Water and Sewer Extension Cost Work Team

DRAFT REPORT
December 2006

DECEMBER 2006 DRAFT REPORT
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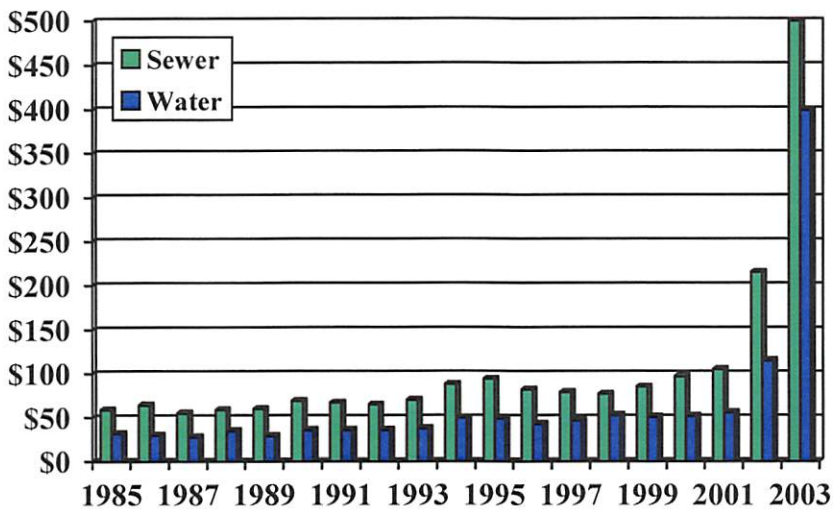
I. Introduction and Statement of Problem

Historically, WSSC has been responsible for the design, construction and financing of all water and sewer extensions built within the Sanitary District. This included all types of projects ranging from large multi-part subdivisions to those serving just one property. The Commission would build and pay for the mains and then recover costs by assessing properties front foot benefit charges. In the mid-90's, WSSC established a Task Force to examine how other neighboring counties were handling the process of building and financing water and sewer mains. As a result of that study, in 1997 the Commission proposed legislation that required the applicant to finance projects that were defined as development, (consisting of more than one new home). House Bill 824 was sponsored by the Montgomery and Prince George's County Delegations and supported by WSSC. This change has had a significant impact on the costs associated with the smaller projects needed for health hazard and single residential extension projects. The cost of constructing service extensions for these health hazards and single residential dwelling units has always been very expensive, but these few, costly projects were offset by the many, less costly developer projects that WSSC constructed. In a typical year, there are several hundred of the large developer projects constructed versus only a few dozen health hazard or single residential units built. These large projects had economies of scale that lowered the average cost for all jobs. Also, the large projects involved construction in unimproved areas while the health hazard or single residential projects usually involve construction in improved areas that involve impacts to pavement and other utilities and the need for traffic control. Due to these legislative changes, we are faced with a situation that makes it increasingly more difficult for homeowners to afford water and sewer extensions through WSSC. Illustration No.1 shows the historical unit costs of water and sewer extensions. As shown, the unit costs had small, incremental increases during the 80's and 90's. After the legislation was enacted in 2000, the costs rose dramatically.

Illustration No. 1
Costs for Water and Sewer Extensions



The following chart highlights some of the major impacts of the legislation:

Before Legislation	After Legislation
Hundreds of WSSC projects built annually (primarily large development projects)	22 projects in '03, 6 in '04 (extensions to single family residences)
Economy of scale	Typically smaller, more complicated projects
Unit costs remained low (less than $100/foot)	High unit costs (greater than $500/foot)
Easy to estimate project costs	Difficult to estimate project costs
No or minimal deficit (typically < $10,000)	Large deficits ($50,000 and greater)

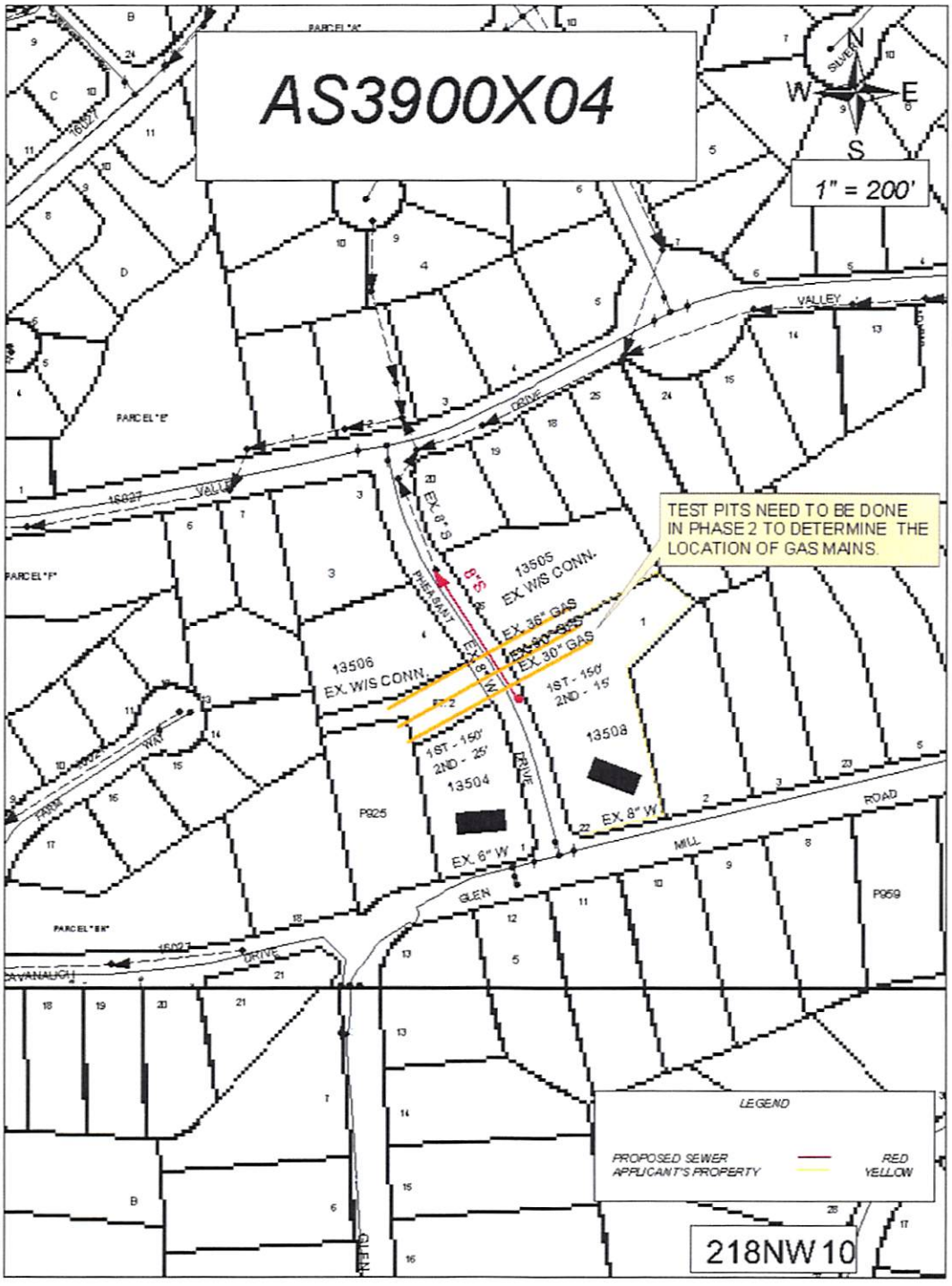
The current process has resulted in the following problems:

