

MUNICIPAL AUTHORITIES

A REPORT

of the

COMMITTEE ON MUNICIPAL
AUTHORITIES

of the

JOINT STATE GOVERNMENT COMMISSION



To the

GENERAL ASSEMBLY OF THE
COMMONWEALTH OF PENNSYLVANIA

JOINT STATE GOVERNMENT
COMMISSION

MAIN CAPITOL BUILDING
HARRISBURG, PA.

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JOINT STATE GOVERNMENT COMMISSION
OF
THE GENERAL ASSEMBLY

(Created in 1937, P. L. 2460, as last amended 1943, P. L. 13)

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LETTER OF TRANSMITTAL

To the General Assembly of Pennsylvania:

Under authority of the Act of July 1, 1937, P. L. 2460, as last amended by the Act of March 8, 1943, and pursuant to House Resolution, Serial No. 101, I have the honor to submit herewith a report and recommendations of the Committee on Municipal Authorities of the Joint State Government Commission.

CLARENCE D. BECKER, *Chairman,*
Committee on Municipal Authorities.

FOREWORD

House Resolution Serial No. 101 (1943) charged the Joint State Government Commission with an investigation and study of Municipal Authorities and the law under which they are created to ascertain—

- a. Number created.
- b. Costs of acquisitions.
- c. Operation and maintenance.
- d. Rates paid by consumers.
- e. Benefits derived.
- f. Defects in the law.
- g. Amendments deemed necessary to improve the operation of the law.
- h. Any other pertinent facts considered as important to this study, and to report its findings to the General Assembly at the first Special or Regular Session thereafter.

The Joint State Government Commission, at its meeting on June 16, 1943, ordered that such a Committee be created. Senator Clarence D. Becker was designated as Chairman and Hon. Benjamin F. James as Vice Chairman. The Committee met for organization on August 18, 1943, and a proposed program for the work of the Committee was discussed, and adopted.

The Commission Counsel was directed to prepare and send a questionnaire to all incorporated Municipal Authorities in the Commonwealth of Pennsylvania and obtain the information as directed in the House Resolution.

The questionnaires proved to be a fruitful source of information from which the Committee has been able to develop some definite ideas. It appears that ninety-five (95) municipal authorities have

been created under the Act of 1935 and its supplements, and that approximately sixty (60) are functioning at the present time.

The replies to the questionnaires were studied carefully to determine if they indicated need for changes in the law. Conferences were held with the Attorney General of Pennsylvania, Attorneys for the Pennsylvania Municipal Authorities Association, bond institutions and others interested in this subject in order to obtain suggestions for improvement of the law and the administration of Municipal Authorities, the protection of the rate payer and the public generally.

The Attorney General suggested that a measure be drafted for the enactment of a new law incorporating the present law and any desired changes to avoid any patch-work to the law. His suggestion was accepted by the Committee. The proposals for amendment of the law are contained in the list of recommendations immediately following this foreword.

A bill carrying out the recommendations of this Committee has been drafted and introduced in the Senate as Senate Bill No. 423.

The Committee desires to acknowledge the cooperation and assistance given by the Institute of Local Government of the Pennsylvania State College through Mr. Charles F. LeeDecker, in making available for the Committee some of the data which he has assembled and in the preparation of this report.

The Committee also desires to express its appreciation to the Chairman of the Commission and the staff for its cooperation and valuable aid in the preparation of the basic data and the preparation of this report.

CLARENCE D. BECKER, *Chairman,*
Committee on Municipal Authorities.

RECOMMENDATIONS

1. The definition of Federal agencies be revised so as to exclude the "Federal Emergency Administrator of Public Works," not now in existence.

2. The definition of project be amended to include acquiring, as well as constructing, etc., any structure authorized by the Authority, and including central heating plants and facilities.

3. The Authority, after organization, shall certify to the Secretary of the Commonwealth, the names and addresses of its officers, the principal office of the Authority, and any change in the location of the principal office should likewise be certified to the Secretary of the Commonwealth within ten days after such change.

4. In the case of a Joint Authority in more than one county, the certificate of incorporation shall be recorded in the county where the principal office is located.

5. The purposes of an Authority as to airports and hangars should be broadened so that it will apply to airports and all facilities necessary or incident thereto and thereby be all inclusive.

6. Where the Authority fails to specify its powers in detail, it shall have such powers as granted by the act.

7. The power to make any agreements or enter into obligations shall be extended to include agreements with any municipality which is a member of the group of municipalities creating the Authority.

8. In questioning the reasonableness of any rates fixed by an Authority operating in more than one county, the action shall be filed in the court of the county in which the principal office is located.

9. Ambiguities should be removed with reference to appeals to the court of common pleas as to the reasonableness and uniformity of rates and other charges fixed by the Authority, and provide for further appeal to the Superior Court.

10. The Authority be granted the right to do all things necessary to carry out its powers and do all things necessary and convenient "for the promotion of its business and the general welfare of the Authority."

11. The power to enter into contracts with municipalities which are not members of the Authority be broadened to include the Commonwealth of Pennsylvania.

12. The Authority be given power to enter into contracts for group insurance for its employes and set up a retirement or pension fund similar to those existing in the political subdivisions.

13. In the case of a Joint Authority, a vacancy shall be filled by the member Authority whose representative office is vacant.

14. Every Authority be required to have at least one annual examination of its books and records by its certified public accountant and a copy of such audit be delivered to each municipality creating the Authority; and where the Authority fails to make such an audit, then the auditor or the accountant designated by the municipality be authorized, at the expense of the Authority, to do so, as now provided in the law.

15. The Attorney General of Pennsylvania be authorized to examine the books, accounts and records of any Municipal Authority at his pleasure.

16. The requirement that the acquisition shall be approved by a two-thirds majority be clarified so that two-thirds vote shall be required of all of the members of the governing body or of each of the governing bodies of a Joint Authority, etc.

17. The exception that bids are not required for any construction where the work is performed by the Authority itself or under an agreement with the Works Project Administration to be amended to include labor supplied under an agreement with any Federal or State agency.

18. Authorities be permitted to purchase, without advertising for bids, articles which are not purchasable in the competitive market.

19. In case of a Joint Authority, the power of eminent domain shall be exercised in the same manner as provided by law for the municipalities in which the right is exercised.

20. Authorities be authorized to refund bonds but not beyond the life of the Authority.

21. The act become effective immediately upon final enactment.

NOTE: A few minor corrections be made which do not affect the language or purposes of the act.

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Chapter 1

MUNICIPAL AUTHORITIES: PURPOSES AND POWERS

What Is a Municipal Authority?

A Municipal Authority is a special public corporation. Its obligations are payable solely from its revenues or property without recourse to taxes or special assessments. Municipal Authorities do not possess the taxing power. A Municipal Authority differs from a special assessment district or an improvement district in its financing methods; the Authority depends solely on its revenues to meet its obligations while special assessment districts and improvement districts are financed by levying special assessments or by using the general taxing power. Although the Authority performs a municipal function, it is not a municipal government in that it lacks many of the powers of a municipal government.

Another characteristic of Authorities is that they are generally organized for a single purpose, although the performance of additional functions is not prohibited. In fact, several Authorities now in operation are performing more than one function. The Authority manages a revenue-producing project that is under public control; its business must be self-liquidating and the life of the corporation is limited to 50 years at which time the property of the Authority reverts to the municipality incorporating it.

All Types of Municipalities May Establish Municipal Authorities

The law provides that any county, city, town, borough or township in the Commonwealth may establish a Municipal Authority. As will be seen in Chapter 2, all types of municipalities have created Authorities and are operating projects under them.

The Joint Authority

A joint Municipal Authority is one in which two or more municipalities join together to form an Authority and operate a project. When

a joint Authority is formed each participating municipality appoints one member to the governing board if there are five or more participating municipalities; if less than five municipalities form a joint Authority, the representation on the governing board is determined in the articles of incorporation.

A municipality may withdraw from a joint Authority before any obligations have been incurred by the Authority. A municipality also may join an Authority after it has been organized. Joint Authorities permit several municipalities to collaborate in the operation of a project and have the advantage of giving each a voice in the management of Authority affairs. Joint Authorities have the additional advantage of including all the territory in the service area and following the economic boundaries of the service area rather than the political boundaries of a municipality.

Authorities are permitted to serve those outside the territorial limits of the Authority and many have taken advantage of this provision, as will be pointed out in Chapter 2.

Purposes of Municipal Authorities

Under the original Municipal Authorities Act of 1935,¹ Municipal Authorities may be created for any of the following purposes: constructing, improving, maintaining and operating bridges, tunnels, streets, highways, parkways, traffic distribution centers, traffic circles, parking spaces, airports, hangars, low-cost housing projects, parks, recreation grounds and facilities, sewers, sewer systems, sewage treatment works, swimming pools, playgrounds, lakes, low head dams, hospitals and subways. The law was amended in 1937 to permit authorities to acquire, hold, own, and lease as well as construct, improve, maintain, and operate projects.² This amendment also enlarged the list of types of projects which Authorities could operate to include: buildings, transportation, marketing, shopping terminals, and motor buses for public use when such motor buses are to be used within any municipality. Low cost housing projects were deleted from the list of projects which authorities could operate. A second amendment in 1939 added waterworks and water distribution systems to the list,³ and a

¹ 1935, P. L. 463.

² 1937, P. L. 739.

³ 1939, P. L. 167.

third amendment in 1943 added incinerator plants to the list of purposes for which Municipal Authorities could be created.¹ Thus, it may be seen that the purposes for which Authorities may be created have been expanded by the legislature since the original Act was passed in 1935. Significant among the projects that Municipal Authorities are not empowered to acquire or operate are electric utilities.

Municipal Authorities are forbidden to operate any of the foregoing projects that duplicate or compete with existing enterprises serving substantially the same purposes.

Creation of a Municipal Authority

When the decision to establish a Municipal Authority has been made by a municipality or a group of municipalities, an ordinance or a resolution is adopted by the governing body or bodies, in the case of a joint authority, stating the intention of establishing an Authority and setting forth the articles of incorporation. The articles of incorporation must be filed with the Secretary of the Commonwealth and a governing board of five members, or more in a joint Authority, is appointed by the governing body of the municipality establishing the Authority and the Authority is then ready to transact business after it has received its certificate of incorporation from the Secretary of State.

Powers of a Municipal Authority

The powers and duties of Municipal Authorities are outlined and defined in the Municipality Authorities Act and its amendments. The powers of Municipal Authorities in the Commonwealth include:

1. To have existence for 50 years as a corporation.
2. To sue and be sued, implead and be impleaded, complain and defend in all courts.
3. To adopt, use, and alter at will a corporate seal.
4. To acquire, purchase, hold, lease as lessee, and use any franchise, property, real, personal or mixed, tangible or intangible, or any interest therein necessary or desirable for carrying out the purposes of the Authority, and to sell, lease as lessor, transfer, and dispose of any property or interest therein, at any time acquired by it.

¹ 1943, P. L. 661.

