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Rural Water Supplies

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Scattered across Texas are literally thousands of rural water suppliers many city-dwellers have never heard of, serving small communities far off the beaten path.

Rural water suppliers include municipal systems in small towns, rural water supply corporations, private water supply companies, and owners and operators of individual and shared wells. According to a state task force on rural water, 94% of the public water connections in Texas serve less than 2,500 people. In the rural areas of Texas, there are more than 800 water supply corporations serving approximately 1.4 million Texans. Roughly 400,000 individually owned and operated wells supply drinking water to about 10% of the state's population, and there are approximately 4,500 private water suppliers.

The financial investment in improving rural water supplies has been substantial. Since 1957, the Farmers Home Administration (FmHA) has invested nearly $700 million in improving and expanding water supplies in rural areas of Texas. Nationally, the federal investment in rural water supplies has totaled more than $11 billion since 1942.

1985 may be a time of immense change for rural water suppliers, as major financial and water quality challenges are threatening traditional operations. Rapid population growth in rural areas is forcing systems to expand to keep up with demand. The federal government has proposed decreased allocations to FmHA for rural water improvement. In the past, the FmHA was the prime source of money for water improvement projects in rural areas. Now, rural water suppliers may have to look to hometown banks for support at a time when some of those banks are in financial trouble. Two bills recently passed by the Texas Legislature, House Bill 2 and House Bill 181, offer new options to rural water supply corporations and may open new sources of funding to them. Lawsuits currently being contested will determine if rural water suppliers will have to pay state and property taxes.

Water quality is another big issue facing rural water suppliers. Rural water supply systems are faced with the task of providing safe drinking water to ever-increasing numbers at a reasonable cost. With limited facilities and manpower, they have to cope with federal and state water quality regulations, and are charged with protecting diminishing groundwater resources. Finally, contamination of rural groundwater supplies is emerging as a major national problem. It is likely that rural water suppliers would have neither the expertise nor the facilities to remove toxic substances from groundwater sources that have been contaminated by man's activities.

MUDS, WSCS and Noncommunity Suppliers

Most of the rural water suppliers discussed in this article fall into one of four categories: Municipal Utility Districts (MUDs); Water Supply Corporations (WSCs); private water suppliers, and individual well operators. MUDs provide water service to communities of all sizes. WSCs are non-profit corporations which serve rural areas of a county where city service cannot be provided. MUDs and WSCs are called community systems because they provide water on a year round basis to 15 hookups or more. Private water suppliers and individual well owner/operators are non-community systems that usually service only their own particular business, or only supply water during part of the year. Well operators, for the most part, provide service only to their own farm or ranch.

It is important to point out that there are some major differences between MUDs and WSCs, especially in the areas of financing and regulation. The most significant distinction is that MUDs are recognized political subdivisions of the state, while WSCs are not. This means that MUDs have to comply with open meeting laws, and regulations of the Texas Election Commission. WSCs do not.

MUDs are tax-exempt, can obtain federal and state grants and/or loans for capital improvement projects, have a tax base and general funds, and are able to support bond referendum proposals. Rural water supply corporations are tax exempt from some sales taxes (on items such as electricity and chemicals), while some WSCs have received tax exemptions from their local tax assessors. (Taxes for a WSC generally constitute about 2.5% of gross revenues.) WSCs are not qualified to receive state loans or grants, and do not have taxing authority. Their sole sources of income are loans from the FmHA and private lending institutions, privately financed bonds, and income from the sale of water to customers.

Capital improvement projects or other cost intensive outlays undertaken by WSGs can usually be financed only by raising the rates charged to members of the system. The Texas Rural Water Association (TRWA)--which represents the interests of rural water supply corporations, and some cities with less than 10,000 persons--estimates that water rates of rural WSCs are generally 3 to 3 1/2 times higher than the combined water and sewer bill for persons served by a MUD.

