The Case for Regionalization and the Benefits of Sharing Services

A Case Study for the Water Merger between the City of Coshocton and the Village of West Lafayette

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Background

For nearly three decades Coshocton and West Lafayette leaders have casually discussed merging water systems. The strike of the match occurred in 2018 through a chance conversation between leaders from both communities. As the two communities faced mounting challenges with their water systems, the potential benefits of sharing services became more apparent. Loss of industry following a system expansion led to increased rates for the city of Coshocton. In West Lafayette, environmental concerns, significant rate increases, and system upgrade expenses were in the village's present and near-future operations.

The conversation to merge systems offered a win-win solution for both communities. In April 2019, following months of conversation and negotiation, a shared services agreement was adopted by both communities. Funding is in the process of being secured.

Impeding Costs Facing West Lafayette

West Lafayette is a village of 2,400 people in eastern Ohio. West Lafayette's water treatment facility, upgraded in the 1990s, services 880 residents with a capacity of one million gallons of hard water per day. The village water system is equipped to meet the needs of current residents; however, the lack of additional capacity caused the village to recently lose out on two economic development opportunities in manufacturing. Additionally, the age of the system and deferred maintenance resulted in:

- safety concerns and increased costs from environmental concerns
- anticipated future costs for maintenance and upgrade of an aging system
- increased water rates to residents
- 13,000 feet of substandard lines in need of replacement

In the 1990s, West Lafayette discovered a plume of groundwater contamination due to industrial dumping during World War II. Since the discovery of the plume, West Lafayette continues to test groundwater to ensure contamination does not impact water quality for the village. While of no present danger to the water system, the Ohio EPA and the village were concerned the water treatment plant may not have the ability to handle this contamination. The estimated cost to upgrade the facility to ensure the treatment facility can adequately handle this contamination would be between $4 million and $5 million.

Additionally, the Ohio Rural Community Assistance Partnership (RCAP), a SCEIG member organization, completed an independent study on West Lafayette's water system. RCAP recommended the village raise rates by 10% annually over a five year period to maintain the cost of facility operations. RCAP's study found that an additional $5 million in upgrades was necessary to ensure West Lafayette's system operated in safe and sustainable operations. Aside from the treatment facility, the village found that 13,000 feet of substandard lines were in need of replacement – creating a safety concern to the community, as these lines were feeding the village's fire hydrants. This replacement would be an additional $3.5 million project.

Altogether, the village's future shows a substantial increase to water rates to its residents and an additional cost of more than $13.5 million to upgrade the facility and water lines.

Excess Capacity in Coshocton

A 200 year old industrial community, Coshocton is less than seven miles west of West Lafayette. The city's class three lime-soda water plant operated at maximum capacity in the early 2000s at 10 million gallons per day, with EPA orders for system expansion prior to the city adding any additional hookups. In the mid-2000s, the city undertook an expansion project for an additional five million gallons. During this expansion, the city experienced industry loss, which eliminated the expansion needs prior to the completion of the project. Then the city experienced another loss: a paper mill that had been in the city for more than 150 years. Now, after expansion, Coshocton's water system operates at 3 million gallons of water daily with a system that has 15 million gallons capacity.

The loss of industry meant Coshocton had to find solutions to subsidize the loss of industrial ratepayers, so as to not pass on costs to the residential ratepayers. For decades, the city provided soft water to accommodate the needs of the paper mill. In an effort to reduce costs, the city explored ending the soft treatment. An independent study found that rates would double for residents without a water softener – of which soft water had been provided to residents for decades. Therefore, the city explored raising rates. With the confirmation from an independent study from RCAP, Coshocton increased rates 38% on its residents. In the 2000s, the city purchased the county's water assets; after the simultaneous expansion of capacity and loss of industry, Coshocton was ready to continue expanding service to neighboring communities.

The Communities Entered into Shared Services Conversations

Following a casual conversation between the two mayors for the communities to explore the idea of entering into shared services negotiations, each community needed to garner support from its elected officials. The respective councils first needed to approve the community's leadership to enter into negotiation conversations. In Cohocton, this support was mustered through a single council vote. In West Lafayette, the decision to enter merger conversation split council. Councilmembers who voted against the negotiation feared the village would become incapable of regulating rates and costs for residents. With a split council and these concerns, village council decided to take the issue to the voters. Following community conversation and an open forum, West Lafayette voters approved the measure by a two-to-one margin in November 2018, allowing West Lafayette to enter negotiating conversations with Coshocton.