5. To acquire by purchase, lease, or otherwise, and to construct, improve, maintain, repair, and operate projects.
6. To make by-laws for the management and regulation of its affairs.
7. To appoint officers, agents, employes, and servants; to prescribe their duties and to fix their compensation.
8. To fix, alter, charge, and collect rates and other charges in the area served by its facilities at reasonable and uniform rates to be determined by it exclusively.¹ But if the service area includes more than one municipality, the revenues from any project may not be expended on any other project.
9. To borrow money, make and issue negotiable notes, bonds, and other evidence of indebtedness or obligations of the Authority, said bonds to have a maturity date not longer than 40 years from the date of issue, and to secure the payment of the bonds by pledge or deed of trust of all or any of its revenues and receipts, and to make agreements with the purchasers or holders of the bonds as the Authority deems advisable and in general to provide for the security of the bonds and the rights of the holders, and in respect to any project constructed and operated, under agreement with any public authority of any adjoining state, to borrow money and issue notes, bonds and other evidences of indebtedness and obligations jointly with any such Authority.
10. To make contracts and to execute all instruments necessary or convenient for carrying on its business.
11. To borrow money and accept grants from, and to enter into contracts, leases or other transactions with, any Federal agency, Commonwealth of Pennsylvania or any municipality.
12. To have the power of eminent domain.
13. To encumber all or any of the revenues or receipts of the Authority as security for all or any of the obligations of the Authority.
14. To do all the acts and things necessary or convenient to carry out the powers granted to it by this Act or any other Acts.
15. To contract with any corporation or any public authority of any adjoining State, on terms the Authority deems proper for the construction and operation of any project partly in this Commonwealth and partly in the adjoining State.

¹ See Chapter 3.

16. To enter into contracts with municipalities that are not members of the Authority for the use of any project of the Authority by the municipality and fixing the amount to be paid by the municipality to the Authority.

However, the Authorities cannot pledge the taxing power of the Commonwealth of Pennsylvania or any of its political subdivisions. Obligations of Authorities are not obligations of the Commonwealth or any of its political subdivisions, and they are not liable for the payment of principal or interest on Authority obligations.

Chapter 2

THE USE OF THE AUTHORITY DEVICE IN PENNSYLVANIA

THE NUMBER OF AUTHORITIES CREATED

Since the passage of the Municipal Authorities Act in 1935, 95 Municipal Authorities have been organized. Of these 53 have been organized by boroughs, 22 by townships, 12 by cities, 4 by counties, and 4 were organized jointly by two or more municipalities. Table 1 below shows the number of Authorities that have been organized by types of governmental units and by year of incorporation.

TABLE 1

NUMBER OF MUNICIPAL AUTHORITIES INCORPORATED, BY YEAR OF INCORPORATION AND BY TYPE OF LOCAL GOVERNMENT, 1935-1945

<i>Year of Incorporation</i>	<i>Borough</i>	<i>Township</i>	<i>City</i>	<i>County</i>	<i>Joint</i>	<i>Total</i>
1935 ¹	1	2	1	..	..	4
1936 .....	..	..	..	2	..	2
1937	1	..	1	..	1	3
1938	10	1	5	..	3	19
1939	2	1	1	1	..	5
1940	12	10	1	..	..	23
1941	8	6	2	..	..	16
1942	10	..	..	1	..	11
1943	5	2	1	..	..	8
1944	3	..	..	..	..	3
1945 ²	1	..	..	..	..	1
Total	53	22	12	4	4	95

¹ From July 30, 1935.

² To April 1, 1945.

Inspection of this table reveals that in the ten year period, 1935-1945, 95 Authorities have been incorporated. Comparison of this figure with Table 2 will show that 45 Authorities are inactive. Most of these have been abandoned completely. However, several of those most recently organized have not begun operation, but cannot be classified as completely inactive. One of the reasons for the inactivity of Author-

ities has been a failure to obtain funds either through a bond issue or a Federal grant.

Table 1 also shows that more Authorities were organized in 1940 than in any other year. More than 70 percent of the Municipal Authorities have been incorporated since the Authorities Act was amended in 1939 to permit Authorities to operate water projects. But only four Authorities have been created since the Act was amended in 1943 making the acquisition of projects under the jurisdiction of the Public Utility Commission subject to the approval of the Commission. Acquisitions by Municipal Authorities have practically stopped since this amendment and only two Authorities, one of which was not affected by it, have started operation since it became effective.¹

NUMBER OF ACTIVE AUTHORITIES

Of the 50 Authorities now in operation, the first organized was the Adamstown Water Authority which was issued its certificate of incorporation on October 26, 1937. The second oldest of the active Authorities, and the oldest sewer Authority, is the Central Delaware County Authority, dating from December 31, 1937. Of the remaining 48, 10 were incorporated in 1938, 3 in 1939, 19 in 1940, 6 in 1941, 7 in 1942, and 2 in 1943, and 1 in 1944.

Most Active Authorities in Boroughs

Inspection of Table 2 further reveals that 30, or 60 percent, of the active Authorities have been incorporated by boroughs and that 11, 22 percent of the total, have been incorporated by townships. Five Authorities were incorporated by cities, three are joint Authorities and one is a county Authority.

Joint Authorities

The three active joint Authorities are each composed of a group of municipalities. The Central Delaware County Authority, a sewer Authority, consists of three townships and five boroughs; the Darby Creek Joint Authority, another sewer Authority, is made up of eight

¹ One certificate of public convenience has been issued to date by the Public Utility Commission for the acquisition of a privately-owned water system. Two other applications are now pending before the Commission.

boroughs and two townships, and the Fox Chapel Authority, a water Authority, includes three townships and one borough.

Length of Operating Experience

More important than the length of time the Authorities have been incorporated is their operating experience. Data are available on the length of operating experience for all the operating Authorities. Table 2 shows that 4 have been operating seven years, 5 have been operating six years, 13 for five years, 13 for four years, and 8 for three years. Six have two years operating experience and one has one year. The average length of operating experience is 4.1 years for all 50 Authorities.

TABLE 2

NUMBER OF MUNICIPAL AUTHORITIES WITH PROJECTS IN OPERATION BY YEAR OPERATION BEGAN AND BY TYPE OF LOCAL GOVERNMENT, 1938-1944 ¹

<i>Year of Incorporation</i>	<i>Borough</i>	<i>Township</i>	<i>City</i>	<i>County</i>	<i>Joint</i>	<i>Total</i>
1938	1	..	1	..	2	4
1939	3	..	1	..	1	5
1940	8	3	2	..	..	13
1941	10	3	..	..	..	13
1942	4	4	..	..	..	8
1943	3	..	1	1	..	5
1944	1	..	..	..	1	1
1945 .....	..	1	..	..	..	1
Total	30	11	5	1	3	50

¹ As of April 1, 1945.

Types of Authorities in Operation

The 50 Municipal Authorities currently active operate a total of 52 projects, chiefly water systems. There are 40 water projects, 9 sewer projects and one each of the following: a combined theatre and municipal building, a gymnasium, and a factory building. Two Authorities operate two projects: Hazleton operates a water project and a factory building, and Millersville has a water project and a sewer project.

Twenty-nine Authorities purchased privately-owned water systems and eight Authorities built new water systems. The Authorities which constructed new systems were: Adamstown, Fox Chapel, Elizabeth Township, Ross Township, Robinson Township, North Versailles

Township, Borough Township and Millersville. Three of these, Fox Chapel, Ross Township, and North Versailles Township also purchased all or parts of small private water companies. Three Authorities, Bethlehem, Hellertown, and State College acquired their water systems from the parent municipality.

Nine Authorities constructed sewer projects, one built a combined theatre and municipal building, one purchased a factory building and another constructed a gymnasium.

Inspection of Table 3 reveals that Municipal Authorities are now operating in places ranging in size from 736 in Penn Township to 303,411 in Westmoreland County. However, the Westmoreland County Authority does not serve the whole county, but merely part of it. The total population of Authorities is 856,000, but if only the service area of the Westmoreland County Authority is included, the population of Authorities is 573,000. Seventy-four percent of the operating Municipal Authorities are in communities of less than 10,000 population.

Water Authorities Most Numerous

Although the acquisition or construction of water systems was not permitted until the law was amended in 1939, water Authorities have proved most popular with 80 percent of the Authorities supplying water.

As of September 1, 1944 there were 272 municipal water systems in the Commonwealth according to the Department of Internal Affairs. Of these, 40 or 15 percent, were operated by Municipal Authorities. When it is remembered that Authorities were empowered to acquire water works in 1939 and that acquisitions practically ceased after the 1943 amendment, the four year record of the Authorities is impressive. However, three of the water Authorities, Bethlehem, Hellertown, and State College, took over existing municipal systems so that the net increase in the public ownership of water systems resulting from the use of Municipal Authorities has been 37.

A total of 33 privately-owned water systems have been acquired by Municipal Authorities; all except one of these were purchased between 1939 and 1943.¹ This fact assumes added significance when it

¹ Several Authorities purchased more than one private system. Shenandoah purchased three and Penn Township purchased two.

is noted that exclusive of Municipal Authorities, only 63 municipalities purchased privately-owned water systems in the history of the Commonwealth.¹ It appears that one of the reasons for the growth of the use of the Authority device in Pennsylvania might have been the cumbersome, time-consuming, and costly process of municipal acquisition of privately-owned water systems that now exists in the Commonwealth.²

Number of Consumers

Column 3 of Table 3 gives the number of consumers served by Municipal Authorities. Almost 240,000 consumers are served by Authorities. The water Authorities are serving over 145,000 consumers. The sewer Authorities serve almost 88,000 consumers and the two other types of Authorities serve 6,000 consumers. The significance of the number of consumers served by the water Authorities may be more completely realized when it is noted that this figure represents 14 percent of all the consumers served by publicly-owned water systems in the Commonwealth. When Philadelphia and Pittsburgh are excluded from this comparison, 31 percent of the consumers of public water systems are served by Authorities.

Outside Service

The service areas of Authorities are not always confined to the boundaries of the incorporating municipality or municipalities, but many of them provide service to consumers not within their territorial limits. Inspection of Table 3 reveals that 33 of them serve consumers who reside outside their boundaries and that 15 serve only consumers within their boundaries. Twenty-nine of the 40 water systems serve outside consumers, but only three of the eight sewer projects do. This information is listed for each Authority in Column 6 of Table 3.

The Investment in Municipal Authorities

Column 3 of Table 9 shows the total assets of 48 Authority projects for which this information is available. The total assets of the 48 projects amount to \$53,241,210 according to Table 9. It is estimated that the total assets of all 52 Authority projects exceed

¹ Data from the Pennsylvania Public Utility Commission.

² This procedure is authorized under the Act of April 29, 1874, P. L. 73.

\$54,000,000. Assets of the 40 water systems are \$51,841,768. The assets of five of the eight sewer projects amount to \$951,005.

The total assets of the Authority water systems represent 22 percent of the total assets of all the publicly-owned water systems in the Commonwealth, a notable four-year record.