- Extremely high cost to applicant making it difficult to extend service
- Costly to WSSC, as much time is spent on projects that never get built
- Health hazards are not always able to be remedied
- County water and sewer planning for infill development becomes impossible

The following is a real life example of single family sewer extension project that has become too expensive for the average property owner to afford:

- Septic failure at 13508 Glen Mill Road documented by Montgomery County Well and Septic Section on December 12, 2003

- 300- foot sanitary sewer extension in Pheasant Drive required to provide sewer service to property.



Project Deficit Payment for 13508 Glen Mill Road

Total Design & Construction Cost (based on $500/ft x 300 feet of pipe)	$150,000
Projected Assessment Income (2 properties including applicants)	$ 22,990
Health Hazard Subsidy ($30,000 – Projected Assessment Income)	$ 7,010
Applicant's Deficit Payment	**$120,000**

II. The Work Team

Joe Mantua	WSSC Development Services
Ross Beschner	WSSC Development Services
Kim Luquette	WSSC-Accounting
Liz Scibek	WSSC Accounting
Beverly Warfield	Prince George's County Department of Environmental Resources
Paivi Spoon	Prince George's County Department of Environmental Resources
Paul Meyer	Prince George's County Health Department.
Keith Levchenko	Montgomery County Council Staff
Dave Lake	Montgomery County Department of Environmental Protection
Alan Soukup	Montgomery County Department of Environmental Protection

III. Team Goals

The team developed the following set of goals that would be the basis for determining recommended alternatives:

Simplicity – The current process is very confusing and difficult to explain to customers. The proposed process should be easy for customers and staff to understand and administer.

Affordability – The proposed process should make it affordable for citizens of the two counties to obtain public water and sewer service. The process must also allow WSSC to operate in a fiscally responsible manner with little or no impact to existing customers.

Equity – The proposed process should be established so that all who benefit from the extension of public water and sewer should pay a share of the cost.

Health Hazard Priority – The proposed process should ensure that extensions needed to abate health hazards should be given priority and provide a mechanism for financial assistance.

Consistent with County Water and Sewer Plans – The proposed process should support the respective comprehensive water and sewer plan objectives within each county.

IV. Current Policies and Process

The work team agreed that health hazard projects should be handled differently than single family residential extensions that are not health hazards due to the public health risk associated. Therefore, alternatives will be provided for projects with health hazards and projects that do not include a health hazard. The first set of alternatives to be discussed will be the health hazard cases. Typically, when homeowners discover a potential health hazard with an existing well and/or septic system they bring this to the attention of the Health Department in Prince George's County and the Well and Septic Section of the Department of Permitting Services in Montgomery County. County staff conduct an inspection of the well or septic system and provide a determination to the homeowner. If a representative of the respective county verifies the presence of a health hazard, county staff will provide directions for correcting the problem. If public water and/or sewer are available to the property, the homeowner may be required to proceed to apply for a connection or extension to the WSSC system. The average cost for a well installation in Prince George's County is between $6500 and $7500 although it could reach $8,000 in the southwestern parts of the county. Septic system installations can vary from as little as $3,000 for remodels with most of the components are already in place, e.g. existing septic tank, pump chamber, etc. to between $5-$7500 for a new system to as much as $15,000 for the more complex systems.

Currently, WSSC policy provides for a deficit subsidy for property owners with certified residential health hazards. For any owner occupied, single-family residential applicant with county certified documentation of a failing well or septic system, a $15,000 subsidy of the cost of the extension is allowed. The applicant is eligible to receive a subsidy of $15,000 for each property that the extension passes that could be served The subsidy is reduced by the expected assessment returns. For example, if the new main could serve the applicant's property and four other properties, the applicant would be eligible for a subsidy of up to $75,000 minus the expected assessment returns. The subsidy is funded through water and sewer operations. The health hazard subsidy policy was developed in the late 1970's when state grant money that had typically been available to fund extensions for health hazards was no longer available. At that time the subsidy was $10,000. During the early 1980's the subsidy amount was increased to $15,000 and has not changed since then. Due to the increased costs associated with these projects the $15,000 subsidy amount is no longer effective in helping make these projects affordable.

Traditionally, the extension project costs were estimated using unit costs (per foot). These unit costs were determined annually based on the costs of projects built during the previous year. A graph showing the historical unit costs is included in Part I of this report and labeled Illustration No. 1. In order to determine an applicant's costs, the unit costs would be used to calculate the overall estimated project costs. Estimated revenue would be determined by calculating the projected assessment returns from the applicant(s) and any abutting properties that would benefit from the extension. If the costs exceeded the revenue, the applicant would be responsible for the remaining deficit and would be required to pay this amount prior to the construction of the project. Prior to 1995, all benefiting, abutting properties would be required to begin paying front foot benefit charges once the extension was completed. However, in 1995, a bill was passed that allowed the WSSC to suspend these charges until the property connected to the line. This bill is often referred to as the "Berger Bill". Following this change, we continued to include the assessment returns from the abutting properties in the revenue calculation even though the properties did not have to connect immediately. It is recommended that in the future the cost calculation only include assessment returns from properties that are connecting.

In 2003, a resolution was passed to allow future applicants to defer any required deficit payments and pay over 23 years as part of the tax bill. This was done to allow the applicants flexibility in paying for the rising costs. This resolution also required that we no longer use unit costs to estimate projects and instead would prepare individual project cost estimates. Due to the reduced number of projects and the wide range of costs it was no longer feasible to use unit costs.

V. Proposed Alternatives

HEALTH HAZARD EXTENSION PROJECTS

A summary of each of the various alternatives is attached in spreadsheet form, including the pros and cons of each alternative.

Health Hazard Alternative No. 1 – Increase the Health Hazard Subsidy

This alternative proposes increasing the health hazard subsidy amount to $25,000 based on inflation. Currently the policy states that the subsidy amount is $15,000 per property, which could be, served less the assessment returns from those properties. The $25,000 subsidy would not be adjusted for projected assessment returns.

Health Hazard Alternative No. 2 – Charge Direct Costs Only

In this alternative the applicant would only be responsible for paying for the direct costs associated with the planning, design and construction of the project, plus related interest to pay these costs over 23 years. Currently all costs associated with the project are the responsibility of the applicant. In some cases a considerable amount of the applicant's fee is in the allocated costs.

