

Statement of Ernest M. Lorimer  
Before  
Planning and Development Committee  
March 14, 2014  
Regarding S.B. 332  
AN ACT AMENDING THE CHARTER OF THE METROPOLITAN DISTRICT IN  
HARTFORD COUNTY.

I am a partner at Finn Dixon & Herling LLP, of Stamford Connecticut. I am testifying today regarding S.B. 332, An Act Amending the Charter of the Metropolitan District in Hartford County.

We serve as bond counsel to the MDC, whose charter is proposed to be amended by this bill. I have expressed to officials of the MDC my deep concern over this bill, and they have asked me to appear today to share with you my concerns.

The MDC has significant capital requirements relating to its water and sewer infrastructure, which it traditionally finances with tax exempt municipal bonds. It has before it a major clean water project required under the terms of consent orders with the U.S EPA and the Connecticut Department of Energy and Environmental Protection. It finances these efforts in part with publicly offered general obligation debt, which is sold on the basis of the revenues of the MDC and its taxing power on its member towns. The strength of the MDC's credit is such that it can achieve low interest rates, which translates into lower budgets, lower rates, and less burden on ratepayers and taxpayers in its member towns. A second significant source of financing are general obligation borrowings and grants from the State's Clean Water Fund, making the Fund an important partner in the MDC's effort to strictly comply with the terms of the consent decree and consent order.

The significant capital expenditures associated with the Clean Water Project--\$1.6 billion has been approved by voters so far-- are too great to be financed solely in this way, however, because of the debt limit contained in the MDC's charter, and the MDC has embarked on a revenue bond program, issuing bonds that are payable solely from a special sewer service surcharge, which is assessed against ratepayers located in member towns who receive both water and sewer service. This surcharge also equitably shifts the burden of the Clean Water Project from the taxpayers of the member towns to ratepayers in the member towns. I want to note specifically that the MDC could not complete its compliance efforts under the terms of its EMPA and DEEP orders without this financing structure. These bonds also are highly rated and have been issued at very favorable interest rates, again reducing budget requirements, allowing lower rates, and less burden on ratepayers.

This bill proposes to change the MDC's authority with respect to an existing water bill surcharge, a different surcharge than the special sewer surcharge backing the MDC's revenue bonds. My concern over this is two-fold, and it is not related to whether it is fair to shift the burden of capital expenditures from ratepayers in non-member towns to ratepayers and taxpayers in member towns. My first concern is that by imposing this restriction on the MDC's ability to

apportion its capital burdens, bondholders will see that the door is open to other restrictions on its ratemaking and taxing powers that may be advanced in the future. I am concerned that this will lead to rating agency and bondholder concerns, leading to higher interest rates. It is not possible to make a concrete evaluation of this risk, but I think it is a real concern.

My second concern is specifically about the revenue bonds discussed above. If the legislature restricts the authority of the MDC to set and collect this water surcharge, it indicates that it is possible for the legislature to restrict the authority of the MDC to set and collect its special sewer service surcharge. Because the credit of the revenue bonds is completely dependent on this particular surcharge, there is a much more direct possibility of increased rating agency and bondholder concern, leading to higher rates and perhaps undermining the viability of this financing program. Again, this financing program is central to the ability of the MDC to fulfill its compliance obligations under the EPA and DEEP orders. Absent this revenue bond financing program, the MDC would not be able to spread the capital expenditures over the long useful life of the improvements, and would have to issue tax warrants to its member towns to fund the capital expenditures.

The MDC will need to make appropriate disclosure to its bondholders in any event, but I suggest that that disclosure would be completely different, and perhaps not necessary, if this Committee were to reject this bill. For that reason I urge you to reject this bill.