

THE DEBT  
*of the*  
COMMONWEALTH OF PENNSYLVANIA  
AND ITS LOCAL SUBDIVISIONS



*A Report to*  
THE JOINT STATE GOVERNMENT COMMISSION  
(OF THE GENERAL ASSEMBLY)  
*by its*  
COMMITTEE ON CONTINUATION  
OF THE TAX STUDY

REPORT NO. 1  
DECEMBER 16, 1943

CAPITOL BUILDING  
HARRISBURG, PA.



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OF  
THE GENERAL ASSEMBLY

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## LETTER OF TRANSMITTAL

To the Members of the Joint State Government Commission of the  
General Assembly of Pennsylvania:

Under authority of the Act of July 1, 1937, P. L. 2460 (Act creating Joint State Government Commission), as last amended by the Act of March 8, 1943—Act No. 4, we submit herewith a preliminary Report on the Debt of the Commonwealth of Pennsylvania and its Local Subdivisions.

EDWIN WINNER, *Chairman,*  
*Committee on Continuation*  
*of the Tax Study.*

December 16, 1943.

## FOREWORD

This is the first of a series of studies or reports to be published by the Joint State Government Commission through its Committee on Continuation of the Tax Study. Additional studies and reports will be issued from time to time as particular phases of the work of the Commission and its various committees are completed.

The Joint State Government Commission was created by the General Assembly in 1937 as a continuing agency to undertake studies for the use of the General Assembly. Its functions, duties, and powers were expanded in 1939 and 1943. Among the specific legislative directives to the Commission in 1943 which have been assigned to the Committee on Continuation of the Tax Study were instructions to study the financial and administrative problems of the Commonwealth. The Committee was further directed to study ways and means to provide the Commonwealth with adequate revenue to meet the costs of operation and to propose revisions, where necessary or advisable, of the tax assessment, and collection laws and practices of the Commonwealth.

This study is devoted to an analysis and description of the debt of the Commonwealth, its political sub-divisions, and of other debt-creating agencies within the Commonwealth. Future studies will deal with trends in expenditures and revenues by functions, departments, and agencies of the Commonwealth, as well as with the growth in the number and burden of taxes during the last decade. They will also include the problems involved in federal subsidies to the state and its local units of government, as well as those made directly to the people of the Commonwealth. Other studies will analyze the trends in expenditures and taxation of the Commonwealth and of local units. The Committee has been directed also to gather information relative to the practices and procedures with respect to the development of the budget of the Commonwealth, and the accounting and administrative practices and controls relating to the expenditure of appropriated funds.

The Committee on the Continuation of the Tax Study has accepted the offer of the services of the Pennsylvania Economy League to assist it in research, collection, and analysis of the factual data and other

basic material essential to the Committee in the preparation of its studies and reports to the Joint State Government Commission and, through it, to the General Assembly.

The Commission and its Committee on Continuation of the Tax Study take this opportunity to acknowledge the helpful assistance of the Governor and the officials of the Commonwealth in all of these studies. We desire particularly to express to the Pennsylvania Economy League our great appreciation of the services of the technical staff of its Harrisburg office which have been furnished freely and without stint.

IRA T. FISS, *Chairman,*  
*Joint State Government Commission.*

EDWIN WINNER, *Chairman,*  
*Committee on Continuation of the Tax Study.*

## INTRODUCTION

Compared with the tremendous current expenditures of the federal government and the zooming national debt, state and local governmental expenditures and debt seem almost insignificant. Taxpayers are familiar with the astronomical sums which the nation is spending to win the war. The national expenditures—in *billions* of dollars—are incomprehensible to the average citizen. When state government costs and debts, in *millions* of dollars, are discussed, they tend to lose the significance which would ordinarily attach to them.

These huge federal expenditures have a direct effect upon all state and local units of government. Consequently, state expenditures, debts, and taxes should in fact become more and more significant to taxpayers. It is imperative that all governmental debts and expenditures be viewed as a *whole* by public officials and taxpayers in planning current and post-war activities on all levels of government.

If the war continues until 1945, at the present rate of federal expenditures of over two billion dollars weekly, the national *debt* will approach the total of our national *wealth*, which is presently estimated at 388 billion dollars. In effect, the national debt may well constitute a 100 per centum mortgage on all our resources.

The phenomenal rate at which the federal debt has increased is shown by the following compilations from Annual Reports of the Secretary of the Treasury:

Fiscal Year Ended June 30	Gross Federal Debt
1910 .....	\$ 1,146,940,000
1920 .....	24,297,918,000
1930 .....	16,185,308,000
1940 .....	42,971,044,000
1943 .....	136,696,090,000
1944 .....	206,000,000,000*
1945 .....	300,000,000,000*

\* Estimated. These figures were prepared as of the date of this report, December 16, 1943. Since that date the President sent his budget message to Congress on January 13, 1944. In that message the gross federal debt was placed at \$136,696,090,000 for 1943, \$198,000,000,000 for 1944 and \$258,000,000,000 for 1945.

The seriousness of the problem created by this staggering national debt cannot be emphasized too greatly. The national debt in 1910 was \$12 per capita. By 1920 it had increased to \$228, and by 1940 it had

risen to \$326 per capita. A national debt of 300 billion dollars in 1945 will mean a per capita debt of approximately \$2,222 for every man, woman, and child in the country. In brief, in the span of thirty-five years, the per capita national debt will have increased from \$12 to \$2,222, despite an estimated increase of 50 per centum in our population.

In the post-war years the federal government may be forced to return to the states and local units of government most of the functions and accompanying costs which the federal government assumed in the pre-war depression years. Otherwise the federal government may not be able to meet the huge interest and redemption charges of a national debt of approximately 300 billion dollars, and at the same time, perform its normal functions under our federal Constitution.

The magnitude of the financial responsibility involved in shifting back to Pennsylvania and the other states their traditional functions is indicated by the very large federal expenditures made in the Commonwealth in recent years. In the decade 1933-43, Pennsylvania received in federal grants-in-aid, through the Treasury of the Commonwealth, about 285 million dollars, which was approximately 10½ per centum of the total expenditures of the Commonwealth for that decade. In addition many more millions of *direct* federal grants and loans were made to local government agencies, and additional millions were spent by the federal government in direct subsidies and services within the state. Pennsylvania must prepare to assume many of these costs in the post-war period, if all the services enjoyed by its citizens in the pre-war years are to continue.

An indication of the problems involved in the shift back to the states of functions, normally performed by them, is evidenced by the fact that in 1935 the number of federal employes in this Commonwealth was 48,540 while at the same time the entire personnel employed by the Commonwealth was 58,551. On January 1, 1940, the number of federal employes working within the Commonwealth was 56,854 while the entire personnel employed by the Commonwealth was 56,283. The war has sharply increased the number of federal employes in Pennsylvania which totalled 212,500 on May 31, 1943, while the Commonwealth on the same day had only 45,453 on its payroll.



The most effective post-war planning in which the officials in Pennsylvania's state government and the Commonwealth's 5,238 local taxing agencies can indulge, would be the elimination of all unnecessary current expenditures. Such elimination would permit the maximum reduction in debt and taxation during the present unprecedented period when production, employment, wages, and salaries are higher than ever before in history. This is essential in order to prepare for what inevitably will come in the post-war years.

Therefore, it behooves this Commonwealth and all of its municipalities to reduce debts as rapidly as possible, and, where feasible, to reduce expenditures and taxes. Then, after the war, debts and taxes can be expanded, if necessary, to meet the reassumed financial responsibilities and other obligations.

If we are to avoid national bankruptcy and the upheavals which would follow, the United States and each of the several states must face their debt and taxation problems frankly and with courage.

EDWIN WINNER, *Chairman,*  
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## THE DEBT OF THE COMMONWEALTH OF PENNSYLVANIA

If viewed solely in relation to its wealth, which is estimated conservatively at more than 32 billion dollars, the present debt of the Commonwealth of Pennsylvania is so small as to cause no real concern.

