

Department of Legislative Services
Maryland General Assembly
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FISCAL AND POLICY NOTE

Senate Bill 684 (Senators Peters and Muse)
Budget and Taxation

**Washington Suburban Sanitary Commission - Maturity of Bonds - Limitation on
Time Period for Assessment and Collection of Benefit Charges**

This bill limits the maturity of bonds and refunding bonds issued by the Washington Suburban Sanitary Commission (WSSC) to 20 years from the date of issue (versus 40 years under current law). The bill prohibits WSSC from assessing a benefit charge against specified real property for longer than 20 years.

Fiscal Summary

State Effect: None.

Local Effect: WSSC revenues from benefit charges decrease by approximately \$25.0 million in FY 2012. The cumulative revenue loss could total \$126.7 million by FY 2041. Montgomery and Prince George's counties may incur additional costs relating to the inclusion of specified information on county property tax bills. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: None.

Analysis

Bill Summary: Specifically, the bill:

- limits the maturity of bonds and refunding bonds issued by WSSC to 20 years;
- limits the duration of new benefit charges after October 1, 2011 to 20 years;
- limits the duration of existing benefit charges to 20 years if the property has been assessed for less than 20 years as of October 1, 2011;

- specifies that benefit charges paid by a ratepayer for the preceding 20 years, as of October 1, 2011, are deemed as having been paid in full;
- restricts WSSC from increasing benefit charges to make up for any reduction in revenue;
- authorizes WSSC to use money in the Current Bond Fund to offset any revenue reduction resulting from limiting benefit charges; and
- requires Montgomery and Prince George's counties to add language on the property tax bills related to WSSC benefit charges indicating the payment number and the total number of payments.

Current Law: Bonds issued by WSSC must (1) be issued in denominations determined by the commission; (2) bear interest annually at rates the commission determines to be advantageous to the sanitary district and in the public interest; and (3) mature no later than 40 years from the date of issue. The bonds may be registered or coupon bonds or registrable as to principal with interest represented by coupons. The interest on the bonds must be payable semiannually. The maturity dates of refunding bonds may not exceed 40 years from the date of issue.

Background: WSSC is the eighth largest water and wastewater utility in the country, providing water and sewer services to 1.8 million residents in Montgomery and Prince George's counties. It has over 460,000 customer accounts, serves an area of around 1,000 square miles, and currently employs more than 1,500 people. The agency operates four reservoirs, two water filtration plants, and six wastewater treatment plants. Additionally, the Blue Plains Water Pollution Control Plant handles as much as 169 million gallons per day under a cost-sharing agreement with WSSC. The agency maintains nearly 5,500 miles of water main lines and over 5,300 miles of sewer main lines.

In the year following completion of water and/or sewer main construction, connecting improved or abutting unimproved properties are assessed a front foot benefit charge (FFBC). The assessment is required by law to repay funds borrowed by WSSC for water and/or sewer main construction. The charge appears on the property tax bill for 23 years, but may be paid in full at any time. The FFBC assessment is determined by multiplying property footage by the rate per foot for the appropriate property classification. **Exhibit 1** shows the current FFBC and deferred house connection rate schedules for residential properties. These rates are updated annually. The 23-year bond period has been levied for properties since 1983. Earlier years assessments could range from 33 to 50 years.

Exhibit 1
Front Foot Benefit Rate Schedule
(Per Foot Per Year)

<u>Assessment Length</u>	<u>Assessment Rate for Water</u>	<u>Assessment Rate for Sewer</u>
1st 150 feet	\$4.00	\$6.00
2nd 150 feet	3.00	4.50
Over 300 feet	2.00	3.00

Deferred House Connection Rate Schedule

	<u>Annual Rates (Unimproved)</u>	<u>Annual Rates (Improved)</u>
1" Water Connection	\$128.38	\$434.05
1.5" Water Connection	160.48	449.34
2" Water Connection	192.57	464.62
4" or 6" Sewer Connection	209.38	657.19

Source: Washington Suburban Sanitary Commission

Local Fiscal Effect: The bill effects the operations and finances of WSSC and Montgomery and Prince George's counties as discussed below.

Maturity of Bonds

WSSC currently issues debt with a 20-year principal amortization. The timing of the commission's bond sales typically occur between September and November in order to meet the capital construction needs for the fiscal year, and the scheduling of the principal payments on June 1 to allow for sufficient time for funds from rate revenue to be accumulated for debt service payments. Accordingly, the maturity on current bond issues from the date of issuance is over 20 years, but less than 21 years.

