

Using Utility Funds to Subsidize Connecting Distressed Water Systems to City Water

Policy Question

To what extent should utility funds be used to subsidize the cost of private community water systems to convert to City water?

Background and Summary

Inside Salem's city limits there are numerous small, private water systems that deliver drinking water to their customers. Although these systems are privately operated, they are classified as "community water systems" by the Oregon Health Authority's Drinking Water Program (DWP) and are regulated as such. Most of these private systems lack the financial and technical resources to properly meet all treatment, reporting, and record keeping requirements. Many of these private water systems are periodically out of compliance with state standards. Additionally, some customers are receiving water with taste or odor problems or water that is on the margins of compliance with state drinking water quality standards.

Public Works has been approached in the past by several managers and customers requesting to connect into the City's water system. While connecting to a City's water main is a relatively simple task from an engineering perspective, under the City's current policies and in the absence of any financial aid, the cost to customers of community water systems to connect to City water is prohibitive.

At issue is whether it is appropriate to use utility funds to subsidize private community water systems when the operators/customers have requested to connect to City water. Further, if it is determined to be an appropriate use of utility funds, how would such a program be implemented?

Discussion

By current City policy, any private community water system connecting to the City's public water system must pay all connection charges and system development charges, just as any new water service would do for new construction. Additionally, if the City will be assuming operation and maintenance responsibilities for the system, all pipes and appurtenances must meet the City's design standards, a requirement that often entails wholesale replacement of the existing private system from water main to private home. All these costs, when taken together and divided among the potential new customers, produce a per-connection cost that can be in the tens of thousands of dollars. As a consequence, even if safe and reliable City drinking water is available nearby, the high costs to connect makes accessing this water impossible for existing residents and businesses.

Options and Recommendations

Among the four key options described below for City involvement on this matter, only one is recommended:

1. No Change. Continue to allow connection to the City water only after connection fees, system development charges, and all other costs and charges have been paid.

Not recommended. This option, which is our current policy, is not likely to result in helping any distressed water systems.

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2. Convert to Wholesale Customer. Install a wholesale meter and treat the private water system as a bulk customer that pays the City for water usage but is otherwise fully responsible for operating and maintaining the private system.

Not recommended. This option, while providing safe drinking water to the private customers, keeps the private state-regulated water system intact and does not alleviate the testing and reporting requirements of the private system operator. It also does not meet the DWP's goal of consolidating and eliminating small private community water systems. Additionally, it only delays the eventual cost of replacing a substandard system at failure.

3. City to Subsidize in Total. Fully subsidize all connection costs and proceed with connecting the system.

Not Recommended. This option puts the entire financial burden of connecting a private system to City water on the City and existing ratepayers. It allows the customers of the private system to unfairly benefit from the City's resources without making any matching contribution.

4. Set a Fixed Maximum Payment per Customer; Subsidize the Balance. Cap the cost for each individual residence within the connecting system. The City would subsidize the remaining cost and leverage any available funding from State or Federal sources.

Recommended. Under this option, the City would set a maximum amount for which each customer would be responsible and subsidize the remaining cost through a combination of utility rate funds and state/federal grant(s). This option allows the private customers to connect to the City system while bearing some, but not all of the cost of the conversion.

Additional Information and Considerations

Brewster Water Association in NE Salem is an example of a distressed community water system, with volatile organic compounds present in their water. The estimated total cost to connect to City water, which included SDC, connection fees, and a total replacement of a sub-standard system, was \$400,000. With only 18 customers, the cost to shift to City water would be about \$22,000 per residence.