

# Options for Regionalization

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# AGENDA

April 16; 2:00-3:00pm EST

- What is regionalization?
- Why do communities consider regionalization?
- What are the options for regionalization models?
- Things to Consider
- Advice on drafting effective partnership agreements
- How to get communities on board
- Examples of Successful Regionalization
- Other resources available

# “Regionalization”?

- Loss of autonomy
- Takeover
- Privatization
- Socialism
- Consolidation
- Possible loss of local control
- Higher water costs for our community
- Water monopoly...

# “Regionalization”?

- Increased efficiency
- Communities coming together to share services
- Difficult to execute but necessary for sustainability
- Economies of scale
- Partnerships
- Joining together and pooling resources
- Collaboration and leveraging
- A new way of thinking...

**Regionalization:** Can be used to describe a variety of **agreement models** between governing bodies, utilities, or other environmental service-providing groups that includes **increased cooperation, collaboration,** and, in some cases, consolidation of **assets and services.**



# WHY CONSIDER REGIONALIZATION?

# Some of the major challenges for your systems which you identified...

- AGING INFRASTRUCTURE (by far the most selected)
- Declining demand and changing populations
- Affordability
- Limited capacity
- Aging or limited workforce
- Regulatory compliance
- Coronavirus – New!

So with so many problems plaguing  
our water systems...why work  
together?



# Too many water systems...

## US as a Whole



More than 155,000 public water systems!!

But only ~3,300 electric utilities

# North Carolina example

There are nearly 2,000 community water systems in North Carolina, 538 of which are owned by local governments. Of those, 382 local governments own both the water and sewer systems. Rates for customers differ widely between communities.



Median residential water and wastewater monthly bills at 5,000 gallons/ month, by river basin. Map courtesy: [2018 North Carolina Water & Wastewater Rates Report](#), UNC School of Government Environmental Finance Center



Picture Source: Indio Water Authority <http://www.indiowater.org/index.aspx?page=587>

NC local government utilities collected

more than **\$3.04 billion**

in water and wastewater operating revenues in FY2017

Preliminary projections show that revenues **may have exceeded \$3.1 billion** in FY2018  
(incomplete data)

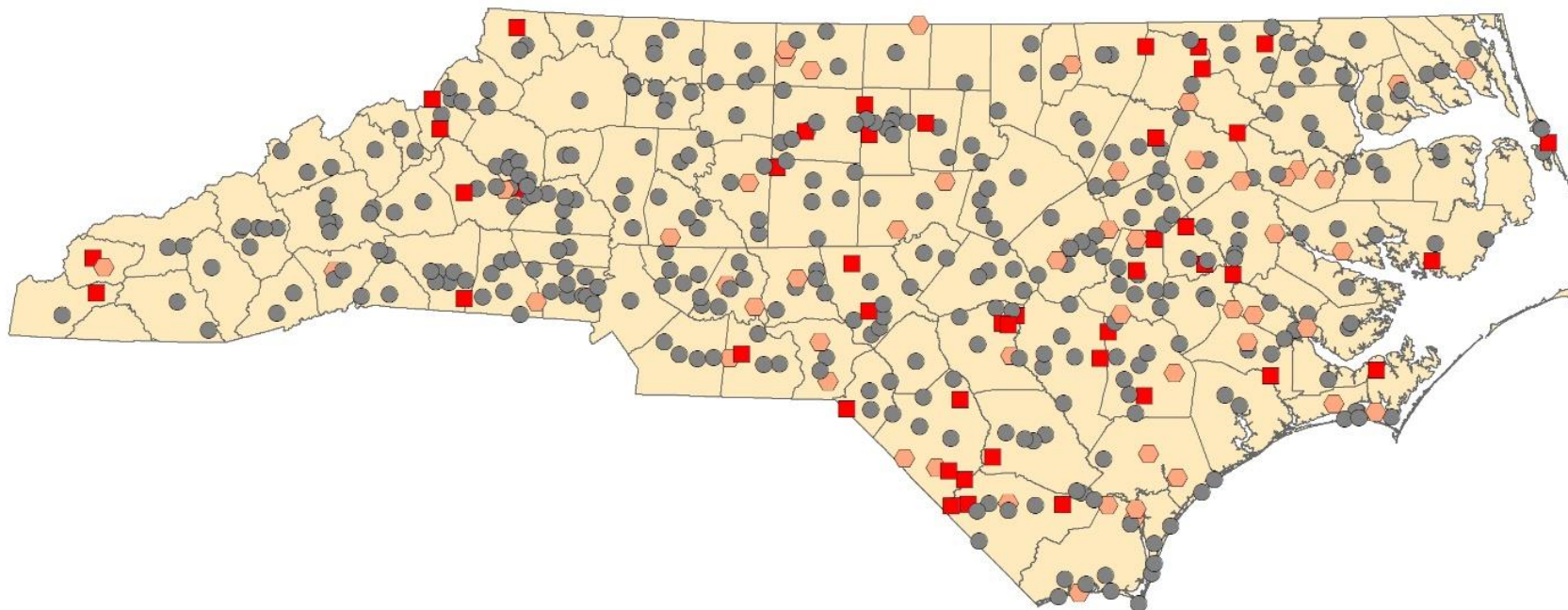
The largest 10 utilities collected  
**43%**  
of all of the water and wastewater  
operating revenues in FY2017

NC local government utilities had  
more than **\$2.43 billion**  
in water and wastewater operating expenses in FY2017

Yet: ~**22%** of local government utilities had lower  
operating revenues than O&M expenditures plus debt  
service in FY2017



# Cost Recovery in 454 Local Government-Owned Water and Wastewater Utilities during FY2017



- Operating revenues < O&M expenditures (10%)
- ⬡ Operating revenues < O&M expenditures + debt service (12%)
- Operating revenues  $\geq$  O&M expenditures + debt service (78%)

Analysis by the Environmental Finance Center at the UNC School of Government.

O&M expenditures calculated as total operating expenses minus depreciation.

Sources: FY2017 audited financial statement data compiled by the Local Government Commission. Geospatial locations are approximated by the EFC using secondary sources from NC Geographic Information Coordinating Council, NC Department of Environmental Quality, and primary sources.