The Bureau of the Census reported the *gross* debt of the Commonwealth, as of June 30, 1943, to be \$197,144,000. This calculation included all full faith and credit bonds of the Commonwealth and the outstanding bonds of the General State Authority and Pennsylvania Turnpike Commission.

Even though the Commonwealth's debt may be small in comparison to its wealth, it is large in comparison to the debt of the other states. Data compiled by the United States Bureau of the Census, as of June 30, 1943, indicate that the combined *gross* long-term debt of 47 states (Florida not reporting) was \$2,909,150,000. The combined *net* debt of the states reporting was \$2,412,509,000.

New York State had the highest *gross* debt—the amount being \$623,900,000, while Nevada had the lowest gross debt, \$586,000. Pennsylvania stood third with a gross debt of \$197,144,000. It ranked twenty-fourth among the states with respect to its per capita *net* debt which was calculated to be \$158,558,000 or \$16.02 per capita. This constitutes slightly less than one-half of one per centum of the wealth of the Commonwealth.

The following table shows the long-term indebtedness of Pennsylvania and ten neighboring or competitive industrial states, computed by the Bureau of the Census as of June 30, 1943.

State	Gross Long-Term Debt	Sinking Fund	Net Debt	Per Capita Net Debt
New York	\$623,857,000	\$145,856,000	\$478,001,000	\$35.46
Pennsylvania	197,144,000	38,586,000	158,558,000	16.02
Illinois	139,076,000	6,250,000	132,826,000	16.82
New Jersey	96,844,000	35,525,000	61,319,000	14.74
Massachusetts	89,881,000	15,849,000	74,032,000	17.15
West Virginia	76,773,000	5,536,000	71,237,000	37.45
Maryland	50,997,000	4,803,000	46,194,000	25.36
Michigan	31,696,000	15,288,000	16,408,000	3.12
Connecticut	26,507,000	8,062,000	18,445,000	10.79
Ohio	11,448,000	77,000	11,371,000	1.65
Wisconsin	5,542,000	...	5,452,000	1.74

The gross debt of the Commonwealth of Pennsylvania includes, in addition to all full faith and credit obligations, all bonds of the General State Authority and the Pennsylvania Turnpike Commission. Also outstanding, but not considered as direct debts of the Commonwealth, are bonds of the Delaware River Joint Commission and the Delaware River Joint Toll Bridge Commission, neither of which pledges the Commonwealth's full faith and credit.

At the close of the Commonwealth's fiscal year on May 31, 1943, the following bonds comprised the gross debt of the Commonwealth:

Type of Bonds	Gross Debt
Full Faith and Credit Bonds.....	\$106,067,320
General State Authority Bonds.....	51,317,000
Pennsylvania Turnpike Commission Bonds.....	40,800,000
Total .....	<u>\$198,184,320</u>

The inclusion of the General State Authority and Pennsylvania Turnpike Commission bonds, as part of the state debt, may be subject to question because these agencies alone are directly and legally responsible for repayment of their bonds. These special bonds are included, however, in the belief that the Commonwealth of Pennsylvania, morally, if not legally, stands in the position of guarantor of these debts, although they are not underwritten by the "full faith and credit" of the Commonwealth and the acts creating these agencies specifically state that the Commonwealth is not liable for their debts.

As last reported, there were outstanding bonds of Pennsylvania-New Jersey joint commissions as follows:

Delaware River Joint Commission Bonds (5/31/43).....	\$35,703,000
Delaware River Joint Toll Commission Bonds (5/31/43) .....	2,252,000
Total .....	<u>\$37,955,000</u>

As will be found in the section of this report dealing with the Debt of Political Subdivisions of the Commonwealth, the combined net bonded debt of all local units of government in Pennsylvania was \$1,039,340,000 in 1930 and was estimated to be \$864,512,000 in 1942.

Further, it must be remembered that the people of Pennsylvania also have a direct responsibility in the federal debt. This debt is reported to have been \$136,690,090,000 on June 30, 1943, and is esti-

mated to reach \$206,000,000,000 on June 30, 1944 and \$300,000,000,000 by June 30, 1945.\* The per capita debt of the entire country, based upon a federal debt of \$300,000,000,000, will be about \$2,222 for every man, woman and child in the Commonwealth, as well as in the nation. In fact, the Commonwealth of Pennsylvania, based upon the ratio of its population to the total population of the country, would be responsible for 7.5 per centum of the entire national debt or \$22,530,000,000. Based upon the ratio between the estimated wealth of the Commonwealth and the wealth of the United States, the Commonwealth's share in the federal debt would be 8.4 per centum or \$25,080,000,000.

The size of the Commonwealth's share in the federal debt, when coupled with the present combined total debt of the state and local units of government within the Commonwealth, indicates the seriousness of the overall debt and tax problems of the citizens of Pennsylvania.

\* See note in Introduction on page 6.

## THE FULL FAITH AND CREDIT DEBT OF THE COMMONWEALTH

Under Article IX, Section 4, of the Constitution of Pennsylvania, creation of debt in the name of the Commonwealth is limited to one million dollars. Under Section 5 of said article further full faith and credit debt may be authorized only by Constitutional amendment, which must be specific as to the purpose and the amount of borrowing. The courts have ruled that such amendments are not valid, unless a specific purpose is stated, and that funds raised for a specific purpose cannot be diverted to other purposes. The power granted by amendment of the Constitution to raise funds for a specific purpose is not a continuing one, but is limited strictly to the terms of the amendment. (*Hollinger vs. King* 282 Pa. 157.)

The Commonwealth came out of World War I entirely free of bonded debt. In the early '20's, when it became evident that more and better roads were necessary to meet the growing automobile traffic, the General Assembly met the situation by proposing an amendment to

the Constitution. This amendment, approved at the sessions of 1921 and 1923, was ratified by popular vote in 1923. It empowered the General Assembly, irrespective of any other debt, to authorize the Commonwealth to issue bonds to the amount of \$100,000,000 "for the purpose of improving and rebuilding the highways of the Commonwealth." Accordingly, full faith and credit highway bonds for this amount were issued.

In 1933, an issue of general expense bonds in the amount of 25 million dollars, for unemployment relief was authorized by popular vote. In 1933, the voters also authorized a bond issue of 50 million dollars to provide for the payment of a bonus to Pennsylvania veterans of World War I.

Since the issuance of the above bonds, substantial reductions have been effected, by regular biennial deposits made into the sinking funds, thereby bringing the *net* full faith and credit debt of the Commonwealth as of May 31, 1943, to the following amounts:

Type of Bond	Original Issue	Net Debt May 31, 1943
Highway .....	\$100,000,000	\$36,093,503
Veterans' Compensation .....	50,000,000	29,622,430
General Expense .....	25,000,000	2,500,000
Totals .....	\$175,000,000	\$68,215,933

Both the gross and the net full faith and credit debt of the Commonwealth have declined steadily since 1935. This trend is indicated in the following table:

Biennium Ended May 31	Gross Debt	Net Debt	Per Capita Net Debt
1933.....	\$ 87,286,320	\$ 71,629,781	\$ 7.38
1935.....	152,783,320	135,372,491	13.86
1937.....	132,583,320	119,795,080	12.20
1939.....	125,583,320	108,202,661	10.96
1941.....	115,067,320	89,145,973	9.00
1943.....	106,067,320	68,215,933	6.89

The \$106,067,320 of full faith and credit bonds, representing the gross debt still outstanding on May 31, 1943, consisted of \$53,426,000 of Highway bonds, \$2,500,000 of General Expense bonds, and \$50,000,000 of Veterans' Compensation bonds.

