



NEWS RELEASE

Consolidation of Rural Water Systems Prompts Industry Dialogue

Thorough evaluation and public support are critical first considerations

DENVER (October 19, 2017) - As an increasing number of rural water utilities wrestle with regulatory compliance issues and costly infrastructure needs, debate surrounding the relative benefits and risks of consolidating services with neighboring communities is intensifying.

Advocates of rural water utility consolidation, also referred to as regionalization, point to the advantages of shared resources and economies of scale. Opponents are quick to raise concerns about the loss of autonomy and control that can result from consolidating water utilities and reference cautionary tales from costly or strained partnerships.

A new report from CoBank's Knowledge Exchange Division examines the key issues and considerations surrounding consolidation of rural water systems. The report includes insights and perspectives from several industry leaders, which will likely prove helpful to any rural utility contemplating a similar partnership.

"The pace of consolidations at agricultural cooperatives in rural America has picked up in recent years," said Chris Shaffner, CoBank's sector vice president of water and community facilities banking. "Mergers, acquisitions and unifications are also on the rise with rural water systems."

In Kentucky, for instance, the number of water systems has fallen from 2,000 in 1979 to 400 in 2017. Today, there are approximately 50,000 rural water systems in the U.S. Ninety-two percent of those systems serve communities of 10,000 or fewer residents.

Consolidation Benefits and Cautions

Consolidation can help spread the burden of debt service, as well as administrative and operational costs, over a larger customer base. It can also provide bulk purchasing opportunities and a greater ability to attract and afford employees with highly specialized skills.

Consolidation also enables regional water systems to develop multiple water supply sources, which provides added confidence in operations and service reliability. Notably, consolidated utility systems have the potential to enhance regional economic development by providing expanded service to a wider and more diverse set of residential and business customers.

Consolidating water utilities is also complex, costly and challenging. The initial process of evaluating and forming partnerships, planning for future community needs and creating an engineering and operational blueprint for combined systems can easily take 12 months or more.

Unique Challenges for Rural Water Systems

Public support for water utility consolidations is critical, and fostering support takes considerable time and effort. Residents of many smaller towns and communities, particularly those which have already lost local schools and other businesses, are understandably sensitive to any changes perceived to further threaten their independence and identity.

While rural water systems have historically relied on federal funding through loans or grants, some believe that this assistance may be in jeopardy. The current administration has proposed a 2018 budget that includes substantial reductions in USDA's Rural Development agency, limiting aid to rural water systems and eliminating a program that funds rural water and wastewater infrastructure.

Adding to these challenges, few rural water utilities charge their customers the full cost of supplying safe drinking water. This often results in neglected repairs, maintenance and system upgrades.

"Consolidation of water utilities can be a successful means to provide rural communities with economic and service benefits," added Shaffner. "But it's unlikely to be the best solution in all situations. The key is helping local leaders and the communities they serve make informed decisions that meet their unique needs and circumstances for years to come."

The full report, "When Rural Water Systems Combine," is available to media upon request.

About CoBank

CoBank is a \$125 billion cooperative bank serving vital industries across rural America. The bank provides loans, leases, export financing and other financial services to agribusinesses and rural power, water and communications providers in all 50 states. The bank also provides wholesale loans and other financial services to affiliated Farm Credit associations serving more than 70,000 farmers, ranchers and other rural borrowers in 23 states around the country.

CoBank is a member of the Farm Credit System, a nationwide network of banks and retail lending associations chartered to support the borrowing needs of U.S. agriculture, rural infrastructure and rural communities. Headquartered outside Denver, Colorado, CoBank serves customers from regional banking centers across the U.S. and also maintains an international representative office in Singapore.

For more information about CoBank, visit the bank's web site at www.cobank.com.

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