The Authority As a Device to Circumvent the Constitutional Debt Limit

When the Municipal Authority device was first introduced in Pennsylvania, it was said to be a device by which municipalities which had already borrowed up to their Constitutional debt limits (seven percent of the assessed valuation) could acquire and operate self-liquidating projects. But the use of the Authority device for this purpose is not necessary. The Constitution and the Municipal Borrowing Law provide that municipalities which have, by law, the power to provide for the construction or acquisition of waterworks, subways, underground railways, or street railways, may issue general obligation utility bonds which are not considered a debt under the Constitutional debt limitation if it is determined that the net revenues of the project for a five-year period, either before or after acquisition, are sufficient to pay for the interest and sinking fund charges during this period. Or the municipality may issue non-debt utility bonds secured solely by liens upon the property which impose no municipal liability.¹ Also any municipality authorized by law to construct, acquire, extend or alter any public works, undertakings, or facilities and to borrow money therefor by the issue and sale of bonds secured solely by the pledge of the whole or part of the revenue from any rent, toll or charge for the use or services of such works, undertakings, and facilities may by ordinance of the corporate authorities thereof, authorize, issue and sell non-debt revenue bonds. Such non-debt revenue bonds shall not pledge the credit, nor create any debt, nor be a lien against any real property of the municipality, but shall be a lien upon and be payable solely from the rentals, tolls or charges imposed for the use or services of such public work, undertaking or facility. Hence a municipality which has borrowed up to its Constitutional debt limit is able to acquire or construct certain projects without recourse to the Municipal Authority device.

¹ Sections 601-623, Municipal Borrowing Law, 1941, P. L. 159.

TABLE 3
MUNICIPAL AUTHORITIES IN OPERATION, 1945

<i>Authority</i>	<i>1940 Population</i>	<i>Number of Consumers</i>	<i>Date of Organization</i>	<i>Date Operations Began</i>	<i>Service Outside Authority Boundary</i>	<i>Type of Proj- ect¹</i>
Westmoreland County.	303,411 ²	4,800	1942	1943	No	W
Darby Creek	104,460	60,000	1938	1938	Yes	S
Chester	59,285	19,500	1939	1939	Yes	W
Bethlehem	58,490	16,309	1938	1939	Yes	W
Hazleton	38,009	8,468 ³	1938	1938 ³	Yes	WF
Central Delaware	33,082	23,825	1937	1938	No	S
New Kensington	24,055	7,800	1943	1943	Yes	W
Shenandah	19,790	6,300	1941	1941	Yes	W
Beaver Falls	17,098	11,200	1940	1940	Yes	W
Fox Chapel	12,513	600	1938	1939	No	W
Latrobe	11,111	4,108	1942	1943	Yes	W
Ross Twp.	10,827	2,400	1940	1941	Yes	W
Charleroi	10,784	9,000	1938	1942	Yes	W
Northampton	9,622	5,357	1939	1940	Yes	W
Lansdale	9,316	2,516	1940	1940	Yes	W
Minersville	8,686	3,000	1941	1941	Yes	W
Greenville	8,149	2,500	1942	1942	Yes	W
Elizabeth Twp.	7,831	1,000	1940	1940	No	W
West View	7,215	12,827	1942	1942	Yes	W
Lehighton	6,615	3,423	1940	1941	Yes	W
Freeland	6,593	2,100	1940	1941	Yes	W
North Versailles Twp.	6,341	1,000	1941	1941	No	W
State College	6,226	1,792	1940	1941	Yes	W
Muhlenberg Twp.	5,516	2,093	1940	1940	Yes	W
Bellefonte	5,304	1,500	1938	1939	Yes	S
Quakertown	5,150	1,251	1940	1941	Yes	W
Waynesburg	4,891	4,891	1944	1944	⁵	G
Mahanoy Twp.	4,697	3,268	1940	1942	Yes	W
Portage	4,123	1,400	1942	1942	Yes	W
Hellertown	4,031	1,234	1940	1940	No	W
Manheim	3,831	1,100	1939	1943	Yes	S
Robinson Twp.	3,775	390	1940	1942	Yes	W
Hegins Twp.	3,669	619	1940	1940	No	W
Mt. Penn.	3,654	2,000	1941	1941	Yes	W
Williamstown	2,769	950	1940	1940	Yes	W
Hatboro	2,605	1,500	1940	1941	Yes	W
Belle Vernon	2,463	1,769	1942	1943	Yes	W
Littlestown	2,463	650	1940	1940	No	S
Tower City	2,221	1,015	1940	1940	Yes	W
New Holland	2,153	300	1938	1941	No	S
Union Twp.	2,038	365	1941	1941	No	W
Blythe Twp.	2,027	2,000	1943	1945	Yes	W
Mansfield	1,880	602	1942	1943	No	W
Millersville	1,867	675 ⁴	1938	1941	No	WS
Martinsburg	1,396	212	1938	1940	Yes	S
Stoneboro	1,194	1,194	1940	1941	⁵	T
Emlenton	986	375	1938	1939	No	S
Adamstown	955	165	1937	1940	No	W
Borough Twp.	916	125	1941	1942	No	W
Penn Twp.	736	85	1940	1942	Yes	W
Totals	855,819	239,553				

¹ Project: W—Water, S—Sewer, G—Gymnasium, T—Theatre, F—Factory Building.

² Population served is 20,000.

³ Hazleton factory building project began operation in 1938, and the water project began operation in 1943.

⁴ Sewer project began operations in 1942; water project in 1941; 370 sewer consumers; 305 water consumers.

⁵ Not applicable.

Chapter 3

ADMINISTRATION OF MUNICIPAL AUTHORITIES

THE GOVERNING BOARD

A Municipal Authority is administered by a governing board appointed by the municipality creating the Authority. If the Authority is created by one municipality, the board consists of five members appointed by the governing body, i.e., the councilmanic body, of the municipality for staggered terms of five years. Thus, one board member's term expires each year, and there are at least four experienced members on the governing board at all times. Board members are required to be citizens of the municipality which created the Authority, but there are no other legal requirements for membership.

They hold office until their successors have been appointed, and they may succeed themselves. A board member may be removed for cause by the court of quarter sessions of the county in which the Authority is located, after being given a copy of the charges against him for at least ten days, and full hearing by the court. A vacancy on the board is filled by appointment by the governing body of the municipality for the unexpired term.

For joint Authorities, i.e., Authorities established by two or more municipalities, the governing board must have at least as many members as the number of municipalities incorporating the Authority, but in no case less than five. If additional municipalities join an existing Authority, each shall have one member on the governing board. The representation on the governing board of a joint Authority having less than five participating municipalities is determined in the articles of incorporation. Municipalities withdrawing from an Authority automatically lose their representation on the governing board.

The governing board has full authority to manage the properties and business of the Authority and to establish and alter the by-laws and rules and regulations controlling the conduct of Authority busi-

ness. The board determines the number of officers, agents and employees of the Authority, their duties and compensation.

Councilmen as Members of Governing Boards

As stated above, the governing board of a Municipal Authority is appointed by the governing body of the municipality creating the Authority. Nothing is said in the law about qualifications of members of the governing board except that they shall be citizens of the municipality. When Authorities were first established many councilmen were appointed to the governing boards. The right of councilmen of cities of the third class to serve as Authority board members was questioned and the Pennsylvania Supreme Court decided that the office of councilman in a city of the third class was incompatible with membership on the governing board of a Municipal Authority.¹ Whether members of the governing bodies of other types of municipalities may serve on the governing boards of Authorities has not been determined by the courts, but the trend is away from appointing them to these positions.

Present Membership of Authority Governing Boards

In view of the controversy over councilmen and other municipal officials serving on the governing boards of Authorities, an analysis of the present composition of these boards is necessary. Data from all of the 50 active Authorities reveal that private citizens rather than councilmen or other municipal officials predominate on the governing boards. The governing boards of 34 of the 50 are composed entirely of private citizens, and in 11 other Authorities the majority of the board were citizens and only three Authority boards, Bellefonte, Tower City and Emlenton, were composed entirely of councilmen. Of the 260 members currently serving on the 50 Authority boards, only 40, or 15 percent, are councilmen or other municipal officials while 220 are private citizens. Of the 40 municipal officials serving as Authority board members, 23 are councilmen, 8 are township and borough secretaries, 4 are solicitors, and there are 5 miscellaneous municipal officials serving.

When these figures are compared with the membership of Authority boards in 1941 the trend away from municipal officials holding membership becomes very evident. Of the 265 members serving on the

¹ *McCreary v. Major*, 343 Pa. 355.

boards of 50 Authorities in 1941, 99 or 37 percent, were municipal officials and 166 were private citizens. These 99 included 67 councilmen, 11 township supervisors, 5 burgesses and mayors, 4 solicitors, 3 township commissioners, and 9 miscellaneous municipal officers. In 1941, there were six Authorities which had governing boards that were completely councilmanic. They were: Bellefonte, Emlenton, Lansdale, Mount Penn, Tower City, and Williamstown. In some instances, municipal officials serving on Authority boards have resigned in order that private citizens might be appointed. In summary, the trend is away from municipal officials serving on these boards with 15 percent currently serving as compared with 37 percent in 1941.

Compensation of Board Members

One of the arguments advanced against councilmen serving on these boards was the fact that in addition to having the power to appoint themselves to the boards they would then have the power to fix their own compensation as members of the Authority boards.

An analysis of the compensation received by Authority board members for their work as board members reveals that no Authority is paying any sizable sum as compensation to its board members. The highest amount paid as compensation was paid by Chester, which paid its board members \$1,200 a year. Only six Authorities pay their board members \$250 or more a year. In addition to Chester, these are: Beaver Falls, \$300; Charleroi, \$450; New Kensington, \$300; Northampton, \$500; and West View, \$300. The amounts paid by 48 Authorities are listed below, and in addition, two Authorities, Bethlehem and Borough Township, pay their boards \$10 per meeting. It should be noted that 23 Authorities pay no compensation at all to board members.

TABLE 4
**COMPENSATION PAID TO MEMBERS OF GOVERNING
BOARDS OF MUNICIPAL AUTHORITIES**

<i>Amount Paid Per Year</i>	<i>Number of Authorities</i>
None	23
Under \$100	7
\$100 to \$250	12
\$250 to \$500	5
Over \$500	1

Of the eight Authorities which have councilmen on their governing boards, Adamstown, Bellefonte, Darby Creek, Emlenton, Lansdale, New Holland, Tower City and Waynesburg, only Darby Creek and Tower City pay any compensation to board members and they pay \$180 and \$40, respectively, a year. Further, the Darby Creek Authority is a joint Authority and there are only two councilmen on the ten member board. It is evident that the suspicion that councilmen were appointing themselves to Authority boards and then fixing their own compensation as board members is not supported by actual facts.

MANAGEMENT CONTRACTS

Some Authorities have entered into management contracts with municipal management companies whereby the business of the Authority is managed by the company for a fee. Data from all of the active Authorities reveal that 10 of them have entered into management contracts with management companies to manage the Authority business, while 40 have not. All the Authorities which have management contracts are water Authorities.

RELATIONSHIP TO LOCAL GOVERNMENT

The relationship between the Authority and the parent local government is usually close. As stated in this chapter, the governing body of the municipality or municipalities creating the Authority appoints the governing board of the Municipal Authority. During the early years of Authority operation, many municipal officials were appointed to their governing boards, thus assuring close liaison between the Authority and the municipality. The presence of municipal officers on the Authority boards meant that the Authority and the municipality would at all times be informed of each other's activities, which made integration of their activities more easily obtained.

Some Authorities have appointed the secretary of the municipality as the secretary to the Authority, an arrangement that appears to be very satisfactory. A survey of a number of municipal Authorities reveals that there is little or no overlapping and duplication of effort between Authorities and municipalities, indicating that this major problem has been satisfactorily solved. Many municipalities have con-

tributed funds and services to Authority projects, indicating close cooperation between them.

