

Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

House Bill 693

(Montgomery County Delegation and Prince George's
County Delegation)

Appropriations

Budget and Taxation

**Washington Suburban Sanitary Commission - Bonds - Issuance and Advertising
MC/PG 111-07**

This bill authorizes the Washington Suburban Sanitary Commission (WSSC) to consolidate its loans or bonds authorized to be issued by separate enabling legislation into a single bond issuance designated as a "consolidated public improvement bond." Unless the bonds are authorized to be sold at private sale, WSSC must advertise the bond sale at least once in a newspaper of general circulation in the Washington Suburban Sanitary District. The net proceeds from the sale of the bonds must be applied in the manner and for the purposes designated in the separate enabling legislation authorizing the bond issuances.

Fiscal Summary

State Effect: None.

Local Effect: Authorizing WSSC to issue consolidated public improvement bonds may result in lower WSSC debt service expenditures. Revenues would not be affected.

Small Business Effect: None.

Analysis

Current Law: WSSC is authorized to issue bonds in amounts as it deems necessary to carry on its work. Statute authorizes three different types of WSSC bond issuances:

water supply bonds, sewage disposal bonds, and general construction bonds. Statute does not provide for the consolidation of WSSC bond issuances.

Background: WSSC's capital budget consists of the Water Supply Bond Fund, Sewage Disposal Bond Fund, and General Construction Bond Fund. Each fund is a separate entity authorized to expend funds for prescribed purposes and to derive revenues from specific sources (primarily from the issuance of bonds).

The Water Supply Bond Fund is used to finance the planning, designing, and construction of dams and reservoirs, water filtration plants, water pumping stations, water storage tanks and standpipes, water supply lines, and improvements or modifications to these facilities.

The Sewage Disposal Bond Fund is used to finance the planning, designing, and construction of trunk and intercepting sewers of a certain size, sewage pumping stations and force mains, sewage disposal facilities (including reimbursement to the District of Columbia Water and Sewer Authority for construction at Blue Plains Wastewater Treatment Plant), and improvements or modifications to these facilities.

The General Construction Bond Fund is used to finance a major portion of the cost of constructing minor water and sewer lines; the construction of new administrative and support facilities; the modification, enlargement, or replacement of existing support facilities; the relocation of facilities; and to purchase water meters.

WSSC's fiscal 2007 capital budget totals \$255.0 million. Of this amount, \$122.6 million is in the Water Supply Bond Fund, \$108.7 million is in the Sewage Disposal Bond Fund, and \$23.7 million is in the General Construction Bond Fund.

WSSC has authorized the issuance of \$136 million in bonds in fiscal 2007. **Exhibit 1** shows the WSSC bond issuances for fiscal 2004 through 2006. WSSC currently maintains an AAA bond rating by Standard and Poor's, Fitch Ratings, and Moody's Investors Service.

WSSC is among the 10 largest water and sewer utilities in the country, providing water and sewer services to 1.6 million residents in Montgomery and Prince George's counties. It has a total budget of \$757.1 million (\$502.1 operating budget and \$255.0 capital budget) in fiscal 2007, over 400,000 customer accounts, and serves an area of around 1,000 square miles. It operates three reservoirs, two water filtration plants, and six wastewater treatment plants.

Exhibit 1
WSSC Bond Issuances
Fiscal 2004-2006

<u>Issue Date</u>	<u>Issuance Type</u>	<u>Bond Amount</u>
2/28/2006	Water Supply	\$50,000,000
2/28/2006	Sewage Disposal	50,000,000
3/23/2005	Water Supply	60,330,000
3/23/2005	Sewage Disposal	97,870,000
3/23/2005	General Construction	15,000,000
3/23/2005	Water Supply (Refund)	20,990,000
3/23/2005	Sewage Disposal (Refund)	5,680,000
3/23/2005	General Construction (Refund)	35,840,000
2/3/2004	General Construction	7,000,000
2/3/2004	Water Supply (Refund)	41,125,000
2/3/2004	Sewage Disposal (Refund)	41,275,000
2/3/2004	General Construction (Refund)	183,995,000
9/30/2003	Water Supply (Refund)	33,355,000
9/30/2003	Sewage Disposal (Refund)	12,390,000
9/30/2003	General Construction (Refund)	22,575,000
9/30/2003	Admin Building (Refund)	2,270,000

Source: Washington Suburban Sanitary Commission

Local Fiscal Effect: Since WSSC bonds currently have to be issued separately according to their purpose, they must have separate Committee on Uniform Securities Identification Procedure (CUSIP) numbers, even when the bonds are issued on the same day. WSSC advises that the purchaser has to buy all the bonds issued on the same day; however, issuing the bonds with different CUSIP numbers may be a disincentive to a buyer. Therefore, allowing WSSC to issue the bonds as a single consolidated bond with one CUSIP number may attract more bidders, which might lead to more competition for the bonds. In turn, this may result in lower interest rates for the bonds, and thus lower debt service expenditures for WSSC. While WSSC does not know what the interest rate reduction would be (if any), it estimates that it could be around one-tenth of one percentage point.

For illustrative purposes only, if WSSC issues \$100 million in bonds at 4.0% interest for 20 years, debt service over the period would total \$145.4 million. Assuming WSSC would issue the same bond amount for the same period but at a 3.9% interest rate, debt service over the period would total \$144.2 million (\$1.2 million less).

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - February 16, 2007
ncs/hlb

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