## SCHEDULE OF MATURITIES

The maturities for the full faith and credit bonds, still outstanding, extend to 1955 as follows:

Biennium	Highway Bonds	General Expense Bonds	Veterans' Compensation Bonds	Total Full Faith and Credit Bonds
1943-45 . . . . .	\$ 6,738,000	\$2,500,000	\$ 9,000,000	\$ 18,238,000
1945-47 . . . . .	4,000,000	.....	9,000,000	13,000,000
1947-49 . . . . .	2,000,000	.....	9,000,000	11,000,000
1949-51 . . . . .	6,000,000	.....	9,000,000	15,000,000
1951-53 . . . . .	30,688,000	.....	9,000,000	39,688,000
1953-55 . . . . .	4,000,000	.....	5,000,000	9,000,000
Totals . . . . .	\$53,426,000	\$2,500,000	\$50,000,000	\$105,926,000*

\* Exclusive of \$141,320 for matured bonds, claims, and interest coupons which are provided for by an equivalent amount in the sinking fund.

### HIGHWAY BONDS

There are six issues of Highway bonds, presently outstanding, which total about one-half of the original issue. Of these, four are serial issues and mature at irregular dates. The other two issues, for \$11,688,000 and \$15,000,000 respectively, are thirty-year bonds and will mature in 1951. Moneys to pay the interest and redeem the principal of these bonds are appropriated biennially by the General Assembly from the Motor License Fund, which is made up of proceeds of the liquid fuels tax, motor licenses, drivers' licenses, and other fees.

All of the \$53,426,000 of these Highway bonds now outstanding will be paid off by October 1, 1954. Sinking fund assets for this purpose totalled \$17,332,497 on May 31, 1943 and will be supplemented by regular biennial appropriations from the Motor License Fund.

### GENERAL EXPENSE BONDS

The 25 million dollar bond issue floated, in 1933 for unemployment relief, provided for equal annual maturities. These extended over a ten-year period to be paid from the Commonwealth's General Fund. Since their issuance, 22.5 million dollars of these bonds have been redeemed. An appropriation of 2.5 million dollars was made in the 1943-45 budget for the redemption, on December 1, 1943, of the balance outstanding.

## VETERANS' COMPENSATION BONDS

To provide bonus payments to World War I veterans, the Commonwealth floated a bond issue of 30 million dollars in 1934. Provision was made for redemption at the rate of 2.5 million dollars annually from 1944 to 1955 inclusive. An additional 20 million dollar issue was sold in the same year to mature at the rate of 2 million dollars annually from 1944 to 1953 inclusive.

As an offset against these bonds the Commonwealth has assets in its Veterans' Compensation Sinking Fund valued at over 20 million dollars. These assets have been built up principally by biennial appropriations from the Commonwealth's General Fund, as required by the terms of the bonds. The money thus accumulated, supplemented by future biennial appropriations, will be used to redeem the bonds as they mature. The 1943 General Assembly appropriated \$7,308,943 into the sinking fund to meet current interest and sinking fund requirements on these bonds.

## MISCELLANEOUS OBLIGATIONS

Included in the General Fund obligations of the Commonwealth on May 31, 1943, was an indebtedness of \$141,320 representing matured bonds, claims, and interest coupons on issues between 1821 and 1871 which have never been presented for redemption.

Moneys sufficient to meet this debt have been in the sinking fund for many years.

## DEBT LIMITATION, REDEMPTIONS, AND SINKING FUNDS

The Constitution, Article IX, Section 11, requires that a Sinking Fund shall be maintained for the repayment of debt of the Commonwealth. Revenue sources of the Fund are stipulated and investments are limited to bonds of the United States or of the Commonwealth. The Sinking Fund must provide moneys to pay the interest accruing on the debt of the Commonwealth and to reduce the principal by a sum not less than \$250,000 annually.

The following table shows the amounts *paid out* of the Sinking Funds as redemption and interest payments on full faith and credit bonds in the last five biennia:

Biennium	Bond Redemption	Interest Expenditures	Total Payments
1933-35.....	\$ 9,503,000	\$10,449,350	\$ 19,952,350
1935-37.....	20,200,000	11,467,941	31,667,941
1937-39.....	7,500,000	9,488,280	16,988,280
1939-41.....	10,516,000	9,183,298	19,699,298
1941-43.....	9,000,000	8,456,082	17,456,082
Totals .....	\$56,719,000	\$49,044,951	\$105,763,951

Moneys *deposited* in the Sinking Fund for the payment of interest and principal on full faith and credit bonds are regularly derived from two sources: namely, the General Fund (taxes, licenses, etc.) and the Motor License Fund (gasoline tax and motor vehicle fee receipts). Because the irregular maturities of the bonds would make unusual demands on the treasury, an actuarial schedule of biennial appropriations was prepared which equalizes the demands on the Commonwealth by fairly even deposits to the Sinking Funds each biennium. This naturally results in more money being deposited in some biennia and periods than the amounts expended for interest payments and the redemption of bonds. During the ten-year period, 1933-1943, deposits in the Sinking Funds, in accordance with this plan, amounted to \$122,250,687, or \$16,486,736 more than the actual principal and interest requirements of \$105,763,951 in the same period.

Of the \$122,250,687 deposited in the Sinking Funds in the last decade, \$55,910,145 were appropriated from the General Fund to meet the service on General Expense (relief) bonds and Veterans' Compensation bonds. From the Motor License Fund \$61,115,446 were appropriated to meet the service on Highway bonds. The balance of \$5,225,096 consisted of an unused portion of bond funds transferred from the Veterans' Compensation Fund.

## FUTURE BOND ISSUES

In addition to the foregoing full faith and credit debts, the people of the Commonwealth authorized, by referendum in 1933, the issuance of 10 million dollars in bonds for the acquisition of privately-owned toll bridges on state highways. To date, the bonds have not been issued, although the Department of Highways is considering plans for the purchase of some toll bridges.



The General Assembly in 1943 passed a joint resolution proposing the issuance of bonds in the sum of 50 million dollars to be used for post-war purposes. Before the bonds can be issued, the resolution, in accordance with Article XVIII, Section 1 of the Constitution of Pennsylvania, must be approved by the General Assembly next chosen and, subsequently, must be ratified by the electorate.

The 1943 General Assembly also adopted a resolution proposing the issuance of bonds in the amount of 60 million dollars for the purchase and retirement of all outstanding bonds issued by the General State Authority. This proposal is subject to the same constitutional requirements.

## **OBLIGATIONS OTHER THAN FULL FAITH AND CREDIT DEBT OF THE COMMONWEALTH**

The Commonwealth does not conduct all of its business in its own name. The General Assembly has created agencies, from time to time, and empowered them to perform specific services, with the expectation that each such agency will be self-supporting. There are four such agencies now operating in the Commonwealth. They are the General State Authority, the Pennsylvania Turnpike Commission, the Delaware River Joint Commission, and the Delaware River Joint Toll Bridge Commission.

These four agencies are authorized to create debt. Debts so contracted are to be repaid out of the proceeds of the sale of the respective services of each agency. The legislation, which provided for their creation, specifically states that these debts are not legal obligations of the Commonwealth. However, these bond issues are generally regarded as moral obligations of the Commonwealth. The four agencies named above had a combined gross bonded indebtedness outstanding of \$130,072,000 on May 31, 1943.

### **GENERAL STATE AUTHORITY BONDS**

Because of the constitutional limitations on the Commonwealth's borrowing authority which were deliberately intended to cause delay

and permit mature consideration by the General Assembly and by the people, the Commonwealth was handicapped in the depression years in obtaining prompt authorization to avail itself of the freely offered federal public works funds and other federal grants, offered on a matching basis. To meet this situation the General Assembly in 1935 created the General State Authority, as a public corporation, with full authority to borrow on its own credit.\*

The Authority was empowered to issue bonds without recourse to the full faith and credit of the Commonwealth. This provision of the act obviated a referendum to the people, as required by the Constitution, for all full faith and credit bonds of the Commonwealth.

Since its creation, the General State Authority has issued so-called "temporary" bonds, aggregating \$64,276,000, for the construction and repairs of buildings owned by the General State Authority and leased to the Commonwealth for use as state armories, hospitals, penal institutions, state-aided colleges, and state teachers' colleges. These obligations must be retired by 1967, but, at the option of the Authority, they may be paid off on fifteen days' notice, as specific funds are available, or exchanged for regular bonds with fixed maturity dates and conditions. The amount of the "temporary" bonds outstanding on May 31, 1943, was \$51,317,000.