LEASING OF AUTHORITY PROJECTS

A number of Authorities have leased the Authority projects to the parent municipality for purposes of operation, collecting an annual rental to pay the debt service charges. Eight Authorities are currently operating under this arrangement, including five sewer Authorities, two water Authorities and one combined sewer and water Authority. A list of these Authorities includes Bethlehem, Manheim, Millersville, Emlenton, Martinsburg, New Holland, Littlestown and Adamstown. Under this arrangement the Authority board has little to do except to see that the debt service payments are made. Two Authorities, Stoneboro and Waynesburg, lease their projects from the municipality and operate them.

RELATIONSHIP TO THE STATE GOVERNMENT

Municipal Authorities have relations with four State agencies: The Department of Internal Affairs, the Public Utility Commission, the Department of State, and the Department of Health. Under Section 11 of the Municipality Authorities Act, water and water rights may not be acquired unless and until approval is obtained from the Water and Power Resources Board in the Department of Forests and Waters. However, it would appear that they have fewer relationships with the State than local governments or other types of Authorities.

DEPARTMENT OF STATE

As stated in Chapter 1, when a municipality decides to establish a Municipal Authority, the articles of incorporation must be filed with the Secretary of the Commonwealth. If the Secretary finds that the articles of incorporation conform to the law¹ he approves them and issues a certificate of incorporation and the corporate existence of the Authority begins. If the articles of incorporation are in accordance with the law, it is mandatory that the Secretary of the Commonwealth issue a certificate of incorporation to the Authority.

¹ See Section 3, 1943, P. L. 661.

DEPARTMENT OF INTERNAL AFFAIRS

A. Budgets and Financial Reports

Municipal Authorities are not required to submit budgets or annual financial reports to the Department of Internal Affairs.¹ Under the current policy of the Department, however, water Authorities are asked to submit annual financial reports on the same forms that private and municipal water systems use. The Department does this under the Act of 1921, P. L. 193, which gives it the general power to compile statistics and information. Sewer and other types of Authorities are not asked by the Department to file reports. In fact, the water Authority is the only type of Authority that is required to file financial reports with any State agency.

For 1943, all water Authorities but one filed annual financial reports with the Department. These reports contain a rate schedule, a balance sheet, an income statement, statistics on water sales and employment, and a description of the physical property of the Authority.

B. Bond Issues

Municipal Authorities are not required to submit their proposed bond issues to the Department for approval before issuance.² However, the bonds are sold at either public or private sale and unlike municipalities, Authorities can only pledge the revenues of the project to insure compliance with the terms of the bonds.

In summary, Authorities are not required to submit their budgets nor their bond issues to the Department, and only the water Authorities are asked to submit annual financial reports, and this is not required under the laws that require local governments to do so.

THE PUBLIC UTILITY COMMISSION

A. Acquisition of Projects

The Public Utility Commission acquired jurisdiction over acquisitions of public utilities by Municipal Authorities by a 1943 amendment to the Authority Law. This amendment stated that an Authority could not acquire a project subject to the jurisdiction of the Public Utility

¹ 1935, P. L. 1176, 1180, 1184; 1937, P. L. 1608, 1739.

² 1941, P. L. 159.

Commission without the approval of the Commission as evidenced by issuance of a certificate of public convenience.¹ The practical effect of this amendment has been to stop the acquisition of privately-owned water systems by Authorities, since water systems have been the only type of Authority projects acquired rather than constructed.² Since the 1943 amendment only one Authority has received a certificate of public convenience from the Public Utility Commission to purchase a private water system.³ Since water Authorities were the most numerous types of Authorities, the net effect of the 1943 amendment has been to stop the formation of new Authorities, only two have begun operation since the effective date of the amendment.

B. Rates

The Commission has regulatory jurisdiction over the rates charged by private utilities and also over municipal utility rates for consumers outside the corporate limits of the municipality. A decision by the Pennsylvania Superior Court in 1943 held that the Public Utility Commission had regulatory jurisdiction over water rates charged by an Authority to consumers being served beyond its boundaries.⁴ After this decision an amendment to the Municipal Authorities Act gave the Authority the power “. . . to fix, alter, charge, and collect rates . . . to be determined by it exclusively . . . and provided that . . . any rate-payer (could proceed) in the court of common pleas . . . to determine the reasonableness and uniformity of the rates. . . .”⁵ Despite this amendment, there is presently a case before the Commission involving the fact of its jurisdiction over rates charged by Authorities.

DEPARTMENT OF HEALTH

The Department of Health is charged with the supervision of water and sewage systems in the Commonwealth to protect the health of the consumer.⁶ Since there are 49 Authority sewer and water proj-

¹ Section 9 (b), P. L. 661, 1943.

² The only known exception to this is a factory building acquired by the Hazleton Authority.

³ Blythe Township was issued a certificate of public convenience to purchase parts of three privately-owned water companies on Jan. 3, 1945.

⁴ *State College Borough Authority v. Pennsylvania Public Utility Commission*, 152 Pa. Super. 363.

⁵ 1943, P. L. 661, Section 4 (h).

⁶ 1929, P. L. 177; 1937, P. L. 1987.

ects in the Commonwealth, the Department of Health supervises practically all the Authorities.

Municipal Authorities must have a permit issued by the Secretary of Health to install a new water or sewage system or to extend or improve existing facilities. Authorities desiring to construct new projects or to improve existing facilities must first submit plans to the Department. These plans are reviewed by Department of Health engineers who also make field inspections of the projects.

In addition to these inspections, the Department engineers make periodic inspections of all water and sewage disposal plants. Each plant is required to submit daily operations reports to the Department which are checked by the engineers. There is also a stipulation in the permits issued by the Secretary that the projects must be operated by competent personnel.

THE WATER AND POWER RESOURCES BOARD

By amendment¹ to the Authority Act, a Municipal Authority was given the right to acquire water works and water distribution systems. Therefore, under Section 3 of the said act amending Section 11 of the original act, an Authority which acquires an easement in water rights must, before acquiring the same, receive approval from the Water and Power Resources Board in accordance with the law in such cases.

RELATIONSHIP TO THE FEDERAL GOVERNMENT

Municipal Authorities have had relationships with only two Federal agencies: the Public Works Administration and the Works Projects Administration. Both of these agencies have made grants of funds to Authorities, and as granting agencies imposed certain terms and conditions upon the Authorities in connection with the grants. One Authority, Borough Township, received Federal Works Agency funds on loan and subsequently sold bonds to the Federal Government to liquidate the loan. These bonds are still being held by the Federal Government. There have been no other types of relationships between the Authorities and Federal Agencies.

¹ Act of May 17, 1939, P. L. 167.

Chapter 4

FINANCING MUNICIPAL AUTHORITIES

Initial Cost of Authority Projects

Before inquiring into the mechanics of financing the acquisition or construction of Municipal Authority projects, it is first necessary to examine the cost of these projects, which, to some extent determined the method of financing. As indicated in Chapter 2, 33 of the 50 active Authorities purchased existing facilities and 17 Authorities constructed new projects. Authorities generally do not have funds with which to pay preliminary and other expenses, and all funds are usually secured from a bond issue or from other borrowings. Table 5 below shows the total initial cost of the projects currently being operated by Authorities and also gives the amounts of the bond issues and the amounts of Federal funds received where this is known.

Cost data for 50 of the 52 Authority projects show that the initial cost of these projects amounted to \$45,054,171. Inspection of these data reveals that the median average cost of these projects was \$337,000; with four under \$100,000 and ten over \$1,000,000. The costs ranged from \$4,450 in Penn Township to \$5,793,000 in Chester. In some instances it will be noted that the amount of the bond issue exceeds the initial cost of the project in order to provide for expenses in acquisition, working capital, and other items.

TABLE 5
SOURCE OF FUNDS AND INITIAL COST OF MUNICIPAL
AUTHORITY PROJECTS

<i>Municipal Authority</i>	<i>Amount of Bond Issue</i>	<i>Federal Grants</i>	<i>Local Government Contribution</i>	<i>Initial Cost¹</i>	<i>Project²</i>
Adamstown	\$52,000	\$57,552	.....	\$112,552	W
Beaver Falls	4,490,000	.....	.....	4,300,000	W
Bellefonte	70,000	54,660	.....	120,816	S
Belle Vernon	290,000	.....	.....	260,000	W
Bethlehem	2,150,000	1,867,186	.....	4,100,000	W
Blythe Twp.	420,000	.....	.....	367,500	W
Borough Twp.	126,000	.....	.....	126,175	W
Central Delaware ...	40,000	26,800	\$214,761	.....	S
Charleroi	2,650,000	.....	.....	2,534,000	W
Chester	5,910,000	97,014	.....	5,793,279	W
Darby Creek	76,560	.....	268,530	.....	S
Elizabeth Twp.	345,000	432,711	.....	850,000	W
Emlenton	24,000	18,942	.....	42,942	S
Fox Chapel	347,000	247,176	.....	609,390	W
Freeland	426,000	.....	.....	426,000	W
Greenville	690,000	.....	.....	617,300	W
Hatboro	197,000	.....	.....	186,500	W
Hazleton	200,000	.....	.....	185,000	F
Hazleton	3,300,000	.....	.....	3,300,000	W
Hegins Twp.	157,000	.....	.....	157,000	W
Hellertown	125,000	128,363	.....	253,263	W
Lansdale	450,000	.....	.....	436,200	W
Latrobe	1,850,000	.....	.....	1,850,000	W
Lehighton	740,000	.....	.....	740,000	W
Littlestown	85,000	59,684	.....	293,206	S
Mahanoy Twp.	880,000	.....	.....	880,000	W
Manheim	500,000	382,625	.....	500,000	S
Mansfield	135,000	.....	.....	125,000	W
Martinsburg	70,000	233,000	.....	303,000	S
Millersville	76,000	148,667 ³	5,000	229,667	W
Millersville	79,000	148,668 ³	10,000	237,668	S
Minersville	750,000	.....	.....	705,000	W
Mount Penn	380,000	.....	.....	363,800	W
Muhlenberg Twp. ...	520,000	.....	.....	520,000	W
New Holland	256,000	.....	.....	238,298	S
New Kensington	2,050,000	.....	.....	2,050,000	W
Northampton	1,035,000	15,297	.....	924,931	W
North Versailles Twp.	470,000	150,281	.....	620,281	W
Penn Twp.	7,500	.....	.....	4,450	W
Portage	227,000	.....	.....	227,000	W
Quakertown	320,000	.....	.....	310,000	W
Robinson Twp.	225,000	.....	1,200	252,841	W
Ross Twp.	1,025,000	.....	.....	860,112	W
Shenandoah	1,600,000	.....	.....	1,600,000	W
State College	585,000	.....	.....	233,000	W
Stoneboro	18,000 ⁴	17,397 ⁵	16,000	41,000	T
Tower City	262,000	41,421	.....	262,000	W
Union Twp.	48,000	.....	.....	44,000 ⁶	W
Waynesburg	None	99,000	5,000	300,000	G
Westmoreland	1,890,000	.....	.....	1,890,000	W
West View	3,500,000	.....	.....	3,500,000	W
Williamstown	171,000	.....	.....	171,000	W
Total	\$42,290,060	\$4,329,634	\$520,491	\$45,054,171	

¹ The purchase price is here considered as the initial cost for the Authorities which acquired existing facilities.

