



**ORANGE WATER AND SEWER AUTHORITY**

*Quality Service Since 1977*

March 23, 2005

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**SUBJECT: REIMBURSEMENT POLICY**

Gentlemen:

At the request of the Chapel Hill Town Council and the Orange County Board of Commissioners, the OWASA Board of Directors has, during the past several months, considered the possibility of re-establishing a policy to reimburse developers or other parties for the additional costs they incur to install water and sewer infrastructure improvements with capacity in excess of their own development or facility needs.

This issue is a very complex one. The OWASA Board and staff clearly recognize the importance and benefits of the projects proposed by Chapel Hill and Orange County for which water and sewer utility cost reimbursements would be requested if a reimbursement policy were in place. We also recognize that due to the proximity of those projects to OWASA's existing water and sewer systems, the cost of water and sewer extensions to these projects will be substantial.

While we are sensitive to these important considerations, we must carefully consider the implications of establishing a reimbursement policy, since such a policy would have to apply equally to both public and private entities and developers, and could not be instituted to benefit the Towns and County alone.

As previously reported, the Schedule of Rates and Fees approved by the OWASA Board in 1999 eliminated developer reimbursements. At that time, the connection fee structure was also revised to eliminate front footage and acreage charges, which had previously been used to fund developer reimbursement payments. In 1999 the Board also approved a tiered availability fee structure for residential customers that provided for a more equitable match between water use patterns and housing finished floor area (larger homes have a higher connection fee than smaller homes).

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The previous policy reimbursed a portion of water and sewer infrastructure extension costs based on the construction cost difference between the minimum required extension (8-inch water and/or sewer mains) and the oversized infrastructure required to support future development approved by the Towns and County. Reimbursement payments were limited to a 10-year payback period from the date of OWASA's acceptance of the new infrastructure. Funding for reimbursements was derived solely from footage and acreage fees paid by new customers connecting to the oversized water and/or sewer infrastructure constructed by the developer within 10 years of construction of the improvements for which the reimbursement applied.

The primary reasons for the elimination of developer reimbursements in 1999 were as follows:

- 1) *Inequity of connection fees* – Since the reimbursement collected was based on footage and acreage, a 1-acre lot with 100 feet of frontage would pay twice as much as a 1-acre lot with 50 feet of frontage even though both lots might have similar demand patterns.
- 2) *“Double dipping” by applicants* – Because the applicant had no assurance that they would recover the full reimbursable amount, and that it might take as long as 10 years before any or all of that reimbursement were received, we believe that applicants typically included the full cost of the utility line extensions in the original sales price, lease, or rental rates of the lot or property in question. Therefore, any reimbursements subsequently received would arguably represent a “double” receipt by the developer, which we believe represents a “subsidy” for new development.
- 3) *Limited use and payback* – During the 20 year period between 1980 and 1999, approximately \$1,000,000 in eligible reimbursements were approved by OWASA. Over that same period, less than \$200,000 was reimbursed to eligible applicants.

During the OWASA Board's June 10, 2004 and February 5, 2005 discussions, there was general consensus that a reimbursement policy should not be re-instated. The Board concluded that there is no way for OWASA to provide reimbursements to public entities, such as the Towns, County, or University, without also providing reimbursements for private developers.

The Board also expressed concern that providing an incentive to developers through the availability of reimbursements for water and sewer infrastructure extensions may contribute to accelerated growth within the community and a certain degree of “leapfrog” growth patterns by providing a disincentive for the more orderly expansion outward from the central service area.

As an alternative, it was noted in the Board discussions that the North Carolina General Statutes provide the Towns and County the authority to recover line extension costs through the adoption of Special Assessments for water and sewer improvements. This alternative would provide a method for recovery of a portion of the water and sewer utility costs for public projects, from property owners actually benefited by such extensions, without reopening the policy questions surrounding the reimbursement of utility extension costs to any and all parties.

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The assessment option also provides for the following additional benefits:

- 1) Because assessments must be fully repaid over a period not to exceed 10 years, the Towns and County would be assured full recovery of their costs for oversizing the water and sewer infrastructure. (Under OWASA's previous reimbursement policy, an individual could wait until the 10 year reimbursement period expired before connecting, thereby avoiding any reimbursement contribution.)
- 2) The Towns and County could determine what portion of the costs of the water and sewer improvements should be assessed (only the oversized cost versus some other portion). Similarly, the Towns and County could require that assessments be fully repaid sooner than the maximum of 10 years.
- 3) The Towns and County would determine who the benefited properties are and how the assessment of costs would be applied.
- 4) Because an assessment by the Towns or County would be separate from any OWASA connection fees, the inequities of OWASA's previous reimbursement policy would be eliminated. All properties connecting to the OWASA water and/or sewer system would pay connection/availability fees based fundamentally on the demands that they would place on the system(s).
- 5) Reimbursement through assessment is more consistent with the principles of "benefited parties pay" and "growth pays for growth".

I will be glad to meet with you to discuss the Board's deliberations and to provide any further detail required.

Sincerely,



Ed Kerwin  
Executive Director

c: OWASA Board of Directors  
Robert Epting