Health Hazard Alternative No. 3a – Charge Applicants an Established Property Frontage Rate

The applicant would pay a set property frontage rate to be determined annually. This amount, which includes interest would be paid over 23 years as part of the tax bill. Abutting property owners would not be required to connect and would not be required to pay charges until they connect. Project costs not covered by the assessment returns based on the property frontage rate would be funded by a WSSC health hazard subsidy. One basis considered for the calculation of this rate utilized 1990 extension costs per assessed foot, adjusted for inflation through 2005. The calculated rates are comparable to our current approved rates of $4.00 for water and $6.00 for sewer.

Health Hazard Alternative No. 3b– Charge All Abutting Properties an Established Property Frontage Rate

This alternative would require all abutting property owners that benefit from the extension to pay the established property frontage rate. The property owners would pay this amount over 23 years, which includes interest as part of their tax bill. This rate would be adjusted annually for future projects based on inflation . Project costs not covered by the assessment returns based on the property frontage rate would be funded by a WSSC health hazard subsidy.

Health Hazard Alternative Nos. 4a – Applicant is responsible for design and construction

This alternative would require the property owners to be responsible for the design and construction of the proposed extension, similar to the current process established for development, referred to as the System Extension Permit Process or SEP. This would remove WSSC from the business of designing, building and financing water and sewer main extensions for all projects. WSSC would still be involved in the review and approval of the design and inspection of the construction.

Health Hazard Alternative Nos. 4b – Applicant is responsible for design, WSSC is responsible for construction

This alternative would require the property owner to obtain the services of an engineer to prepare the design plan for the proposed extension and WSSC would then be responsible for managing the construction of the proposed extension. The property owner would be responsible for paying a front foot benefit that covers the cost of constructing the proposed extension. This would remove WSSC from the business of designing water and sewer main extensions. WSSC would still be involved in the review and approval of the design and would be responsible for the construction and associated construction inspection.

FUNDING ISSUES

Each of the alternatives discussed requires a mechanism to support funding of these projects. Although there may be other sources, the work team has identified three. First, WSSC would be solely responsible for the subsidy amount to fund health hazard projects. This money would need to be identified as a line item in the Annual Budget and would be a cost absorbed by all ratepayers. A second option would be for the WSSC and two counties to share in these costs. Each entity would be responsible for their share of the health hazard subsidy. This money would also need to be identified in each organizations annual budgeting process and the ratepayers and taxpayers would absorb the costs. A third option would be to establish a fund that could be used to support these projects. The source of the fund could be through a special assessment or fee but would need to be determined.

It should be noted that for each $1,000,000 subsidized, the impact to the water and sewer rates is 0.29%. Based on the costs of recently completed, WSSC designed and built extension projects it is estimated that about 5 projects per county could be built per $1M subsidized. This would fluctuate depending on the size and complexity of the projects. It should also be noted that it is no longer feasible to carry the costs associated with the Assessments Unit in the front foot benefit charge. In the past, this annual cost (currently $1,000,000) was included in the determination of the FFB rate, however it will now have to be absorbed in the budget, an additional 0.29% increase in combined rates for the ratepayers.

SINGLE FAMILY EXTENSION PROJECTS

A summary of each of the various alternatives is attached in spreadsheet form, including the pros and cons of each alternative.

Single Family Alternative No. 1 – Applicant responsible for costs; abutting properties must connect immediately

In this alternative the first determination for proceeding with a water and/or sewer service extension would be the number of applicants desiring service for a particular project. More specifically, it would be the amount of footage. In order for a project to move forward, with costs being shared by all abutting properties, the applicant(s) would need to make up at least 51% of the abutting property footage. If the applicant(s) does not make up at least 51% of the abutting property frontage, they would have the option of paying 100% of the total project cost. If they are willing to do so the project would be designed and built by WSSC. If not, the extension would not be built. This is very similar to the process used in Anne Arundel County.

If the applicant(s) do make up at least 51% of the abutting property frontage, the DSG would perform a feasibility review to determine the most cost-effective way to provide service to the applicant's property, including a cost estimate. The costs would then be split proportionately to all properties that the line would pass and could ultimately provide service. The cost would be based on the ratio of the individual property frontage to the overall property frontage amount. If the cost to each assessable property is $20,000 or less the project would proceed to design and construction. If any of the properties have estimated costs above $20,000, the applicant would be given the option of paying the amount of total project costs that exceed the assessable amount. If the applicant is not willing to pay this additional amount the project would not proceed; if they agree to pay the additional amount WSSC would design and build the extension. Once all connections have been identified and the construction of the mains and connections has been completed, all properties that abut the main will be assessed as follows: (1) the 49% (or less) property owners will pay up to $20,000 plus interest per property, and (2) the 51% (or more) applicants will pay all remaining costs based on the frontage amount.

Single Family Alternative No. 2 – Applicant responsible for costs; abutting properties do not have to connect until sale of house

This option is similar to Single Family Alternative No.1 with the exception that abutting property owners would not be assessed until they connect or until the house is sold.

Single Family Alternative No. 3 – All Abutting Properties Share Costs Proportionately

In this alternative if the applicant(s) owned at least 51% of the property frontage then all abutting property owners would share in the project costs based on their proportion of property frontage. Each property owner would be able to pay their project costs over 23 years as part of their tax bill

Single Family Alternative No. 4a – Applicant is responsible for design and construction

This alternative would require the property owners to be responsible for the design and construction of the proposed extension, similar to the current process established for development, referred to as the System Extension Permit Process or SEP. This would remove WSSC from the business of designing, building and financing water and sewer main extensions for all projects except for health hazards. If the property owner chooses to provide public water and/or sewer to an existing home or proposed home, they would be responsible for the costs.

Single Family Alternative No. 4b – Applicant is responsible for design, WSSC is responsible for construction

This alternative would require the property owner to obtain the services of an engineer to prepare the design plan for the proposed extension and WSSC would then be responsible for managing the construction of the proposed extension. The property owner would be responsible for paying a front foot benefit that covers the cost of constructing the proposed extension. This would remove WSSC from the business of designing water and sewer main extensions. WSSC would still be involved in the review and approval of the design and would be responsible for the construction and associated construction inspection.

VI. EVALUATION OF ALTERNATIVES

Recommendations

The work team was not able to fully support and recommend that any of the proposed alternatives be selected for implementation. While none of the proposed alternatives completely met all of the five stated goals, Alternative 3B for Health Hazard extension projects and Alternative 3 for Single Family extension projects at least partially met each goal. Although not endorsed by the team, these two alternatives were viewed as the least objectionable of the proposed choices. Further discussion of each of these alternatives is provided below.

Health Hazard Extension Projects

As stated in Part III., Team Goals, our aim in reviewing potential alternatives was to develop a process that would be easy for applicants and staff to understand, be affordable for applicants, be equitable so that all properties benefiting from newly constructed lines would pay a portion of the cost, consider health hazards a priority, and be consistent with

the counties water and sewer plan objectives. Alternative 3B addresses each of these items as follows:

Simplicity - WSSC staff will be able to accurately provide applicants their costs upfront. Currently, there can be a lot of fluctuation between the costs of a project as it progresses.