# Other reasons to consider Regionalization?

- **Climate Challenges**
  - ex. drought, contaminated sources
- **Infrastructure Challenges**
  - ex. aging, failing pipes or facilities
- **Capacity Challenges**
  - ex. growth, changes in population resulting in changes in demand
- **Emergency Needs**
  - ex. emergency personnel, capacity
- **Economies of Scale**
  - ex. efficiency, rate stability

# OPTIONS FOR REGIONALIZATION



# Options for Regionalization

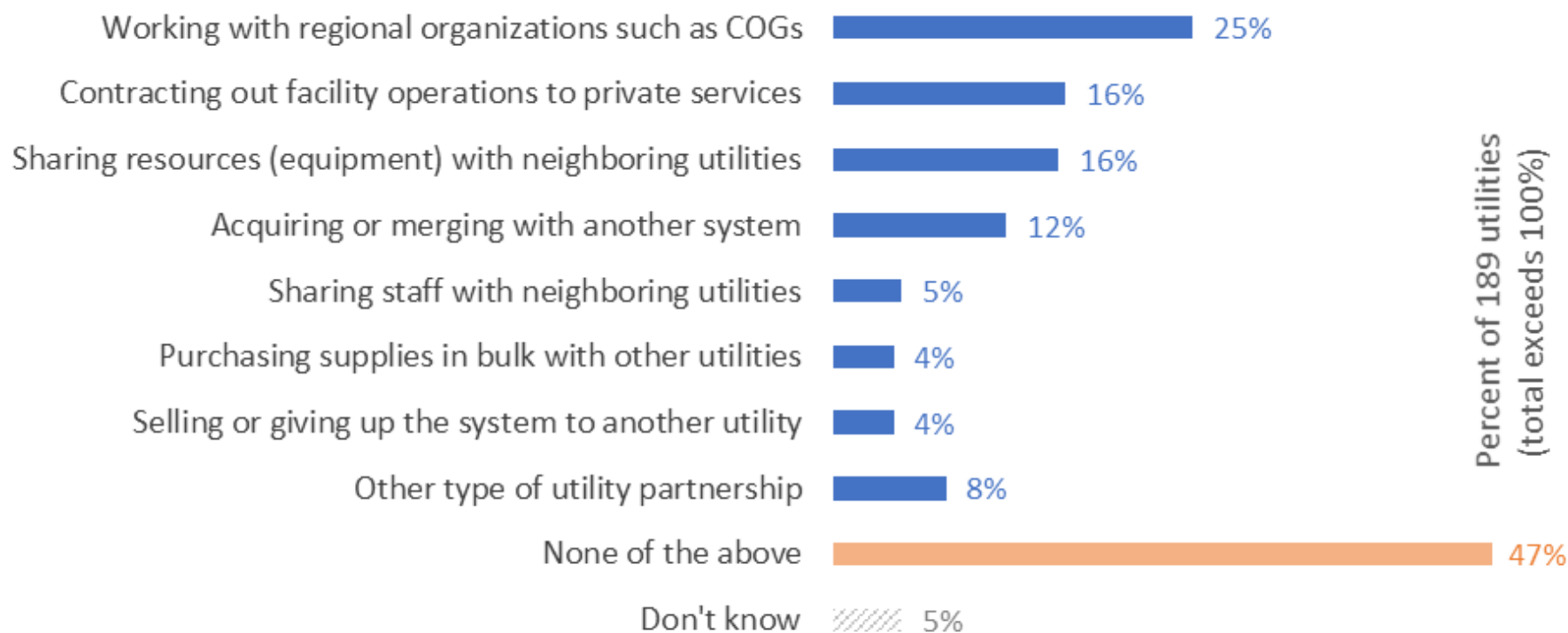
1. Interlocal Cooperation
2. Public Private Partnerships
3. Consolidation
4. Emergency Connections



# Tools in the Collaboration Tool Box

**Partnership activities that North Carolina utilities are currently engaged in or are considering.** Excludes interconnections and wholesale purchase/sale agreements for water or wastewater treatment and delivery between utilities.

n = 189



Source: 2017 North Carolina Water and Wastewater Utility Management Survey conducted by the Environmental Finance Center at the UNC School of Government and the North Carolina League of Municipalities.

# Regionalization is a sliding scale

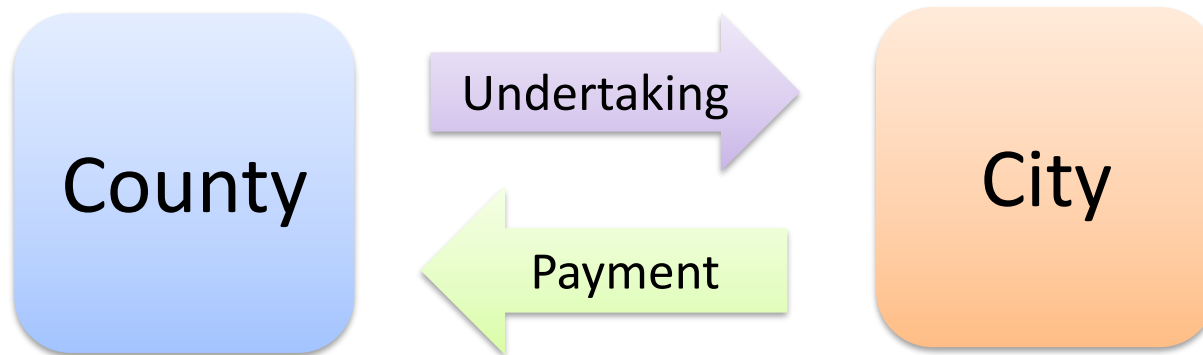
- Regionalization appears in many forms ranging from less formal conversations to incredibly complex and formal creations
- It is up to the parties to decide how formal their agreement will be and how much

