Public Utility Relocations

"The Hidden Road Tax"

Origin

- Utilities Relocation Study Committee created in late 2012 by Proviso 68A.10 of the FY12-13 Appropriations Act.

- Purpose: Provide comprehensive analysis and potential solutions regarding cost and logistical issues of <u>publicly owned</u> water and wastewater line relocations due to SCDOT projects.

- The Study Committee was comprised of the following members;

  <u>(1) one member appointed by the President Pro Tempore of the Senate;</u>
  <u>(2) one member appointed by the Speaker of the House of Representatives;</u>
  <u>(3) one member appointed by the Majority Leader of the Senate;</u>
  <u>(4) one member appointed by the Majority Leader of the House of Representatives;</u>
  <u>(5) one member appointed by the Minority Leader of the Senate;</u>
  <u>(6) one member appointed by the Minority Leader of the House of Representatives;</u>
  <u>(7) one member appointed by the Governor;</u>
  <u>(8) the Secretary of Transportation, or his designee;</u>
  <u>(9) the Chairman of the South Carolina Department of Transportation Commission, or his designee;</u>
  <u>(10) one member representing the South Carolina Rural Water Association;</u>
  <u>(11) one member representing the Water Utility Council of South Carolina;</u>
  <u>(12) one member representing the South Carolina Water Quality Association;</u>
  <u>(13) one member representing the Municipal Association of South Carolina;</u>
  <u>(14) one member representing the South Carolina Association of Counties; and</u>
  <u>(15) one member representing the South Carolina Association of Special Purpose Districts.</u>

Background

- The study addresses governmental (not-for-profit) public water and wastewater utilities.

- The Study Committee was tasked with identifying costs of relocations; ways to mitigate these costs; proposed funding solutions; and process improvements.

- Public water and sewer lines are routinely placed in the highway right-of-way in order to minimize land acquisition requirements, disruption, and costs.

- When these lines are required to be relocated to accommodate road widenings, projects, or bridge replacements, it becomes an unfunded and unanticipated cost for the public utility.

- In the rare instance a utility has "prior rights" to an easement, then SCDOT must bear the financial burden of relocating the utility assets. Utility provider "prior rights" are far more prevalent in large cities and metropolitan areas.

Utility Provider Profile

- Public water and sewer providers in South Carolina consist of a wide variety of entities ranging from extremely large utility providers like Greenville Water System or Grand Strand Water and Sewer to extremely small utility providers like the Towns of Clio and Latta.

- The organizational structure of public utilities varies significantly and includes municipalities, special purpose districts, county owned systems, and not-for-profit systems.

- Relocation funding options for these diverse organizational types are limited and include taxes; bonds; State Revolving Fund dollars; USDA – Rural Development loans; and a combination of the above.

- Many smaller towns and rural systems are not eligible for any of these options due to specific funding requirements or because, more often than not, they are so financially leveraged they cannot qualify for any additional source of revenue to fund relocation mandates.

- Large systems, as categorized by the Utility Relocation Study Committee and defined by the US Environmental Protection Agency, are those serving greater than 10,000 taps. There are currently 35 utility providers in South Carolina meeting this criteria or 12% of the total number of providers.

- Large systems in urban areas have far more latitude than smaller systems when it comes to having sources or options for revenue. Due to the urbanization trends now underway across the country, larger systems are seeing unprecedented growth – not only in residential users but commercial users as well. Urban population density results in more customers per linear foot of water/sewer line than in rural with lower population densities. Thus, smaller utilities typically face higher relocation costs per customer.

- Small systems (less than 10,000 taps), comprise 88% of utility providers in South Carolina (260 utility providers).

- Small systems, especially those in rural areas, are extremely limited in their ability to identify revenue sources for funding projects such as relocations. Many rural areas are dealing with a decline in residential and commercial customers.

- Increased urbanization results in rural areas experiencing a disproportionate aging of their customer base. As a result, water usage and incomes in rural areas are down substantially.

- Small towns and rural systems are facing the expensive issues associated with aging systems and ultimately system replacement. Additionally, customer density for rural systems is low, with customers per mile of water line routinely at ten or less. This extremely low density results in maintenance and replacement costs per customer at much higher levels than in more densely populated urban settings.

