feed? Tractors? Sewing machines? iPhones? Could be anything really, because these are the basic steps that any company would follow in order to get set up and to stay in business. In fact, every rural water system followed these same steps back when a group of dedicated folks first decided to bring clean drinking water to their communities.

Somehow a disconnect developed and rural water boards believed the myth that they should not make a profit, even though they are

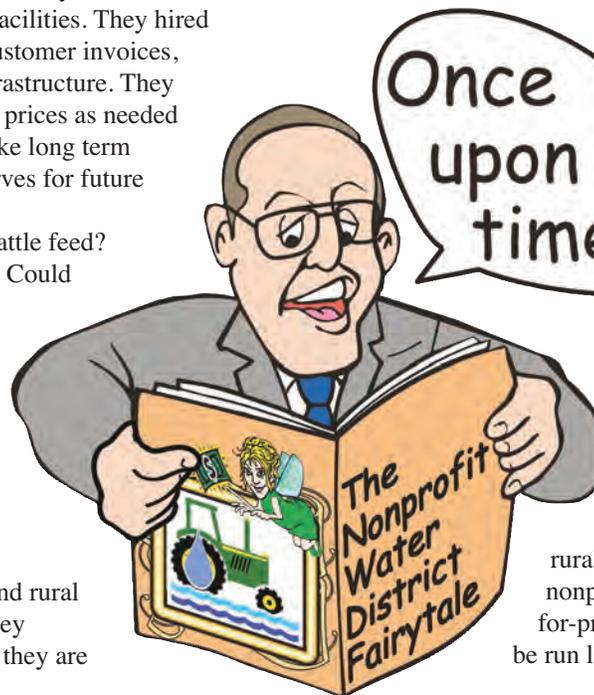
a business like any other business and should be run like one. I am not sure where that myth started. During my career, I have had the pleasure of working with many “original” boards. I define those as boards that still have founding board members serving. They are the folks who have started a rural water system and continued to serve on the board for 15, 20 sometimes even 30 years! And I have learned a lot from them. In the Midwest, there were many of these original board members who were German farmers, known for being frugal and conservative. And I was impressed by how they put sweat equity into “their” water system. But the one thing that I have never been able to

easily convince a rural water board about is that it is okay to make money, i.e., raising rates. I have had board

members tell me again and again that they are a nonprofit and that a nonprofit isn’t supposed to make money. And they state with pride that they haven’t raised their rates in (fill in the blank) years.

It's no fairy tale!

So let’s try to clear up this confusion. First of all, rural water systems are NOT nonprofits. Ok, they’re not legally for-profits either, but they do need to be run like they ARE for-profits.



So let's try to clear up this confusion. First of all, rural water systems are NOT nonprofits. Ok, they're not legally for-profits either, but they do need to be run like they ARE for-profits.

Technically rural water systems are quasi-governmental organizations that do not pay state or federal income taxes. This has to do with IRS regulations and has nothing to do with whether or not a rural water system shows a profit on its books. In order to help figure this out, it may help to follow the money. The easiest way to tell the difference between a for-profit and a nonprofit is how each one makes money. Sales revenue, in the form of cash and receivables, is the life-blood of for-profit organizations. These companies rely on income earned from sales to customers and borrow money from lenders to finance their operations and expansions when needed. Nonprofits, on the other hand, rely almost entirely on donations and grants from individuals, government entities and other nonprofit organizations to provide services and this revenue is not generated from fees paid by customers. Think John Deere and the American Red Cross and the distinction becomes clear. So now, when you look at the revenue stream, you

can clearly see that a rural water system looks a whole lot more like a for-profit. On the simplest level, it generates revenue from customers.

Somehow, this message was lost in translation. Rural water systems developed a culture that opposes raising rates. Partly it may have been the fact that sitting on a utility board is one of the most thankless jobs that anyone will ever do for free. You only hear from your friends and neighbors when there is a problem and raising their water rates is guaranteed to elicit complaints. And the complaints come from the same people you see every day at the coffee shop, the feed store, the post office. So it's much easier to not raise rates and just keep them at the bare minimum needed to cover operating costs, service debt and fund mandatory reserves, if any.

Too little attention for sustainability

Another part of the problem is that historically the government folks tasked with handling outreach – the local USDA representatives – did not, as a rule, routinely follow up with rural water systems and emphasize sustainability. To be blunt, as long as a rural water system made its loan payments and filed whatever annual paperwork was required, no one from the USDA was showing up to insist on annual rate reviews. I have personally reached out to USDA local reps during territorial disputes only to find that it had been years since they had actually met with a water board and that they had never pushed a rate review. That is, unless a rural water system wanted an additional loan. Then the system was required to raise rates in order to cover the



Elliott
Insurance Group

Your Protection is Our Strength

Dividends Paid:

1994—8.4%	1995—16%	1996—24%	1997—11%	1998—5%
1999—11%	2000—18%	2001—22.4%	2002—22%	2003—26%
2004—27.1%	2005—19.4%	2006—21%	2007—21.1%	2008—37.8%
2009—27.9%	2010—31.7%	2011—26.4%	2012—22.7%	2013—21.8%
2014—28.65%	2015—30.8%	2016—33.3%		

Since 1994 RWDs in Kansas have received more than \$5,616,192!