Negotiating teams were established for each community. These included the two mayors, a public works representative for each community, and one mayoral appointee per community. During the negotiation process, third party involvement assisted the communities in their decision making. RCAP provided West Lafayette with a Regionalization Report which described three scenarios: 1) keeping their system, 2) maintaining a master meter, and 3) turning the village's water system over to Coshocton. By identifying three options and costs associated with each, as well as potential rates and future projections, RCAP provided unbiased, technical information to allow the village to make a well-informed decision. While uncertainty around the terms of the merger persisted during conversations, RCAP assisted with the funding application for Engineering Associates to create an engineering plan for the potential connecting project under negotiation.

Due to funding agency application deadlines for project funding, an engineering plan had to be completed before the communities finalized the terms of their service sharing. Funding partners also required a more detailed project plan prior to committing funding for a project. The communities were granted funding assistance from the Ohio EPA to complete the design of the project, so as to better position their future application for construction funding.

Establishing the Shared Services Agreement

After months of negotiating, the terms of the shared services agreement were drafted by both councils. The following are some highlights of the terms, and do not include all aspects of the agreement:

- **Coshocton will take over West Lafayette's water system**, with West Lafayette ceasing water operation. In reasonable time, West Lafayette will close its treatment facility, and the residents will become customers of the Coshocton system without any annexation of village residents. The connecting project will involve 22,000 feet of 12-inch diameter connecting lines between the communities.
- **Coshocton will replace 13,000 feet of substandard lines in West Lafayette,** and complete an extension of 10,600 feet of lines in the village.
- **Coshocton will be responsible for the entirety of the funding acquisition**, for both the connecting project and the replacement/extension of lines in the village.
- Residents within the Village of West Lafayette will pay the Coshocton Inside City Rate, and those outside of the Village will pay the Coshocton Outside City Rate. **Village Residents will be charged Coshocton's Inside City Rate in perpetuity.**
- West Lafayette's wellfield will be abandoned as part of the connection project.
- **A Water Advisory Committee will be established**, with representation from both communities. The purpose of the Committee is to advise the city on water improvements and rates.
- The establishment of a thirty year hardship review so as to ensure both communities may enter into negotiating terms in good faith.

After establishing the agreement terms, approval from both councils was required. Similar to the vote to enter into negotiations, Coshocton's approval was immediately granted by city council; West Lafayette council was split 3-3 on the agreement. West Lafayette's mayor voted in favor of the merger to split the tie, after receiving assurance from council that there were no moral, legal, or operational issues with the terms laid forth by the negotiating teams.

Next Steps for the Communities

As of April 2019, the formal agreement reached by the West Lafayette and Coshocton has been approved by both councils. The next step for the merger will be to secure funding. Ohio EPA is expected to supply a large portion of the funding, with a portion of the loans provided at full forgiveness. Other funding is expected through OMEGA and ARC. Per the agreement, the city of Coshocton will secure funding for the connection project, as well as any additional funding necessary to replace lines.

Benefits to the Communities

Through regionalization, stabilization in the water rates for both communities will occur. Due to the economies of scale, West Lafayette will see a one-time rate decrease following the activation date of the merger. With the increased customer base, Coshocton can mitigate the need to increase rates on its residents.

For West Lafayette, environmental concerns to the community will be mitigated. Residents in West Lafayette will receive Coshocton's soft water, which is better quality water. West Lafayette's substandard lines will be replaced, which will mitigate safety concerns to the village's hydrant system.

Economic development is directly related to water, and both communities will benefit from the new system's increased capacity and water quality.

Following this merger, the city of Coshocton will be equipped with capacity for further hookups, either in regionalization or through economic development and business expansion.

Lessons Learned

Regionalization is a key focus for SCEIG and the partners who fund projects and provide technical expertise to communities, such as Ohio EPA, OMEGA, and RCAP, and ARC. The inclusion of these partners in negotiating conversations was important to establish project plans that can be adequately funded and supported. Funding is a key component of regionalization projects, so the projects can successfully be implemented once agreed upon.

Thoughtful and strategic shared services conversations can produce a win-win solution for the communities involved, as shown in the water system merger between Coshocton and West Lafayette. Both communities expressed that shared services conversations can be a tough, tiring, and lengthy process – as communities must work internally and externally in negotiations for the success of shared services. By establishing trust and transparency through open dialogue and conversation, both sides were able to express their concerns and work together to find a solution that benefits both communities in an equitable way.