All obligations of the General State Authority were purchased by two retirement funds of the Commonwealth, after the federal government had waived an option to purchase them. The original purchases were in the following amounts:

School Employees' Retirement Fund.....	\$52,789,000
State Employees' Retirement Fund.....	11,487,000
Total .....	<u>\$64,276,000</u>

\* The Act of June 28, 1935, P. L. 452, creating the General State Authority, was originally declared unconstitutional by the State Supreme Court, *Kelley vs. Earle, Et al.*, 320 Pa. 449. In its decision the court stated "... a creation of indebtedness on the part of the Commonwealth in excess of the constitutional limitation is contemplated", and "the attempt is to evade the constitutional restriction on debt . . ." Upon petition, by the Attorney General, the Court granted a re-hearing. Upon review of the bill, the Court modified its former decision and ruled, in *Kelley vs. Earle, Et al.*, 325 Pa. 337, that the "General State Authority Act and the undertakings in pursuance of it are constitutional." This decision was based upon the rationalization that, although the Act might be termed an evasion of the Constitution, the work contemplated under it was necessary, and furthermore, the Act imposed no liability on the Commonwealth with respect to the bonds.

When the Commonwealth established the School Employees' Retirement Fund in 1919 and created the State Employees' Retirement Fund in 1923, it guaranteed both school and state employes 4 per centum interest (compounded annually) on their retirement contributions. The high interest rate paid on the Authority obligations enables the retirement funds to meet the guaranty without appropriations from the General Fund for this purpose.

The Act of June 28, 1935 (P. L. 452), creating the said Authority, contains a provision to liquidate its obligations by charging annual rentals to the Commonwealth for the use of buildings constructed by the Authority. The 1943-45 General Fund appropriations provided for payment of rentals to the Authority for facilities used by various departments as follows:

Department of Agriculture.....	\$ 136,400
Department of Health .....	1,012,388
Department of Military Affairs .....	235,256
Department of Property and Supplies .....	768,511
Department of Public Instruction .....	2,001,937
Department of Welfare .....	4,394,932
Total .....	<u>\$8,549,424</u>

It is clear that these rentals are virtually the same as contributions to a sinking fund and that the creation of the Authority was in effect a subterfuge to avoid the constitutional requirement of electoral approval of the bond issues. The dangers of such circumvention are obvious. It has increased substantially the effective debt of the Commonwealth, and, as the Authority has been declared constitutional, it is possible that this device may be used again.

In order to refund the outstanding obligations of the Authority at lower interest rates, the 1943 General Assembly adopted a resolution to amend the Constitution so as to permit the issuance of "full faith and credit" bonds, in the sum of sixty million dollars, for the purchase and retirement of these Authority obligations.

Two important points are raised by this resolution. First, the amount of bonds proposed for issue exceeds the \$51,317,000 now outstanding in Authority obligations. Second, a refunding of the Authority obligations will probably reduce the earnings of these funds. Since

these bonds are held by the two retirement funds of the Commonwealth, contributors to which are guaranteed a fixed return on their money by the Commonwealth, this may necessitate direct appropriations from the General Fund to fulfill the guaranty.

The General Assembly in 1943, however, recognized the subterfuge, as such, by taking the first step toward assumption of all the Authority obligations as part of the full faith and credit debt of the Commonwealth. A session of the General Assembly next chosen, as well as the electorate, must approve this action.

### **PENNSYLVANIA TURNPIKE COMMISSION DEBT**

The Pennsylvania Turnpike Commission was created by the General Assembly, Act of May 21, 1937 (P. L. 774), as a self-liquidating instrumentality of the Commonwealth with power to borrow on its own credit, based upon anticipated revenues.

The Commission in 1938 issued self-liquidating revenue bonds in the amount of \$40,800,000 which, together with a federal P. W. A. grant of \$29,250,000, were used in the construction of the Pennsylvania Turnpike. The Turnpike bonds, carrying an interest rate of  $3\frac{3}{4}$  per centum, are to be amortized from the proceeds of Turnpike tolls. While the bonds may run for 30 years, they can be redeemed at the option of the Commission on August 1, 1947, or on any interest payment date thereafter. The Commission sold the entire issue to the Reconstruction Finance Corporation.

The Turnpike bonds are not direct obligations of the Commonwealth. Nevertheless, there seems to be a moral obligation which, in case of default, could not be ignored. These bonds, however, to date have been genuinely self-liquidating, and, presumably, will be redeemed without recourse to the Commonwealth.

### **BONDED DEBT OF JOINT BRIDGE COMMISSIONS**

Two Joint Commissions, created by compact between the Commonwealth of Pennsylvania and the State of New Jersey, have exercised the privilege, delegated to them in the legislative acts under which they were created, to issue self-liquidating bonds. Neither of the Commissions, however, is empowered to pledge the credit of either of the states or any of their municipalities.

## DELAWARE RIVER JOINT COMMISSION BONDS

In 1931, the Delaware River Joint Commission, authorized by the Act approved June 12, 1931, P. L. 575, superseded the Pennsylvania Commission, set up by the Act of July 9, 1919, P. L. 814, and the New Jersey Interstate Bridge Commission, set up by Chapter 271 of the Laws of New Jersey of 1929. Under the first Commission from 1919 to 1931, the Delaware River Bridge between Philadelphia and Camden was planned, constructed, and operated as a self-liquidating project by agreement among the Commonwealth, the City of Philadelphia, and the State of New Jersey. Appropriations for construction totalled more than 37 million dollars, with Pennsylvania and Philadelphia each advancing more than 10.5 million dollars and New Jersey nearly 16 million dollars.

The Commonwealth (Act of May 22, 1933, P. L. 892), agreed, as did Philadelphia and New Jersey, to be reimbursed by bonds bearing not less than 4 per centum interest. According to this agreement, the following payments were made:

Pennsylvania—\$9,208,000 in 4¼% bonds at par value; \$812.31 in cash.

Philadelphia—\$9,550,000 in 4¼% bonds at par value; \$414.44 in cash.

New Jersey—\$12,199,000 in 4¼% bonds at par value; \$330.06 in cash.

The Commission obtained from the Federal Emergency Administration a loan in an amount up to \$10,000,000 and a grant for 30 per centum of the construction cost of a rapid transit line. The loan, which was to be secured by 4¼% bonds, and the grant, were approved on December 1, 1933, and work started early in the following year. Upon its completion in 1936, the line was leased to the Philadelphia Rapid Transit Company.

In all, of the \$41,000,000 bond issue authorized in 1933, the Commission sold bonds in the sum of \$38,120,000. On May 31, 1943, the amount of bonds outstanding and publicly held amounted to \$35,703,000. The 1933 issue contained a provision that the bonds could be called on any interest date from September 1, 1943, at 105 and interest. On August 1, 1943, the Commission sold a refunding issue

of \$37,000,000 bearing interest at the rate of 2 7/10 per centum, for the purpose of retiring the outstanding 4 1/4 per centum bonds.

## DELAWARE RIVER JOINT TOLL BRIDGE COMMISSION BONDS

The Delaware River Joint Toll Bridge Commission was organized on December 19, 1934, by compact between Pennsylvania (Act of June 25, 1931, P. L. 1352), as amended and supplemented by Act of May 18, 1933 (P. L. 827), and New Jersey (Chapter 215 of the Laws of New Jersey, 1934), and with the consent of the federal government.

Pennsylvania's representatives on the Commission are the Auditor General, State Treasurer, Secretary of Highways, and two members appointed by the Governor.

The Commission was created to administer, operate, and maintain the jointly-owned bridges over the Delaware River between Trenton, N. J., and Milford, Pa., and to investigate the need for additional bridges; to prepare plans, specifications, etc., and to issue bonds for construction of such bridges and collect tolls, rentals, and charges for the redemption of such bonds and the payment of interest thereon.

