

## Staff Report

## RURAL WATER UTILITY CONCEPTUAL PLAN

7/14/2009

The City has a long-standing policy of not providing essential services outside the corporate limits. This policy of not providing fire, water, sewer, and other services serves as an incentive for individuals and companies to locate within the City and thus pay their fair share of all costs. It is also a disincentive for sprawl out into the unincorporated county outside the City limits.

One exception to this policy is mandated under Iowa Code § 357A.2, where state law requires Iowa's cities to provide City water service within two miles of the City limits under certain limited conditions.

Rural water agencies are generally empowered to provide water service in unincorporated areas across the state. However, when rural customers within a city's two-mile fringe area desire such service, the Iowa Code requires that they approach their respective rural water district, which then asks the city for permission to provide rural water service to the property. If the city does not deny that request within a prescribed number of days, the rural water district may then proceed to serve the customer. If the city denies the request, however, such as when the city's growth plan indicates that the City intends to eventually annex that area, then the city itself must provide water to the rural customer within four years.

**Several such requests from rural water districts have been denied by City of Ames because the area in question is designated for future annexation in accordance with our LUPP. Therefore, we are now obligated to provide water service to four county households within the City's two-mile fringe on University Boulevard and South Riverside Drive.**

In order to provide this rural water service, the Ames Municipal Code must be modified to establish connection fees and ongoing water rates, as well as to adopt metering and cross-connection control provisions. Options and recommendations for addressing these needs are presented below.

#### Rural Water Connection Fees

When customers within the City desire water service to locations that have not previously been served, Appendix F of the Municipal Code requires that they pay a one-time connection fee of \$18 per lineal foot of frontage, with a minimum of \$650 per lot. That fee is intended to cover one-half of the cost of an eight inch water main across the frontage of their properties.

In the case of rural water customers, some households (such as those located between the ISU Research Park and the airport on South Riverside Drive) may have a City water main already installed in front of their properties. In these cases, it would make sense to charge these rural water customers the same connection fee specified above (\$18/lineal foot, \$650/lot minimum).

By contrast, other rural households (such as the one immediately south of the Wessex development on University Boulevard) do not have a City water main in front of their property. In that case, a new water line must be laid to provide rural water service. In these cases, it is advisable to run smaller (e.g., 1½ - 2"), temporary mains out to the rural customer using rural water district construction standards. The primary reason for using smaller mains is water quality, since one or two homes cannot generate enough water turnover to maintain a safe water supply in an 8" main. Larger mains would also be too costly for the small number of rural customers served; and are not necessary to provide fire protection, since the state code does not require the City to extend fire service to these rural water customers. These temporary mains would then be abandoned after the area is annexed and a standard 8" main has been extended to the area.

In cases where a smaller, temporary water main must be extended into the fringe area to provide rural water service, an appropriate connection fee would be for the initial rural customer to pay the actual cost of design and installation of the smaller line. Should other rural water customers later be served off of the same line, it may be possible for those later customers to reimburse their proportional share of the water main's cost to the initial customer.

Since these smaller mains are intended to be temporary until the area is annexed, the time will eventually come when a permanent main is constructed in front of the former rural water customer. At that time the smaller, temporary main should be abandoned and the customer should be connected to the larger main. The customer will then benefit from receiving fire protection from the City, including having a fire hydrant nearby. At that point in time, it would seem appropriate for the customer to pay the standard cost of connecting to the water utility (i.e., \$18/lineal foot, or whatever rate is in effect at that point in time). A variation on this charge would be for the customer to pay that standard connection fee less the initial payment made for the temporary main.

### Rural Water Rates

Rates for water customers within the City limits are established in Section 28 of the Municipal Code. The cost of providing this new type of service outside the corporate limits will necessitate the development of new fees and charges. Fees for initial meter settings, meter reading and billing, and consumption charges will need to reflect the actual cost of providing service. Specific policy guidance is requested from Council for the consumption charges.

One possible option would be to establish customer classes similar to those used for accounts inside the city limits; namely, the residential and non-residential rate classes. Since customers outside the city limits are not Ames sewer customers, there would be no financial incentive for them to establish yard water or irrigation accounts. (For Ames customers, there is a financial benefit to establishing an irrigation account and paying the higher water rates, as there is an offsetting savings on the sewer charges.) As such, if this option were selected, it is possible that customers outside the corporate limits would be paying less than Ames residents for water used for irrigation purposes.

An option that would eliminate this problem would be to establish a rate for non-Ames residents that mirrors the irrigation rates charged within the City. Under this option, all water used outside the city limits, regardless of the customer class or type of usage, would be charged using the highest rate structure used within the City.

For either option, Council could elect to vary the rates seasonally as is done for customer accounts inside the city, or the tiered rates could be imposed year-round. Also, Council could elect to establish a surcharge rate on water sold outside the corporate limits. This would be similar to the 15% surcharge included in the sewer contract with the City of Kelley.

It is important to note that revenues generated from rural water customers' connection and service fees must be accounted for separately from those of the existing water utility. The key legal test is that existing City water customers cannot subsidize those who receive rural water service from the City.

#### Adoption of Metering and Back-flow Protection Requirements and Fees

In order to properly bill for water received, the Municipal Code must be amended to provide for appropriate metering of rural water customers' usage. For the protection of the public water supply, the City also needs guarantees that back-flow will not occur from the customer's premises into the water system.

Conceptually this metering and back-flow protection can occur in either of two places.

The first is for rural customers to install the specified meter and back-flow protection device just inside the roadway right-of-way where the meter can be readily read each month. The meter and back-flow device would be installed in an above-ground, heated meter box that protects the devices from freezing in the winter. This approach delivers water at the customer's property line, protects the water utility from back-flow, and does not involve the City in how the water is delivered from that point and into the home.

A second approach is for the meter, and back-flow device, if required, to be located inside the customer's home (generally in the basement). This option should only be allowed if the City is assured that the property's plumbing is code compliant and does not subject the water utility to undue risk. In these cases, the customer would need to have their home inspected by City Inspections staff, and changes made by licensed

plumbers, so that the City can be reasonably assured that no unsafe or unsanitary conditions exist. It should be noted that a back-flow protection device may still be required inside the home next to the meter if there is a secondary water source on the property (such as a water well), just as is required for customers within the City limits.

### Conclusion

The City is legally obligated to provide City water service within two miles of the City limits under the limited conditions described above, and this report has laid out the conceptual components of providing this service.

After Council has reviewed this subject and given policy guidance on the consumption issue and on the connection fee issue, staff will prepare the appropriate ordinance language for public hearing and Council consideration.