Affordability – The initial property frontage rate would need to be determined and adjusted annually for new projects. Listed below are several rates (including the current front foot benefit charge amounts of $4 per foot for water and $6 per foot for sewer) and the corresponding annual charge per 100 feet of property frontage.

Property Frontage Rate		Annual Cost per 100 feet	
Water ($)	Sewer ($)	Water ($)	Sewer ($)
4	6	400	600
8	12	800	1200
12	18	1200	1800

Equity – Neighboring properties that abut the mains will be required to pay the property frontage rate at the time the newly constructed mains go into service. Essentially everyone that receives a benefit from a new main will pay the same rate beginning at the same time. Other alternatives that allowed abutting properties to choose would not accomplish this. By establishing an annual cap amount on the subsidy the WSSC will be able to control the costs and impacts to existing ratepayers.

Health Hazard Priority – In determining alternatives, the team separated health hazard projects from single family projects that do not pose a health problem. The significant amount of funds to be subsidized indicates a priority for these projects.

Consistent with County Water and Sewer Plans – This alternative will provide the opportunity to connect more properties in need of public service to our system.

It is recognized that Alternative 3B could not be implemented immediately and would require legislative change. The current law requires a uniform front foot benefit charge and if health hazard projects were handled differently than the single family extension projects there would be separate rates. Additionally, while the current law does allow WSSC the ability to require abutting property owners to begin paying assessments at the time the line is constructed, it has been the practice not to enforce this since the implementation of what is commonly referred to as the "Berger Bill". As previously mentioned, the Berger Bill, passed in 1995, gave WSSC the option to suspend assessment of front foot benefit charges until such time that the property owner connects to our system. Since this has been the norm, a sudden change requiring abutting property owners to pay FFBC will likely result in negative public reaction as property owners are affected.

Single Family Extension Projects

As discussed in the section on health hazard extension projects, it was the team's aim in reviewing potential alternatives to develop a process that would be easy for applicants and staff to understand, be affordable for applicants, be equitable so that all properties benefiting from newly constructed lines would pay a portion of the cost, consider health hazards a priority, and be consistent with the counties water and sewer plan objectives. Each of these considerations is discussed as follows:

Simplicity - The process for this alternative would be less complicated than the current process. WSSC staff would need to develop cost estimates early in the process so that applicants and abutting property owners would have a preliminary idea of the associated costs. The project costs could change over time and would not be as predictable as in the recommended health hazard option.

Affordability – Since all properties that benefit from the construction of the main would share responsibility for the costs (if applicants make up 51% or more of the property frontage), the projects would be more affordable. Under the current process there are often very large deficit payments (as much as $100,000 and higher) because the applicant may be the only contributor to the project costs. This alternative would bring down those large deficits by spreading the costs to all benefiting properties. This could still result in very large deficits depending on a number of factors including number of benefiting properties, complexity of the project, etc.

Equity – Neighboring properties that abut the mains will be required to pay their proportionate share of the project costs.

Health Hazard Priority – Applicants and all abutting property owners would be responsible for all costs associated with the extension. There would not be any subsidy provided to applicants indicating a priority for the health hazard extension projects.

Consistent with County Water and Sewer Plans – This alternative will provide the opportunity to connect more properties in need of public service to our system.

This alternative would also require legislative change in order to implement. Under the current law, WSSC does not have the authority to require a connection unless the property has a health hazard condition. It is also likely that affected property owners would be opposed to the requirement to connect and to pay project costs, particularly if they have properly functioning systems. Although this alternative would more equitably distribute the allocation of project costs, it is still possible that some of the projects would remain too costly for the applicant(s). This alternative would also require closer coordination with the respective county staff. WSSC staff would need to work with the respective county in determining the service area for each project. This would be necessary to effectively address water and sewer service priorities and be consistent with each county's comprehensive water and sewer plan.

Each of the proposed alternatives is problematic and as stated previously the team could not support any of them. Therefore, it is recommended that the Commission consider the following questions, provide staff with general guidance and this issue be considered for inclusion as an FY 2008 Annual Action Item.

Questions:

Should the costs of these projects be paid for by all ratepayers or just the property owners/ratepayers benefiting from the extension?

Should health hazards be treated differently than system extensions to support construction/new development?

When should property owners who could benefit from a water or sewer extension project be charged -- at the time they are built or if/when they connect to service?

Appendix I

Legislative Review

General Background

Prior to a legislative change in 1998, the WSSC designed and constructed all water and sewer extensions within the Sanitary District. These extensions were financed through the assessment of a front foot benefit charge on all properties benefiting from the lines based upon the approximate cost of construction for the prior year. Md. Ann. Code art. 29, § 5-101 declares that the construction or acquisition of water mains or sewers is a benefit to all property that abuts on the water mains or sewer lines and authorizes the WSSC to fix and levy a benefit charge on all such property. The front foot benefit charge is to be levied for each class of property based upon the approximate cost of the construction as an integral part of the whole system and the number of front feet abutting on the street. Additionally, the front foot benefit charge must be uniform for each class of property in the Sanitary District for any one year. The classes of property set forth in Section 5-101 are agricultural, small acreage, industrial or business, subdivision residential, multi-unit residential, multi-unit business, and institutional. Md. Ann. Code art. 29, § 5-103 authorizes the WSSC to levy the benefit charge annually against all properties for the number of years consistent with the period of maturity of the bonds sold by WSSC to finance the construction. The front foot benefit charges are authorized to be collected by the respective county governments and treated for purposes of collection as county taxes pursuant to Section 5-108.

Chapter 516 of the 1998 Laws of Maryland made a significant change in this system. Pursuant to this legislation, (now codified at Md. Ann. Code art. 29, § 3-101.1) applicants for projects to construct two or more residential dwelling units or any commercial or industrial structure are required to design and construct the water and sewer subdivision lines necessary for their own project. This legislative change was phased in over several years, resulting in the current situation where the number of WSSC built projects has been reduced from several hundred to six in 2004. The projects that are now constructed by WSSC are water and sewer extensions to resolve health hazards or water and sewer extensions to serve one residential dwelling unit. These projects generally have the highest cost per foot of pipe.

1. Can the WSSC require all abutting property owners with pre-existing residential dwellings already served by a well or septic system to pay a front foot benefit charge before they request service from the new line?

Prior to 1995, WSSC routinely levied front foot benefit assessments on all properties abutting a new water or sewer line extension without regard to whether the property owner connected to the new line. The General Assembly added new authority to suspend the imposition and collection of a front foot benefit assessment in 1994. Md. Ann. Code art. 29, § 5-102(c) was amended to add the following:

> *Suspensions – in general.* The WSSC may suspend the imposition and collection of a front foot benefit assessment:
> *
> *
> (3) For any property that is otherwise assessable for a sanitary sewer line or a water main if the property has a pre-existing residential dwelling already served by a well or septic system until the property owner requests service from the sewer line or water main.

