

Adding users enhances sustainability of rural water districts



When we look back at the beginning of the rural water districts – they had a focused purpose. The purpose was “to provide adequate water in quality and quantity for all rural residents at a reasonable cost”.

When districts were established, the initial committee surveyed an area to determine who might be interested in signing up for water service. Nearly all applicants to become members of the new districts had limitations on their domestic water quality or quantity that affected their family’s domestic and economic livelihood. They were willing to pay a “reasonable fee” for the preliminary engineering report to determine feasibility. Within several years – after the engineering and construction were finished – a reliable source of water was “turned on”. The effort to organize and construct a new rural water district required enormous time, effort and commitment by steering committee members, boards of directors, other local volunteers, engineering firms and agencies.

Now fast forward to today as we try to understand why users may not be looking to districts for their water supply. What is discouraging potential new users from connecting to the district’s system? Do current policies for new users limit the support of the district in the future? Have the benefit unit (membership) fees increased to amounts that discourage new connections? Is the added requirement of paying construction costs an additional discouragement? What are the policies in place that guide the connection of users? Over time, a rural district’s policies can create a “trap” where the organization does not believe there are options to make changes. However, changes can be made with proper planning and education.

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History can “Trip Us” if we are not careful

My experience while working with rural water districts indicates that fees can get into an “escalation war”. It may go something like this: “If you don’t sign up before the start of construction, the fee will increase by \$500 . . .” Or perhaps you have heard this line: “Since construction is complete, new users will pay a fee of \$1000 more than the original signers plus construction costs.” These are just two examples of “escalating fees”. The result is, rather than encouraging users to be added to the rural district, “the water user was shut off” – literally, with a trickle of users being added. I have also observed that some benefit fees are \$1,000, or \$3,000, sometimes \$6,000 and in cases, more than \$10,000 plus construction costs!

Such high connection fees curtail adding users except those with no options for water. These high costs may discourage families and businesses from settling in the area. Those same dollars are needed to support other family needs or business start up. Which begs the question – why are fees so high that they discourage families from participating in the quality of the rural area?

“Opportunities, opportunities, opportunities”

I want to provide some suggestions and discussion on the options available to existing rural water districts to attract new users.

Flying over the district at 30,000 feet as opposed to driving 55 mph on a gravel road gives a different perspective. What do we see? We spot three smaller communities and the county seat; below us we see scattered farms or ranches. Do the communities and livestock operations use our water?

Could they or would they become members of the rural water district? We see some grading for a development – did the availability of rural water attract that business? What answers does the rural water district’s leadership or staff have to these questions? Does the district have an action plan to attract new users?

Take a look at Figure 1 on the next page. Within several square miles of a service area there is a community. Does it need water service? Maybe one third of the users along the distribution line are not connected; a rural subdivision is platted; there is possible business development on the edge of town. On the northwest corner of town a new subdivision is not completely filled. What is your district’s strategic plan for signing up these “opportunities” for service? Does your district have such a plan?

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First priority – long-term sustainability

Too many times districts enforce the policy that if a rural resident needs water, the applicants just have to come to us. And if and when they do, they will pay all associated fees – regardless of cost – or they will not be served. This policy does little for the organization’s future. It does nothing to benefit the needs of today’s applicants. Instead, I propose that the plan should be to sign up 100 percent of the potential units within the service area for sustainability. Consider the true value of each rural unit added and their shared participation in the future.

- New users help support the operation and maintenance (O&M), the retiring of debt and building of reserves
- New users support the annual cost increases of water service
- They support rising capital improvement costs borne by the users
- There is a moral benefit by having a neighbor connect to the system

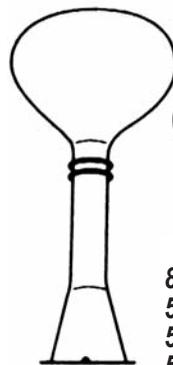
Our rural areas are dependent on ALL family and business units for sustainability – not just their need for water but their need for schools, churches, small businesses and various social organizations to thrive. It is important that

every rural water district does its part to assist the community and area as a whole for sustainability by providing water service.

Policy changes essential for sustainability and growth

Typically the reasons potential users do not participate include: 1) they have an adequate individual water resource; or, 2) the various connection fees are not within their ability or priority to finance. To understand what is necessary for policy change that encourages potential users to apply for service, the leadership (board of directors, system planning committees, etc.) must understand the issues. I raised some of the questions earlier. In addition, it is important to know the potential “numbers” of signees. Here are some recommendations that the leadership and staff may consider:

- Reduce the user fees substantially – to less than \$1,000 or even \$500;
- Have the district pay the first costs; this provides incentives for the new connection;
- The district agrees to finance the first \$1,000 to \$2,000 of construction costs and the applicant is responsible for the balance;
- When a line extension is reviewed, what other future services may be available? Are applicants only charged their proportionate share?
- Have the first costs of the new user paid from loan proceeds or from allowable district reserves;
- In those cases where district funds may not be available – all costs would be paid by the new user – at the lower membership fee.