Magnitude

- In 2013, the statewide estimated costs for SCDOT mandated relocations for public water and sewer utilities was estimated to be approximately $16 million. This excludes State Transportation Infrastructure Bank, municipal and county originated and funded projects. This annual average figure is based on a statewide survey conducted by the Relocation Study Committee reviewing actual relocation expenditures over the past ten years.

- Typically, road widening and bridge construction projects require significant utility relocation expenses while interstate projects and resurfacing projects require very little.

- In comparing the relocation costs to the dollars administered by SCDOT each year for highway and bridge construction, the Study Committee determined the historical ten year average ratio between construction costs (road widening and bridge replacement) and relocation expenses is approximately 15.6 to 1.

- Over the past ten years, SCDOT oversaw an average of $250 million worth of bridge and road widening projects annually. This number is the basis of the estimated ratio derived from the study survey results. This equates to every million dollars in new funding for non-Interstate road widenings and bridge replacement projects, there will be an estimated $64,000 in non-reimbursed utility relocation costs incurred by publicly owned water and sewer providers.

- Water and sewer line relocations required due to highway projects rarely, if ever result in new customers or additional sources of revenue for the utility. In essence, these are unfunded State mandates for these providers, the cost of which, must be derived from their customer base.

Why Legislative Action is Needed Now

- Anticipated increases in highway funding will immediately have a proportionate domino effect in increasing public water and sewer utility relocation costs across the state.

- These increased costs will be passed on to customers in the form of rate increases or surcharges.

- The additional financial burden is especially deleterious to smaller utility providers and their customers.

Proposed Financial Solution

- The Study Committee reviewed a number of varied funding options relative to public water and sewer line relocation costs resulting from mandated SCDOT highway projects.

- Initially, the Study Committee explored having all water and sewer relocation costs become part of the overall highway project costs and funded accordingly. It became apparent this solution would be politically difficult to implement.

- A proposed increase in the state gas tax to cover relocation costs was briefly discussed. Again, it became apparent this was a political non-starter.

- The Study Committee also evaluated a self-funding option by suggesting the addition of a monthly or annual surcharge per connection/tap. A number of utilities voiced strong objections to this option.

- Ultimately, the Study Committee's proposed solution is an annual appropriation by the General Assembly of 15.6 to 1 ($7.0 million initially) to be used only by relocation impacted small utility providers, serving 10,000 water and sewer taps or less, to off-set one half of their total relocation expenses.

- The State's fifty percent share would be adjusted annually based upon actual relocation requirements and costs. Small utilities would be responsible for the other half of their specific total relocation expense by whatever means necessary.

- For-profit providers and utility providers serving greater than 10,000 taps would be ineligible for this program. Of course, in future years, the Legislature could revisit funding eligibility, to cover all public water/sewer utilities or include a large system opt-in approach.

- The fund would cover 50% of all relocation expenses for SCDOT-mandated water and sewer relocations and exclude projects resulting from State Transportation Infrastructure Bank, municipal or county initiatives.

- Expenditures would be limited to relocation costs for participating small utility providers who are required by SCDOT to relocate lines within the state rights-of-way due to SCDOT highway projects.

- Allowable costs would be for like facilities. Upgrades/betterments would not be eligible for funding. If a utility provider wishes to upsize or modify an installation under this process, the utility provider would be responsible for the cost difference of the upgrade versus like-for-like replacements.

- The Study Committee determined that the enabling legislation should designate this fund specifically as a dedicated interest-bearing trust fund, separate and distinct from the State General Fund.

- The Study Committee recommended the administrative guidelines for the distribution of these funds be established by an Advisory Committee consisting of representatives from the major water and sewer associations as well as SCDOT and the administering organization.

- The contemplated legislation would provide for periodic reviews to ensure funding adequacy in meeting relocation needs. It would also include language to preclude this from being an unfunded mandate by requiring utility providers and the General Assembly to fund the account as required such that neither incurs a disproportionate share. The review would also account for significant funding increases or decreases that may occur in highway funding from time to time.

- Providing fifty percent of the funds for utility relocations for these small public utility providers further allows more local funds to be used for improving services and for critical future system replacement or upgrades.

Process Improvements

- The Study Committee also concluded that the magnitude of relocation expenses could be reduced or even eliminated by implementing a number of process improvements in the planning and communication process between utility providers and SCDOT.

- To ensure local utilities facilitate the identification of the avoidance/minimization of relocation costs, a utility provider that does not participate in the preliminary and ongoing planning process, would forfeit their eligibility for 50% matching relocation funding for that project.

