

Department of Legislative Services  
Maryland General Assembly

FISCAL NOTE  
Revised

House Bill 832 (Prince George's County and Montgomery County Delegations)  
Commerce & Government Matters

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**WSSC - System Development Charge, Compensation, and Hookups - Task Force on  
Privatization  
PG/MC 4-98**

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This bill increases the maximum system development charge imposed by the Washington Suburban Sanitary Commission (WSSC) on new development. The bill also establishes a task force to study the advantages and disadvantages of privatizing each of the functions of the WSSC. In addition, the bill prohibits the WSSC from granting its employees salary increases that exceed the amount provided to State employees. This limitation, however, does not apply to employees who are subject to a collective bargaining agreement or who receive a base salary or annualized wage of less than \$25,000 per year. The bill takes effect July 1, 1998 and sunsets on December 31, 1999.

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**Fiscal Summary**

**State Effect:** None.

**Local Effect:** WSSC revenues could increase by \$40.6 million over a five-year period (FY 1999 through FY 2003), assuming the system development charge provision does not sunset on December 31, 1999. If this provision sunsets, WSSC revenues would only increase by \$10.9 million.

**Small Business Effect:** Meaningful impact.

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**Fiscal Analysis**

**Local Effect:** This bill impacts the operations of the WSSC, which is the public water and sewer agency serving Montgomery and Prince George's counties. The bill takes effect July 1, 1998 and sunsets on December 31, 1999.

## *System Development Charge*

The bill increases the maximum system development charge imposed on new development from \$160 to \$200 per fixture unit. In addition, the bill alters the system development charge payment schedule for residential properties by requiring 50% of the payment at the time the application is filed and 50% within 12 months of filing a plumbing permit application or before 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.

The system development charge was established in 1994 in order for the WSSC to raise additional revenue to cover the cost of new infrastructure required in response to rapid growth in the Washington Suburban Sanitary District. The system development charge is imposed on individuals seeking permits for new construction. The current system development charge is not sufficient to fully cover growth-related capital costs. Over the last four years, the gap between the amount of the system development charge collected and the infrastructure needs resulting from new growth has totaled around \$21.3 million. Under the current system, for new development to cover the costs of its infrastructure completely, the charge per fixture would have to rise to \$254. Instead of delaying the construction of needed facilities, the WSSC has been financing additional infrastructure through the issuance of debt supported by all rate payers in the Sanitary District. Pursuant to this legislation, the amount of growth-related infrastructure which must be borne by the entire WSSC rate base is reduced.

Over a five-year period (fiscal 1999 through 2003), WSSC revenues could increase by over \$40 million due to the increase in the system development charge assuming the system development charge does not sunset. This is based on 7,500 new residential units being constructed annually in the bi-county region. The WSSC assumes that the legislation would neither stimulate or depress residential development in the two counties. Further, it is not anticipated that the new maximum charge will increase the filing of plumbing permits in fiscal 1998 in order for developers to avoid the fee increase. The projected revenue effect in future years is illustrated below.

Fiscal Year	Revenues Under Current Law	Revenues Under HB 832*	Revenue Increase
1999	\$28.2 million	\$35.3 million	\$7.1 million
2000	\$28.2 million	\$35.8 million	\$7.6 million**
2001	\$28.2 million	\$36.3 million	\$8.1 million**
2002	\$28.2 million	\$36.8 million	\$8.6 million**
2003	\$28.2 million	\$37.4 million	\$9.2 million**
<i>FY 1999-2003</i>	<i>\$141.0 million</i>	<i>\$181.6 million</i>	<i>\$40.6 million**</i>

\* Reflects a 1.5% increase in the maximum system development charge.

\*\*Full revenue increase may not be realized due to the sunset provision.

### *House Connections*

In the past, existing property owners who had operating well or septic systems have been required to connect to WSSC facilities constructed along their properties. Pursuant to this legislation, hookup to WSSC facilities will be optional for those properties, unless the WSSC finds a health emergency requiring abandonment of the existing well or septic system. This provision reflects current practices at the WSSC and is not expected to affect WSSC finances or operations.

### *Task Force on Privatization*

This bill establishes a task force to study and report on the advantages and disadvantages of privatizing each of the operations and functions of the WSSC. The task force must study the agency and its facilities, options for increasing the role of the private sector in agency operations and turning portions of the agency over to the private sector or to each county, rate making, and the benefits and costs of the options to the customers, local government, agency employees, regulated entities, taxpayers, and bondholders. The bill requires the task force to conduct public meetings in the Washington Suburban Sanitary District. The bill also requires the task force to retain the services of an independent consultant with expertise in financial operations and management of public utilities. The task force is required to produce a final report on or before July 1, 1999. The Montgomery and Prince George's County councils have approved \$300,000 of existing WSSC funding for consulting services relating to the task force.

### *Employee Salary Adjustments*

This bill prohibits the WSSC from granting its employees salary increases that exceed the amount provided to State employees. This limitation, however, does not apply to employees who are subject to a collective bargaining agreement or who receive a base salary or annualized wage of less than \$25,000 per year. This provision may reduce WSSC expenditures in future years, depending upon State salary actions.

**Small Business Effect:** Imposing a higher maximum system development charge on new development would increase construction costs in the bi-county area. A \$940 increase in the system development charge (\$40 increase multiplied by 23.5 fixtures per dwelling) represents 0.5% of the median home price in Montgomery County and 0.7% 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.

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

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