The commission also was empowered to acquire privately-owned toll bridges which, when freed from debt incurred in their acquisition, were to become free bridges, maintained by equal appropriations from the two states and operated by the Commission.

Since its formation, the Commission has purchased, from funds appropriated by the two states, sixteen bridges which are at present operated by it. The Commission acquired, among others, the Easton-Phillipsburg privately-owned toll bridge. In 1936, the Commission authorized the issuance of \$2,500,000 of bridge revenue bonds, bearing interest at 4 1/4 per centum and due August 1, 1961, for the construction of a new bridge. The bridge was constructed and put into operation as a toll bridge in January, 1938. This project dated from 1929, when the preceding commission had been instructed to make the investigations, estimates, and plans for "an additional interstate bridge across the Delaware River connecting the City of Easton, Pa., with Phillipsburg, New Jersey." These bonds, on which the interest rate was 4 1/4 per centum, were refunded by the \$2,650,000 issue, dated December 1, 1941, at the rates of 2 per centum and 2 1/4 per centum (there being two serial issues and a term bond maturing in 1961).

## DEBT OF POLITICAL SUBDIVISIONS OF THE COMMONWEALTH

According to latest available data, there are today in the Commonwealth 5,238 units of local government with authority to levy and collect taxes and contract debt.

### THE GROSS DEBT OF ALL LOCAL GOVERNMENTS

From 1922 to 1932† the gross debt, comprising short and long term borrowings in all forms, of local governments in the United States increased 83.4 per centum, while in Pennsylvania the gross debt increased 124.9 per centum. This high national level still prevailed in 1940, but after a slight increase in 1941, a downward turn was apparent in the 1942 total of 16.5 billion dollars.

The amounts, and the per centum of the increases over the 1922 totals, of local gross debts in the United States and in Pennsylvania, based on reports of the U. S. Bureau of the Census, are as follows:

#### GROSS DEBT OF ALL LOCAL GOVERNMENTS

Year	Local Governments in the United States	Per Centum of Increase over 1922	Pennsylvania Local Governments	Per Centum of Increase over 1922
1922	\$ 9,092,807,000	...	\$ 591,741,000	....
1932	16,680,567,000	83.4	1,330,873,000	124.9
1940	16,719,684,000	83.9	1,344,400,000	127.2
1941	16,812,696,000	84.9	(not available)	....*
1942	16,479,548,000	81.2	(not available)	....*

\* Local debt figures for 1941 and 1942 as reported by the U. S. Bureau of the Census are not classified by states. Data on local government debt in Pennsylvania as compiled by the Department of Internal Affairs are limited to selected types or classifications of local governments.

#### GROSS DEBT PER CAPITA OF ALL LOCAL GOVERNMENTS

During the period from 1922 to 1940, on a per capita basis, the gross debt experience of Pennsylvania's local governments, based on

† All dates are inclusive.

reports of the U. S. Bureau of the Census, shows a significant trend which can be observed in the following table:

Year	All Local Governments in United States	Pennsylvania Local Governments	Rank
1922	\$ 82.74	\$ 65.44	26
1932	133.94	136.87	14
1940	126.98	135.79	10

In 1922, the gross debt per capita of local governments in Pennsylvania was 20.9 per centum less than the general experience. In that year, Pennsylvania ranked twenty-sixth among the states.

In 1932, the gross debt per capita of all local governments in the Commonwealth exceeded the general average throughout the country by 2.2 per centum, making Pennsylvania rank fourteenth among the states. In the period 1932-1940 the gross debt per capita of Pennsylvania's local governments advanced at a greater rate than in most other states and Pennsylvania moved into tenth place. In 1940, Pennsylvania's local gross debt of \$135.79 per capita exceeded by 6.9 per centum the country-wide per capita figure of \$126.98.

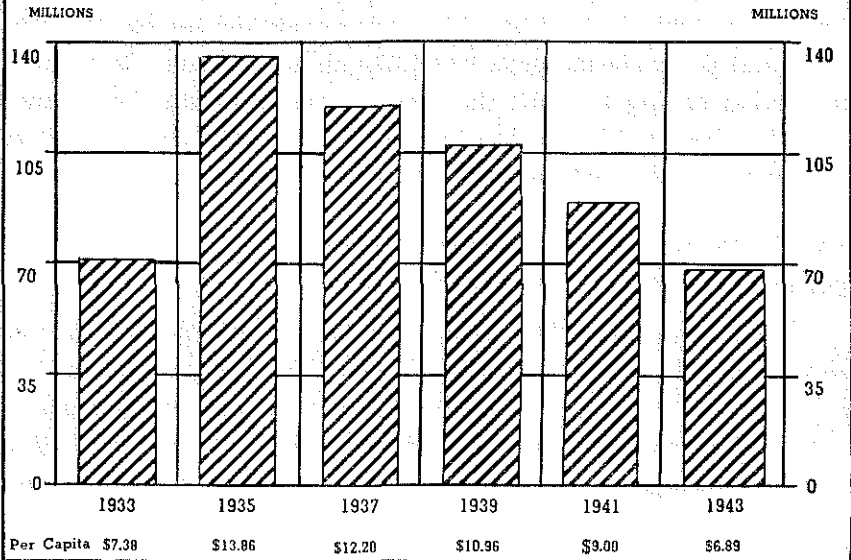
The marked rate of growth in the gross debt of units of local government in the Commonwealth indicates an increasing dependence upon short term borrowings. Customarily, such borrowings are used only to provide ready cash for current operations and usually are repaid from current revenues. However, sometimes these loans are funded, in which case they constitute a step toward long term debt. Long term debt obligates the issuing units of government for periods up to 30 years (Philadelphia 50 years).

#### THE NET BONDED DEBT OF THE POLITICAL SUBDIVISIONS OF THE COMMONWEALTH

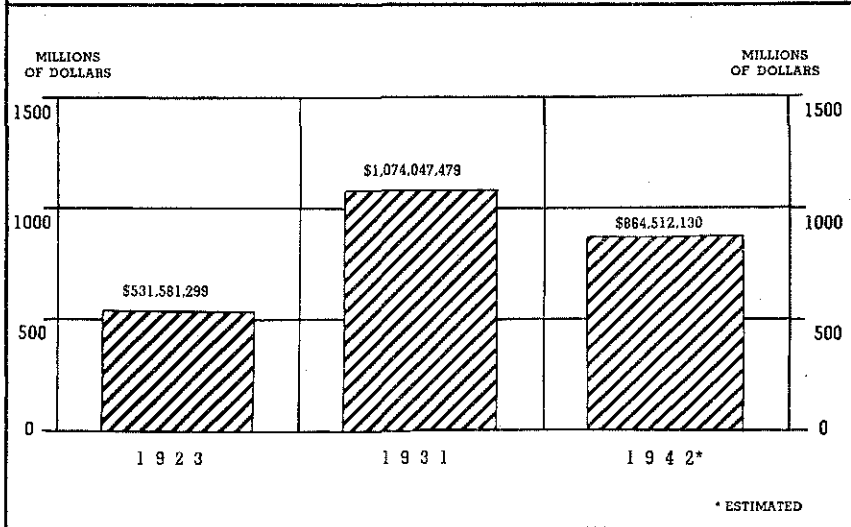
The over-all *net* bonded debt of Pennsylvania's units of local government and the municipal and housing authorities created by them, under authority of the General Assembly, was estimated to be 927 million dollars at the close of 1942. This total includes 62.5 million dollars of municipal and housing Authority bonds, which, while not direct obligations of the local units served by the issuing Authorities, are included for the same reason that similar bonds were included in



**STATE GOVERNMENT NET DEBT—PENNSYLVANIA**  
1933 to 1943



**LOCAL GOVERNMENT NET DEBT—PENNSYLVANIA**  
Years 1923, 1931, 1942\*



SOURCE:  
LOCAL DEBT—DEPARTMENT OF INTERNAL AFFAIRS,  
COMMONWEALTH OF PENNSYLVANIA.  
STATE DEBT—BUDGET BUREAU, GOVERNOR'S OFFICE,  
COMMONWEALTH OF PENNSYLVANIA.