WSSC reports that the need for a bond sale is based on the need for cash to construct capital improvements. When that need has been determined, the exact timing and terms of the sale are determined in conjunction with WSSC's financial advisor based on several factors including market conditions.

Pursuant to the bill, WSSC will have to issue 19-year debt in order to technically meet the 20-year maturity requirement. This may cause the annual debt service payments to be larger than under current bond issuances, which may in turn lead to some increases in water and sewer rates. Additionally, the 20-year maturity limitation eliminates WSSC's flexibility in taking advantage of market conditions favoring longer terms. WSSC advises that some municipal debt is issued with maturities of 30 years.

WSSC advises that there is no fiscal impact of the 20-year limitation on refunding bonds as any existing bonds that WSSC may refund will be for a period of less than 20 years.

Duration of Benefit Charges

As noted, benefit charges are set to recover the cost of water and sewer construction. The bill limits the duration of benefit charges for new construction (after October 1, 2011) to 20 years. This provision will not have a fiscal impact on WSSC as the agency will set rates so that that construction and connection costs will be recovered. This may, however, impact property owners as the annual charges would be higher than if they were assessed over a longer period of time.

Limiting benefit charges with regards to current accounts will have a significant impact on WSSC revenues. The bill limits WSSC from collecting benefit charges for more than 20 years on properties that, on or before October 1, 2011, have been assessed for less than 20 years. WSSC reports that, generally, it has been assessing front foot benefit and deferred house connection charges for a 23-year period since the 1980s. Prior to that, assessment terms varied and could be higher or lower than 20 years. Most properties are assessed beginning shortly after the completion of construction. However, there are some cases where assessments do not begin until years after construction is completed because these accounts are inactive until the property is connected to the WSSC system. WSSC advises that these properties pay the benefit charge rates that were in effect when the construction was completed for the term of the bonds issued to fund that particular construction project.

An analysis of affected properties by WSSC indicates that commission revenues may decrease by approximately \$25.0 million in fiscal 2012 as a result of limiting charges to 20 years. Pursuant to the bill, any customer that has paid benefit charges for 20 years, as of October 1, 2011 will be considered paid in full, regardless of the amount of time required to pay off debt related to a specific construction project. For example, a customer who has paid for 20 years out of 23 scheduled years will not have to pay benefit charges for the remaining three years of the term. WSSC estimates the cumulative cost of this provision at \$126.7 million by fiscal 2041.

Current Bond Fund

The bill authorizes WSSC to use funds in the Current Bond Fund to offset lost revenues from the benefit charge term limitation. As of July 1, 2010, the Current Bond Fund has a fund balance of \$126.5 million. As a result, at least some, if not all, of the revenue decrease from the benefit charge limit may be recouped from the Current Bond Fund.

However, WSSC advises that the Reconstruction Debt Service Offset (REDO) was established in fiscal 1983 to use the surplus that had accumulated in the Current Bond Fund to benefit all ratepayers on a long-term basis by offsetting a portion of the debt service cost of the water and sewer reconstruction programs. Each year, the use of REDO is reviewed by WSSC in conjunction with Montgomery and Prince George's counties. WSSC reports that the proposed fiscal 2012 budget assumes using \$11 million of the balance in the Current Bond Fund for REDO. Absent this funding, WSSC advises that a rate increase of 2.3% may be required. In addition, WSSC has used the balance in the Current Bond Fund as part of its working capital reserve. For fiscal 2011, WSSC reports that the working capital reserve in the water and sewer operating funds is \$28 million or about 5.8% of water and sewer rate revenues.

As a result, while the balance in the fund should be sufficient to pay for lost revenue from the benefit charges limit, at least in the near term, using the fund for recouping lost benefit charges may adversely affect other WSSC operations.

Language on Property Tax Bills

The bill requires Montgomery and Prince George's counties to add language on the property tax bills related to WSSC benefit charges indicating the payment number and the total number of payments. Montgomery County reports that significant expenditure increases could be incurred for computer programming and designing and printing new tax bills so that the specified information can be added to county property tax bills. WSSC also indicated that additional costs relating to computer reprogramming would incur due to this requirement.

Additional Information

Prior Introductions: None.

Cross File: HB 1115 (Montgomery County Delegation and Prince George's County Delegation) - Appropriations.

Information Source(s): Washington Suburban Sanitary Commission, Montgomery County, Department of Legislative Services

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Analysis by: Michael Sanelli

Direct Inquiries to:
(410) 946-5510
(301) 970-5510