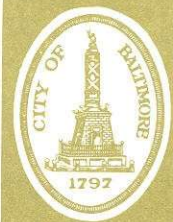


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|------|-----------------------|---|--|---|
| FROM | NAME & TITLE | Henry J. Raymond, Deputy Director <i>HJR</i> | CITY of BALTIMORE MEMO |  |
| | AGENCY NAME & ADDRESS | Finance Department 100 Holliday Street, Room 454 | | |
| | SUBJECT | CC 12-0065 Tax Lien Certificates – Verifications Required Before Issuance for Water Bills | | |

TO

DATE: May 21, 2012

Honorable President and Members of the City Council
 Attention: Karen Randle, Executive Secretary
 Room 409, City Hall

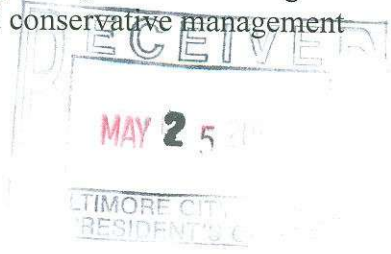
City Council Bill Number 12-0065, entitled “An Ordinance concerning Tax Lien Certificates”, would require that before the “Chief Clerk” issues a lien certificate including water or sewer charges, the Chief Clerk must obtain a certification from the Director of Public Works that the charges are based upon certain verified information and not estimated readings.

Although the Bill refers to tax sale certificates in the introductory matter, its terms only affect lien certificates, which play no role in the tax sale process other than for liens that arise after the tax sale. Lien certificates are required for ordinary property transfers, not during tax sale foreclosures. Tax sale certificates are not issued by the office in the Department of Finance that issues lien certificates.

The Finance department is very concerned this action required by the Bill for lien certificates will have a negative impact on our outstanding water and wastewater revenue bonds. The Council is aware the City issues bonds for water and wastewater capital improvements in large amounts of \$519 million and \$711 million respectively outstanding. These bonds are secured by water and sewer user fees. Legislation such as what is proposed could be interpreted by the municipal bond market as a threat to the underlying credit securing these bonds. This issue is specifically addressed in Section 5.03(a) of the City’s bond covenants which require the City to take or cause to be taken all actions necessary to ensure that rates and charges are assessed and collected to adequately maintain debt service payments. If this legislation is enacted, it could be interpreted by bondholders as a violation of this requirement and could subject the City to legal action.

Further negative consequences may result if property transfers are delayed or prevented due to the legislation. The City relies upon recordation and transfer taxes which may be reduced by the Bill’s effect. One of Finance’s concern is that passage of this legislation may result in a significant decrease in taxes and the collection of water charges. Such an occurrence might result in a credit rating downgrade from Moody’s and Standard and Poor’s imposing financial harm to current bondholders and significantly increasing our future costs of borrowing. This would be devastating to water and sewer accounts holders considering major EPA enforcement actions in the pipeline.

The mere perception that the revenue flow might be diminished due to City enacted legislation might make the bond rating agencies consider downgrading our bond ratings. Part of the rating criteria is management practices. Prudent and conservative management



dictates that we should not take any action that would potentially jeopardize our high quality bond ratings.

In closing, the Finance Department opposes CC 12-0065.

Cc: Angela Gibson