# INTERLOCAL COOPERATION

# 3 Forms of Interlocal Cooperation

## On Behalf of Another

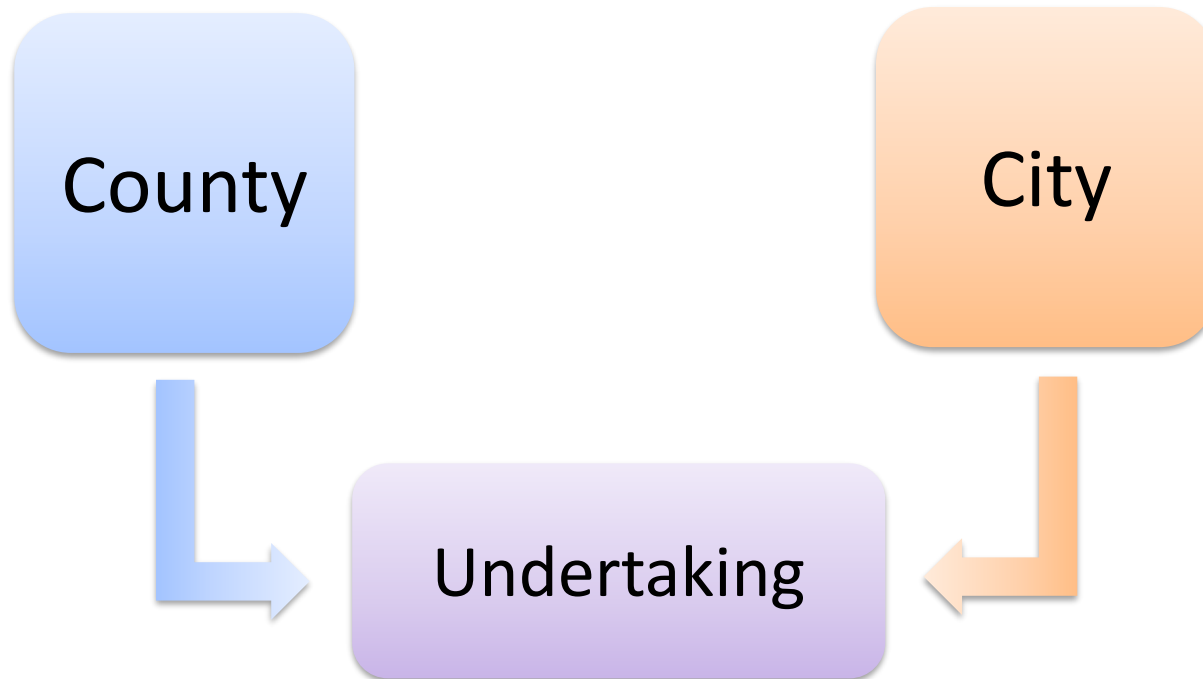
Retain independent legal authorities and one unit performs the undertaking for another



# 3 Forms of Interlocal Cooperation

## Jointly

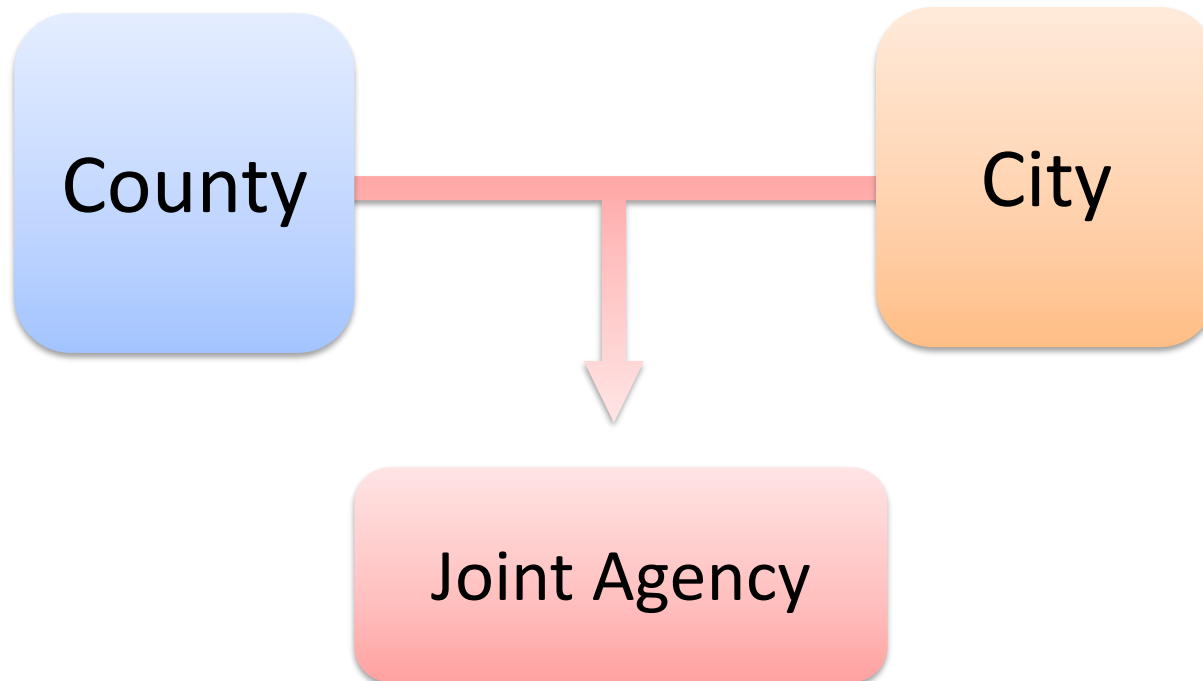
Retain independent legal authorities and agree to perform undertaking collaboratively



# 3 Forms of Interlocal Cooperation

## Joint Agency

Confer independent legal authorities on joint agency to perform undertaking

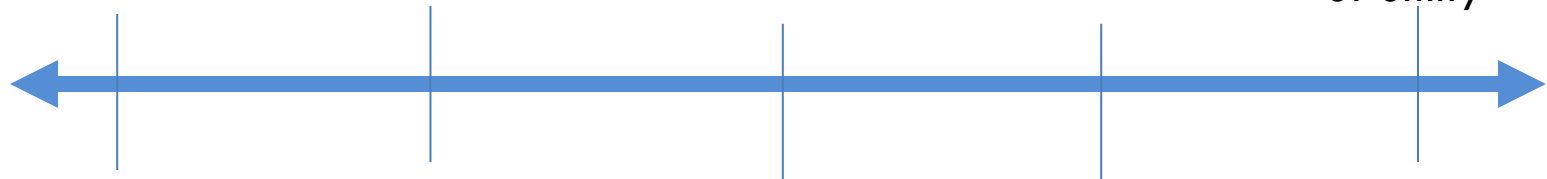


# Spectrum of what you can do with an interlocal agreement...

Contract for  
shared delivery of  
water samples

Bulk sale of water

Full consolidation  
of utility



Shared  
operator

Retail sale of  
wastewater

And everything in between...