² W—Water, S—Sewer, G—Gymnasium, T—Theatre, F—Factory Building.

³ No breakdown available for WPA funds between the water and the sewer project.

⁴ Issued by the borough.

⁵ This Authority repaid part of the Federal grant.

⁶ Not yet completed.

The cost of construction or acquisition of projects by Municipal Authorities has been financed largely by the issuance of revenue bonds and by Federal grants. As stated in Chapter 1, Authorities do not have the taxing power, but the law gives the Authority the power to borrow money and issue bonds, which are limited to a term of 40 years. The law also empowers Authorities to borrow money, accept grants and enter into other transactions with any Federal agency, the Commonwealth of Pennsylvania or any municipality.

FINANCING BY REVENUE BONDS

The principal source of funds for the acquisition or construction of projects by Municipal Authorities has been revenue bonds. These bonds, which are issued by the Authority, pledge only the earnings of the project and not the property, and do not pledge the credit of the municipality. Table 6 shows the bond issues of Municipal Authorities, the amount of each issue, the interest rate, the maturity dates, the average life of the full issue, and the amount of bonds outstanding on January 1, 1945.

TABLE 6

BOND ISSUES OF MUNICIPAL AUTHORITIES

<i>Authority</i>	<i>Amount of Bond Issued</i>	<i>Date Issued</i>	<i>Interest Rate (Percent)</i>	<i>Maturity</i>	<i>Average Life</i>	<i>Average Full Issue Life</i>	<i>Callable</i>	<i>Amount Outstanding Jan. 1, 1945</i>
Adamstown	\$40,000	1939	3.50	1942-1964	17.68	17.68	Yes	\$38,000
Adamstown	12,000	1940	3.50	1964	24.00	24.00	Yes	12,000
Beaver Falls	1,000,000	1940	2.75	1941-1955	8.51	32.99	No	772,000
Beaver Falls	3,490,000	1940	3.25	1980	40.00	32.99	Yes	None
Beaver Falls	2,120,000	1944	2.50	1956-1979	23.58	28.31	No	2,120,000
Beaver Falls	1,370,000	1944	2.50	1980	35.63	28.31	Yes	1,370,000
Bellefonte	70,000	1939	4.00	1942-1968	16.82	16.82	No	64,000
Belle Vernon	290,000	1942	3.50	1943-1982	25.08	25.08	Yes	284,000
Bethlehem	2,150,000	1938	2.50	1941-1963	16.60	16.60	Yes	2,040,000
Blythe Township	420,000	1945	3.50	1946-1980	21.39	.....	Yes	420,000
Borough Township	126,000	1941	3.00	1943-1977	22.77	22.77	Yes	122,000
Central Delaware	40,000	1938	3.25	1940-1958	11.43	11.43	Yes	30,000
Charleroi	2,650,000	1942	3.25	1943-1981	22.90	22.90	Yes	2,588,000
Chester	1,337,000	1939	3.00	1940-1954	9.15	24.99	No	1,036,000
Chester	4,573,000	1939	3.25	1955-1979	29.62	24.99	No	4,573,000
Darby Creek	76,560	1940	3.50	1957	17.00	17.00	Yes	58,059
Elizabeth Township	235,000	1940	3.50	1945-1970	20.53	20.53	Yes	235,000
Elizabeth Township	110,000	1941	3.25	1947-1972	20.04	20.04	Yes	110,000
Emlenton	24,000	1939	4.00	1959	20.00	20.00	Yes	16,000
Fox Chapel	302,000	1939	3.25	1944-1963	10.56	10.56	Yes	272,000
Fox Chapel	45,000	1939	4.00	1944-1963	14.87	14.87	Yes	43,000
Freeland	426,000	1940	3.50	1941-1970	19.37	19.37	Yes	404,000
Greenville	690,000	1942	3.00	1943-1982	24.33	24.33	Yes	670,000
Hatboro	97,000	1940	1.75	1941-1958	10.31	17.74	Yes	80,000
Hatboro	100,000	1940	2.00	1959-1970	24.94	17.74	Yes	100,000
Hazleton	200,000	1938	4.00	1958	20.00	20.00	Yes	123,200
Hazleton	2,800,000	1943	3.00	1944-1983	25.50	26.28	Yes	2,788,000
Hazleton	500,000	1943	5.00	1950-1983	30.64	26.28	Yes	500,000

TABLE 6—Continued

<i>Authority</i>	<i>Amount of Bond Issued</i>	<i>Date Issued</i>	<i>Interest Rate (Percent)</i>	<i>Maturity</i>	<i>Average Life</i>	<i>Average Full Issue Life</i>	<i>Callable</i>	<i>Amount Outstanding Jan. 1, 1945</i>
Hegins Township	\$157,000	1940	3.00	1941-1975	22.45	22.45	Yes	\$151,000
Hellertown	24,000	1940	4.25	1941-1948	4.50	9.78	No	12,000
Hellertown	46,000	1940	2.50	1941-1960	12.54	9.78	Yes	42,000
Hellertown	25,000	1941	2.00	1942-1953	6.64	6.64	Yes	19,000
Hellertown	30,000	1944	2.00	1945-1956	7.40	7.40	Yes	30,000
Lansdale	115,000	1940	2.50	1942-1951	6.67	18.08	No	83,000
Lansdale	335,000	1940	3.50	1952-1970	22.00	18.08	No	335,000
Latrobe	1,550,000	1943	3.00	1944-1983	25.33	26.04	Yes	1,537,000
Latrobe	300,000	1943	5.00	1951-1983	29.68	26.04	Yes	300,000
Lehighton	740,000	1941	3.00	1942-1981	26.24	26.24	Yes	727,000
Littlestown	40,000	1941	3.00	1947-1960	13.50	19.32	Yes	40,000
Littlestown	45,000	1941	2.75	1961-1969	24.50	19.32	Yes	45,000
Mahanoy Township	880,000	1942	3.75	1942-1982	25.50	25.50	Yes	870,000
Manheim	85,000	1940	2.75	1951-1965	18.29	14.03	Yes	None
Manheim	45,000	1940	3.00	1942-1950	6.00	14.03	No	None
Manheim	65,000	1942	2.75	1966-1976	28.92	28.92	Yes	None
Manheim	500,000	1944	2.75	1951-1980	24.68	24.68	Yes	500,000
Mansfield	85,500	1943	3.00	1949-1983	28.50	27.14	Yes	77,500
Mansfield	49,500	1943	5.00	1955-1979	24.80	27.14	Yes	49,500
Martinsburg	70,000	1940	4.00	1944-1970	17.00	17.00	Yes	65,000
Millersville	79,000	1940	3.50	1941-1964	14.83	14.83	Yes	None
Millersville	72,000	1940	3.50	1945-1964	16.50	16.50	Yes	None
Millersville Sewer	79,000	1942	2.75	1943-1962	.....	.....	Yes	64,000
Millersville Water	76,000	1942	2.75	1945-1958	.....	.....	Yes	76,000
Minersville	750,000	1941	3.00	1942-1978	22.25	22.25	Yes	720,000
Mount Penn	380,000	1941	2.25	1942-1976	18.88	18.88	Yes	355,000
Muhlenberg Township	520,000	1940	3.00	1941-1975	22.14	22.14	Yes	495,000
New Holland	250,000	1940	3.25	1942-1971	20.20	20.20	Yes	None
New Holland	256,000	1941	2.75	1942-1970	17.61	17.61	Yes	238,000
New Kensington	492,000	1943	3.00	1944-1957	8.39	23.47	Yes	447,000
New Kensington	714,000	1943	3.25	1958-1970	21.31	23.47	Yes	714,000
New Kensington	844,000	1943	3.50	1971-1983	34.08	23.47	Yes	844,000

[35]

TABLE 6—Continued

<i>Authority</i>	<i>Amount of Bond Issued</i>	<i>Date Issued</i>	<i>Interest Rate (Percent)</i>	<i>Maturity</i>	<i>Average Life</i>	<i>Average Full Issue Life</i>	<i>Callable</i>	<i>Amount Outstanding Jan. 1, 1945</i>
Northampton	\$1,000,000	1940	2.75	1941-1970	17.74	17.74	Yes	\$915,000
Northampton	35,000	1943	2.75	1971	27.50	27.50	Yes	35,000
North Versailles Township	410,000	1941	3.00	1946-1971	20.71	20.71	No	410,000
North Versailles Township	60,000	1942	3.50	1972-1974	31.00	31.00	Yes	60,000
Penn Township	7,500	1941	3.50	1943-1971	16.00	16.00	No	7,000
Portage	227,000	1942	4.00	1944-1977	21.70	21.70	Yes	224,000
Quakertown	56,000	1941	2.00	1945-1955	9.50	26.21	No	56,000
Quakertown	264,000	1941	2.25	1956-1981	29.75	26.21	Yes	264,000
Robinson Township	225,000	1941	3.25	1948-1971	21.00	21.00	Yes	225,000
Ross Township	525,000	1941	3.25	1951-1975	24.86	29.81	Yes	525,000
Ross Township	500,000	1941	3.50	1976	35.00	29.81	Yes	500,000
Sandy Township	17,000	1942	3.00	1944-1952	6.17	17.07	No	17,000
Sandy Township	68,000	1942	3.25	1953-1971	19.79	17.07	Yes	68,000
Shenandoah	1,600,000	1941	4.00	1942-1981	27.25	27.25	Yes	1,576,000
State College	282,000	1941	2.25	1944-1963	13.25	21.54	Yes	272,000
State College	303,000	1941	2.50	1963-1977	29.25	21.54	Yes	303,000
Stoneboro	18,000	1940	3.00	1941-1957	.....	.....	Yes	14,000
Tower City	262,000	1940	3.00	1941-1978	24.28	24.28	Yes	251,500
Union Township	48,000	1941	3.50	1944-1961	12.85	12.85	Yes	41,000
Westmoreland County	1,620,000	1943	3.00	1944-1983	25.72	25.89	Yes	1,606,000
Westmoreland County	270,000	1943	4.00	1951-1983	26.88	25.89	Yes	270,000
West View	1,500,000	1942	3.25	1982	40.00	25.21	Yes	1,500,000
West View	700,000	1942	2.75	1943-1952	5.75	25.21	No	600,000
West View	800,000	1942	3.00	1953-1961	15.25	25.21	No	800,000
West View	500,000	1942	3.25	1962-1966	24.00	25.21	No	500,000
Williamstown	171,000	1940	3.00	1941-1976	23.10	23.10	Yes	164,500
Totals	\$46,461,060							\$40,908,259

[36]

Inspection of Table 6 reveals that 50 Municipal Authorities have floated a total of 65 bond issues, including 4 refunding issues and 1 note issue.¹ Excluding the issues that have been refunded, 50 Authorities had issued a grand total of \$42,375,060 in bonds. The four issues were refunded by Beaver Falls, Manheim, Millersville and New Holland in the amount of \$4,086,000. The bond issues range in size from \$7,500 in Penn Township to \$5,900,000 in Chester. Eleven Authorities have issued more than \$1,000,000 in bonds, eleven have issued less than \$100,000 and one issued no bonds at all.² The mean average amount of bonds issued was \$847,500. A tabulation of the bond issues is contained in Table 7 below.

