

# Utility Consolidation: Communities look for ways to reduce costs

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Augusta City Manager Bill Bridgeo has weathered his share of criticism during a 25-year career. But never has he received such hostile e-mails, voice-mail messages and even calls at home than during the past two months.

The flashpoint is a proposed municipal takeover of the city's water and sanitary districts. Bridgeo, heeding the recommendation of a study committee, believes the city could save \$600,000 annually by dissolving the utilities and running them as city departments. Eleven people would lose their jobs.

The issue has become so emotional — and opponents so strident — that some of Bridgeo's neighbors no longer speak to him. Making matters worse, he has begun locking his car doors at home to guard against vandalism. All for trying to do what he thought best for the community.

“There are a lot of rumors around town that attack my character, my professionalism and my integrity,” said Bridgeo, who has managed Augusta for six years. “This has been pretty intense.”

The controversy in Augusta reflects the divisiveness inherent in proposals for sweeping change. In recent years, communities from Bar Harbor to South Berwick have explored municipal takeovers of local utilities — and dealt with the subsequent fallout. Some communities have sought to dissolve quasi-municipal districts and run them as municipal departments. Others have moved to acquire the assets of investor-owned utilities, advocating for greater local control.

Although circumstances in each case have differed, one thing is clear: With Gov. John Baldacci urging communities to find efficiencies, municipalization of utilities is likely to become a growing topic of conversation in the years ahead.

Two-thirds of the 160 water utilities in Maine are quasi-municipal agencies, funded largely by ratepayers. Of the remaining third, 34 are run as municipal departments and 19 are investor-owned. Jeff LaCasse, a former president of the Maine Water Utilities Association, said it is difficult to take a one-size-fits-all approach to structuring utilities. There are too many variables.

Consider the twin cities of Lewiston-Auburn. Lewiston runs a large, municipal water department. But in Auburn, just across the Androscoggin River, a quasi-municipal district supplies the water. Both communities, however, obtain their drinking water from Lake Auburn. In each city, the structure works.

“There are advantages to each,” said LaCasse, who is general manager of the Kennebec Water District, serving Waterville and several surrounding towns. “A lot of it has to do with how they're administered.”

Advantages of quasi-municipal districts include a single focus, higher bonding limits, minimal political interference, and potential regional economies of scale. But there are disadvantages, too. For one thing, there might be less incentive to reduce costs. For another, regional districts must be vigilant to ensure equity.

Municipalization also has its pros and cons, according to the water utilities association. Municipally-owned utilities provide local control, centralized operations and potential savings through shared resources. But such departments often must compete for funding at budget time, the utilities association found, and are vulnerable to short-sighted, political decision-making.

Although there has never been a big wave of municipalization in Maine, the water utilities association has followed recent developments closely:

- The Town of Bar Harbor recently purchased the assets of the 129-year-old Bar Harbor Water Co. when faced with a change in private ownership. Bar Harbor had threatened to seize the company through eminent domain before the two sides reached a purchase agreement.
- In 2002, the city of Brewer moved to dissolve the Brewer Water District and assume control, citing dissatisfaction with the utility's management. The Legislature approved the takeover, effective last year.
- In Augusta, a mayoral committee late last year recommended dissolving the city's quasi-municipal water and sanitary districts and bringing them under municipal control. Such a move, the committee found, could save as much as \$600,000 through personnel cuts and efficiencies in purchasing, billing and fleet service. The proposal has encountered resistance from employees, some ratepayers and customers outside the capital, who fear that utility revenue might be used to cover budget shortfalls in hard times.

Cost-containment and a desire for local control largely drive utility reorganizations, according to a recent study by the water utilities association. The group, raising concerns about the trend, suggested that the PUC, the state's Drinking Water Program and local voters be given greater influence over the takeover process.

"MWUA is concerned that municipalities may decide to pursue control of water utilities to obtain potential cost savings, only to find that regulations negate substantial savings or that municipalities would be tempted to transfer certain expenses from the general municipal budget to municipal customers," stated the group's report, a March 10 draft which was provided to the TOWNSMAN. "There is additional concern that municipalities would defer capital investment due to short term budget shortfalls which could result in higher future costs and a risk to public health."

William Harwood, a Portland lawyer who has handled utility cases for 25 years, agrees that municipalities should move slowly and carefully before moving to dissolve utility districts. His firm, Verrill & Dana, worked with the city of Brewer to absorb the Brewer Water District two years ago. The firm now represents customers outside Augusta who are fighting a proposal to municipalize the city's water and sanitary districts.