This legislation was suggested by former Commissioner Robert G. Berger in response to years of complaints from abutting property owners about our policy of assessing them even if they did not want to connect to the new water or sewer line. After enactment of this legislation, the Commission quickly adopted a regulation creating a suspension for property owners with pre-existing well or septic systems until the property owner requests service. The terms of the legislation make it clear that the decision to suspend the imposition and collection of a front foot benefit assessment under these circumstances is discretionary with the WSSC. Therefore, the Commission can reverse this policy under current law by regulation without modification of Section 5-102.

2. Can WSSC collect a deferred deficit payment payable over time from abutting property owners to help finance the extension of our water or sewer system?

The legislative authority for requiring deficit payments is derived from Md. Ann. Code art. 29, § 5-104 b)(3). This statute states in relevant part as follows:

> (b) *Construction to remote area.* – (1) In this subsection "cost of construction" includes the cost of connecting a water and sewer line to the WSSC system.
> (2) If an applicant applies for water or sewer lines in an area in which the WSSC determines that it is not economically feasible to serve unless the applicant makes a substantial contribution to the cost of construction of the water and sewer lines, the WSSC may classify the applicant's property together with other adjacent or adjoining properties that could be readily served from the construction required by the applicant as a "remote area".
> (3) Upon the approval of the application, the payment of the contribution, and the levying of the required front foot benefit charge, the WSSC may construct water or sewer lines as are desired by the applicant.
> (4) The WSSC may contract with the applicant at the time of the contribution to refund part or all of the contribution from any front foot benefit charges levied against property on lines subsequently constructed by the WSSC and served through the lines of the applicant within the "remote area".
> (5) The WSSC shall determine the proportion to be refunded and the maximum time of repayment, not exceeding ten years.

Pursuant to this legislative authority, the cost of construction of water and sewer extensions are financed by a combination of front foot benefit charges and deficit payments where the front foot benefit charges are insufficient to cover the cost of construction. Under this authority granted by Section 5-104, the deficit payment can only be charged to the applicant. Therefore, the WSSC does not have legislative authority to charge property owners deficit payments unless they join in the application for service.

Md. Ann. Code art. 29, § 5-106 authorizes the Commission to defer payments for water or sewer connection charges. These charges are expressly authorized to be collected in the same manner as front foot benefit charges and become a statutory lien upon the property. However, a connection charge is different from a deficit payment charge. The connection charge is authorized by Section 6-102 and covers the cost of constructing the lateral to a property from an existing water main or sewer line in the street. The deficit payment is a method of supplementing the cost of the construction of the water main or sewer line in the street.

Although there is no legislative authority for the WSSC to defer deficit payments over time, there is also no legislative prohibition on doing this. Therefore, in 2003, the Commission adopted a resolution authorizing deferred deficit payments by agreement. It is done on a purely voluntary basis and the applicant for service must agree that the deferred deficit payments will be collected in the same manner as county taxes and become a lien on the property. Since the deferred payments include interest charges, this process is considered revenue neutral to WSSC and is already being done. Therefore, it is our opinion that the WSSC can provide for deferred deficit payments from the applicant for new service.

3. Can WSSC maintain separate systems for handling requests for water and sewer extensions to alleviate health hazards and water and sewer extensions for a single residential dwelling unit?

As discussed above, Section 5-101 authorizes the WSSC to create seven different classes of properties for levying a front foot benefit charge. These classes all relate to different types of land uses. There is no separate class for properties that require service due to a health hazard. The WSSC has a long established health hazard subsidy to partially off-set the costs of a deficit payment created by regulation in the water and sewer authorization process manual. This subsidy does not affect the statutory requirement that the front foot benefit rate be uniform for all properties in the same class because it does not affect the front foot benefit rate charged to properties requesting service due to a health hazard. Since the amount of the deficit payment is subject to the discretion of the WSSC, the health hazard subsidy is also consistent with the statutory framework. Therefore, the WSSC already has a separate system for handling health hazard extensions from regular extensions. However, since health hazard extensions is not authorized as a separate class, the WSSC cannot, without legislative change, provide for a different front foot benefit rate for health hazard projects than other projects within the same class of properties.

4. Can WSSC limit new water and sewer extensions to situations where the applicant is able to solicit approval of the extension from 51% or more of the property owners who will be abutting the new water or sewer line?

Under Section 5-104(b) described above, the WSSC has discretion to determine that a water or sewer extension project is not economically feasible unless the applicant makes a substantial contribution to the cost of construction. WSSC has traditionally exercised this discretion by calculating the front foot benefit returns expected from the project and comparing these expected returns with the estimated cost of construction of the project. WSSC has some discretion in developing regulations to implement this provision. However, a blanket rule that requires 51% of the abutting property owners to join in the application in order to move the project forward would have to be based upon an analysis of the relationship between this requirement and the ability of the project to generate front foot benefit returns sufficient to pay for most of the project. Since the current statute authorizes a deficit payment where the construction is not economically feasible, this rule must be directly related to that standard. For example, if this standard is coupled with a change in policy to require the assessment of all properties abutting the line without regard to whether they desire to hook up, then the percentage of property owners who join in the application for service will not have a direct relationship to the ability of the front foot benefit charge returns to cover the cost of the project. Under this circumstance, this 51% rule would not be authorized by the statute and would require legislative action in order to be adopted.

Water and Sewer Extension Cost Presentation

December 2006

Statement of Problem:

The average property owner can no longer afford to extend water and sewer service to their residence

Legislative Change

- In 1997 a WSSC Task Force benchmarked with local jurisdictions and recommended changing the process by which subdivision lines are built and financed
- The following year WSSC proposed legislation requiring that subdivision lines be constructed at the expense of the owner/developer
- House Bill 824 was sponsored by the Prince George's and Montgomery County Delegations and supported by WSSC
- HB 824 was passed and phased in over 3 years

Water and Sewer Extension Costs

- Before Legislation
  - Hundreds of WSSC built projects annually
  - Economy of scale
  - Unit costs remained low (less than $100 per foot)
  - Easy to estimate project costs
  - No or minimal deficit (typically less than $10,000)
- After Legislation
  - 22 projects in '03, 6 in '04
  - Typically smaller, more complicated projects
  - High unit costs (greater than $500 per foot)
  - Difficult to estimate project costs
  - Large deficits ($50,000 and greater)