TABLE 7
COMPARISON OF THE AMOUNTS OF BOND ISSUES OF MUNICIPAL AUTHORITIES ³

<i>Amount of Bonds Issued</i>	<i>Number of Authorities</i>
\$1,000,000 and over	11
\$500,000 to \$1,000,000	8
\$250,000 to \$500,000	11
\$100,000 to 250,000	9
Under \$100,000	11
None	1
Total	51

³ This tabulation includes the total amount of bonds issued by each Authority, except those that have refunded. In these cases the amount of the refunding issue was used. The bond of Sandy Township Authority, which has been liquidated, is included here accounting for the 51st Authority.

Interest Rates

Nominal interest rates on the bond issues of Municipal Authorities vary widely. The nominal interest rates cannot be used to reach any definite conclusions since several factors not present in this table have influenced the interest rate. The amount of the premium or discount, if any, must be deducted or added to obtain the net effective rate. Further, certain organization expenses, such as legal and engineering fees, which are sometimes borne by the company which purchases the bonds are also reflected in the interest rate. For these reasons it is not possible to draw any conclusions from a comparison of interest rates on the various issues. The rates varied from 1.75 percent on a

¹ The Stoneboro bonds were issued by the borough.
² Waynesburg.

\$97,000 issue sold by Hatboro to 5 percent on three issues sold by Hazleton, Latrobe, and Mansfield, respectively. However, the higher rates may be influenced by some of the provisions in the indentures. The median average interest rate for all the issues was 3 percent, and the mean weighted average interest rate was 3.34 percent.

TABLE 8

INTEREST RATES OF MUNICIPAL AUTHORITY BONDS

<i>Rate of Interest (percent)</i>	<i>Number of Issues</i>	<i>Rate of Interest (percent)</i>	<i>Number of Issues</i>
1.75	1	3.25	11
2.00	4	3.50	13
2.25	3	3.75	1
2.50	6	4.00	7
2.75	9	4.25	1
3.00	20	5.00	3

The average life of the bonds at the time of issuance ranged from 4.5 years for a \$24,000 issue sold by Hellertown to 40 years, which is the maximum life of bonds permitted under the Act,¹ for a \$1,500,000 issue sold by West View. Beaver Falls recently refunded a 40 year issue reducing both the interest rate and the average life of the bonds.

Most of the issues had an average life of less than 25 years at the date of issuance. Only six had terms of 30 years or more. Most (64 of 79) of the amounts of bonds outstanding had a callable feature. However, no attempt has been made here to distinguish among the partially or conditionally callable amounts or to show the call price or call date.

Public or Private Sale of Bonds

Under the Municipal Authorities Law, Authority bonds may be sold either at a public or a private sale,² whereas the Municipal Borrowing Law requires municipalities to hold public sales of their bonds.³ Analysis of the bond sales of 47 Authorities shows that 36 Authorities sold their bonds at private sales and eleven held public sales. Thirty-three water Authorities had private sales and only five held public sales, but five sewer Authorities held public sales and only three held private sales.

¹ See Chapter 1.

² 1935, P. L. 463, Section 5.

³ 1941, P. L. 159, Section 212.

Debt of Municipal Authorities

As stated above, Municipal Authorities have issued a total of \$42,375,060 in revenue bonds. Of this amount, a total of \$40,908,259 was still outstanding. One default, on an issue of \$85,000 by the Sandy Township Municipal Authority, has occurred. Many of the issues have not become due as yet, accounting for the fact that 97 percent of the total bonded debt was outstanding on January 1, 1945. Of the \$24,320,000 whose first maturity was prior to this date, \$22,880,000 or 94 percent was outstanding. Column 9 of Table 6 shows the total outstanding debt of the Authorities.

TAX EXEMPTION OF MUNICIPAL AUTHORITY BONDS

The Authority Law states that since Municipal Authorities perform essential governmental functions they shall not be required to pay any taxes or assessments on property used for Authority purposes, and that Authority bonds and the income therefrom shall also be free from taxation.¹

The interest on Authority bonds is exempt from Federal and State income taxation, enabling Authorities to sell their bonds at low rates of interest.

The transfer of a private utility to public ownership involves no loss of revenue to the local government, and it does result in a saving of all Federal and State taxes in addition to the lower interest rates occasioned by the exemption of the income from municipal or Authority bonds from income taxes.

Tax exemption for the bonds of Authorities was upheld in the case of *Kelley v. Earle*² wherein the tax exemption of bonds issued by the General State Authority was challenged. The court decided that the Authority performed public functions and that the Legislature could exempt its bonds from taxation.

FINANCIAL ASSISTANCE FROM THE FEDERAL GOVERNMENT

A major advantage of the Authority over the private utility is the availability of Federal grants to Authorities for construction. The

¹ 1935, P. L. 463, Section 15.

² 325 Pa. 337.

Authority Law provides that they may “. . . accept grants from, and enter into contracts, leases or other transactions with any Federal agency, Commonwealth of Pennsylvania, or any municipality.”¹ Many Authorities have taken advantage of this provision to obtain important financial assistance from these sources. However, as is pointed out in Table 5, nearly all the funds have come from Federal grants, with a small amount from the parent local governments and none from the State.

It should also be noted that Federal funds were available to Authorities constructing new projects or making additions to existing facilities, while they were not generally available for the purchase or acquisition of existing facilities.

Federal Grants

As stated above, the chief source of Authority funds, other than bond issues, has been the Federal Government. Two agencies, the Public Works Administration and the Works Projects Administration have made grants to Municipal Authorities. Grants were made for 21 Authority projects and 31 projects received no funds from the Federal Government.

PWA Grants

The Public Works Administration made seven grants to Municipal Authorities, including one grant to a municipality which turned its project over to the Authority after it was completed. These grants were made on the basis of 45 percent of the total cost of the project. These grants are not presently available to Municipal Authorities. Authorities receiving them were Stoneboro, Bellefonte, Bethlehem, Emlenton, Manheim, Central Delaware, and Fox Chapel, and they received a total of \$2,260,408 from this source.

WPA Grants

Authorities received WPA funds for 17 projects. These grants were generally made for labor on improvements to existing projects or construction of new ones, although in some instances both materials and labor were furnished by the WPA. The total amount of WPA

¹ 1939, P. L. 167, Section 4 (k).

grants was \$2,069,226 for 14 of the 17 projects. A list of WPA grants is contained in Table 5.

In summary, 21 of the 50 active authorities have obtained Federal funds both to construct new projects or to make improvements to existing ones, thereby shifting part of the burden of financing their projects to the Federal Government. If Federal funds are made available for this purpose in the postwar period, Authorities will be in a position to make use of them.

Local Government Grants

Several Authorities have received some funds from the parent municipality for construction purposes. Waynesburg was able to finance its project without issuing bonds because of grants made by the county and Waynesburg College and private contributions. Seven Authorities received a total of \$520,491 from this source according to Table 5. Doubtless, many other municipalities have contributed services and other forms of assistance to the Authorities which have no ascertainable monetary value, but which contribute to the efficient operation of the Authorities.

INCOME OF MUNICIPAL AUTHORITIES

The income of Municipal Authorities is of special importance since it is the only way in which the bondholders can be compensated. The Authorities Law provides that the bondholders may not dispose of the assets of the Authority in case of default, but may only use the income obtained from the operation of the project to pay the bonds.

Water Authority revenues are derived almost completely from the sale of water, with miscellaneous sources contributing not more than one percent of the total amount. Sewer Authorities' revenues come almost entirely from sewer rentals. In 1943, total revenues for the 46 Authority projects for which data are available amounted to \$4,665,574. Data are not available for 6 projects, but most of these did not exceed \$4,750,000 for 1943. Total revenues for 39 water Authorities amounted to \$4,590,490. This represents 21 percent of the total sales of all municipally-owned water systems in the Commonwealth. Data for six of the nine sewer Authorities show \$73,075 in revenues. Revenues from the theatre project were \$2,009 in 1943.

Water Authority total revenues ranged from \$1,157 for the Penn Township Authority to \$738,652 in Bethlehem in 1943. Inspection of Table 9 shows that 11 water Authorities had revenues over \$100,000 in 1943. The mean average of total revenues for the water Authorities was \$117,700 for 1943, and the median average was \$46,400.

Rates Charged By Authorities

Since almost all the income of Municipal Authorities is derived from water and sewer rentals, an examination of the rates charged by the Authorities for these services is in order. Accordingly, a comparison of the rates charged by the Authorities with the rates charged by the preceding operators has been made.

Information from the 32 water Authorities which took over existing systems with established rate schedules reveals that the same rates have been retained in 24 Authorities, five have lowered rates, and three have increased rates. A comparison of the rates charged by Authorities with those charged by municipally-operated water systems is not available for this report.

The sewer rentals charged by Authorities cannot be compared with the previous rates because all the sewer projects have been new systems. One sewer Authority, Emlenton, does not charge sewer rents. Likewise, a comparison of the sewer rentals charged by Authorities with those charged by municipalities is not available for this report.

EXPENDITURES OF MUNICIPAL AUTHORITIES

Operating Expenses

The expenditures of Authorities are likewise contained in Table 9. Expenditure data for 46 Municipal Authority projects are presented in this Table, including all of the water Authorities. Examination of these data reveals that operating expenses ranged from \$626 in Penn Township to \$256,795 in Chester for 1943. Of the 46 projects listed in the Table, seven had operating expenses exceeding \$100,000, while 14 reported less than \$10,000 for this item for 1943. Since the Authorities have been operating a very short time, it is not possible at this time to show trends either in their expenditures or income, but this can be readily done as soon as the necessary operating experience has been

accumulated. In order to comment on the financial future of Authorities such an analysis would be required.

Of the 46 projects for which data are available 12 have included depreciation charges in their operating expenses for 1943. The other 34 projects made no charge for depreciation in 1943.

Financial Expenses

As distinguished from operating expenses, financial expenses include interest payments on indebtedness, amortization of bond discounts and other miscellaneous financial expenses, but not debt reduction payments. Most of the financial expenses, however, are interest payments.

The financial expenses for the 46 Authority projects for 1943 were \$914,832. It is probable that this figure includes a small amount of debt reduction expenditures, since not all Authority reports separate financial and debt reduction expenditures. The financial expenses of Authorities are determined in large measure by the amount and interest rate on their indebtedness. Column 7 of Table 9 shows the financial expenses of each Authority project.

Net Revenues

The net revenue figure is the revenue after the operating and financial expenses have been subtracted. Total net revenues for the 46 Authority projects were \$2,062,129 in 1943. Column 7 of Table 9 shows the net revenues for each of the 46 projects.

Debt Reduction

Column 8 of Table 9 shows the expenditures for debt reduction for the 46 projects. Total debt reduction expenditures for 1943 amounted to \$330,424. This figure probably understates the actual amount of debt reduction, since not all Authorities separated their financial and debt reduction expenditures. Another reason for the low figure is that the bonds of many Authorities had not begun to be payable in 1943, as indicated in a previous section of this chapter.