Municipal takeovers “almost never make sense,” Harwood said, except in cases of serious mismanagement or malfeasance.

“On balance, the public interest is better served by having them independent and resisting the temptation of using the resources of the water or sanitary district to achieve other social goals like . . . property tax relief,” he said.

## **TAKEOVER IN BREWER**

Two years ago, dissatisfaction with management of the Brewer Water District led the city council to seek to dissolve the utility. The move, according to City Manager Stephen Bost, grew from concerns about above-average water rates and a belief that trustees had approved an excessive number of main replacements and other capital improvement projects, quadrupling the utility’s long-term debt.

Strained relationships compounded the dispute. City officials grew irritated with what they considered the district’s lack of cooperation in projects requiring pavement cuts. Utility crews, as a result, sometimes opened streets the city recently had paved.

“Basically, (trustees) felt as though they were autonomous and did not need to meet with the city engineer and public works director to coordinate some of these things,” Bost said. “That led to frustration.”

In January of 2002, city councilors began building the case for a municipal takeover. At Bost’s request, the city’s Director of Environment and Public Works, Ken Locke, analyzed water rates in 158 districts and privately-owned water companies. He concluded that customers in 106 districts - two-thirds of those in the sample — paid rates lower than in Brewer, which at the time had an average quarterly rate of \$52.56.

Locke also reviewed hydrant rental fees, based on a 23-community survey Brewer’s fire chief had done two years earlier. The survey showed that Brewer’s costs were the highest, among respondents, at \$1,663 per hydrant. Augusta was a close second at \$1,592. South Portland’s fees were the lowest at \$220 per hydrant.

Locke’s findings gave Brewer officials enough ammunition to take their case to the Legislature. When city councilors asked the region’s legislative delegation to sponsor a bill authorizing a takeover of the Brewer Water District, the battle lines were drawn. “People can be very protective of their turf,” Bost said. “Tensions were very high.”

In an opinion piece in the Bangor Daily News, district trustee Andrew Landry criticized the city council’s sudden push to municipalize the utility. Although he later backed municipalization after his concerns were addressed, Landry initially asserted that a hasty takeover could jeopardize the quality of service – and potentially public health. He also questioned the city’s ability to absorb the district’s long-term debt.

In a separate piece, Mayor Michael Celli countered that the five appointed trustees were big spenders who had passed along rate increases totaling 93 percent over six years. “It must be an intoxicating experience to be able to authorize capital expenditures, then pass those costs on directly to the ratepayers without regard to ability to pay — and do so without being accountable to the public for those decisions,” Celli wrote.

In March of 2002, the Legislature’s Utilities Committee unanimously recommended that the bill ought to pass — with one catch. An amendment required that Brewer voters endorse a takeover. Municipalization of the water district also needed, and received, the consent of three towns: Holden, Orrington and Eddington. When Brewer voters approved the measure by better than 2-to-1 at a local referendum, lawmakers approved the municipalization bill.

The new law authorized the city to acquire the assets of the Brewer Water District, effective in January of 2003. The PUC, however, continues to regulate the district.

Today, one year later, Bost said he considers the takeover a success. The city absorbed the water district’s nine employees. “There was no net loss of jobs,” he said. The only casualty was the water district’s superintendent, whom Bost said resigned.

Brewer, according to the city manager, has saved money by slowing the pace of capital improvement projects and undertaking water projects with city personnel instead of outside contractors. “The customers are enjoying a higher level of service,” Bost said. “The cooperation between departments is unlike anything we had seen prior to the takeover.”

Although the change has yet to affect water costs, Bost expects the savings generated by the takeover eventually to reach ratepayers, based on current trends. “In retrospect, it was a good decision,” he said. “There are no regrets.”

## **TENSIONS IN AUGUSTA**

A similar dynamic drove a study committee’s recent recommendation that Augusta take over the city’s water and sanitary districts. In mid-2003, Mayor William Dowling formed a committee to analyze the organizational structure, workings and finances of the two quasi-municipal utilities. He said he did so after failing to persuade the two districts to discuss joint efficiencies and other cost-saving measures.

The study committee included a local lawyer, the assistant city manager, three city councilors and one trustee from each district. After eight months, the committee in December voted 5-2 to recommend that the Augusta City Council take over the utilities and run them as separate city departments structured as enterprise accounts.

