

“How NOT to Equitably Pay for Growth” or “Subsidizing Others’ Growth 101”

-Chris Smithson, Southern Pines native, resident, and Councilmember

Although the current economic downturn seems to have taken growth off many people’s radars, it was just a year ago that it was just about the hottest subject in town. One concern shared by many is who pays for growth. Can we make growth pay for itself? What is the cost of growth? Is the cost of growth shared equitably?

I will attempt, with the following rough example, to show that growth not only financially affects all of us; it can also do so inequitably. My intent is threefold. The first is to give people a real example of growth-related costs and to get them thinking about them. The second is to make current residents aware of another example of how they may again be stuck with an unfair financial burden caused by growth. Finally, it should be clear that the County, in cooperation with municipalities connected to the county wastewater plant, must enact impact fees that will ensure growth will help pay for its share of wastewater infrastructure.

Background: In the late 1970’s, with federal grants and a low-interest loan, the County built a wastewater treatment plant (WWTP) in Addor to serve Southern Pines, Pinehurst, and Aberdeen. Historically, maintenance and necessary upgrades in treatment quality have been funded through wastewater rates. The plant is currently approaching its maximum capacity, which will require a very expensive expansion to the tune of more than \$37 million dollars. The County, which operates the plant, plans to finance the project with bonds starting in 2010.

Funding: The County plans to finance the project with bonds, but how will the bonds be paid off? Whether through assessments or through higher rates (the County has already significantly raised and plans to continue significantly raising rates), the plan seems to be to have ratepayers/communities pay for the expansion proportional to their **current** sizes/shares of the system. I hope to illustrate how this method is extremely unfair and shoulders existing ratepayers with an unjust share of the burden all the while subsidizing growth.

Growth: The population information below comes from the 1990 and 2000 census. Admittedly, the most recent census is almost ten years old, but it is all I have available and I believe the 2010 census will only strengthen my argument. I have chosen “households” because it is more indicative of the number of sewer customers and also, to a certain extent, covers the corresponding increase in commercial usage that came along with the increased number of people.

Table 1

	1990 Households	2000 Households	Growth	% of Total Growth
Southern Pines	3953	4754	801	25%
Pinehurst	2465	4510	2045	64%
<u>Aberdeen</u>	<u>1154</u>	<u>1526</u>	<u>372</u>	<u>12%</u>
Total	7572	10790	3218	

What we see above is the growth in the number of households in Southern Pines, Pinehurst, and Aberdeen from 1990 to 2000. Additionally, we see each municipality's share of the overall growth total. Clearly, Pinehurst grew tremendously during this period- the same period that the bulk of the excess capacity at the County wastewater plant disappeared. In fact, the majority of growth happened in Pinehurst.

Now, let us look at how the cost of the wastewater treatment plant will be borne if, as planned, the County equally distributes the burden to all towns/ratepayers through rate increases alone.

Estimated Cost of Wastewater Treatment Expansion: \$37,325,000.00

Table 2

Household and municipal shares of expansion costs based on year 2000 total households

	Percentage of Total	Dollars	Per Household in district
Southern Pines	44%	\$ 16,445,139.02	\$ 3,459.22
Pinehurst	42%	\$ 15,601,088.97	\$ 3,459.22
Aberdeen	14%	\$ 5,278,772.01	\$ 3,459.22

As you can see, based on the number of households in 2000, each household served by the treatment plant could be responsible for about \$3,500, plus interest. Again I'll note that these census numbers are ten years old, but the 2010 census should only further strengthen my argument. Additionally, note that the communities of Carthage and Pinebluff are now on the system. Carthage, especially with the huge potential for future growth at the Little River development will have an effect on future growth, but for now we are talking about growth that has already occurred.

Below is a chart which is a simple and useful example of how funding infrastructure expansions through rates unfairly distributes the burden. The chart assigns the cost of infrastructure for 10,000 people as \$12,000. This is hypothetical, but doesn't change the point of the illustration. In the chart, the cost of infrastructure expansion is divided equally among the overall population.

<u>Infrastructure Cost</u>	<u>1st 10K Residents</u>	<u>2nd 10K Residents</u>	<u>3rd 10K Residents</u>	<u>4th 10K Residents</u>
\$ 12,000	\$ 12,000			
\$ 12,000	\$ 6,000	\$ 6,000		
\$ 12,000	\$ 4,000	\$ 4,000	\$ 4,000	
<u>\$ 12,000</u>	<u>\$ 3,000</u>	<u>\$ 3,000</u>	<u>\$ 3,000</u>	<u>\$ 3,000</u>
Total	\$ 25,000	\$ 13,000	\$ 7,000	\$ 3,000

As you can see, the longer a person has lived in this community, the more they subsidize the infrastructure expansions necessitated by people moving in later on. Over this growth period, the first 10,000 people each paid almost ten times more for their "share" of the capacity than did the last 10,000. Had there been impact fees in place to force growth to help pay for itself, the totals on the bottom line would be much closer.

Conclusion: Equally distributing the cost burden of new wastewater treatment facilities through rate increases results in an unfair and unwarranted burden on existing users. In fact, this method also leads to the communities with slower growth subsidizing other, faster-growing communities. The County, if interested in fairness, should come up with a more equitable way of funding the WWTP expansion. Existing residents should be aware of the share of the growth burden they are paying for many County services, not just wastewater treatment.

We need to take steps to ensure that all the people expected to move here in the coming years pay their fair share of infrastructure costs. This would happen most fairly through impact fees on new sewer taps. When a new home goes up, the owner would pay for their impact on the capacity of the wastewater infrastructure. This would require cooperation between the County and the municipalities using the County wastewater system, but it can and should be done.

Author's note: I don't pretend to be a financial or statistical expert, but I believe the foundation of my argument and the numbers are basically sound. More so than an effort to quantify exact costs of the expansion, I am attempting to raise awareness of the past and the future. I welcome feedback, especially if you think I am way off on this. My e-mail is Chris@ChrisSmithson.com