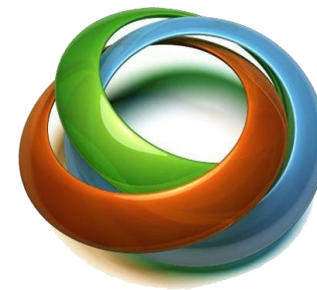
# PUBLIC PRIVATE PARTNERSHIPS

# Can be many things

- Full on privatization of the utility



- Contract out certain services

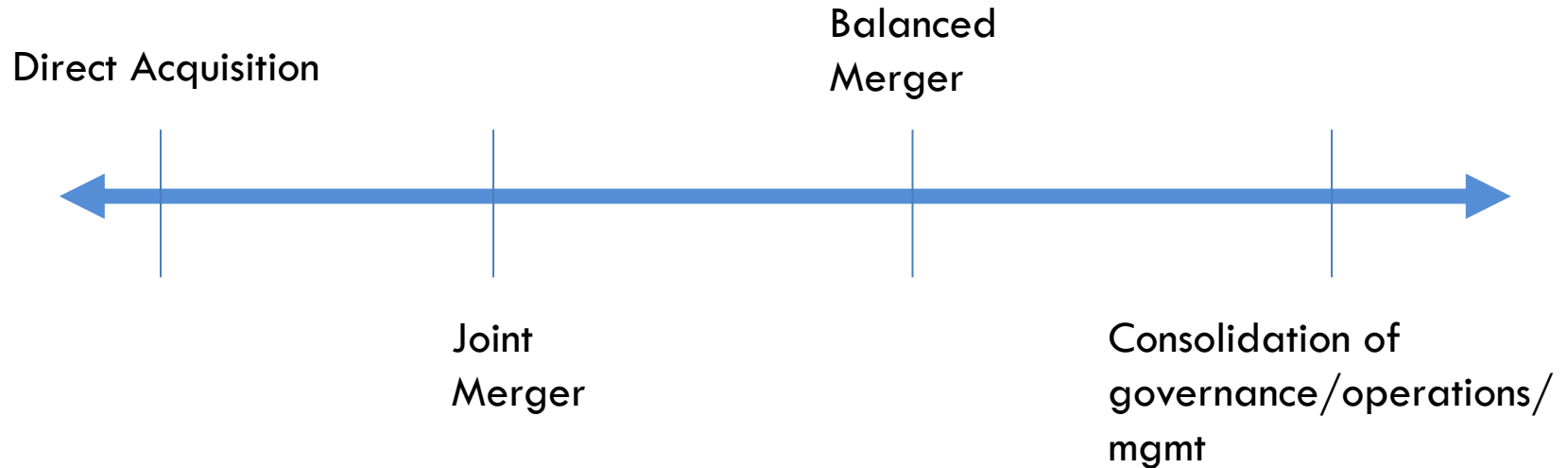


# ENVIROLINK

# CONSOLIDATION



# Spectrum of Consolidation



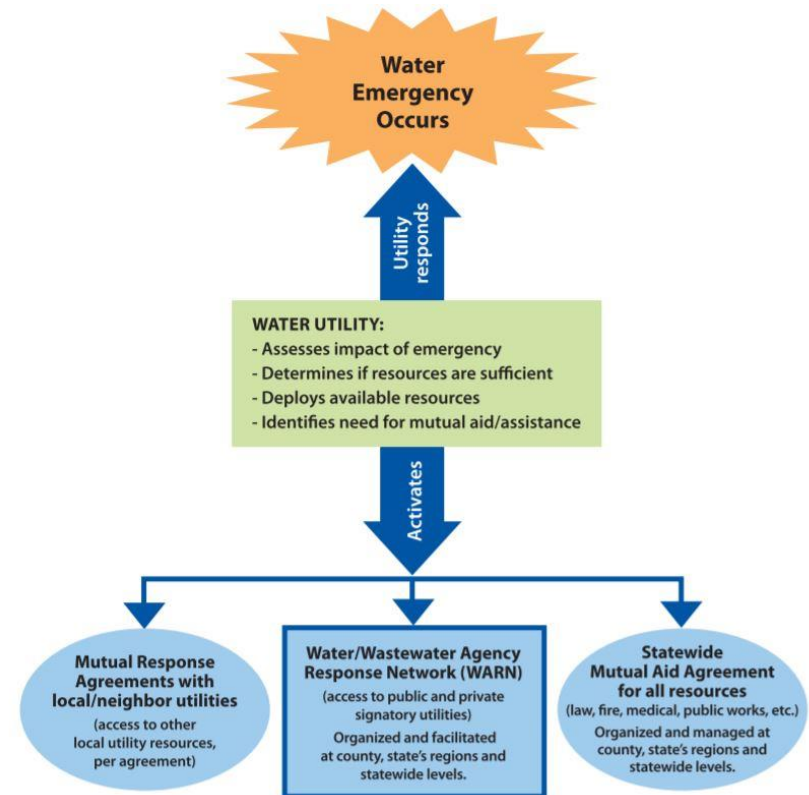
# Forms of Consolidation

- Direct Acquisition - one higher-capacity utility absorbing another in its entirety.
- Joint Merger - two or more utilities often, but not necessarily, of similar capacity consolidating to become a new entity that is jointly owned by the participating utilities.
- Balanced Merger - hybrid of the other two types and involves two or more utilities consolidating and creating a governance structure that is designed to allow for participation by the previously existing utilities in future decision-making.
- Consolidation of Governance/Operations/Mgmt

# EMERGENCY CONNECTIONS

# Emergency Connections

- Governmental entities can approach emergency scenarios in a couple ways
- Communities can contractually partner with each other to lay out responsibilities and rights in the face of an emergency
- Communities can participate in a WARN program



\* Image from EPA, [https://www.epa.gov/sites/production/files/2015-08/documents/poster\\_warn\\_0.pdf](https://www.epa.gov/sites/production/files/2015-08/documents/poster_warn_0.pdf)



# EPA WARN Programs

- Water/Wastewater Agency Response Network
  - Coordinate emergency efforts and increase access to resources that would not be financially accessible to those acting individually
  - Form agreements with other utilities to “respond to and recover from emergencies by sharing resources with one another”
  - Any system (private or municipally owned) can join
- Each WARN program has its own priorities, structure, and recommendations
- EPA, [WARNs in Action Video](#)

# Benefits of joining a WARN

- Increased planning and coordination
- Increased access to resources
  - Availability of specialized that individual entities might not be able to afford on their own
  - Access to professionals across the network
- Information exchanges among entities
- Expedited aid and equipment arrival
- Reduced administrative conflicts
- Flexibility in creating the contracts
- No obligation unless the contract says so
- Each addition enhances the likelihood of a successful emergency response

# THINGS TO CONSIDER WHEN DECIDING ON A REGIONAL OPTION

# What regional models exist in your state?

- Regional utility providers – counties? Municipalities?
- Consolidated utilities
- Authorities
- Joint Management/Power Agencies
- Private regional providers
- Non-profits
- Cooperatives
- Sanitary districts
- Metropolitan districts
- The list goes on!