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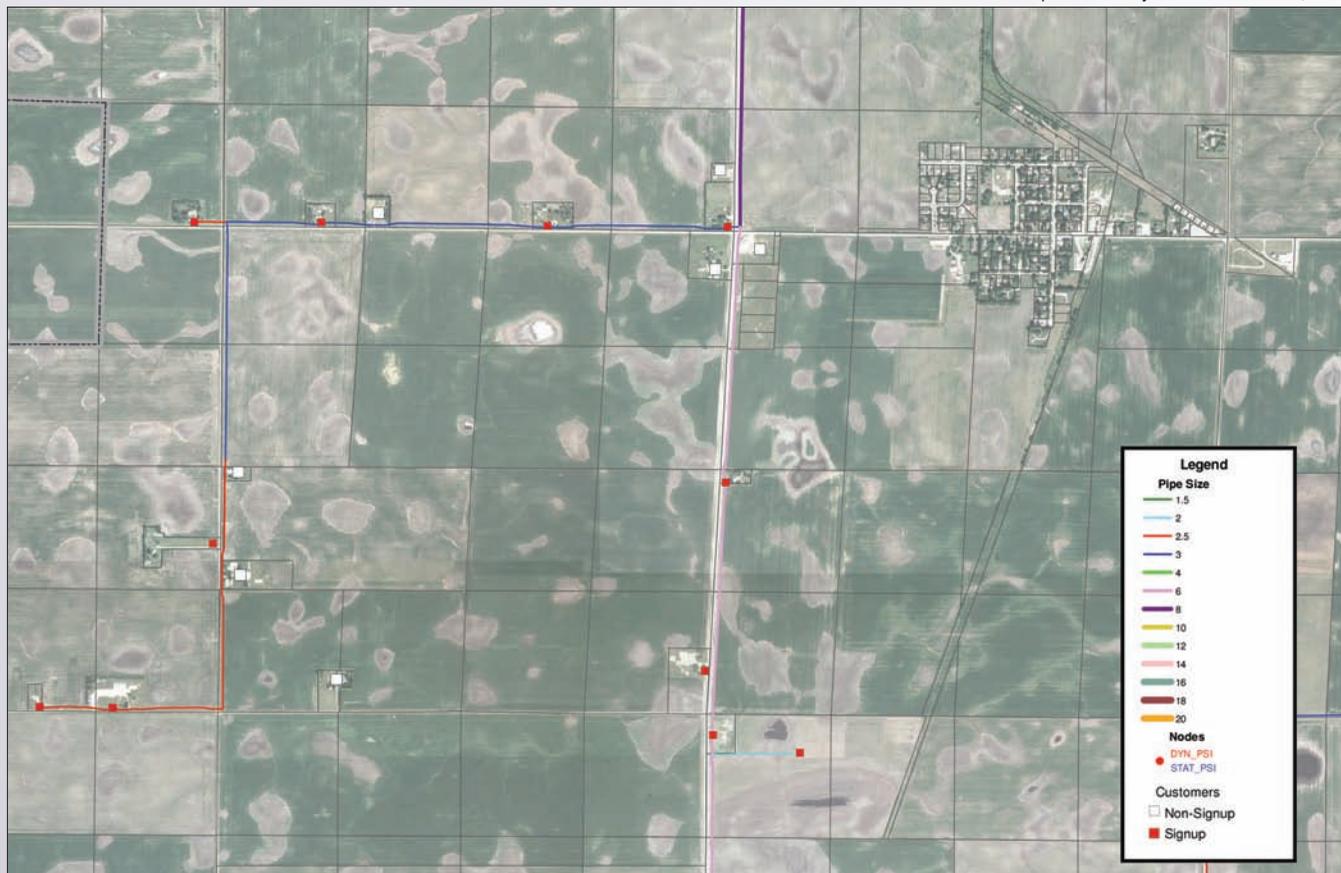


Figure 1: Proposed water line extension near small town in a rural water district.

Remember, the goal is to serve 100 percent of the potential users in the area who can be added as quickly as possible. These users will contribute to the budget bottom line at a much earlier point in time – rather than waiting for them to apply for an emergency connection.