Coverages Include:

Property • General Liability • Auto • Worker's Compensation • Inland Marine

Fidelity Bonds • Directors and Officers Liability

This program is underwritten by EMC Insurance Companies Associate Member of KRWA

3645 S.W. Burlingame Road • Topeka, Ks 66611 • Phone: 785.267.4850 • www.elliottinsurancegroup.com

EPA's Survival Guide for Smaller Rural Water Systems . . .

The EPA's 2005 publication *Setting Small Drinking Water System Rates For A Sustainable Future - One Of The Simple Tools For Effective Performance (STEP) Guide Series*, spells it out pretty clearly. If rural water systems are going to survive, they must (emphasis added):



- Maintain a system's financial stability by ensuring a sufficient revenue stream
- Collect and reserve the funds needed to cover the costs of future asset rehabilitation and repair projects, security upgrades and compliance with future regulations
- Plan ahead for reasonable, gradual rate increases
- Deliver fairly priced, high quality drinking water to customers now and in the future

Another way of thinking about this would be TO RUN THE RURAL WATER SYSTEM LIKE A FOR-PROFIT BUSINESS!

The reality is that in order to stay in business, water systems must continually review and adjust rates.

new loan payments. But the whole focus behind funding these systems was based on meeting the minimums. Due to federal funding constraints, the original water systems were designed to serve existing capacity for a modest estimated area and did not address any collateral issues such as future developments, capacity expansion or fire protection. The reality is that in order to stay in business, water systems must continually review and adjust rates.

However, if you combine frugal board members who don't want to raise rates with a mistaken belief that the system shouldn't be making money and a lack of regulatory push to review rates . . . you get a recipe for disaster – a culture that does not encourage rural water systems to become sustainable. If you look at the simplest definition of sustainability as “the ability to maintain a system at a certain level”, you should be asking yourself if your rural water system is in fact sustainable. State rural water associations and the EPA have worried about this for years.

Most of us in the rural water business have watched with alarm in recent months as the current administration has discussed cutting or even eliminating funding for a variety of loan and technical assistance programs under USDA and

REP R.E. Pedrotti Co., Inc.
Instrumentation, Controls & Computer Systems

CONTROL
H₂O
SOLUTIONS

www.repedrotti.com
SINCE 1976

SCADA
SERVICE
TELEMETRY
INSTRUMENTATION
SYSTEM INTEGRATION
VARIABLE FREQUENCY DRIVES

REP

R.E. Pedrotti Co., Inc.

Call REP for all your Instrumentation & Control needs.
913-677-3366

EPA, and at the same time has put forward language pushing involuntary consolidation for smaller water systems that are unable to meet regulatory requirements. Thankfully, NRWPA and our state rural water associations have rallied and as I write this have pushed back hard on these ill-advised changes.



customers can't afford the huge leap in rates they would need in order to play catch up. So they defer system maintenance, fall behind on repayment plans, and cut back on operating and administrative personnel.

This makes rural water systems ripe for takeover by for-profit water companies who ARE willing to raise rates and in fact push very, very hard for rate increases every year. They do this in order to stay in business and be sustainable. This is what every rural water system should do as well. There is no reason not to implement gradual, annual rate increases and build up cash reserves that will allow you to implement long term plans for sustainability. Just like a for-profit business.

Thinking of water systems as nonprofit is a fairy tale with a sad ending, for happily-ever-after water systems . . . sell water like John Deere sells tractors.

A wake-up call

Rural water systems have never been easy to maintain. Because of their design, the consumer group they serve, and the number of regulations affecting them, rural water systems are complex and expensive mechanisms to maintain and administer. The majority of systems involve "long pipe" distribution systems spread over sparsely populated regions. They present significant design, construction, and operation challenges. That is the reason that they had to be subsidized with grants and loans in order to even be constructed in the first place. And rural water systems have only ONE source of revenue – the sale of water to customers. They do not have multiple sources of revenue like larger municipal utilities have. Ask yourself how your rural water system would manage if subsidized loans disappeared and no-cost technical assistance evaporated? Many rural water systems are already suffering from the long term failure to increase rates because of the myth that they are nonprofits and shouldn't make money. They don't have reserves and their

Elizabeth Dietzmann is an attorney who has worked with rural and municipal utility boards across the country as general and special counsel on various issues. She can be reached at edietzmann@earthlink.net.



A SUPERIOR WEBSITE FOR YOUR TOWN OR WATER SYSTEM IS NOW EASY & AFFORDABLE!

Municipal Impact and Rural Water Impact provide beautiful, mobile-friendly websites for towns and Water Systems – all at a very affordable price. Kick back while we do all the work and setup, then make updates yourself anytime you want. Secure hosting and unlimited support are included, too. You'll never hire an expensive web designer again!

MunicipalImpact.com
Smart Websites for Smart Communities™

RuralWaterImpact.com
Smart Websites for Smart Water Systems™

“We’re the Website People!”

For pricing and information, visit us online at www.municipalimpact.com or www.ruralwaterimpact.com
Or call us today at 1.888.551.4815.