# Example model from NC

## 1.1 Single municipality operating as a regional utility

### Model At A Glance

- Multipurpose local government utility model with far reaching authority
- Governed by city council
- Prevalence in NC: Common, 10 to 15<sup>2</sup>
- Primary Authorizing Statutes: G.S. § 160A, Article 16

#### Pro

Can integrate general city management, planning, and economic development with utility operations

#### Con

Can be difficult to balance obligations to city residents with needs of customers outside city limits

# Example model from NC

## 1.4 Water and Sewer Authority

### Model At A Glance

- A special purpose unit of government focusing on water services
- Can be used to consolidate all utility operations or a portion of operations such as water supply and treatment
- Governed by an appointed board
- Prevalence in NC: Approximately 15
- Primary Authorizing Statutes: G.S. § 162A, Article 1

#### Pro

Permits a range of governing board options

#### Con

Cannot use taxes or issue general obligation bonds

# What is feasible?

- Have you considered engineering needs/studies?
  - Are you connected? Do you need to be?
- What are the associated costs and what are potential future financial scenarios associated with your regional option?
- Is it legal? (check with counsel)
- Will your community support it?

# If you are transferring assets...

- Consider how will you value those assets from both a book value and a cash flow value...
- Additionally, consider how you will cover existing debt if you no longer have revenue coming in from the transferred asset





# What about staffing considerations?

- You may need to harmonize different employee salaries and benefits of different utilities
- For small communities, sometimes staff play critical roles in non-utility services (landscaping, snow plowing, etc.)
- Consider how you can address staffing challenges/shortfalls in the regional agreements

# The million dollar question...what will rates look like?

- Lower rates are not a guarantee
- If equalizing rates, what does that process look like?
- Surcharges? Temporary increases?
- This is likely the most important thing for your customers, so effective communication is key

# How will you change governance structure?

- Governance impacts every aspect of service provision
- Dependent on many factors including: level of consolidation, number of utilities, combined service area, anticipated growth or decline, financial health of systems, and future regulatory costs

# If you have a board, who gets representation?

- Another critical piece in being able to get community members on board, is knowing that they have a representative at the table
- You'll want to consider:
  - Number of board seats
  - Rationale for assigning board seats
  - Rate setting process
  - Modification of the board, if at all

# Consider how you will resolve disputes...

- Regardless of level of regional partnership, consider how you can resolve inevitable disputes
- Binding arbitration
  - Has its downsides
  - Precludes formal litigation if you can't come to an agreement
- Non-binding mediation

# DRAFTING EFFECTIVE PARTNERSHIP AGREEMENTS

# Drafting Effective Partnership Agreements

- Each contract should contain at the bare minimum (1) the parties, (2) the responsibilities and obligations of the parties, and (3) the duration/term of the agreement
- However, there are often additional elements required by state law in order to make the agreement a valid and legally binding document
- Those entering a partnership agreement should know these statutory requirements

# Interlocal Agreement Considerations

Defining Current and Future  
Service Areas

Annexation and Growth

Key Usage Thresholds

Meter Maintenance

Water Quality Concerns

Water Pressure

**Adequate Payment for Use of  
Capital**

Calculation and Modification  
of Commodity Charges

**Reselling Water or Capacity**

Handling Supply Interruptions  
and Shortages and  
Emergencies

Transferability of Conservation  
Status/Measures/Emergency  
Reduction

**Non-Revenue Water**



# Interlocal Agreement Considerations:

Excessive Inflow and  
Infiltration

Transferability of  
Wastewater Pretreatment  
Requirements/Industrial  
Discharge Permits

Compliance of  
Wastewater Permits with  
State/Local Ordinances  
and Regulations

Consideration of Impact  
of Retail Rate Increases on  
Wholesale Rates

Ground Rules for  
Negotiating – “Financial  
Mediation”

Consideration of  
challenges in collecting  
payment for wastewater  
when water service is  
from a different provider

Looking Ahead – Leaving  
Open the Potential for  
Consolidation

# How to handle meter maintenance and ownership responsibilities

- Basic language about ownership of meters
- Specifics related to the types of meters, and any other equipment needed for use/location of such meters
- Language that specifies who will read, maintain (including periodic calibration), and replace meters if necessary, and how any costs will be shared, if at all, among partners
- Language for how water usage will be calculated in the event of a meter failure

# Why so many considerations?

- Avoid unnecessary litigation
- Create more long-lasting contracts
- Reduce tensions by reducing ambiguities
- Look forward to changing regional needs
- Expect the unexpected

# Overview of Interlocal Agreements

- Who, what, when, why → covered by the basics of good contract
  - Include all required statutory elements
  - Clearly explain the intentions behind the partnership
- How → include provisions that detail how each goal of the partnership will be carried out
  - For example: discuss service areas, nonrevenue water, source water protection, growth

# Rural Interlocal Agreements

- Rural areas face unique challenges
  - Large distances between neighbors
  - Infrastructure challenges
  - Small tax base and political power
- Regionalization is still possible, even if formal interlocal agreements or joint agencies are less effective
  - Basic contracts can cover the sharing of equipment, services, and personnel
  - Emergency agreements can allow for access to a greater pool of resources
- Even if the regionalization approach is less formal, **all partnerships should be written down in a contract** for the protection of all parties involved!

# HELPING COMMUNITIES MOVE IN TOWARD REGIONAL SOLUTIONS

# Address their concerns

## DEMYSTIFYING THE CONCERNS WITH A REGIONALIZED APPROACH TO GROWTH

*myth*

Entering a regional agreement means that my community loses our competitive advantage in pursuing growth.

The community has to own the municipal water system in order to comply with the legal requirements for annexation and future growth.

If my community enters into a regional agreement, we will lose the authority to grow the way that we want to grow.

*fact*

A community can preserve all rights to annexation, future growth incentives, and capacity needs through effective contracting. Further, the community can reserve the desired authority in the terms of their agreement.

The law only requires that you provide services on “substantially the same basis,” and explicitly lists services provided from a joint agency as valid sources of public water supply.

Including an annexation agreement, as well as provisions for contract amendments, will allow for preservation of plans for growth. Further, you control who has what authority in the partnership.