What is the return to the district as it affects the budget bottom line? The new user is supporting the district at the current rate schedule. Take a look at Figure 2. This table demonstrates the impact of a monthly payment as shown by the “added user incentive loan program”. For an investment of \$1,000 (borrowed or invested), the return is reflected in the difference of debt service participation and addition to reserves. The new user contributes a surplus to debt service and reserve in an amount of \$20.40/month using 6,981 gallons with an average debt of \$4,244/user. The new contribution to revenue per year is \$244.80; if a water district adds 10 similar units per year, the bottom line is improved by \$2,448.

Analysis, understanding and education will impact future sustainability

It will not be easy to make dramatic policy changes that reduce a benefit fee from thousands of dollars to less than a thousand. First, you need to analyze the present and

Rural Water District # 1		
Average Rural User Example – 6,981 gallons/month		
	<u>Add on User</u>	<u>Current User</u>
System Debt/User		\$4,244
Debt for Added User	\$1,000.00*	
Monthly Rate Structure		
Cost Breakdown		
O & M	\$32.58	\$32.58
Debt Service	4.63	19.44
Bond Reserve & Equipment Reserve	5.59	5.59
Total Cost	\$42.18	\$57.61**
* Loan to provide incentive to connect		
**Based by District's current rate structure		
Added user cash contribution toward Debt Service	. \$14.81	
Added user cash contribution toward reserves 5.59	
Total Contribution \$20.40	
Annually \$244.80	
Added user contributes to O & M administrative overhead		

One Kansas system's approach to adding customers

"When we finished our first rural water project in 1993, we knew we were only beginning," says Bill Gustafson, a member of the board of directors of Morris County RWD 1. Gustafson has served on the district's board since the district began its development in 1979.

Morris RWD 1's goal is to provide water service to all potential customers. And rather than wait for the customers to come to the district, the district actively solicits the public for their interest in connecting to the RWD. The RWD then in turn, obtains financing to keep the costs for the extensions as reasonable as possible. This board hasn't stopped with just one project – they've done four financings with many additional individual connections in between.

While the cost of a benefit unit (membership fee) has increased to \$2500, the cost is still below average for other Kansas rural water districts.

USDA Rural Development loans and grants (including CDBG) received by Morris RWD 1

Year	1993	1997	2005	2008
Miles of line	270	14	42	35
Loan amount	\$2,405,700	205,400	\$808,800	\$1,741,000
Grant	\$3,296,00	\$132,900	\$423,700	\$568,000
Total financing	\$5,701,700	\$338,300	\$1,232,500	\$2,309,000

Project consultant Bryan Ford, P.E., Bartlett & West, Inc., Topeka, KS commented on the district's continued investment to provide water service.

"Morris County RWD 1 has always looked to provide additional water services where possible. The table shows the year, miles of line installed and investment. Their 2008 project consists of a new 100,000 gallon elevated storage tank and 35 miles of pipeline to serve 65 new customers. It was funded by \$1,741,000 Rural Development loan, \$300,000 Rural Development Grant, and \$268,000 CDBG Grant. This project provides service into an area of Morris County where there currently was not rural water available and the individual groundwater wells lacked in quantity and quality of water. It is assumed that the addition of rural water in this area directly north and east of Council Grove will allow growth to occur in the area, helping Morris County's Economic Development. Morris RWD 1 is the only water district in Morris County, so they are always looking at ways to grow and continue to provide quality drinking water to individuals in need at a reasonable price. The water district values its ability to provide water to individuals in need, but always considers the impact on its existing patrons when analyzing the feasibility of an expansion project. Good board decisions and excellent management have allowed the district to grow from 350 customers in 1993 to a current customer base of 679."

determine where you want the organization to be headed. This may require developing a strategic plan or reviewing the plan already in place. Second, use realistic budgeting projections when looking at a policy to reduce costs for new users. Third, educate and emphasize to the membership why these changes are important for future organizational sustainability. The total number of paying units is particularly critical when major capital expenditures are needed.

The preparation of a good education plan is very important. Only a few people will make a statement like, "I had to pay \$5,000 as a connection (membership) fee, so therefore, everyone else should also." The membership elected the board of directors to make important decisions that plan for the future sustainability of the organization.

This brings us back to my opening comments on why the rural water district was formed. It was "to provide adequate water in quality and quantity for all rural residents at a reasonable cost". Those earlier organizers did not concern themselves with large "cash reserves" but were more focused on delivering water to 100 percent of the service area. This should also be the current mission for every rural water district's policy.

Dorman Otte served as the Iowa Community Programs Director for USDA Rural Development between 1981 through 2006. He administered allocations and the servicing of loans and grants for water, wastewater and other community facility programs. Presently he is doing consulting work with utilities and other organizations in the areas of strategic planning, organizational development and legislative affairs. Contact: dormanotte@msn.com



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