“By all accounts, the ASD and AWD are providing high quality sanitary and water services to the citizens of Augusta under their current structures,” the committee found. “Why consider a change? The answer is simple. The majority of the committee strongly believes that a restructuring of the way these services are provided can result in substantial cost savings with no impact on quality.”

Water and sewer would join a new municipal Department of Environmental Services. City officials have identified 11 positions that could be cut for a savings of \$550,000 in salaries and benefits. Among them are a utility superintendent, seven clerical or finance employees, two operators and a lab technician. Officials further estimate an additional \$100,000 in savings through joint purchasing, fleet maintenance and other efficiencies.

“The whole point of this is to try to find a way to provide the same quality of service that now exists for sanitary and water customers, for less money,” said Bridgeo, the city manager.

The proposal has drawn swift and strident opposition since it was announced in January. An Augusta resident whose wife works for the water district established a Web site that seeks to discredit the proposal, questioning how the utilities could provide the same service after losing 22,800 worker hours each year. Critics contend that routine maintenance might suffer, jeopardizing the quality of service and potentially costing more money down the road.

A coalition of smaller communities that are customers of Augusta’s water and sanitary districts has hired a Portland law firm, Verrill & Dana, to lobby against the proposal. The towns fear that Augusta might try to make up for lost hydrant rental fees and other current utility revenue sources by raising rates for customers outside of the capital.

“Utilities aren’t in the business of being peeled off and used as fund-raisers to offset property taxes,” said Bob Gasper, head of the sanitary board in nearby Manchester, which sends its waste to Augusta’s treatment plant. “We’ve made it clear we will try to block them at every opportunity.”

Indeed, the Capital Region Coalition to Preserve Fair Water and Sewer Rates convinced House Speaker Patrick Colwell, D-Gardiner, to sponsor a bill seeking to bring the capital’s water and sanitary districts under regional control. The measure would amend their charters by expanding their boards of trustees to include elected representatives from Augusta and surrounding towns. The proposal has placed Colwell at odds with Senate President Beverly Daggett, D-Augusta, who refused to sponsor the measure.

Although the proposal appears to stand little chance of passage during the current session, it reflects the divisiveness of municipalization efforts.

“I think it’s important that these other communities have a say in how business gets conducted,” Colwell said recently. Daggett countered: “It’s unfortunate to ask the Legislature to step into the middle of a local issue that’s only begun to be discussed.”

The outside attempt to short-circuit municipalization bothers City Councilor Thomas Sotir. He argues that the city by charter owns the assets of each utility, and that other communities are merely customers who should have no management influence. He likened the proposal to allowing someone who buys a computer to have a voice in the affairs of Microsoft.

Sotir called baseless assertions that the city would try to balance its budget on the backs of ratepayers outside Augusta. “We cannot charge different rates for municipalities other than Augusta, because that’s PUC regulated,” Sotir said.

He said he would welcome the chance for Augusta voters to decide the issue at a local referendum. “I have no problem with going back to the voters,” Sotir said. “The citizens of Augusta are the stockholders.”

## **NORTHERN EXPERIENCE**

Five years ago, the town of Fort Kent had a different experience in seeking to dissolve and municipalize its joint utilities district. Donald Guimond, who has managed the town at the top of Maine for 10 years, said the idea sparked acrimony between trustees and town councilors – until candidates favoring municipal takeover won seats on the utilities board. A consensus emerged that the utilities would be more efficient as town departments.

State Senator John Martin, D-Eagle Lake, sponsored the successful legislation allowing the town to acquire the district. The town also held a pair of referendum votes. On the final balloting, in September of 1999, townspeople approved dissolving the utilities board by a vote of 228-45. Eighty-four percent of them favored the plan.

“The general feeling was if the voters created (the district), the voters should dissolve it,” Guimond said, adding that the town of St. Agatha two years ago dissolved its wastewater treatment district.

The fallout in Fort Kent was immediate. “Everybody left (the utility), except for two guys,” Guimond said, adding that the district’s manager was among them. “They were not in favor of dissolving the district.”

The takeover in Fort Kent resulted in the loss of three jobs, according to Guimond – one by layoff and two through attrition. When the town’s water and sewer budgets were drafted the next year, the town manager found that the takeover produced savings. The sewer budget dropped from \$540,000 to \$413,000 after the move, a decline of 25 percent. And the water budget dipped from \$224,000 to \$214,000, a savings of 4 percent.

Nearly five years later, the takeover seems to have worked out for the best.

“Going through it was no fun, but in the end things are going well. Everyone is working together,” Guimond said. “We seem to have gotten over that hump. Everyone seems happy.”