Sinking Fund Deposits

A few Authorities made deposits in sinking funds for the future payment of indebtedness. Most authorities have debt service funds

TABLE 9

FINANCIAL STATEMENT OF MUNICIPAL AUTHORITIES, 1943

<i>Authority</i>	<i>Total Assets</i>	<i>Total Revenues</i>	<i>Total Operating Expenses</i>	<i>Financial Expenses</i>	<i>Net Revenue</i>	<i>Debt Reduction</i>	<i>Sinking Fund Deposits</i>	<i>Surplus</i>
Westmoreland County ..	\$1,955,869	\$124,076	\$38,193	\$53,891	\$31,992	\$12,833	.....	\$19,159
Chester	6,841,155	707,896	256,795	189,240	261,861	.....	.....	261,861
Bethlehem	9,207,498	738,652	129,697	67,353	541,602	70,500	\$20,000	451,602
Darby Creek .....	.....	15,073	9,387	2,269	3,417	3,856	.....	—439
Hazleton Water	3,454,164	250,113	119,117	63,583	67,413	12,833	.....	54,580
Hazleton Building	208,214	.....	.....	.....	.....	.....	.....	.....
Central Delaware .....	.....	16,251	10,557	1,105	4,589	2,000	.....	2,589
New Kensington	2,122,702	236,927	102,595	67,315	67,017	.....	.....	67,017
Shenandoah	1,657,957	156,705	71,001	63,627	22,077	8,000	.....	14,077
Beaver Falls	4,793,371	412,140	137,764	4,788	269,588	57,000	138,469	74,119
Fox Chapel	596,554	37,737	30,093	11,615	—3,971	.....	.....	—3,971
Latrobe	1,923,107	119,323	39,068	41,000	39,255	8,667	.....	30,588
Ross Township	1,073,260	63,703	37,973	28,462	—2,732	.....	.....	—2,732
Charleroi	2,701,704	285,001	152,660	1,687	130,654	.....	85,963	44,691
Northampton	1,357,874	115,529	44,939	26,125	44,465	20,000	10,022	14,443
Lansdale	586,709	88,929	35,937	.....	52,992	7,235	14,190	31,567
Minersville	795,588	58,169	19,373	12,850	25,946	10,000	.....	15,946
Greenville	731,073	66,910	29,583	21,778	16,049	10,000	.....	16,049
Elizabeth Township	353,406	24,370	14,477	11,670	—1,777	.....	.....	—1,777
West View	3,829,017	428,083	132,567	57,832	237,684	50,000	.....	187,684
Lehighton	776,954	45,531	10,745	22,000	12,786	4,667	.....	8,119
Freeland	\$448,305	\$40,759	\$15,475	\$14,525	\$10,759	\$6,000	.....	\$4,759
North Versailles Township	478,349	38,711	22,237	14,400	2,074	.....	.....	2,074
State College	767,086	55,244	17,979	2,150	35,115	.....	\$13,920	21,195
Muhlenberg Township ..	560,463	46,383	18,232	15,165	12,986	6,417	.....	6,569
Bellefonte	132,389	8,999	3,814	2,660	2,525	2,500	.....	25

TABLE 9—Continued

Authority	Total Assets	Total Revenues	Total Operating Expenses	Financial Expenses	Net Revenue	Debt Reduction	Sinking Fund Deposits	Surplus
Quakertown	333,487	32,630	18,227	.....	14,403	.....	11,910	2,493
Waynesburg	300,000	.....	.....	.....	.....	.....	.....	.....
Mahanoy Township	909,280	83,179	30,791	24,651	27,737	10,000	.....	17,737
Portage	242,776	29,860	14,400	9,414	6,046	.....	.....	6,046
Hellertown	353,740	22,192	13,625	91	8,476	.....	6,183	2,293
Robinson Township	281,950	11,357	11,046	7,313	—7,002	.....	.....	—7,002
Hegins Township	169,662	13,554	6,146	4,601	2,807	1,500	.....	1,307
Mt. Penn	432,828	49,539	18,528	8,250	22,761	.....	.....	22,761
Williamstown	181,270	11,736	2,941	5,032	3,763	1,583	.....	2,180
Hatboro	319,113	35,051	11,672	3,555	19,824	4,000	4,000	11,824
Belle Vernon	311,233	45,199	26,595	10,162	8,442	.....	.....	8,442
Tower City	277,157	18,652	5,046	7,697	5,909	2,583	.....	3,326
New Holland	238,298	11,139	3,889	7,050	190	9,000	.....	—8,810
Union Township	54,065	7,496	2,240	1,680	3,576	.....	1,500	2,076
Blythe Township	502,565	.....	.....	.....	.....	.....	.....	.....
Mansfield	146,113	13,073	4,560	4,727	3,786	.....	.....	3,786
Millersville Water	229,667	9,137	5,328	1,045	2,764	.....	.....	2,764
Millersville Sewer	237,668	18,638	1,896	2,078	14,664	8,000	3,110	1,554
Martinsburg	300,000	2,985	1,134	2,301	—450	.....	.....	—450
Stoneboro ²	35,000	2,009	125	450	1,434	1,000	.....	434
Emlenton	42,650	None ¹	998	880	.....	1,000	.....	.....
Adamstown	55,668	5,126	1,601	1,785	1,740	.....	.....	1,740
Borough Township	151,466	60,661	17,939	6,110	36,612	.....	.....	36,612
Penn Township	11,000	1,157	626	250	281	250	.....	31
Totals	\$53,241,210	\$4,665,574	\$1,698,613	\$914,832	\$2,062,129	\$339,424	\$311,267	\$1,420,439

¹ No sewer rental is charged.

² 1944 data.

[45]

which are established from receipts after the payment of operation and maintenance costs. Most Authorities, by their indentures, must place all moneys in debt service funds for the payment of interest and amortization requirements. In 1943 11 made deposits in sinking funds as shown in Column 9 of Table 9. Total deposits in sinking funds in 1943 were \$311,267. The debt service funds should run much in excess of sinking fund deposits.

Surplus

All but three Authorities showed surpluses after payments for operating expenses, financial expenses, debt reduction, and sinking fund deposits. The total net surplus for the 46 projects for 1943 was \$1,420,439. The surplus of each Authority is shown in Column 10 of Table 9.

PROGRESS UNDER AUTHORITY MANAGEMENT

By RENNIE I. DODD, Executive Manager, Chester Municipal Authority

Speech Delivered to the Second Annual Conference of Municipal Authorities, Harrisburg, Pennsylvania, November 30, 1944

Progress is defined in the dictionary as proceeding forward, therefore, the word progress is being used for the lack of a better word. For what I would like to convey is not only that we are proceeding forward under Authority management but that we are proceeding toward an object, the object or purpose, for which the Authorities were formed. The ultimate ownership of the systems by the Cities. As a matter of interest there are at the present time about five times as many people being served water by publicly owned systems as there are by privately owned systems.

I am fully aware of the debatable nature of that statement, whether City ownership is progress remains to be seen but few of us will be around to know. All of us know of well operated and poorly operated City owned plants, and the same will probably be true of the plants turned over to the Cities by the Authorities.

The purpose of this paper will then have to be an effort to determine whether or not we are fulfilling the purpose for which we were created.

It would seem that the function of Authority management is to so operate and maintain the system that there will be no interruption of the normal flow of revenues required for Debt Service. That is to retire bonds and pay interest according to schedule. In this respect the same business principles apply whether it is private, public or quasi public utility.

Later on I will list some of the accomplishments of a few of the Authorities who were kind enough to furnish me with an account of their accomplishments.

Only in one instance were the disadvantages pointed out, and in that particular instance the fault was with the bond resolution and not with the Authority. In fact almost without exception the funds provided for extensions have apparently been too low and in many instances have worked a hardship. In some instances—some means of relief from this condition will have to be worked out. There are, however, other factors involved.

- (1) The rapid rate of expansion brought on by the War.
- (2) The tendency to force conservatism.
- (3) Current revenues should provide for normal capital addition but are seldom sufficient to provide for major additions.

No one mentioned the fact, but I am sure that they are all aware that as an Authority we are no longer under Social Security. While this fact may not directly affect bond retirement it does handicap operation, and lower morale, and is not progressive to say the least.

Chester Municipal Authority

Since the acquisition of the water company by the Chester Municipal Authority, December 8, 1939, we have installed approximately 16 miles of new main, ranging in size from 2" to 10" and have added 37 new fire hydrants. In addition to improving pressure and general flow conditions throughout our system, these extensions were made to serve some 3,500 new houses erected in our territory, comprising of 17 developments (eight of which are private and nine Government). One thousand, eight hundred private units and 1,700 Government units. To supply one of these developments we also erected a Booster Station and elevated tank.

In order to meet the additional demand, approximately 3,000 feet of 8" pipe was installed to connect our system with the nearby Borough of Media system from which we are now purchasing water.

The bond holders will be interested in this. We have added approximately \$338,000 to our Fixed Capital, including a \$97,000 WPA Project, which was capitalized as follows:

Approximately—\$187,000 Mains
86,000 Services
17,000 Meters
16,000 Fire Hydrants
9,000 Filter Equipment
9,000 Transportation Equipment
6,000 Reservoirs
3,000 General Office Equipment
3,000 Other General Equipment
2,000 General Structures.

It is important to recognize, since this is a comparison of Authority, and private management, that many of the consumers reached especially by the WPA Projects could not have been reached by private ownership, because the revenue derived would not have justified a 100 percent investment.

In addition to the above improvements we have met our interest charges and retired all Bonds on schedule, lowered rates and have a substantial surplus in the Debt Service Fund.

During this period we have also been carrying on engineering studies leading to a more satisfactory raw water supply.

Northampton Borough Municipal Authority

Inasmuch as the Northampton contribution is so complete and well presented, I give you here their case as set forth, in their reply to my request:

"The Northampton Borough Municipal Authority acquired the properties of the Clear Springs Water Service Company, a subsidiary of Federal Water Service Corporation under date of March 26, 1940.

"Under predecessor management, it was exceedingly difficult to make necessary major improvements to overcome existing deficiencies with respect to the distribution system, due in the main to financial

difficulties. Many recommendations were made to the predecessor management in the 12-year period prior to acquisition by the Authority to install certain feeder and grid mains to furnish adequate facilities, particularly with respect to public fire protection, and while fully realizing the importance and necessity of giving this matter earliest consideration, these improvements were not brought to realization for the above mentioned reason.

"At acquisition, in connection with the original bond issue, certain funds were made available for construction projects, and earmarked for such purposes through a 'Repair and Improvement Fund.' These funds, together with the aid of the Federal Agency, WPA, enabled the Authority to bolster the distribution system by installing approximately 8,000' of cast iron mains 6" to 12" in size, eliminating 19 dead ends by gridding dead end mains; and in addition allowed for much needed repairs to the Distribution Reservoir by 'Guniting' the side walls of this basin.

"These improvements, naturally, constituted a step in the right direction, and gave evidence to the fact that the Authority management was fully cognizant of its obligation to consumers served to furnish adequate water facilities.

"For approximately 12 years before acquisition, the weakest link in the Distribution System was that section serving West Catasauqua and Fullerton in Whitehall Township at the extreme southern end of the system. In 1940, there were approximately 900 consumers being served in West Catasauqua and Fullerton through a single 6" feeder main extending from West Catasauqua to and through Fullerton, a distance of $2\frac{1}{4}$ miles. This main was originally installed in 1909, and the natural build up of tuberculation, coupled with the frictional loss in this long length of main, provided very little in the way of public fire protection.

"Gradual growth in this particular area, naturally created a severe drag on the already inadequate supply, and approximately one year before our entrance into the war, a development project in Fullerton was started, adding 60 more service connections. With the ever increasing demand for construction of war materials for military purposes, a request for two 4" connections to serve the Mack Motor plants was received, and in addition, another project covering construction of 55

more dwellings was started, all in Fullerton, and all to be serviced through the same 6" feed line referred to.

