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Planning for the Information Age

what's inside

Would a new constitution fix what ails Michigan state government?
page 3

FCC enacts 'shot clock' to decide wireless cellular facilities siting applications
page 26

The benefits of inter-municipal utility services
page 28



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The benefits of inter-municipal utility services

News headlines might have township officials thinking inter-municipal agreements for utility services are a pathway to disputes. Commonly heard complaints when such disputes arise include "The rates aren't fair," or "We have no control!"

Unfortunately, many disputes end up in litigation and are not resolved in the best interest of the municipalities—or the customers. However, when properly set up, inter-municipal agreements offer considerable benefits to all customers—and after all, isn't that what is most important?

If your township is evaluating options for a new water or sewer system or renewing an existing agreement for service, officials should take the time to review the value of an inter-municipal system before going it alone.

COOPERATION OFFERS MAJOR BENEFITS

Inter-municipal utility service agreements are contracts between two or more adjacent municipalities for providing water or sewer services across municipal boundaries. The duration, services provided, methods to determine rates and conditions of such agreements vary widely. Having a clear understanding of the benefits and pitfalls, and always considering what is best for all customers will reduce the likelihood of being a negative headline in the local newspaper.

The major benefits of inter-municipal agreements can be broken down into four categories.

1) Reduces capital costs

- Eliminates dual water main along municipal boundaries.
- Reduces the number of wells or supply capacity required to meet fire flow demands.
- Services larger areas with fewer lift stations and water pressure districts.
- Requires fewer treatment facilities and less land.
- Eliminates the need for duplicate equipment to operate and maintain the system.

2) Lowers operational cost

- Fewer wells, water towers, pump stations and treatment facilities to operate and maintain.
- Requires significantly less people to operate one large system than two smaller ones.
- Increases purchasing power for supplies and chemicals.
- Lowers energy consumption and cost per customer.

3) Leverages funding source

- Priority is typically given to funding applications involving multiple communities.
- Single bond issues can be issued instead of multiple bonds for each community.

4) Meets customers' needs

- Able to provide service to a small segment of the township surrounding a village or city without having to tax the entire township or develop larger areas than necessary to make it cost effective.

The first three benefits all relate to reducing the cost to construct, operate and finance a water and sewer system. Many of the fixed costs to operate a system can be spread over a larger number of customers. Customer rates are a direct function of these costs—the lower the operation costs, the lower the customers' rates will be.

ISSUES TO CONSIDER

So, with all the benefits, why do so many communities end up in disputes over inter-municipal utility service agreements? Most disputes can be avoided by clearly defining the terms, meeting the needs of all communities involved, addressing how changes over time will be handled and, most importantly, considering what is best for all customers.

Among the issues to consider when evaluating the feasibility, terms and conditions of inter-municipal agreements are:

Service—What type and level of service will be provided?

- Ideally, the level of service would be the same for all customers for all communities. This is easier for the operators and customers, and will lead to less conflict.
- Where the service is not the same, it should be more specifically identified. Such services may include flushing hydrants, valve turning, sewer cleaning, preventive maintenance, major repairs, replacements, etc. The level of service, frequency and payment should be addressed and rates should reflect the differences.

Control—Who will determine how rates are set and how service is provided?

- A system that is controlled by the users of the systems will typically make decisions that are best for all customers. Political influence could be minimized by establishing an independent board to operate the system and set rates.
- Control does not require ownership of the system. There are alternatives to common ownership that provide a reasonable level of control.

Rates—How are they determined and what is included?

- The method to determine the rates, tap fees and connection charges for all communities should be identified, and the township should review the process and amounts annually.
- Clearly define what can be included or not included in rate calculations. Items that should be addressed include indirect administration costs, replacement reserves, capital expenditures, replacement, financing and, even though it is not a cash expenditure, depreciation.
- The rates must be fair and reflect the assets and liabilities each community brings to the table.

Implementation—Customers' needs will change over time.

- All communities change over time. Some grow faster than others, industry comes and goes, and seasonal demands can change. The agreement needs to accommodate these potential changes to avoid disputes.
- Some give-and-take is necessary. There will be periods of time when one community incurs more costs than the others or is more inefficient to serve, but over time, these tend to cancel out.

Dispute resolution—How will disagreements be handled after the 'honeymoon' period is over?

- First, clearly define the terms, intent, expectations and responsibilities so future leaders and customers can understand and agree on what was intended.
- Second, identify a method to address problems and disputes between the parties. This can be a joint authority board, a liaison from each community, an advisory board or a contract implementation committee. The key is to have regular dialogue between the communities and a group that

is responsible to implement the agreement and answer to the customers.

- Third, include provisions for a third party to assist with mediation.
- Finally, have provisions for terminating the agreement in the event there are irreconcilable differences. Consideration should be given to outstanding debt, separation of the systems, shared assets and customers who may be served by multiple communities.

While no agreement or relationship will be perfect, if all communities make decisions that are in the best long-term interest of all the customers, the resulting agreement will be successful. ■

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