



Community and Economic Development in North Carolina and Beyond Blog: Thinking about Water and Sewer Impact Fees and Affordable Housing

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A newly created local chapter of the affordable housing organization Habitat for Humanity begins planning the construction of their first group of homes in a fast growing NC town. The homes will be less than half the size of an average new home in other areas of the town and will have very small lot sizes. Representatives of the organization meet with local officials to discuss the local government fees that they will have to pay for each home. The group learns that the town just increased their water and sewer impact fees and is very surprised to learn that it will now cost almost \$10,000 to connect to the water and sewer system. They are informed that the fee for single family homes is based on the meter size and not the house size and that all new single family homes in the town use the same basic meter size and are charged the same impact fees.

The fees in this hypothetical town are higher than in most NC towns, but fees in this range are starting to appear in some areas and can pose a challenge for affordable housing. Under NC law, public enterprise water systems (utilities) are given authority to set rates and fees to cover the costs of operating their system. This authority includes the use of water and sewer impact fees often referred to as capacity fees or system development fees. While these fees can be unpopular, the cost of providing new water and wastewater treatment capacity has become extremely expensive with relatively small facilities costing millions of dollars and these fees are a widely accepted utility practice. Each utility decides on the right mix of fees to cover their costs – some prefer to charge higher monthly charges to all their customers, while others prefer to follow a policy where new customers are charged significant fees as shown in the example above. An article I wrote several years ago, the Painful Art of Rate Setting, provides an overview of the difficult questions facing governing boards as they work to balance financial sustainability with other community objectives such as affordable service. The Environmental Finance Center (EFC) provides communities with a range of rate and fee setting assistance through our educational events, publications, and research projects. One of our recent applied research projects includes a statewide survey of water and sewer impact fee practices.

Back to our Habitat for Humanity example — while utilities have flexibility in designing rates and fees, they are not authorized to create special discount fees for low income customers. However, utilities are allowed and encouraged to create fee systems that link fees to factors related to the cost of providing service. Several utilities across the state including the Orange Water and Sewer Authority have studied the relationship between home size and water use and have found that smaller homes typically require less capital investment to serve than larger homes that have larger yards to water, more inhabitants, and more plumbing fixtures. In response to this finding, OWASA created a tiered impact fee schedule for single family houses such that large homes are charged higher impact fees than smaller homes with the same meter size. While the justification for this policy is based on linking fees to costs, it has the secondary effect of reducing impact fees for affordable housing projects like the one mentioned above. A few other utilities in the state use other variations of this approach by varying the water and sewer impact fee based on the number of bedrooms or number of plumbing fixtures. While this approach may not make sense for all utilities, especially utilities with relatively low impact fees, it does serve as an example of the flexibility utilities have in designing fees that recover costs fairly and support local goals such as promoting affordable housing. For more information on this approach, visit http://www.efc.unc.edu/stories/OWASA_Impact_Fees_Case-Study.pdf