PREPARED BY  
PENNSYLVANIA ECONOMY LEAGUE, INC.

the debts of the Commonwealth which were not full faith and credit debts. In 1933, before the authorization of these Authorities, by the General Assembly in 1935 and 1937 respectively the net bonded debt of all local governmental units was 1,039 million dollars. In the ten-year period ending in 1942, this total, exclusive of the Authorities' bonds, had been reduced to an estimated total of 864.5 million dollars by retirement and by sinking fund accumulations.

### TRENDS IN NET BONDED DEBT OF THE POLITICAL SUBDIVISIONS SINCE 1923

Over twenty years, beginning with 1923, the history of the net bonded debt of the political subdivisions of the Commonwealth may be divided into two distinct periods. The first shows a steady increase to 1931. The second shows a consistent, but slow, decline from 1932 to 1943. The high and low, and the reversal in the trend, are presented in the following table:

Year	Total Net Bonded Debt
1923 .....	\$ 531,581,299
1930 .....	1,037,173,426
1931 .....	1,074,047,479
1932 .....	1,057,390,060
1933 .....	1,039,339,735
1942 .....	864,500,000 (Est.)*

\* The net bonded debt of boroughs, townships, and institution districts has been estimated in the above total. Actual figures on the net bonded debt of other subdivisions of local government were taken from reports of the Department of Internal Affairs and Department of Public Instruction, both of Pennsylvania, and reports of the U. S. Bureau of the Census.

Figures on the net bonded debt of local governments in Pennsylvania for years other than 1942 are as reported by the Department of Internal Affairs in the Pennsylvania Manual, 1935-36.

The above table shows that the total of net bonded debt was increased by more than 542 million dollars in a period of eight years, but was reduced by less than 210 million dollars in the subsequent period of eleven years. Despite the longer period of decrease, the local net bonded debt in 1942 was still 62.6 per centum higher than in 1923.

### THE PERIOD OF INCREASE, 1923 TO 1931

From 1923 to 1931 the total amount of local net bonded debt more than doubled. Every type of subdivision of local government added to

its debt. The increases varied, however, from about 40 per centum for boroughs to nearly 220 per centum for townships. The amount of net bonded debt outstanding at the end of 1923 and 1931 and the amount and per centum of increase are presented in the following table:

#### LOCAL NET BONDED DEBT, 1923 AND 1931

Subdivision	1923	1931	Amount Increase	Per Centum Increase
*Counties	\$ 79,003,332	\$ 207,284,349	\$128,281,017	162.4
Cities	272,075,680	555,188,847	283,113,167	104.1
Boroughs	36,691,892	51,169,449	14,477,557	39.5
Townships	7,273,083	23,243,666	15,970,583	219.6
School Districts	136,537,312	237,161,168	100,623,856	73.7
Totals	\$531,581,299	\$1,074,047,479	\$542,466,180	102.0

\* Includes Poor District net bonded debt of \$595,000 for 1923 and \$1,523,007 for 1931, which later became Institution District Debt.

It is apparent from the table that the per centum of increase was largest for townships, counties, and cities in the order named. While there were substantial increases in the amounts of net bonded debt of school districts and boroughs, there was a decrease in their respective shares of the total. These effects can be observed in the following table which shows the percentage distribution by type of subdivision of total net bonded debt for 1923, 1931, and 1942.

#### PERCENTAGE DISTRIBUTION OF LOCAL NET BONDED DEBT

Subdivision	1923	1931	1942
Counties and Inst. Districts . . . . .	14.9	19.3	16.6
Cities . . . . .	51.2	51.7	53.0
Boroughs . . . . .	6.9	4.8	4.9
Townships . . . . .	1.3	2.1	2.2
School Districts . . . . .	25.7	22.1	23.3
Totals . . . . .	100.0	100.0	100.0

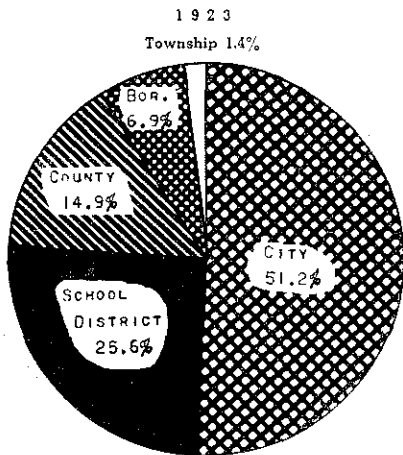
#### THE PERIOD OF DECREASE, 1931-1942

After 1931, the total of local net bonded debt began to decrease, but at a much slower rate than it had increased during the preceding eight years.

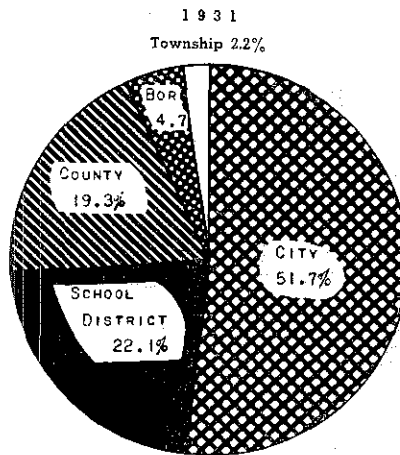
In 1931, the counties and school districts reached the peak of their net bonded debt with \$207,284,349 and \$237,161,168 respectively. In

LOCAL GOVERNMENT NET DEBT IN PENNSYLVANIA BY TYPE OF UNIT  
 Years 1923, 1931, 1942\*

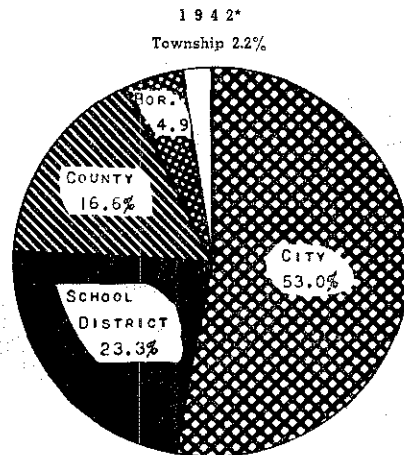
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DETAIL BY UNIT:	NET DEBT
City	\$ 272,075,680
School District	136,537,312
County	79,003,332
Borough	36,691,892
Township	7,273,083
<b>Total 1923</b>	<b>\$ 531,581,299</b>



DETAIL BY UNIT:	NET DEBT
City	\$ 555,188,847
School District	237,161,168
County	207,284,349
Borough	51,169,449
Township	23,243,666
<b>Total 1931</b>	<b>\$1,074,047,479</b>



DETAIL BY UNIT:	NET DEBT
City	\$ 458,267,026
School District	200,998,726
County	143,846,378
Borough*	42,200,000
Township*	19,200,000
<b>Total 1942*</b>	<b>\$ 864,512,130</b>

\* MEANS ESTIMATED

SOURCE: DEPARTMENT OF INTERNAL AFFAIRS  
 COMMONWEALTH OF PENNSYLVANIA

PREPARED BY: PENNSYLVANIA ECONOMY LEAGUE, INC.

1932, cities and boroughs reached peaks of \$567,160,427 and \$53,491,234 respectively. The townships' peak was not reached until 1934 with a total of \$24,109,459. Over the eleven-year period, 1931-1942, *county net bonded debt* showed the largest percentum of decrease and *school district debt* showed the least percentage of decrease. The net bonded debt outstanding at the end of 1931 and 1942 and the aggregate amount and per centum of decrease are presented in the following table:

#### LOCAL NET BONDED DEBT, 1931 AND 1942

Subdivision	1931	1942	Decrease	Decrease Per Centum
Counties and Inst. Districts	\$ 207,284,349	\$143,846,378	\$ 63,437,971	30.6
Cities	555,188,847	458,267,026	96,921,821	17.5
Boroughs	51,169,449	42,200,000†	8,969,449	17.5
Townships	23,243,666	19,200,000†	4,043,666	17.4
School Districts	237,161,168	200,998,726	36,162,442	15.2
Totals	\$1,074,047,479	\$864,512,130†	\$209,535,349	19.5

† Estimated.