Cost for Water and Sewer Extensions

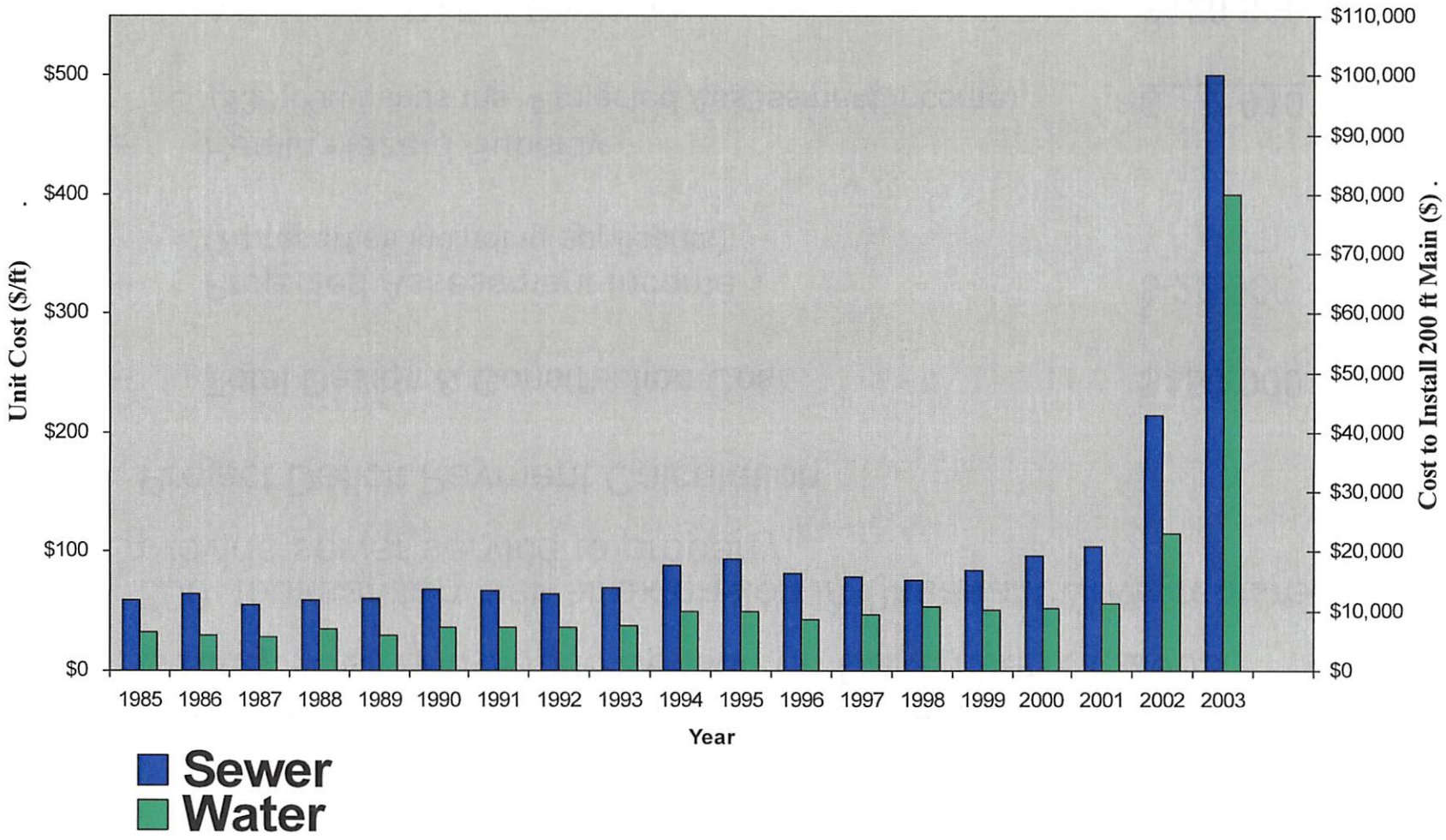


Illustration No. 1

Real Life Example

- Septic failure at 13508 Glen Mill Road documented by Montgomery County Well and Septic Section on December 12, 2003
- 300 foot sanitary sewer extension in Pheasant Drive required to provide sewer service to property.
- Project Deficit Payment Calculation

– Total Design & Construction Cost	$150,000
– Projected Assessment Income (2 properties including applicants)	$ 22,990
– Health Hazard Subsidy ($30,000 minus the Projected Assessment Income)	$ 7,010
– Applicant's Deficit Payment	**$120,000**