# Remind them of all they have to gain

Economic  
development

Increased access to  
capital with better  
terms and at lower  
interest rates

Better water  
quality

Larger capacity

Operating  
efficiencies

Lower rates

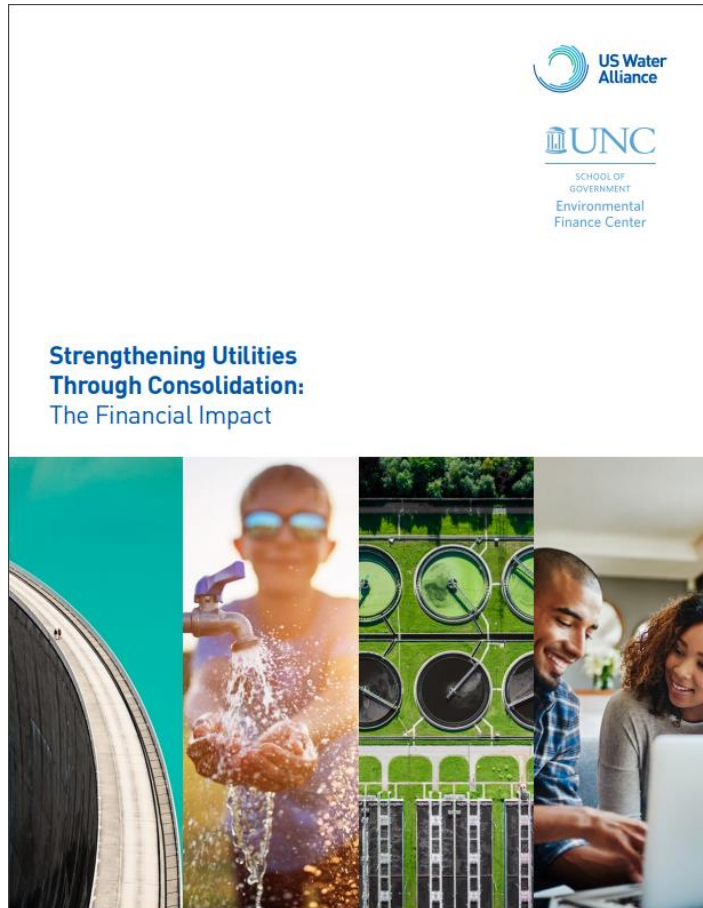
Revenue stability

Reduced exposure  
to regulatory  
penalties



# LET'S CONSIDER SOME EXAMPLES

# Case study examples...



- This report examines the experiences of eight communities who consolidated utility service in different ways and for different reasons.
- Provides insight about what financial impacts communities might expect through consolidation.

# Financial Benefits of Consolidation

- Economies of scale and efficiencies
- Increased Access to Lower Cost Capital
- Lower or Equal Customer Rates
- Revenue stability
- Reduced exposure to regulatory penalties
- Improved planning and risk management
- Increased opportunity for economic development

# Iowa Regional Utilities Association

- Drivers:
  - Water supply needs
  - USDA big supporter and promoter
  - 19 planned regional systems in the state
- Governance:
  - Private non-profit member owned
  - 9 member Board of Directors
  - Representatives on board from different geographic regions

# Iowa Regional Utilities Association

- Services:
  - Management and provision of drinking water and wastewater services
  - Flow of funds comes from communities (residential, business, wholesale) to central utility
- Financial Impact:
  - Larger revenue base to share costs
  - Expanded water sources and supply capacity
  - Enhanced economic development in rural communities

# How do you get small systems to relinquish control?

Improved expertise and assets (similar to that found in more urbanized settings)



Retaining community identity on water towers...

# How do you get small systems to relinquish control?

The costs of staying separate can be significant!

State Center chose to proceed with the construction of their own small treatment facility rather than purchase wholesale water from IRUA or become an IRUA retail customer. A State Center water customer that uses 4,000 gallons a month will be charged \$73 per month compared to the IRUA retail rate of \$55.

# Logan Todd Regional Water Commission

- Drivers:
  - Chamber of Commerce was advocating for it
  - One of the member communities had lost bid for poultry plant b/c of water supply shortage
  - There was a preference for regional solutions from the funders
- Governance:
  - 12 water systems formed a Joint Powers Agency, which is a nonprofit
  - Entities retain individual ownership of systems but have a 12 member board of representatives