Declining Support From the FMHA

One of the staunchest supporters of rural water development throughout the years has been the federal government. The agency delivering the bulk of this support has been the

FmHA and its predecessors, the Resettlement Administration and the Farmer Security Administration. The beginnings of federal government support in this area occurred in 1937 with the passage of the Water Facilities Act, which provided loans for rural water improvement in 17 Western states, including Texas. The legislation was spurred on in part because of a severe drought which resulted in the "Dust Bowls" of author John Steinbeck's classic novel, "The Grapes of Wrath." Rural water development was originally administered by the Resettlement Administration in the 1930s, and by the Farmer's Security Administration in the 1940s. It wasn't until the 1950s and 1960s that the water supply and development programs began to gain momentum, when they found a home in the FmHA. In 1954, the Water Facilities Act was amended to make rural water development assistance available nationwide--not just in the 17 Western states. For the first time, non-farmers living in rural areas could be included in FmHA assistance programs. By 1961, assistance was available to small towns with up to 2,500 inhabitants. In 1965, three major developments took place within FmHA guidelines. Grants based on need were added to supplement the loan program, towns with a population up to 5,000 could receive funding, and loans could be made for wastewater projects. The last major alterations in FmHA policy came in 1972, when cities with populations up to 10,000 could qualify for assistance.

It's important to get a historical perspective of federal involvement in rural water assistance programs, because it has been the most significant advocate and proponent of rural water development in the U.S. The FmHA and the agencies preceding it have invested $8.466 billion in 26,476 loans, and $2.647 billion in 12,618 grants nationally between 1940 and 1984. In Texas, the amount of FmHA assistance for rural water development is also significant. Since 1957, the FmHA has provided $543 million in loans and $142 million in grants for rural water improvement, which have gone to 817 water development agencies including MUDs and rural water supply corporations. (For complete figures, see the accompanying graphs.) Texas has traditionally received more money than it was originally allocated by FmHA because of high demand for rural water improvements in the state.

The era of large-scale financial assistance from the federal government may be coming to an end. The FmHA proposed budget for fiscal year 1986 included only $25 million for water and waste disposal grants, and a limit of $50 million for water and waste disposal loans--a decrease of 91.4% since 1980. The U.S. House of Representatives has approved a budget recommendation for the FmHA's water and wastewater assistance program to rural areas of $340 million in loans and $115 million in grants, but those recommendations still have to be approved by the Senate and signed by the President. The impact of the budget cutbacks would be that the FmHA, the primary provider of low-cost loans and grants for rural water supply improvement, would be seriously hindered in its ability to continue large-scale financial assistance. This would force rural water supply corporations and other rural water suppliers to seek funding elsewhere.

Not only is the amount of funding provided by FmHA likely to decrease, the cost of receiving funding from the agency is increasing. Until the mid-1970s, rural water suppliers could receive FmHA loans at a low interest rate of 5%. In 1982, the FmHA

adopted a three-tiered interest rate structure for loans The current rates include a 5% poverty rate (for areas with a median household income of less than $10,650); an intermediate rate of 6.75% (for areas where the median household income is less than $11,028); and a market rate of 8.625% for those rural water suppliers who do not qualify for either the poverty or intermediate rate. Even if FmHA monies were available, the agency's higher interest rates are now less of a bargain than they once were, and are more in line with conventional private sector rates.

Water Quality Issues

Water quality is another major concern, some would argue the major concern, for rural water suppliers. The Texas Rural Water Policy Network Project (TRWPNP), which was established by the Texas Department of Agriculture and the National Demonstration Water Project, identified its top three priority issues as: 1) the economics of rural water quality; 2) rural water quality and health; and 3) limited resources, including finances, manpower and training. Currently there are no requirements for testing for water quality in non-community systems, which constitute roughly 10 percent of rural Texas water consumers. Even with WSCs and small MUDs, which are tested for water quality, comprehensive enforcement is difficult. According to the TRWPNP, 95% of all public water systems that are not in compliance with State Department of Health drinking water guidelines are in non-metropolitan counties. Fifty-one of the 86 public water systems that were non-compliant with respect to nitrate levels were in non-metropolitan counties.