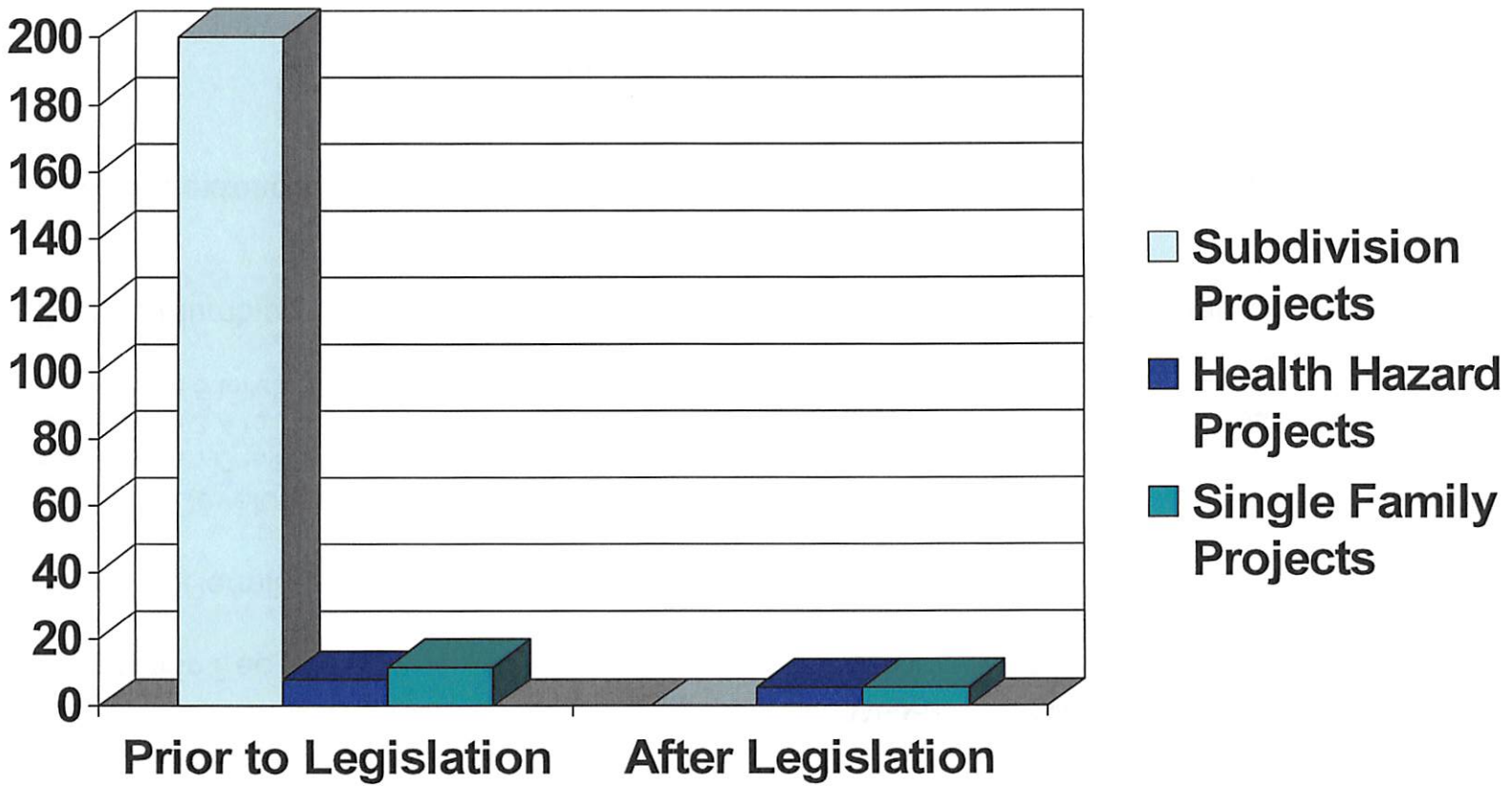
Additional Costs

	Water	Sewer	Both
• Connection Fee	$2000	$3250	$5250
• Plumbing Permit			$110
• Systems Development Charge (SDC)			
Homes with 1-2 toilets	$1344	$1710	$3054
Homes with 3-4 toilets	2240	2850	5090
Homes with 5 toilets	3135	3991	7126
• On-Site Plumbing	$2,000 – 3,000 (estimated)		

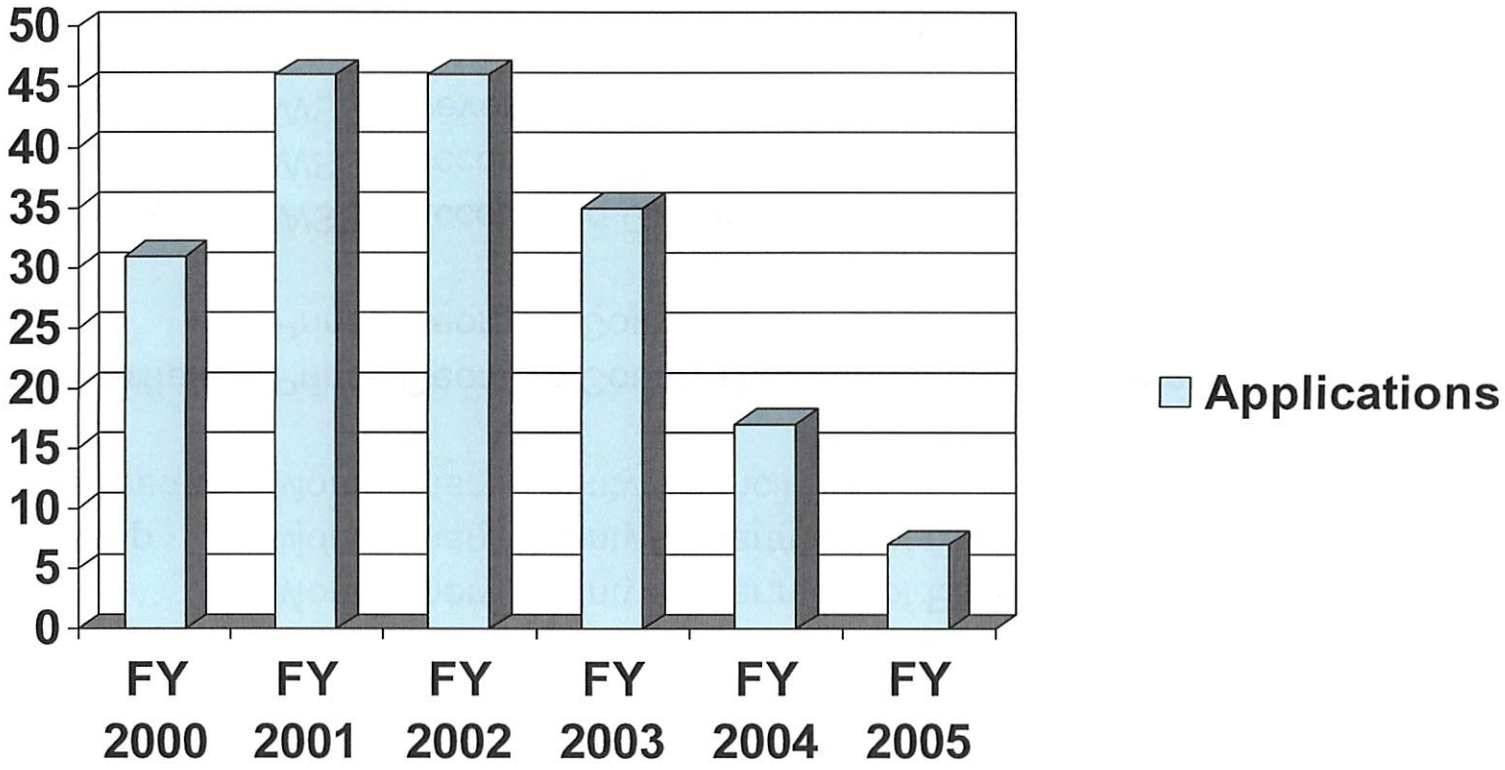
For a project extending sewer to a home with 3 toilets the additional costs would be:

Connection	$3250
Plumbing Permit	110
SDC	2850
On-site plumbing	2500 (estimated)
Total	$8710

Number of WSSC Extension Projects Built per Year



Applications Received for WSSC Built Projects



Extension Cost Work Team

David Lake	Montgomery County Department of Environmental Protection
Alan Soukup	Montgomery County Department of Environmental Protection
Keith Levchenko	Montgomery County Council Staff
Beverly Warfield	Prince George's County Department of Environmental Resources
Paul Meyer	Prince George's County Health Department
Kim Luquette	WSSC Accounting Group
Liz Scibek	WSSC Accounting Group
Ross Beschner	WSSC Development Services
Joe Mantua	WSSC Development Services

Team Goals

- Simplicity
- Affordability
- Equity
- Health Hazard Priority
- Consistent with County Water and Sewer Plans

Alternatives

- Staff in concert with the Counties had extreme difficulty selecting alternatives to recommend.
- None of the alternatives were wholeheartedly embraced by staff
- Each alternative has drawbacks.