The extraordinary rate of reduction of county net bonded debt featured the general downward trend. Other subdivisions, except the institution districts, showed a slower, but more uniform rate of decrease. As a result, school district debt, which showed the smallest rate of decrease of the major subdivisions, again assumed a larger proportion of the local net bonded debt.

#### THE TEN-YEAR PERIOD, 1933-1942

As it is the purpose of this and subsequent studies of the Commonwealth's fiscal affairs to concentrate attention upon the ten-year period 1933-1942, the changes in that period in the debt situation of the units of local governments are presented herewith.

Reduction to a per capita basis of the net bonded debt totals of the political subdivisions of the Commonwealth provides comparative figures of \$107.91 for 1933 and \$87.32 for 1942. On the per capita basis, county net bonded debt *has been reduced* \$4.61 in ten years; school district debt, \$2.53; city debt, \$12.20; and boroughs and townships and institution districts \$1.25 collectively. The 16.8 per centum *decrease* in total per capita debt was aided by an increase in population of 2.8

per centum in this period. Inclusion of the bonded debt of the municipal and housing authorities would raise the total over-all local net bonded debt in 1942 to an estimated \$93.64 per capita.

The decrease between 1933 and 1942 in per capita debt of the Commonwealth's local units is in contrast to the sharp increase occurring at the federal level. Figures for the federal debt and a forecast through 1945 are as follows:

Year	Debt as of June 30	Per Capita Debt
1933.....	\$ 22,539,000,000	\$ 179
1943.....	136,696,090,000	1,020
1945.....	300,000,000,000 (Est.)	2,222*

\* See note in Introduction on page 6.

It is evident that every possible means of continuing the downward trend of state and local debt must be encouraged in light of the tremendous burden of federal debt now developing.

## COMPARISON OF LOCAL GOVERNMENT NET BONDED DEBT, 1933 AND 1942

The decline of 174.8 million dollars in net bonded debt during this ten-year period constitutes a decrease of 16.8 per centum (excluding the debt of the Authorities). The distribution of net bonded debt among the subdivisions of local government was as follows:

Subdivision	1933	1942	Decrease	Per Centum Decrease
*Counties	\$ 182,255,920	\$143,846,378	\$ 38,409,542	21.1
‡Cities	563,330,920	458,267,026	105,063,894	18.7
Boroughs	50,767,169	42,200,000†	8,567,169	16.9
Townships	23,095,297	19,200,000†	3,895,297	16.9
‡School Districts	219,890,429	200,998,726	18,891,703	8.6
<b>Totals</b>	<b>\$1,039,339,735</b>	<b>\$864,512,130†</b>	<b>\$174,827,605</b>	<b>16.8</b>

\* Includes the Poor District net bonded debt of \$1,395,532 for 1933 and Institution District net bonded debt of \$3,566,000 for 1942. The Poor Districts by the Act of June 24, 1937, P. L. 2017, were abolished and certain of their functions, as well as their outstanding obligations, transferred to the Institution Districts created by that Act.

‡ The debt figures used for 1933 are those of the Pennsylvania Department of Internal Affairs. In its compilation the sum of \$851,030 is included twice. It was reported by the City of Philadelphia as part of its debt and by the School District of Philadelphia as part of its debt. This was due to the fact that in prior years the school district had assumed a portion of the city debt.

Nor does the 1933 figure reflect the amount of cash held in the Sinking Funds by the City of Philadelphia, but this cash is considered in the 1942 figures.

† Estimated.

The rate of decline in local net bonded debt has been fairly consistent for all subdivisions with the exception of School Districts and Institution Districts. Although the School District debt in 1942 was 8.6 per centum less than in 1933, heavy bond issues in the late thirties retarded the downward trend. The Institution Districts show the only increase for the ten-year period. This is due to the bonded debt incurred by the Allegheny County Institution District since 1932. The amount of this debt outstanding in 1942; \$1,922,000, was, in itself, larger than the total amount of net bonded debt of all Institution Districts at the end of 1933.\*

It should be noted that the city-county net debt of Philadelphia is classified as city. In 1933, the amount was \$443,672,100 or 78.8 per centum of the combined net bonded debt of all cities and 42.7 per centum of the total for all local units of government in the Commonwealth. In 1942, Philadelphia's \$351,213,000 of net bonded debt represented 76.6 per centum of the total net bonded debt of all cities and 40.6 per centum of the total for all local governments. This indicates a decrease of 20.8 per centum in Philadelphia's City debt since 1933 as against a decrease of 13.8 per centum for all other local governments in the same period. This city-county debt of Philadelphia, for 1942, however, does not include \$38,653,000 net bonded debt of the Philadelphia School District.

## LIMITATIONS ON LOCAL DEBT

Constitutional limitations on the debt-incurring powers of local units of government in the Commonwealth restrict the creation of debt to an amount not exceeding 7 per centum of the assessed valuation of real property within each local unit. It is further provided that indebtedness in excess of 2 per centum of the assessed valuation cannot be created without the consent of the particular electorate. Maturities of any obligation cannot exceed a period of thirty years and a tax levy must be made annually in an amount sufficient to meet the annual interest and normal retirement needs. The Constitution permits certain obligations, such as those issued to provide for self-supporting public

\* See footnote (\*) at bottom of page 30.

utility services, to be deducted in computing the debt margin at any one time. Special provisions are in force with respect to the City of Philadelphia which permit a maximum city debt of 10 per centum of assessed valuation of taxable property and bond maturity periods up to fifty years.

Since 1874 numerous acts have been passed by the General Assembly to regulate the creation of local debt. The Act of June 25, 1941, P. L. 159, marks the first effort, however, to codify the various statutes governing the issuance of bonds by municipalities. It should be noted that this Act is concerned with the issuance of bonds and not the debt-incurring powers of local governments. This Act governs all municipalities except cities and school districts of the first class and city institution districts. In view of the preponderance of Philadelphia's debt, the Act, in effect, concerns the sources of less than 50 per centum of the outstanding net bonded debt of counties and cities, as of December 31, 1942. This Act, termed "The Municipal Borrowing Law", provides, in general, that municipalities may authorize and direct the issuance of general obligation bonds in sums of not less than \$100 each, at interest rates not to exceed 6 per centum, and for a term not exceeding 30 years. Short-term borrowing, in amounts up to \$120,000, also is made the subject of regulation.

Among the more important provisions of this Act are the mandatory requirements that long-term borrowings be in the form of serial bonds and with maturities not to exceed the usefulness of the project for which the bond funds were expended. Another provision assures uniform notices of bond sales. The Act further provides that a separate sinking fund should be established for each bond issue and limits the investment of sinking funds to U. S. Government obligations or general obligation bonds of the Commonwealth or its political subdivisions.

## STATE SUPERVISION OF MUNICIPAL BORROWING

The Municipal Borrowing Law also gave the Commonwealth, through the Department of Internal Affairs, additional powers of supervision over the issuance of municipal bonds. Although some supervision by the Department of Internal Affairs had been provided in



1927, the Act of 1941 requires the Department to make certain that all statutory requirements governing local bonds have been satisfied prior to sale. Municipalities are required to submit an itemization of debt and an explanation of prescribed items used in determining the available debt margin.

All local debt issues, however, do not pass through the Department of Internal Affairs. The exemptions are obligations of school districts of the first class, of the cities of Philadelphia, Pittsburgh, and Scranton, and bonds supported by special assessment or self-supporting activities, as well as the bonds of the Authorities.

This power of review and approval does not permit the Commonwealth to intervene in local fiscal policy-making. The local governments still decide the advisability of issuing bonds, arrange for their sale, and determine all other considerations in connection with the financial position and policy of the municipality.

