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FISCAL AND POLICY NOTE
Preliminary

MC/PG 104-13

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

**Washington Suburban Sanitary Commission - Water Conservation On-Bill
Financing Program MC/PG 104-13**

This proposed bill establishes the Water Conservation On-Bill Financing Program within the Washington Suburban Sanitary Commission (WSSC) for the purpose of providing financial assistance to customers for water conservation upgrades to specified residential and commercial property. The bill authorizes WSSC to issue specified bonds to finance or refinance any costs of the program, including loans to customers for financing water conservation upgrades; initial program development; administering and marketing the program; and preparing, printing, selling, and issuing bonds. The bill specifies various program requirements including how bonds are to be issued, repayment of loans via a surcharge, and customer eligibility requirements.

Fiscal Summary

State Effect: None.

Local Effect: To the extent WSSC institutes the Water Conservation On-Bill Financing Program, initial program expenditures may increase by a significant amount. However, the bill authorizes WSSC to issue bonds to finance or refinance any costs of the program. As a result, it is assumed that all program costs, including loans to customers will be covered by any bond issuances and recovered over time by customer surcharges.

Small Business Effect: Minimal.

Analysis

Bill Summary: The proposed bill establishes the Water Conservation On-Bill Financing Program within WSSC for the purpose of providing financial assistance to customers for water conservation upgrades to specified residential and commercial property.

WSSC is authorized to issue specified bonds, by resolution, to finance or refinance any costs of the program, including loans to customers for financing water conservation upgrades; initial program development; administering and marketing the program; and preparing, printing, selling, and issuing bonds.

Bonds that are issued by the commission, and their principal, interest, and any premium are limited obligations of the commission, payable solely from the revenues identified in the authorizing resolution or from other money made available for the payment; and do not constitute a pledge of the faith and credit of the commission or of any entity with taxing power. Bonds that are issued are negotiable instruments under the laws of the State.

The proceeds of each bond issuance must be used solely for the program. WSSC may (1) lend or otherwise make available the proceeds to a customer to finance costs of a water conservation upgrade; and (2) enter into a financing agreement or other instrument that the commission determines is necessary or desirable to evidence or secure the loan.

Bond proceeds must be distributed in the same manner and under any restrictions stated in (1) the authorizing resolution of the commission; or (2) the trust agreement securing the bonds. If the proceeds of the bonds are less than the costs of the program, the commission, by resolution, may issue and sell additional bonds in the same manner as the earlier issue to fund the amount of the deficit. However, if the proceeds of bonds issued for the program exceed the costs of the program, the surplus must be used as the commission determines.

Bonds issued may be secured by or made payable from (1) letters of credit; (2) lines of credit; (3) bond purchase agreements; (4) bond insurance policies; (5) guaranty agreements; and (6) similar credit arrangements. WSSC may also, by resolution, issue revenue refunding bonds to refund bonds issued.

WSSC is authorized to enter into a trust agreement to secure bonds. The trustee under the trust agreement may be a bank or trust company that has the powers of a trust company in or outside the State. The trust agreement may pledge or assign revenues from the program as specified by WSSC. The trust agreement may provide for the protection and enforcement of the rights and remedies of the bondholders by including: (1) covenants setting forth the duties of WSSC regarding the custody, safeguarding, and

application of money; (2) the establishment and funding of reserve funds; and (3) statements of the rights and remedies of the bondholders and of the trustee, which may restrict the individual right of action of bondholders.

Bonds issued, including any interest payable on the bonds, income derived from the bonds, and profit from the sale or exchange of the bonds, are exempt from State and local taxes.

The Water Conservation On-Bill Financing Program must require a customer to repay financial assistance provided under the program through a surcharge on the customer's water and sewer usage bill in an amount that allows WSSC to recover: (1) the amount of the loan; (2) costs associated with issuing bonds to finance the loan; and (3) costs associated with implementing, administering, and marketing the program.

A person that acquires property subject to a surcharge, whether by purchase or other means, assumes the obligation to pay the surcharge. The surcharge, including any interest and penalties, constitutes a lien against the property.

The Water Conservation On-Bill Financing Program must include (1) eligibility requirements, which may specify the water conservation upgrades, properties, or property owners that qualify for the program; (2) procedures for applying for the program; (3) the method for calculating any financing charge or fee that may be assessed under the program; (4) standards for determining the maximum charge that may be added to each bill and the period of time for repayment; and (5) loan terms and conditions.

Background: WSSC is among the largest water and wastewater utilities 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 commission operates three reservoirs, two water filtration plants, and six wastewater treatment plants. The six wastewater treatment facilities, as well as the Blue Plains Advanced Wastewater Treatment Plant, handle as much as 180 million gallons of wastewater per day. The commission maintains nearly 5,600 miles of water main lines and over 5,400 miles of sewer main lines.

Local Fiscal Effect: To the extent WSSC institutes the Water Conservation On-Bill Financing Program authorized by the bill, commission expenditures will increase by a significant amount to implement the program. Administrative costs could increase by approximately \$125,000 in order to hire an individual to make programming changes to WSSC's customer information system, assessment information system, and mainframe applications to accommodate the new program. This estimate is based on the salaries and benefits for current information technology employees within WSSC.

In addition, commission expenditures will increase by approximately \$300,000 for each revenue bond that is issued, which includes the cost for bond counsel and various financial advisors. WSSC advises that revenue bond issuances are typically more expensive than general obligation bond issuances and given the differences between the two types of bonds, the revenue bond issuances will have to be separate from the general obligation bonds that WSSC issues on a regular basis.

Since the demand for the water conservation loan program cannot be reliably estimated at this time, WSSC is unable to determine when the program may be implemented. Since the bill specifies that WSSC may issue bonds to finance or refinance all program costs, it is assumed that all program costs, including loans to customers, will be covered by the bond issuances and recovered over time by customer surcharges.

Montgomery County advises that the bill would have no fiscal impact on the county government.

Additional Information

Prior Introductions: None.

Cross File: Unavailable at this time.

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

Fiscal Note History:
ns/hlb

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