SUMMARY OF ALTERNATIVES
WSSC HEALTH HAZARD EXTENSIONS

Current Process	**A portion of the costs are reimbursed through the payment of front foot benefit rates per assessed foot over 23 years. The remainder of the costs incurred are reimbursed through a deficit payment, which can be spread over 23 years. A $15,000 health hazard subsidy is provided to the applicant for every property which could be served by the proposed extension. This subsidy is reduced by the projected front foot benefit assessment returns.**
Alternative 1	The health hazard subsidy would be increased to $25,000, based on inflation, for every property which could be served by the proposed extension. There would be a health hazard subsidy cap set for both Counties to limit WSSC's liability.
Alternative 2	Only direct costs will be charged to the applicant. Indirect costs subsidized in lieu of existing health hazard subsidy. A cap on indirect costs subsidized will be set for both Counties to limit WSSC's liability.
Alternative 3A	Applicants will only pay a set property frontage rate. This rate would increase every year based on inflation. A cap will be set for both Counties on costs not reimbursed. State law changes required.
Alternative 3B	All abutting properties will pay a set property frontage rate. This rate would increase every year based on inflation for future projects. A cap will be set for both Counties on costs not reimbursed. State law changes required.
Alternative 4A	Applicant hires and pays an engineer and contractor directly to design and construct the extension. Applicant pays review fees to WSSC. State law changes required.
Alternative 4B	Applicant hires and pays an engineer to design the extension. WSSC is responsible for the construction of the extension via a Job Ordering Contract. Applicant pays design review fee and inspection fee. Construction costs will be reimbursed through payment on the applicant's property tax bill over 23 years. State law changes required.

SUMMARY OF ALTERNATIVES
WSSC SINGLE FAMILY EXTENSIONS

Current Process	**A portion of the costs are reimbursed through the payment of front foot benefit rates per assessed foot over 23 years. The remainder of the costs incurred are reimbursed through a deficit payment, which can be spread over 23 years.**
Alternative 1	If 51% of property frontage along proposed main extension is applicant owned, all abutting properties pay a proportional amount of project costs up to a $20,000 limit. If applicant frontage is less than 51%, applicant(s) must agree to pay 100% of the total project costs. If the cost per abutting property exceeds $20,000, the applicant must pay the difference for the project to move forward. State law changes required.
Alternative 2	Same as alternative 1 except non applicant abutting property owners will not be required to connect to the system and pay their portion of the project cost up to $20,000 until sale of home. State law changes required.
Alternative 3	All costs would be split proportionately to all properties that the line would pass and could ultimately provide service, if 51% of property frontage is applicant owned. If applicant frontage is less than 51%, applicant(s) must agree to pay 100% of the total project costs. Each property owner's cost can be deferred and be assessed annually on the property tax bill over 23 years. State law changes required.
Alternative 4A	Applicant hires and pays an engineer and contractor directly to design and construct the extension. Applicant pays review fees to WSSC. State law changes required.
Alternative 4B	Applicant hires and pays an engineer to design the extension. WSSC is responsible for the construction of the extension via a Job Ordering Contract. Applicant pays design review fee and inspection fee. Construction costs will be reimbursed through payment on the applicant's property tax bill over 23 years. State law changes required.

Evaluation of Health Hazard Alternatives

	Alternative 1	Alternative 2	Alternative 3A	Alternative 3B	Alternative 4A	Alternative 4B
Simplicity	DOES NOT MEET	DOES NOT MEET	MEETS	MEETS	DOES NOT MEET	DOES NOT MEET
Affordability	PARTIALLY MEETS	PARTIALLY MEETS	PARTIALLY MEETS	PARTIALLY MEETS	PARTIALLY MEETS	PARTIALLY MEETS
Equity	DOES NOT MEET	DOES NOT MEET	DOES NOT MEET	MEETS	DOES NOT MEET	DOES NOT MEET
Health Hazard Priority	MEETS	MEETS	MEETS	MEETS	MEETS	MEETS
Consistent With County W/S Plan	DOES NOT MEET	DOES NOT MEET	MEETS	MEETS	DOES NOT MEET	DOES NOT MEET

Evaluation of Single Family Alternatives

	Alternative 1	Alternative 2	Alternative 3	Alternative 4A	Alternative 4B
Simplicity	DOES NOT MEET	DOES NOT MEET	MEETS	DOES NOT MEET	DOES NOT MEET
Affordability	PARTIALLY MEETS	PARTIALLY MEETS	PARTIALLY MEETS	PARTIALLY MEETS	PARTIALLY MEETS
Equity	PARTIALLY MEETS	PARTIALLY MEETS	MEETS	DOES NOT MEET	DOES NOT MEET
Health Hazard Priority	N/A	N/A	N/A	N/A	N/A
Consistent With County W/S Plan	DOES NOT MEET	DOES NOT MEET	PARTIALLY MEETS	DOES NOT MEET	DOES NOT MEET

Staff Assessment

- All alternatives are problematic – none are recommended
- Least objectionable alternatives include:
  - Alternative 3B for health hazard projects
  - Alternative 3 for single family projects.

Alternative 3B
Health Hazard Projects

- Set a property frontage rate (PFR)
  - Would replace the Front foot benefit
  - Would remain constant for applicant for 23 years on tax bill
  - Updated annually (for future applicants) based on inflation

- Remainder of costs not covered by the PFR would be subsidized
  - Need a funding source - ratepayers, counties, new fee?

- Establish an annual cap for the subsidy amount
  - 0.29% rate impact per $1M of subsidy
  - Budget revision required prior to implementation

- Abutting properties required to pay PFR but not required to connect
  - Expect complaints

Note: Implementation will require legislation to amend Article 29

Alternative 3
Single Family Projects

- If applicant(s) make up 51% or more of the property frontage, all costs split proportionately among abutting property owners
- If applicant(s) frontage is less than 51%, applicant(s) responsible for all costs
- No subsidy of costs
- Abutting properties required to pay the proportionate share but not required to connect
  - Expect complaints

Note: Implementation will require legislation to amend Article 29

Do Nothing Alternative

To not act, would be to continue with the current process which would result in the following:

- Continued high cost to applicants
- WSSC time spent on projects that never get built
- Health hazards will not always be remedied with a public extension
- County water and sewer planning for infill development becomes difficult to impossible

Neighboring Jurisdictions

Anne Arundel Co.

- Petition process requires majority of property owners
- All buildable abutting properties are assessed
- No assistance for health hazard projects
- All costs recovered through front foot benefits – no deficit payment
- Approximately 6 projects built per year

Baltimore Co.

- Petition process
- Abutting properties are assessed
- District Fund pays ½ of deficit cost for health hazard projects
- Front foot benefits collected over 40 years
- Deficit paid by applicants – petition projects paid over 10 years, health hazard over 40 years
- Approximately 5-6 petition projects per year; 2-4 health hazard per year

Howard Co.

- Property owner requests project in writing; project evaluated and hearing in front of Public Works Board
- Every abutting property is assessed; may petition for a public hearing
- No assistance for health hazard projects
- Costs recovered through front foot benefits collected over 30 years and ad valorem tax
- Approximately 5 projects built per year

Recommendation

- Table the issue for 2007
- Include as a candidate for the FY 2008 Annual Action Plan

Questions for Commissioners

Should the costs of these projects be paid for by all ratepayers or just the property owners/ratepayers benefiting from the extension?

Should health hazards be treated differently than system extensions to support construction/new development?

When should property owners who could benefit from a water or sewer extension project be charged -- at the time they are built or if/when they connect to service?