Although the 7 per centum debt limitation applies to each governmental subdivision, except Philadelphia, it is possible for the effective debt to be as high as 28 per centum of assessed valuation in cases where property is subject to combined levies by the county, institution district, school district, and city, borough, or township units.

Bond defaults by Pennsylvania's municipalities, while very moderate in comparison with the record in other states, are attributed chiefly to overlapping units, to assessment difficulties, and to tax delinquencies since 1930.

The 1943 session of the General Assembly passed one major act relating to local government debt. It was Act of May 21, 1943, (Act No. 253), amending the Act of May 16, 1939, P. L. 139. This Act provides that local units may issue bonds to meet increased current operating expenses during the war emergency in an amount not exceeding 80 per centum of uncollected real estate taxes. The only amendment to the Municipal Borrowing Law was a provision that judgments against municipalities could be funded.

## FEDERAL GRANTS

The costs of many local services in Pennsylvania, which in the depression years were borne out of federal funds granted through the state treasury or directly expended by the federal government within the Commonwealth, may fall again in the near future upon local governments. If the municipalities are to resume their normal and independent functions, they must prepare to accept and finance the costs of many of those services which they desire to be continued. The sum of 285 million dollars in federal grants-in-aid passed through the Commonwealth's treasury from 1933 to 1943 and many additional millions of dollars went directly from the federal government to municipal agencies as grants or loans. In addition, the federal government paid out millions of dollars in subsidies and services to individuals within the Commonwealth. These individual subsidies consisted of benefit payments under the AAA programs, certain relief payments, etc. It is estimated that in this ten-year period the federal government poured into all of the states and their local subdivisions, directly or indirectly, the huge sum of approximately 35 billion dollars in grants-in-aid, quasi-grants, various forms of subsidies, and in loans.

The recent reduction of local indebtedness placed Pennsylvania in line with the general experience throughout the country. Since 1930 there has been an emphatic change, with state and federal governments assuming larger responsibility for local services and incurring larger amounts of bonded indebtedness therefor, while municipalities reduced their long-term indebtedness. The local downward trend has been strengthened since the United States entered the present war, due to severely restricted opportunities for capital improvements. This trend, along with increased revenues in many localities, has permitted reduction of outstanding debts and forestalled potential borrowings.

The gross debt of all local governments in the United States was estimated by the U. S. Bureau of the Census at \$16,680,567,000 in 1932 and at \$16,479,548,000 in 1942. These figures represent a reduction in local gross debt, per capita, from \$133.94 to \$123.01. In the same period the aggregate gross debt of all states rose from \$2,881,758,000

to \$3,163,075,000 or from \$23.25 to \$23.61 per capita. In contrast, the federal debt rose from \$156 to \$541 per capita.

A tabulation of local bond issues approved by the Department of Internal Affairs, of Pennsylvania, shows a war-time reduction in the total number from 281 in 1939 to 100 in 1942. The total amount of these issues decreased for the same years from 21.8 million dollars to 13.6 million dollars. The greatest change occurred in issues approved for school districts, which declined from 142 issues, aggregating 8.3 million dollars in 1939, to 43 issues, totalling 2.8 million dollars in 1942.

## MUNICIPAL AND HOUSING AUTHORITIES

New devices for financing of local units of government were made available by the Municipality Authorities Act of June 28, 1935, (P. L. 463) and the Housing Authorities Law of May 28, 1937 (P. L. 955). Municipal and housing Authorities organized under these statutes are corporate entities which are privileged to issue and retire bonds on their own credit. Generally, such Authorities are presumed to be self-supporting and are usually formed to acquire and operate public services, such as water supply, sewage disposal, and housing units for political subdivisions.

Since the bonds of such Authorities are not included in the *legal* debt of municipalities, little official information is available presently. However, in 1942, approximately 62.5 million dollars of such Authority bonds were listed in a standard compendium of municipal and government bonds. The major issues were those of the Philadelphia and Pittsburgh Housing Authorities, which were outstanding in the amounts of \$14,735,000 and \$16,420,000 respectively.

These bonds legally cannot carry the full faith and credit of the Commonwealth or any of its political subdivisions, but they are secured by the pledged resources and revenues of the issuing Authority. It is apparent that these Authorities provide a means of adding to the gross debt of the political subdivisions within the Commonwealth and of evading the limitations on debt provided by the Constitution and by

stature. As such, their use forms an important factor in the consideration of the debt of the Commonwealth and its political subdivisions of government. So long as these Authorities are confined to genuinely self-liquidating projects, there are no serious implications. However, regardless of the self-liquidating feature, as they are now constituted probably there will always be the temptation to use them to avoid the debt limitation on local governments. Although these Authorities generally are not required to make any reports of their financial conditions or operations to any agency of the Commonwealth, Housing Authorities are required by law to report annually to the State Board of Housing established by Act of June 5, 1937 (P. L. 1705). This Board met last in December, 1938. Municipal Authorities under an amendment to the Act creating them, Act of May 17, 1939 (P. L. 167), are required to obtain approval from the Water and Power Resources Board before acquiring water and water rights. Under another amendment, Act of May 26, 1943 (Act No. 292), Authorities are forbidden to acquire control of any project subject to the jurisdiction of the Pennsylvania Public Utility Commission without approval of the commission and a certificate of public convenience from it.

## CONCLUSION

If Pennsylvania is to preserve its leadership as one of the most important industrial states in the nation, it is more necessary now than ever before for the Commonwealth and every political subdivision to fortify itself against the impact which is certain to follow the cessation of hostilities. With employment, wages, income, and production at the highest levels in the Commonwealth's history, full advantage should be taken of the opportunity to establish favorable credit positions.

Efficiency in administration is being established by those elected to administer public business. There is evidence of an ever increasing sense of responsibility by state, county, and municipal officials for the maintenance of sound fiscal and financial policies.

While the federal debt has increased at an unprecedented rate, due to the tremendous financial outlays necessitated by war, the trend at all levels of government in Pennsylvania is toward reduction of debt and against incurring new obligations except for emergencies.

Reduction in recent years in the net full faith and credit debt of the Commonwealth by almost 50% is evidence of a growing determination on the state level to keep the Commonwealth in the most favorable financial position possible. Similar determination is demonstrated by the various elected officials who are responsible for conducting the fiscal affairs of counties, cities, boroughs, townships, and school districts. In the last ten years their combined bonded debt has decreased \$175,000,000, or nearly 17%.

There is good reason to believe that the Commonwealth's current biennial operations will show a substantial surplus. Many counties and other local units of government give promise of being in the same favorable position. With continued efficient administration on the part of all elected officials and with still further efforts to minimize waste and unnecessary expenditures, financial statements should show steady improvement.

Surpluses thus accumulated by the state and the local units of government should permit an acceleration in the accumulation of sinking fund assets. This may make it possible for the Commonwealth to

repeat the record of World War I, and, through economies in administration, effect savings sufficient to offset its present net full faith and credit debt. Long steps can be taken by local governments in reducing their debts and building up sufficient reserves so that when peace comes, not only the Commonwealth of Pennsylvania, but all of its political subdivisions will be ready to meet the heavy post-war responsibilities with which they will be confronted.

These are vital public questions. They can receive intelligent and constructive consideration only through a full and accurate knowledge of the facts. An informed public generates good government. Therefore, the Committee on Continuation of the Tax Study of the Joint State Government Commission of the General Assembly presents this resume of the history and status of the debts of the Commonwealth of Pennsylvania and its political subdivisions.

As stated before, this is the first of several reports to be presented on the financial and fiscal affairs of the Commonwealth of Pennsylvania. Upon completion of all the studies, the Committee proposes to submit to the Commission its recommendations for submission to the next regular session of the General Assembly. These proposals will urge a constructive revision of the entire tax and fiscal structure of the Commonwealth in order that tax administration may be simplified and made more efficient, that the tax burden and distribution of tax proceeds be made more equitable, and that the Commonwealth and all its political subdivisions may be in the strongest possible position to meet the exigencies of the post-war years efficiently and courageously.