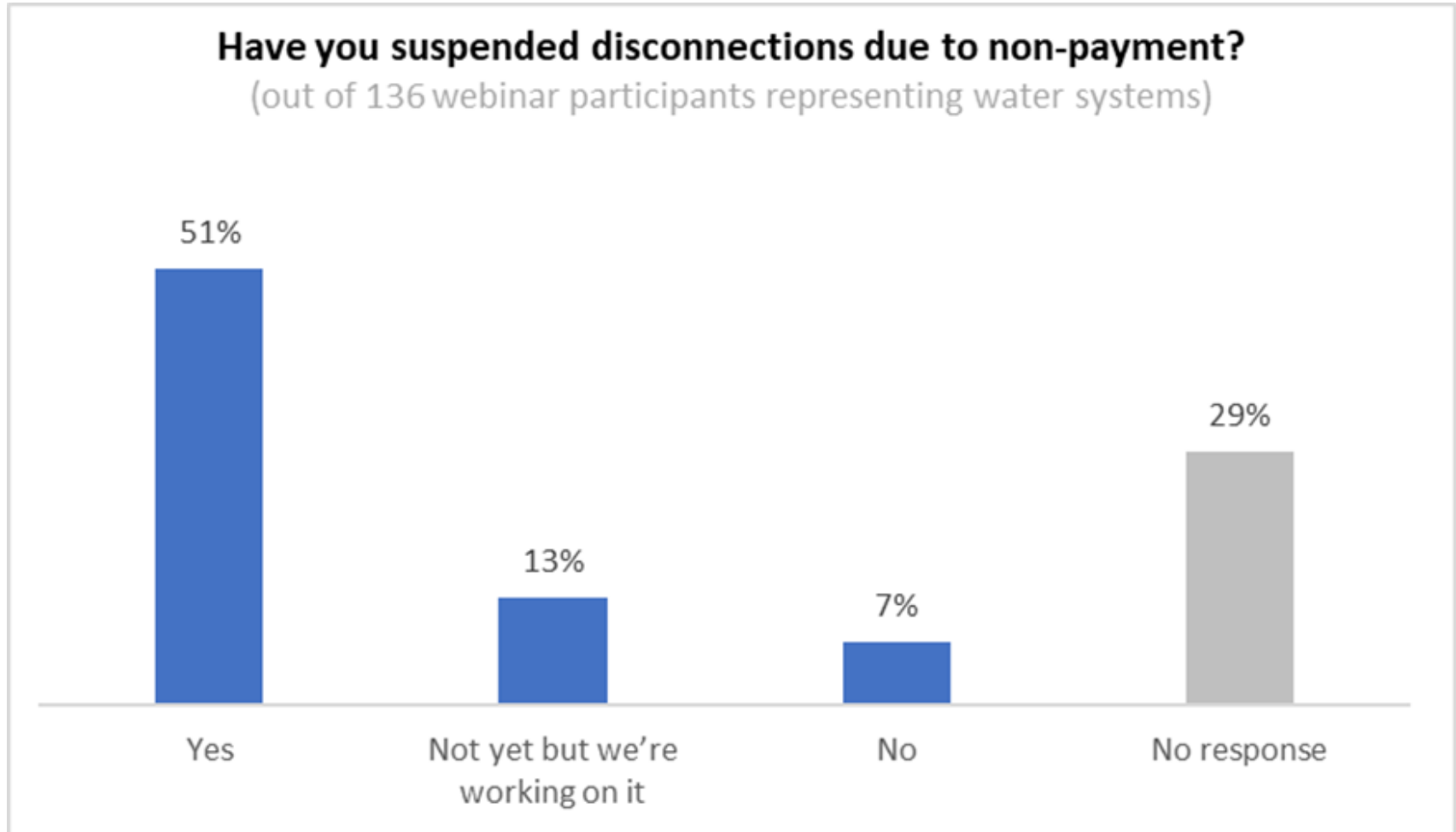


# Logan Todd Regional Water Commission

- Services:
  - Wholesale drinking water
  - They serve 52,000 people with the potential to expand to 100,000
- Financial Impact:
  - Partnership enabled them to attract favorable finance
  - Economic benefits to the region as a whole – attracted two alum manufacturing plants
  - Equalized wholesale rates for all 12 communities

# WHY MIGHT COVID-19 MAKE US EVEN MORE INTERESTED IN PARTNERSHIPS?

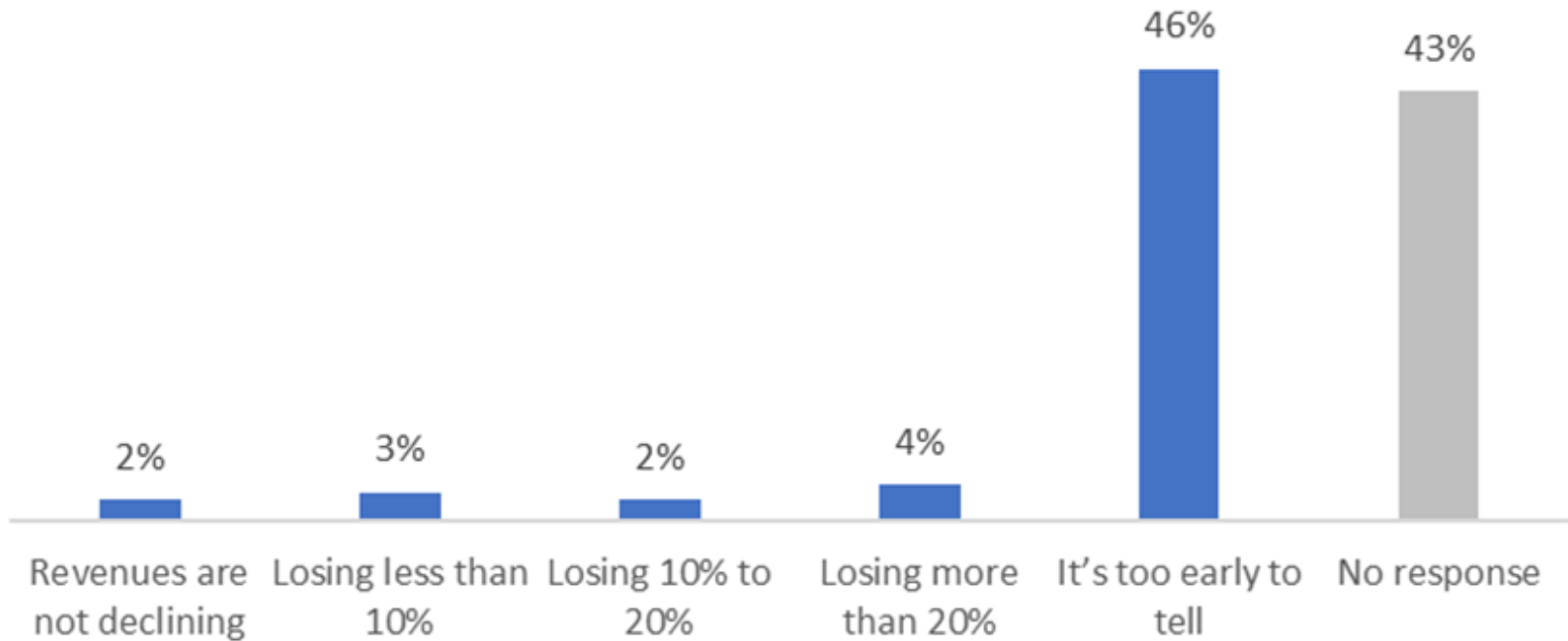
# From the April 8 EFCN Covid-19 webinar



# From the April 8 EFCN Covid-19 webinar

## How are your water revenues being affected by COVID-19?

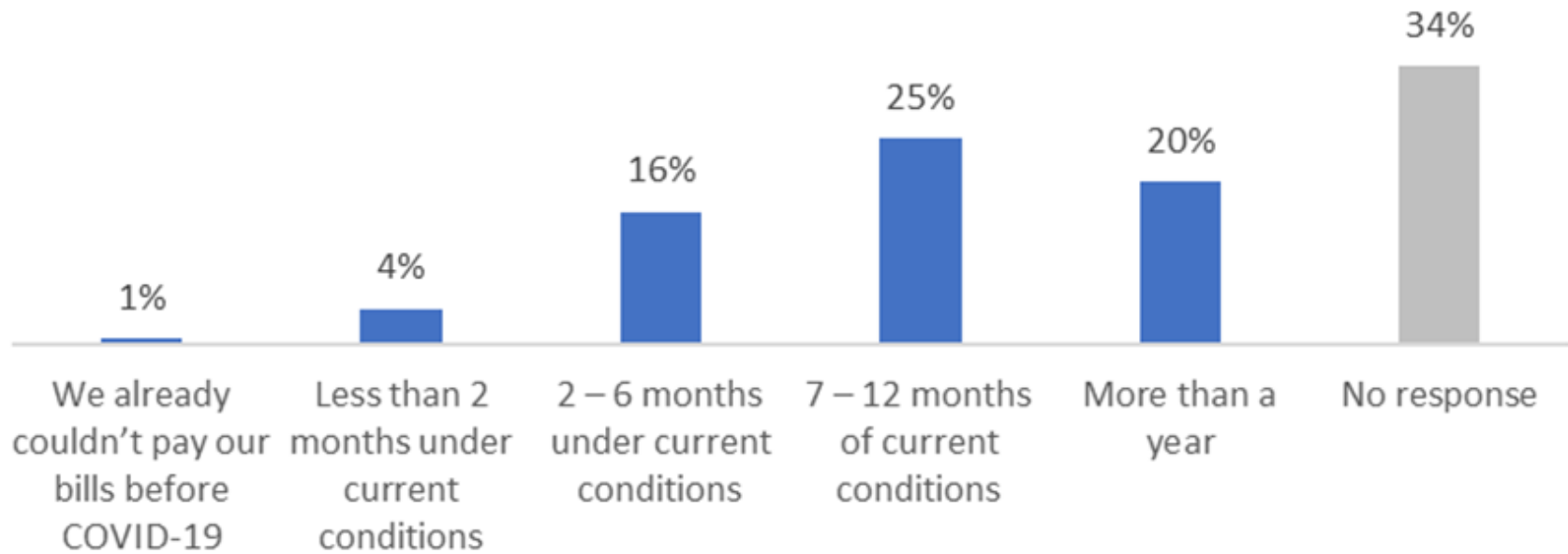
(out of 136 webinar participants representing water systems)



