

LEGISLATIVE FISCAL ESTIMATE

[First Reprint]

ASSEMBLY, No. 2779

STATE OF NEW JERSEY  
218th LEGISLATURE

DATED: JUNE 26, 2018

SUMMARY

- Synopsis:** Authorizes certain local government utilities to impose additional connection fees; requires certain new credits and reductions for these fees.
- Type of Impact:** Indeterminate net impact on local finances.
- Agencies Affected:** Counties, municipalities, and local water and sewer authorities.

Office of Legislative Services Estimate

Fiscal Impact	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Local Revenue	Indeterminate Impact		

- The Office of Legislative Services (OLS) concludes that the enactment of the amended bill would have an indeterminate fiscal impact on local government water and sewer entities.
- The amended bill authorizes local government water and sewer entities to charge additional connection fees on property additions or alterations that materially increase the level of water or sewerage use, thereby increasing local entity revenues.
- The amended bill requires local government water and sewer entities to: (1) apply credits toward connection fees charged for the reconnection of certain disconnected properties to water or sewer systems; and (2) charge reduced connection fees for all affordable housing projects. These requirements would reduce local entity revenues because the resulting connection fees receipts, including the required rebates, would be less than those currently authorized by law.
- Under current law, connection fees are calculated using a statutory formula that accounts for: (1) the costs of system reconnection; (2) the amount of all debt service, including the capital expenses paid to develop the system; (3) any payments made to the local government water or sewer entity from other public and private entities; and (4) the total number of units serviced by the system.

## **BILL DESCRIPTION**

The amended bill authorizes additional connection fees for certain utilities operated by local governments and establishes certain credits and reductions for those fees. Under the amended bill, a local government water or sewer entity may impose an additional connection fee for an addition, alteration, or change in use that materially increases the level of use and imposes a greater demand on the utility system, but does not involve a new physical connection of the property to the system. This additional fee would be equal to the amount by which the increased use and demand on the utility system exceeds the use and demand that existed prior to the addition, alteration, or change in use. As amended, the bill clarifies that the additional connection fee does not take the place of fees for any new or additional connections, or for any new construction of additional service units that are connected to the utility system.

The amended bill also requires local government water or sewer entities to apply credits toward connection fees charged for the reconnection of certain disconnected properties that were previously connected to the utility system. The credit is to equal the amount of the connection fee if the reconnection does not: (1) require a new physical connection; (2) increase the nature or size of the service, or the number of service units; or (3) expand the use of the utility system. If the reconnection requires any of the foregoing, the credit is to equal the amount of any connection fee previously paid for the property. If a connection fee was never paid for the property, but all service charges due and owing on the property have been paid for at least 20 years, then the credit is to equal the amount of the connection fee.

However, if a connection fee was never paid for a disconnected property that is to be reconnected to a utility system and was previously connected to the utility system for at least 20 years, a connection fee would be charged in addition to any amount due and owing after application of a credit. This fee would be equal to the lesser of: (1) 20 percent of the service charges that would have been paid, based upon the usage for the last full year that the property was connected to the utility system, for the period from the date of the disconnection from the utility system to the date of the new connection; or (2) the new connection fee.

The amended bill also extends the existing connection fee reductions, which currently apply for certain types of affordable housing serviced by sewerage authorities and municipal authorities, to all affordable housing units, including those in inclusionary projects. The amended bill also establishes the same connection fee reductions for all affordable housing serviced by local units operating a county or municipal sewerage facility or water supply facility.

The provisions of the amended bill apply to the following local government entities: (1) sewerage authorities under the “sewerage authorities law,” P.L.1946, c.138 (C.40:14A-1 et seq.); (2) county, municipal, and regional authorities under the “municipal and county utilities authorities law,” P.L.1957, c.183 (C.40:14B-1 et seq.); and (3) local units operating either a county or municipal sewerage facility, or a water supply facility, under the “Municipal and County Sewerage Act,” N.J.S.40A:26A-1 et seq., and the “County and Municipal Water Supply Act,” N.J.S.40A:31-1 et seq., respectively.

## **FISCAL ANALYSIS**

### ***EXECUTIVE BRANCH***

None received.

**OFFICE OF LEGISLATIVE SERVICES**

The amended bill proposes several changes to the way in which local government water and sewer entities charge connection fees (tapping fees). The OLS concludes that these changes, when considered together, would have an indeterminate net impact on local finances. The amended bill allows local government entities that operate water and sewer entities to charge additional connection fees for certain additions or alterations that materially increase the level of use on water or sewer system. In addition, the amended bill requires local government water and sewer entities to: (1) apply credits to connection fees charged for the reconnection of certain disconnected properties to a water or sewer system; and (2) charge reduced connection fees for all affordable housing projects.

Local government entities that operate water and sewer systems are authorized to collect two types of revenues: service charges and connection fees. Service charge revenues are generated by water and sewer system customers based on system usage (e.g., water consumption at a particular property). Connection fees are levied to cover the cost of connecting a property to the physical system and support other capital expenses related to the maintenance of the water or sewer system. Connection fees are calculated using a statutory formula that is identical for all local government water and sewer entities affected by the amended bill. Service charges and connection fees are required to be uniform within each class of users.

Under the current statutory formula, local water and sewerage entities may charge connection fees in an amount equal to the actual cost of the physical reconnection to the utility system, plus an amount calculated as follows: (1) the amount representing all debt service and non-bonded expenditures paid by the local entity to defray the capital cost of developing the water or sewer system; subtracted by (2) any payments or subsidies received by the local entity from any other private or public source; and the remainder divided by (3) the total number of units served by the local water or sewer entity at the end of the preceding fiscal year.

The amended bill proposes to change connection fee charges in three distinct ways. First, the amended bill permits a local government entity to charge an additional connection fee for an addition, alteration, or change in use that materially increases the level of use and imposes a greater demand on a utility system, but does not involve a new physical connection to the system. A local government entity would collect additional connection fee revenues as a result of this provision. Second, the amended bill requires local water and sewer entities to provide credits toward the connection fees charged for the reconnection of certain disconnected properties which were previously connected to a utility system. This proposed change would result in a decrease in local revenues, as the amount of the resulting connection fee, after the credits have been applied, would be less than the amount provided under current law. Third, the amended bill expands the types of affordable housing developments that receive discounted connection fees to include inclusionary developments that are not wholly dedicated to affordable housing units. This change would also result in a decrease in local revenues because a larger number of water and sewerage system users (e.g., residents of inclusionary housing developments) would pay reduced connection fees.

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This fiscal estimate has been prepared pursuant to P.L.1980, c.67 (C.52:13B-6 et seq.).