

Department of Legislative Services
Maryland General Assembly
2000 Session

FISCAL NOTE

House Bill 1019 (Prince George's County Delegation and Montgomery County Delegation)

Commerce and Government Matters

**WSSC - Subdivision Lines - Installation and Construction - Charges
PG/MC 17-00**

This bill limits the review and inspection charges the Washington Suburban Sanitary Commission (WSSC) may assess against owners and developers who install subdivision lines. Charges may not exceed 7.5% of the actual contract price for construction and installation of the lines. This limitation applies to all direct and indirect costs incurred by the WSSC. The bill also prohibits the WSSC from requiring the purchase of subdivision line construction materials from the WSSC or from a source designated by the WSSC. The bill's provisions do not apply to authorizations for service when an application for water and sewer service is made with the WSSC on or before June 30, 1999, or when the WSSC enters into a contract for construction of subdivision lines with notice to proceed on or before June 30, 2001. The provisions also do not apply to authorizations for service for the relief of health hazards.

The bill is effective July 1, 2000.

Fiscal Summary

State Effect: None.

Local Effect: The limitation on assessed charges would decrease WSSC revenues by an estimated \$250,000 annually, which would be recouped through increased water and sewer rates. WSSC expenditures would increase due to the need for independent auditors.

Small Business Effect: Potential meaningful.

Analysis

Current Law: Before constructing subdivision lines, the owner or developer of the property must enter into an agreement with the WSSC. The agreement requires the developer to build the lines under specifications from the WSSC and to have the lines inspected by the WSSC before they are placed in service. There is no limit on the amount the WSSC may charge for review and inspection of subdivision lines, and in practice, it charges developers 100% of these costs.

Local Revenues: The WSSC currently charges developers 100% of its costs for review and inspection of subdivision lines with no maximum charge. The bill limits these charges to 7.5% of the “actual contract price” that developers pay for subdivision lines. According to information provided by the WSSC, there are an average of 200 subdivision projects per year, each with an average contract price of \$100,000. Thus, it is estimated that the WSSC could charge \$7,500 for an average subdivision project. The WSSC advises that the 7.5% fee would be sufficient if plans had to be reviewed only once. However, the commission reports that the average subdivision line construction project has to be reviewed 1.25 times before it is approved. The WSSC estimates that its current average cost for review and inspection of subdivision lines is \$8,750, or \$1,250 higher than the fee they could charge for the average project. Assuming 200 projects per year, the total loss in WSSC revenues would be estimated at \$250,000 annually. The WSSC advises that the loss in revenue would be retrieved through increased water and sewer rates.

The WSSC further advises that it is in the process of altering its fees for subdivision review and inspection to set a standard fee of \$6,500 per design.

Local Expenditures: In order to determine the “actual contract price” for construction of subdivision lines, WSSC advises that audits would have to be performed on each construction contract. There are an average of 200 subdivision line construction projects each year. Assuming each project would require an independent audit by an outside CPA firm at a cost of \$5,000 per audit, expenditures would increase by approximately \$1 million each year. WSSC further advises that any expenditure increases would also be passed on to consumers in the form of increased rates.

The Department of Legislative Services advises that the cost of these audits would be part of overhead costs and, therefore, would be included in the 7.5% maximum cap. Thus, these costs could be recovered as part of the fees from developers. In addition, only those audit costs that exceed the cap would be passed on to consumers.

Small Business Effect: Costs for developers who submit plans multiple times could be reduced. The WSSC estimates that any additional review beyond the first will result in a loss of revenue on their part, and therefore, a lower price for review and inspection than

developers currently pay. All of WSSC's lost revenues and increased expenditures would be passed on to ratepayers, including small businesses, in the sanitary district.

Additional Information

Prior Introductions: This bill was introduced as HB 591 in the 1999 session but was not reported out of the House Commerce and Government Matters Committee.

Cross File: None.

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

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