"The Authority management, recognizing again its obligation to furnish adequate water facilities, gave this problem immediate consideration. Realizing the pressing and immediate need for improved service, a bond issue of \$35,000 was sold, and the proceeds used to defray the cost of installing 6,000' of 10" cast iron feeder main from West Catasauqua to Fullerton, which installation increased the delivery of water to the lower area 3.6 times that of the 6" feeder. The proceeds of this bond issue also provided for further improvements in this area, and in order to completely bolster and fortify the lower end of the system, the Authority management approved the installation of 3,300' of 8" feeder main in Fullerton, together with approximately 1,500' of 6" mains to cross grid and strengthen the entire distribution system in Fullerton. In addition, with the cooperation of the Township of Whitehall Commissioners, additional public fire hydrants were installed to provide for proper spacing to meet more nearly the requirements of the Underwriters Association. The results of these improvements were manifold. Not only was the service improved from a fire protection standpoint, occasioned by the increase in delivery by volume, but many dead ends were again eliminated, resulting in better circulation and elimination of red water troubles on dead ends, plus a decrease in deficiencies from a rating viewpoint, which will result in a decrease in fire insurance rates to all property owners in the effected areas; to say nothing of the material improvement in public relations, which is one of the vital factors from a Utility standpoint.

"In addition, as a means of improving service to the public, the Authority management contemplates installation of a 12" river crossing together with grid mains to further fortify its distribution system, and study is underway to improve the quality of water delivered and effect economies by replacing the present solution feed equipment at the filter plant with modern dry feed equipment, also installation of a laboratory with appurtenant equipment to make complete chemical and bacteriological analyses.

"At acquisition, the Northampton Borough Municipal Authority furnished water service to Northampton Borough, North Catasauqua Borough, a small section of Catasauqua Borough, Coplay Borough and

Whitehall Township, comprising six communities, serving approximately 4,900 consumers in the various classes associated with a water system. As of September 30, 1944, the Authority serves in the same area approximately 5,300 consumers, or an increase of 400 consumers since acquisition, this due to natural growth, plus expansion occasioned by the times.

"The Northampton Borough Municipal Authority is proud of its accomplishments. Since acquisition, in addition to meeting all operating costs, all provisions of the Bond Resolution have been fulfilled, and effective January 1, 1945, as a result of bringing all funds to the amounts specified, there will be available additional funds from earnings to carry out improvements now under study.

"Summarizing, real progress has been made at Northampton under Authority management, which would have been impossible had the operation of the water system remained under private management. The objectives of the Northampton Authority are to bring the plant to as high a degree of efficiency as possible, maintain it on that plane, and ultimately see to it that all consumers benefit through a reduction in rates, and above all to see to it that public relations are constantly improved."

There can be no question about progress under Authority management in Northampton.

The Municipal Authority of the Borough of West View

Next the Borough of West View states "that they have since acquisition November 3, 1942, made the following improvements:

- Two gravel packed wells
- Additional Zeolite for increasing softening capacity
- One new car
- One new truck
- A small automatic booster station
- New automatic controls for another Booster Station 800' of 8" main to Dixmont Hospital
- Two 6" mains to reinforce Emsworth and Ben Avon distribution systems
- New laboratory equipment.
- Six new fire hydrants.

"Also have plans for a number of new improvements after the War."

I happen to have seen West View's financial report and know that they have retired bonds, paid interest, and built up a substantial surplus, so again there is no question of progress.

The Municipal Authority of the Borough of Minersville

Minersville Authority modestly advise that little progress has been made as far as betterments and improvements are concerned and then go on to give the following explanation which certainly speaks well for Authority management:

"Fortunately, the water works of the former Company were in good physical condition. More than five miles of 6", 8", and 10" cast iron pipe having been laid since 1934, thus eliminating considerable 3" and 4" pipe which was all more than 75 years old, placed the distribution system of the plant in excellent operating condition. Since our water supply is served to our consumers from fresh mountain springs and streams by gravity, we did not have any pumping or filtering problems to worry about. While the Authority has made several minor improvements to its water system, the only major betterment was the laying and connecting of 21 fire hydrants within the Borough limits. This improvement was in direct cooperation with our Borough Council whom as they have done in the past, purchased the hydrant and supplied the common labor to dig the trench from the water main to the curb, the Authority supplied all of the water pipe and special fittings together with the valve (all of our fire hydrant lateral service lines are valved) and the mechanical labor required to make all necessary water pipe connections.

"We have established a custom to install 6" water line to all of our hydrants. Since our normal operation water pressure varies between 150 and 165 lbs. per sq. in. we believe that a 6" pipe will carry sufficient water to these plugs at all times for any emergency that the hydrants may be called upon to deliver.

"Due to the lack of any new war industries in Minersville we are not pressed to extend any portion of our distribution system. In this way, we were able to cooperate with the Federal Government Agencies in their request that all strategic materials be saved for use in the Post-

war Reconversion Period. Our present inventoried stock of materials and supplies is of sufficient quantity to carry the water works operations of the Authority through the present war crises and, with a small amount of good luck, we may be able to carry on for the duration.

"In the same token, we have had no new buildings erected in Minersville, since the present War II started. We are anticipating a growth of residential properties after the war and we believe that we will be able to serve most of the prospective consumers with water from our present distribution system and with little capital outlay except for the usual service line connections and metered service. Our water system is 100 percent metered and we are well equipped to take care of any mild building room without too much strain on our meter supplies.

"We have already 'Blue Printed for the Postwar Area' approximately \$75,000 of capital improvements and betterments of our water works. About one-fourth of this amount in materials and supplies is available for immediate use and so soon the Authority sees fitting and proper to extend same."

Beaver Falls Municipal Authority

Beaver Falls Authority, in spite of being restricted by their bond resolution and not being fully convinced as to their future progress, have however, delivered to their consumers as good if not better quality of water than served by former company without increasing rates, and they believe that the former company would have taken advantage of war conditions to raise rates.

With increased cost of both labor and material, they have been able to furnish as good service as formerly and still show a profit. Or in other words they have been able to pay their bond requirements in full; keep up with war production demands; make \$112,000 worth of extensions and accumulate a Postwar Fund of \$100,000; notwithstanding increased cost of material and labor, all since October 1, 1940.

Summary

We are bound to recognize that an important contribution to our successful operation is freedom from expenses involved in Public Util-

ity Commission control, and taxation, and the necessity of a continued solid front in this direction by the Association Members.

There was no intent to slight any Authority, but as you can see a report from all would be too voluminous.

We have taken rather a cross-section, including large, medium and small, and have tried to point out disadvantages as well as advantages of Authority management.

When you consider that there has been no capital outlay by the acquiring municipalities and on the strength of the accomplishments of the reporting Authorities, it seems to the writer that progress has been made even after discounting for war demands, lack of Social Security, and restriction by Bond Resolution.

The war demands will correct themselves. The Bond Resolution restrictions are problems of the individual Authorities, but it seems the Authorities Association has an opportunity in trying to bring Authority employees under Social Security.

The contributions of Mr. James C. DeGroot, Manager, Northampton Borough Municipal Authority, Mr. D. E. Chase, Manager, The Municipal Authority of the Borough of West View, Mr. Carl I. Kear, Manager, The Municipal Authority of the Borough of Minersville and Mr. Harry B. Chandley, Manager, Beaver Falls Municipal Authority, are gratefully acknowledged.

Discussion of Mr. Dodd's Paper

“PROGRESS UNDER AUTHORITY MANAGEMENT”

By CHARLES HAYDOCK, *Consulting Engineer, Philadelphia*

At the Pennsylvania Municipal Authorities Association, Harrisburg,
November 30, 1944

Mr. Dodd's paper is most interesting and in general I believe the Authorities have been quite modest in recording their progress. He refers only to water Authorities and I shall do likewise, of necessity speaking largely in generalities.

In my opinion, the first obligation of an Authority is to render service to its consumers. The law requires the bonds of Authorities

to be self-liquidating from revenues and this can best be accomplished by rendering good service to consumers, as bond holders cannot be protected at the expense of consumers, regardless of the provisions of bond indentures or resolutions.

Many of the Authorities have improved and extended service but I do not know of any case where service has deteriorated.

Beaver Falls extended service to West Mayfield, whose residents had desired water for years but were unable to secure it from the predecessor water company. Tower City extended service to two nearby villages which had not previously had water supply or fire protection. Hegins also improved its service and fire protection. Both Tower City and Hegins secured WPA grants, not available to privately owned systems. At Chester the predecessor water company might have had some difficulty in financing the extensive new construction of the Authority. Lansdale is expanding rapidly with new wells and pipe lines, long needed, but not constructed by the predecessor water company. West View could not have met the increased war demands without its new wells. Housing is tight everywhere but would have been tighter in the Allentown district if Northampton had not extended and improved its service. Latrobe is engaged in an extensive improvement program, which has long been needed.

The Authorities have well played their part in enabling their communities to meet wartime demands.

The extensions and improvements noted have been made in large part from revenues with Federal assistance and proceeds of initial financing in some cases. Authorities generally have the right, subject to certain restrictions and criteria, to issue parity bonds for extensions and improvements but so far as I know, only Northampton has done so.

Resolutions and indentures usually provide funds from revenues for capital additions but as Mr. Dodd points out, revenues are seldom high enough to provide funds from revenues for all desirable additions. Rates sufficient to provide funds from revenues for major additions would probably fluctuate with the business cycle and might be quite high in periods of expansion.

Mr. Dodd has pointed out that Chester reduced rates. Freeland, Lehighton and Westmoreland Authorities have also reduced rates by

providing a cash discount for prompt payment. Communities served by Hazleton and Hegins enjoy savings in public fire protection costs since Authority acquisition.

The municipalities which formed Authorities and acquired Water Companies did not invest any money in the enterprises, that was supplied by the purchasers of their bonds, but the Authorities, not the bondholders, have accumulated substantial surpluses which have been used in part to redeem bonds and to extend and improve the properties.

The indentures and resolutions of many of the Authorities require the accumulation of reserves for payment of principal and interest of bonds and for operations and maintenance. Many of these are now attaining substantial size and will be of great assistance if any rough going develops after the war.

Some Authorities have done so well, that with the strong bond market, they are thinking of refunding. Beaver Falls will probably have completed its refunding before this discussion is printed.

Neither municipal nor Authority employees are under Social Security but the Congress may remedy this in the next session. The last legislature authorized municipalities to establish pension plans in conjunction with the State Retirement Plan but apparently the conditions were not acceptable to the municipalities and none have availed themselves of the opportunity. Perhaps Congress or the Legislature will provide a remedy. Another possible solution is in that one Authority contemplates establishing its own, non-contributory, pension system.

The Authorities are still pioneering; many problems have been solved but many still remain. Some resolutions and indentures are better than others, but probably no single one would be best under all conditions. Likewise, all have enough good points to enable the Authorities to operate successfully for I believe that Pennsylvania Municipal Authorities are successful, by Mr. Dodd's or any other criteria; that they have made a splendid record of progress in the short period of their existence and that the post-war period will provide many opportunities in which the broad powers available under the Act can be profitably used for the benefit of the communities served.