Many of man's activities, contribute to the pollution of groundwater resources and it is groundwater which provides 97% of rural water supplies. Improperly plugged oil, gas and/or water wells, leaking storage tanks, seepage from municipal and industrial landfills, deep well injection of toxic substances and some agricultural practices can contribute to groundwater pollution.

Another rural water quality issue is contamination of groundwater supplies by septic tanks. Only 67 of the 254 counties in Texas have adopted septic tank ordinances to protect groundwater supplies. Nearly 60% of all Texas households depend on groundwater supplies which are subject to contamination from septic tanks. The TRWPNP has stated that septic tanks are one of the most prevalent sources of groundwater contamination in the state.

A national study at Cornell University completed in 1982, "National Statistical Analysis of Rural Water Conditions," identified other rural water quality problem areas. Researchers at Cornell found that two out of every three drinking water wells in the country exhibited some levels of contaminant above EPA standards, and that 40 percent of the residences served by private wells or small rural water systems were contaminated with coliform levels which exceeded regulatory limits.

Hope From the Legislature: the Texas Water Bill and House Bill 181

Two pieces of legislation passed in the Texas Legislature in this year's session may provide a much-needed shot in the arm to overwhelmed rural water suppliers. H.B.181, sponsored by Representative Bruce Gibson of Cleburne, allows any rural WSC to convert

into a Special Utility District (SUD) by calling a special election of all the voters within the proposed district's boundaries. WSCs can convert for any of three reasons--to purchase capital equipment to increase water supply or distribution networks, to establish or maintain fire-fighting facilities, or to protect, preserve or restore water quality. With conversion come both benefits and liabilities. The biggest plus is that SUDs are recognized political subdivisions of the state, and thus become eligible to receive funding from the state for capital improvements. SUDs will have some of the financial advantages of MUDs, but will not become taxing authorities. SUDs will also be exempt from property tax, and will have the right to acquire land by gift, grant, or purchase or through eminent domain proceedings. On the other hand, not every rural water supplier may want to convert (Gibson's office estimates that less than 25 percent of the 800 rural water corporations in the state will do so in the first year). Some managers of WSCs are apprehensive about calling a special election to convert into an SUD because all the voters in the proposed district's boundaries would get to vote and they might lose control of the district. (Right now, the only members of a WSC are those who are serviced by the system.) SUDs will be subject to many of the obligations and regulations MUDs now comply with. Elections to a district's board of directors would be overseen by the State Election Commission, notices of pending meetings would have to be posted in advance, and meetings of the board would be subject to open meeting laws.

Depending on what happens on Election Day and in the courts, H.B. 181 may lose some of its potential impact. Passage of Proposition 1, the constitutional amendment that would implement H.B. 2, would authorize $400 million in state bonds to acquire and develop facilities for water storage, transmission and treatment, as well as $190 million of state bonds for water quality projects and another $190 million for water supply projects. A $250 million bond guarantee program would also be implemented, that would assure that up to $500 million in bonds issued by local governments would be repaid. H.B. 2 would make low-cost money available to rural water suppliers, and others, for water supply, water quality, and wastewater improvement projects. Monies available through the state bond package would be about 2 percent less expensive than monies obtained through private funding over the life of a loan.

Also included in House Bill 2 are important changes in the definition of water supply corporations, which would make them eligible to receive state funding. Subchapter D, Section 15.201, of HB 2 defines water supply corporations as "non-profit member-owned, consumed owned water supply corporation(s). . . " Section 2.09 of HB 2 bill includes recognized political subdivisions, for the purpose of receiving funding from the Water Development Fund, as including "any nonprofit water supply corporation." (In all other matters, rural water supply corporations would not be considered as recognized political subdivisions.)

At the same time, TRWA is currently in court to argue whether or not rural water supply districts should have to pay ad valorem property taxes. If House Bill 2 passes and TRWA wins its lawsuit, existing water supply corporations could receive many of the benefits outlined in HB 181 without going through the conversion process. The only advantage of

converting into an SUD under those circumstances would be an exemption from safes tax.