# From the April 8 EFCN Covid-19 webinar

**How long can you pay for all water system expenses under current conditions?**

(out of 136 webinar participants representing water systems)



# What does this tell us?

- There is still A LOT we don't know about how this will impact our systems
- Your already growing lists of struggles is likely to get longer as a result of this pandemic
  - Capital projects might have to take a backseat to basic operations right now
  - Debt payments might be impacted
  - Affordability is likely to be an even greater challenge if rates need to go up

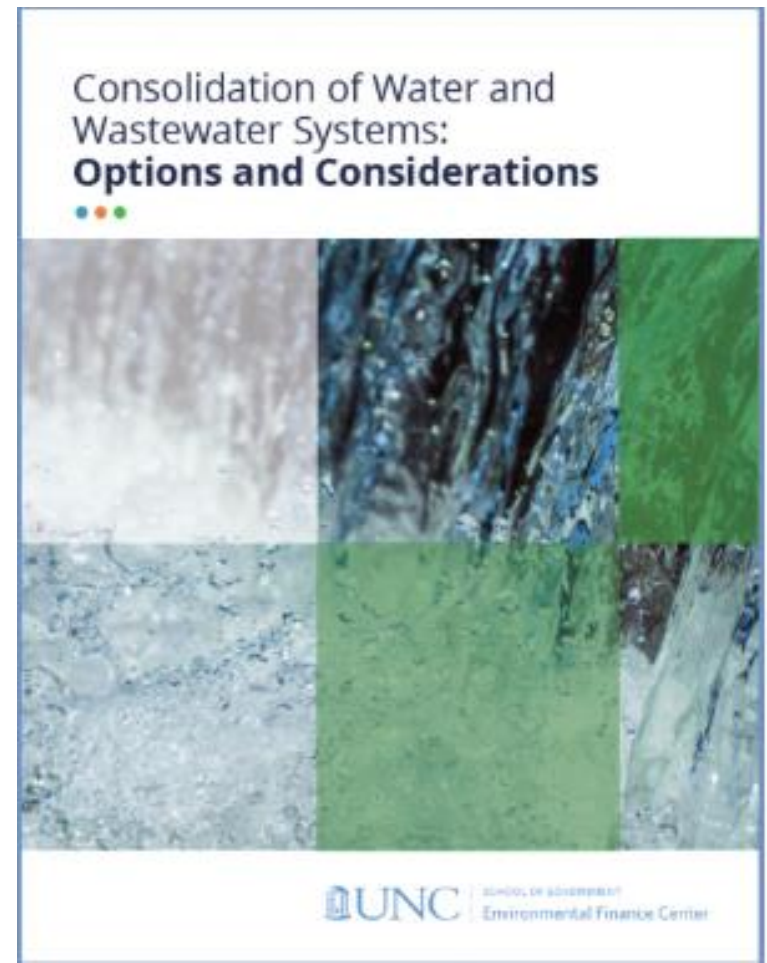
# Regionalization offers an opportunity:

- To share resources (some systems experiencing staffing shortages or shifts right now)
- To spread costs among a wider base (smaller systems have less of a cushion right now)
- To build in contractual help when needed (no, we didn't know we needed to think about global pandemics, but now we do)
- Potentially more stability to continue to allow for economic development (this may be very critical during the rebuilding period after this is over)

# OTHER RESOURCES AVAILABLE TO YOU



# Two EFC Resources

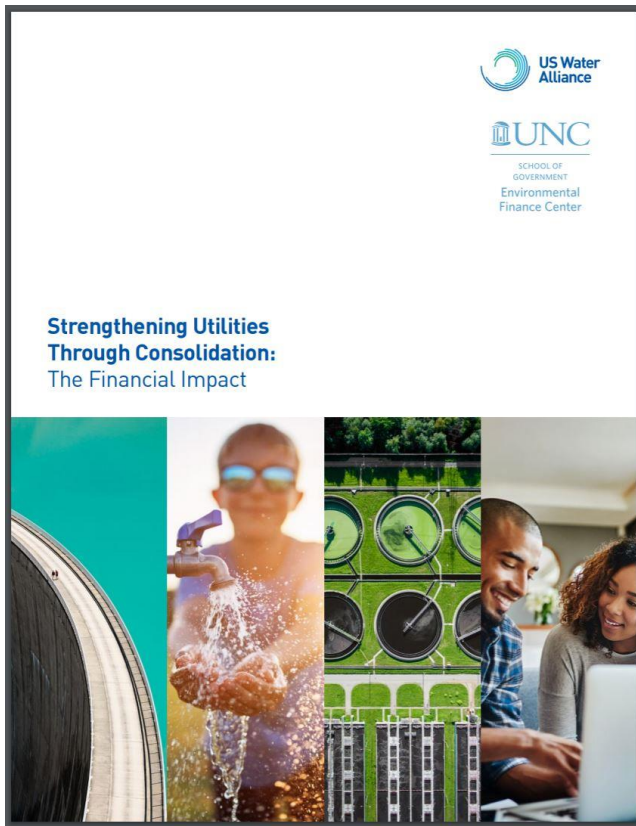


# Format of Resource Guides

- Potentially living/dynamic documents
- Focus on considerations
- Balancing examples and past practice with new approaches
  - I&I
  - Rate setting
- Framed in the positive, but informed by examples of challenges and struggles

# Other Resources

## US Water Alliance & EFC Consolidation Report



## EFC Interlocal Agreement Video

<https://vimeo.com/digitalmedia/review/372993470/18aeaef9a2#>

Thank you!