

3. USER CHARGES

Prior to the 1900's a very small number of communities employed sewer service charges to support the public borrowing necessitated by the construction of sewer facilities. In several instances sewer charges were used to help offset the cost of operating and maintaining the system. With the ever-increasing demands placed upon local governments for additional services, and the high failure rate of general obligation bonds during the early 1930's, a general trend toward sewer service charges by municipal governments began. This trend bolstered sagging tax revenues and provided a means of entering the then rapidly growing revenue secured bond market. As indicated in the sample survey detailed in table 3, the number of communities employing service charges increased over 600 percent during the 20-year period between 1930 and 1950, and an additional 1,100 percent between 1950 and 1960 over the 1930 base figure.

In order to make bond offerings more attractive and to insure collection of the service fees, sewer service charges wherever possible have been combined with water service charges, or established as liens against the property served. In so doing the communities have been able to obtain necessary funding, using combined water and sewer revenue bonds, secured in addition by a general obligation lien on tax resources.

In many States this type bond is not charged against a community's statutory general obligation debt limit, allowing the community to undertake projects which otherwise would have had to be postponed indefinitely. For communities without established credit, the use of revenue bonds is sometimes the only means by which funds to construct a basic system can be obtained through public borrowings.

It is of interest to note, that though the yield on revenue-type bonds is generally higher than on general obligation bonds, the difference between yields has continuously decreased during the past decade, as investors have become better acquainted with revenue issues.

A recent survey in 1961 of municipal sewer systems disclosed that 63 percent of the respondents employ sewer service charges. Almost three-fourths of those supplying information had established rates that are adequate to cover the cost of operating and maintaining the system as well as debt service charges. Of the remaining communities that employed service charges, almost 80 percent receive at least half of their annual fiscal needs from such charges.

The 1961 survey also disclosed that the rate structure employed by the communities for service charges varies greatly. Over 80 percent used water supply data as a base upon which the service charge was fixed. In over 50 percent of the communities, the charge for sewer service was a surcharge based on water consumption. In the remaining communities such items as front footage, number of fixtures used, number of people served, size of water connection or a flat fee were employed to determine the service charge.

An analysis of the outstanding sewer debt of the communities included in the survey disclosed that over 30 percent of the dollar amount of the debt was completely self-supporting or self-liquidating through the use of the service charge. An additional 4 percent of the debt so reported was self-supporting to some degree. The communities that reported their debt to be completely covered, represented 35