

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

House Bill 902 (Montgomery County and Prince George's County Delegations)
Commerce and Government Matters

**Washington Suburban Sanitary Commission - System Development Charge
MC/PG 27-97**

This legislation increases the maximum system development charge imposed by the Washington Suburban Sanitary Commission (WSSC) on new development. It also alters the system development charge payment schedule by requiring payment within 12 months of filing a plumbing permit application or prior to the transfer of title to the property, whichever occurs first. Under current law, the system development charge has to be paid at the time of filing the permit. In addition, for residential properties, the system development charge is based on the number of toilets in each dwelling instead of the number of fixtures.

The bill takes effect July 1, 1997.

Fiscal Summary

State Effect: None.

Local Effect: WSSC revenues could increase by \$17.3 million in FY 1998. Expenditures would not be affected.

Small Business Effect: Meaningful impact on small businesses as discussed below.

Fiscal Analysis

Local Revenues: This legislation increases the maximum system development charge imposed on new development by the WSSC from \$160 to \$254 per fixture unit. The WSSC may adjust the maximum charge in future years by the rate of inflation. At present, approximately 7,500 new residential units are constructed annually in the bi-county region. The WSSC assumes that the proposed legislation would neither stimulate nor depress

residential development in the two counties. However, it is anticipated that the new maximum surcharge will increase the filing of plumbing permits in fiscal 1998 in order for developers to avoid the fee increase. Accordingly, this would generate \$17.3 million in additional revenue in fiscal 1998. This estimate is based on the following:

- 11,500 new units in fiscal 1998 (10,500 at the \$160 rate and 1,000 at the \$254 rate);
- 23.5 fixtures per household unit; and
- \$28.2 million in revenues under current law (7,500 households at the \$160 rate per unit).

Since plumbing permits remain in effect for more than a year, the number of plumbing permits filed in fiscal 1999 will decrease. For example, the WSSC estimates there will be 11,500 new households in fiscal 1998 and 4,500 new households in 1999, with the number climbing to 6,500 in fiscal 2000 and stabilizing at 7,500 per year thereafter. The projected revenue effect in future years is illustrated below.

	Revenues Under <u>Current Law</u>	Revenues Under <u>Proposed Legislation</u>	<u>Difference</u>
Fiscal 1999	\$28.2 million	\$26.9 million (\$1.3 million)	
Fiscal 2000	\$28.2 million	\$38.8 million \$10.6 million	
Fiscal 2001	\$28.2 million	\$44.8 million \$16.6 million	
Fiscal 2002	\$28.2 million	\$44.8 million \$16.6 million	

For residential properties, the basis for assessing the system development charge would change from the number of fixtures units per dwelling to the number of toilets per dwelling. This conversion was designed to be revenue neutral.

Small Business Effect: Imposing a higher maximum system development charge on new development would increase construction costs in the bi-county area. A \$2,200 increase in the system development charge (\$94 increase multiplied by 23.5 fixtures per dwelling) represents 1.3% of the median home price in Montgomery County and 1.7% in Prince George's County. To the extent that increased housing costs reduce construction starts and/or profit margins, small business construction activity could be reduced in Prince George's and Montgomery counties. However, assuming the aggregate housing demand within the State remains constant, any reduction in construction activity in Montgomery and Prince George's counties would be offset by increased construction activity in other jurisdictions.

Information Source(s): Washington Suburban Sanitary Commission, Department of Fiscal Services

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