- Five specific area were identified for improvement:

    1) Establish a Joint Stakeholder Group to examine the possibility of having SCDOT obtain right-of-way to accommodate both highway relocations and public water and wastewater utilities. This possibility requires additional study and likely statute refinements to effectively implement such an approach.

    2) The Utilities Accommodations Manual and specifically the SCDOT Project Development Process, should be updated to require early coordination. The majority of cost avoidance and process improvement opportunities are contingent on early planning, communications, and coordination between utility providers and SCDOT. All parties agree that each could do a better job in this area with more consistency among SCDOT Program Managers and Utility Coordinators working in District Engineering offices.

    3) Enhancing communications between utility providers and the SCDOT will result in significant efficiencies when relocations are deemed necessary. A number of examples were cited where utility providers identified conflicts early in the preliminary engineering stage and SCDOT was able to adjust the design and the relocation was avoided entirely.

    4) Integration of utility relocations into the overall SCDOT project management and bid process will result in significant gains in schedule compliance and coordination. This would result in the use of a single prime contractor who would be responsible for coordinating and executing construction as opposed to the use of multiple prime contractors.

    5) Establish an ongoing Utility and SCDOT Working Group to work on continuing improvement of the coordination and communication process.

- These process improvements will reduce the number and costs of water and wastewater relocations, however they will not eliminate them.

Benefits of Improved SCDOT/Public Utility Coordination and State Matching Relocation Cost Funding

- The benefits to SCDOT include:

  1) Enhanced control of project planning, with fewer schedule delays due to unfunded utility relocations;

  2) Preliminary work planning and coordination is optimized resulting in reduced or avoided relocation costs;

  3) Small utility providers, counties, and municipalities that have limited means of paying for relocations would be covered so lines can be moved and not left under new pavement, thus reducing future maintenance costs for SCDOT when old lines rupture or taps are installed under new pavement.

- The benefits to utility providers include:

  1) Financially leveraged small utility providers will not be burdened with the total relocation costs that they have no ability to fund and instead be faced with providing only one half of the total cost of construction;

  2) Relocation costs for all utility providers, regardless of size, should decrease due to increased involvement of utility providers in SCDOT project planning.

Summary

- The cost of water and sewer line relocations due to SCDOT projects is significant and will be exacerbated with any increase in road transportation funding.

- Process and communication improvements will help reduce the number of and scope of relocations.

- The current system of each provider paying these costs results in a large number of small utility providers, counties, and municipalities being placed in financial hardship. This has an adverse impact on SCDOT's ability to timely and cost-effectively implement road projects.

- Proposed increased highway funding proportionately increases the financial impact on utility providers and ultimately on their rate payers. This financial impact hits cash strapped small towns and rural providers particularly hard.

- The proposed solutions not only share the cost for small public water and sewer providers, but will benefit all utility providers, as well as the SCDOT, because everyone will be incentivized and expected to work more closely for optimal and lower cost relocation solutions during the planning process. This will achieve more efficient service and reduced overall relocation costs for all South Carolinians.

- The Relocation Study Committee would welcome the opportunity to work with the Transportation Infrastructure & Management Ad-Hoc Committee on additional funding options for all public water and sewer providers impacted by anticipated additional highway funding.

Here are some recent examples of water and sewer line relocation expenses from around South Carolina:

Town of Johnsonville

$800K resulting from the widening of SC Hwy 41

Darlington County Water & Sewer

$3.0 million resulting from the widening of US 52/410
$45K resulting from modifications to the intersection of US 401 and Hoffmeyer Road

Lancaster County Water & Sewer

$377K – Barbeville Rd/Highway 160
$1.5 million in 2011
$3.0 million over previous 2 years

Town of Latta

$809K – resulting from the widening of Hwy 501 & Hwy 301

Marlboro Water Hwy 38 Widening Costs

In 1984, Marlboro Water Company borrowed $898,374 from Rural Development for the sole purpose of relocating a water line to accommodate the widening of Hwy 38.

Loan Terms:

Loan Amount	$898,374.00
Term of Loan	40 years
Interest Rate	5.50%
Grant Amount	$0.00

Actual Costs per Tap:

Number of Taps	2004
Annual Cost/Tap	$27.75
40 yr. Total Cost/Tap	$1,110.00