Consolidation: The Cure for All Forecasted Water Problems?

Whether our future water supply challenges include more stringent regulations, water shortages, decreasing revenues, too much growth, not enough growth, lack of available funding, or anything else imaginable – consolidation is continually proposed as the anodyne policy.

In March, New Jersey Governor, Jon Corzine told hundreds of New Jersey's smallest towns and boroughs that they are too small to operate efficiently. The Governor claims that the littlest towns and boroughs need to merge with their bigger neighbors to achieve economies of scale. Lack of cooperation with this new enterprise could result in a cutoff of state aid. Under the Governor's proposal, the state's 323 towns with populations of fewer than 10,000 people would face drastic cuts if they do not consolidate. Towns with populations between 5,000 and 10,000 people would see their aid sliced in half. Those with more than 10,000 would have their aid frozen at 2007 levels.

In 2003, an EPA National Drinking Water Advisory Committee panel report found that consolidation is “probably the most effective long-term compliance option for small systems... This approach is being increasingly implemented to achieve cost reduction and greater water management expertise... [W]hile federal and state policies have increasingly emphasized the benefit of consolidation, significant political, geographical and business barriers have prevented widespread consolidation.”

The private water industry pushes consolidation as solution to small community issues. On CNBC, the CEO of Philadelphia Suburban Water was asked how his company will make profit in the water business. The CEO had only one response, to “consolidate” the over 50,000 water systems in the country. When Larry Kudlow inquired if that was their main strategy, Mr. Debenedictis gave a simple declaratory, “yes.”

Academia has been a proponent of consolidation; the National Academy of Sciences published a seminal small systems report in 1997 – Safe Water From Every Tap, Improving Water Service to Small Communities. The authors of his report concluded, “if the performance appraisal uncovers problems that compromise the system’s sustainability, then the water system either must improve service on its own or restructure... SRF monies should be made available to public and investor-owned utilities for assisting in the restructuring of small utilities.”

The U.S. Environmental Protection Agency supports, “facilitating public/private partnerships & institutional restructuring of drinking water utilities” and changing the U.S. Tax Code to allow more tax subsidizes to be available to private entities (lifting the caps on private activity bonds).

Recently I had the pleasure of hosting a policy meeting with representatives of our rural water associations and about 20 high ranking EPA official including the EPA Administrator and
regional officials. The purpose of the meeting was to foster our positive relationship and promote awareness between Rural Water and our friends at EPA. One of the most enlightening presentations came from Kentucky Rural Water’s (KRWA) Executive Director, Gary Larimore. Gary explained in the last 30 years, the number of public water systems has **decreased** by 70% in the state – from 1,700 PWSs to 400 today. The key ingredient in this anomalous Kentucky trend was state financial aide and local support. KRWA has assisted most of these communities (their members) through the process to ensure the consolidation will be workable and beneficial to all the communities in the mix. Gary reported that in the rare cases where the government pressured apprehensive communities to consolidate, the new consolidated system still has problems long into the future.

I am a proponent of consolidation and regionalization. After all, it has been my core mission in expanding my county water system in Harnett County, North Carolina. In just the last decade, we have consolidated with many smaller communities and extended new water service to hundreds of rural families. This has been a great benefit to these rural households and small communities. However the key ingredient in my case, and in any successful consolidation, is local support for the consolidation – and local control on when and how they choose to consolidate. Rural Water has led or assisted in more communities consolidating their water supplies than any program, policy or organization. Again, when communities believe consolidation will benefit then, they eagerly agree. However, if communities are coerced to consolidate, one can almost guarantee future controversy.