Water Authority for Sale: Disadvantages of Selling City Assets to Plug Budgetary Deficits

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Abstract

Municipalities across the state of Pennsylvania as well as the entire United States are facing ever increasing financial difficulties. Because of the current economic problems; demographic changes which are occurring; and, the increasing cost of current services; municipalities are grappling with balancing their budgets. With taxpayers in opposition to experiencing new or increased taxation, local governments are utilizing various methods to reduce costs in old and new methods. Local municipalities are reducing services, cutting staff, privatizing some services, and utilizing "one-time procurement of money" options as much as possible. This author recognizes the need for local governments to prepare balanced budgets by law and the necessity to pay bill. At issue is the "one time procurement of money" option when that measure requires the sale of an irreplaceable asset such as a government owned Water Company.

Across the State of Pennsylvania, municipalities are facing an ever increasing difficulty in managing their financial obligations and providing necessary services to their residents. According to the Pennsylvania Economy League report *Structuring Healthy Communities Municipal Case Studies* (2009), within the 67 counties of Pennsylvania, exists 2564 municipalities. Within this number, one will find 960 boroughs, 1547 townships, one town, and 56 cities (Pennsylvania Economy League, 2009). Findings within this report indicate that most municipalities in Pennsylvania should be categorized as "not well", when referring to their economic stability. "If a municipality is not fiscally stable, it cannot clean the streets, keep streetlights lit, fight fires and apprehend the criminals, much less put water in the municipal swimming pool, mow the grass in the parks or plow streets" (Pennsylvania Economy League, 2009).

The reasons for this financial distress come from a variety of sources reviewed by articles and reports over the past several years. Municipalities face severe affects due to the current economic downturn. These effects have led to less revenue in earned income tax (EIT) payments due to declining population and rising unemployment. The economic downturn has in addition led to declining real estate taxes as well as reductions in mercantile and business taxes in communities where they have been applied. These affects have also led to reductions in the Emergency and Municipal Services Tax (EMST) passed as the PA Act 222 of 2004 amending PA Act 511 of 1965 (Pennsylvania State Legislature, 2004). Wages and benefits of municipal employees have risen in some cases dramatically over the past several years. Binding arbitration laws for police and fire protection have increased wages regardless of a municipality's ability to pay. Health care benefits have risen rapidly as the average municipal worker has aged; and, cost of providing health care has increased with anticipation of changes coming due to the Patient Protection and Affordable Care Act (P.L. 111-148).

Many government entities, just as private sector employers, have witnessed Health Insurance premium charges rise over the past years. Many cities fear not only rising costs due to the tax the Federal Government will place on Cadillac health care policies which municipal unions have negotiated for their members (Barkin, 2010). In addition to these costs, public pension programs for municipal workers in similar manner to state employees, legislators and public school teachers have been rising sharply. Due to state legislation, the payments of these pension programs will increase greatly in the foreseeable future (Commonwealth Foundation for Public Policy Alternatives, 2009). According to the Pennsylvania Economy League, pension payments may rise in the percentages of the hundreds over the coming years (Pennsylvania Economy League, 2009). Along with the above issues, declining and aging populations, increased cost of services, unsound or risky investments made by municipalities, and continually rising legal expenses have strained nearly all municipal budgets.

Pennsylvania Secretary of Economic and Community Development, George Cornelius has described the financial crisis within the state in the following manner:

> A train wreck is coming and because of my position, I think it's my duty to alert people….Some of these municipalities may get into a situation where they have no choice; bankruptcy is the only option left.
>
> Cash strapped municipalities suffering from the industrial decline, population loss and overwhelming tax increase common in the Rust Belt face a 'downward spiral'….He wouldn't single out cities but said a major reason is that Pennsylvania is bloated with local governments and many resist cutting costs… (Bumsted, 2010)

Many on the state level have argued strongly for more regionalization of services with local municipalities joining together to provide specific services. While this may become a more viable solution, at present time, the distrust and inability among many municipalities negate this as a primary answer. Local governments across Pennsylvania who face economic distress conditioins have three options which most often have been utilized to meet this challege. The lest used option is that of applying for "Financially Distressed Municipality" under PA Act 47 of 1987. This is an act:

> Empowering the Department of Community and Economic Development to declare certain municipalities as financially distressed; providing for the restructuring of debt of financially distressed municipalities; limiting the ability of financially distressed municipalities to obtain government funding; authorizing municipalities to participate in Federal debt adjustment actions and bankruptcy actions under certain circumstances; and providing for colsolidation or merger of contiguous municipalities to relieve financial distress (newPA.com, 2010)

Because of many of its provisions, Act 47 has become politically as well as economically unacceptable to many of the most distressed municipalities. To date, twenty-five municipalities have applied for Act 47 status. Among these municipalities, nineteen have been cities and six have been boroughs. Within this group, six municipalities, all cities, have successfully had the label of "distressed municipality" recinded (newPA.com, 2010).Among the cities that have entered receivership, many such as Pittsburgh, have not succeeded in finding a remedy for its financial troubles. Mayor Luke Ravenstahl has suggested tdhat the city may return to its deficit spending next year after management under the criteria of Act 47 since 2004. He advised Mayor Linda Thompson of Harrisburg and other mayors who are facing financial troubles to seek alternatives to the current Pennsylvania Act (Bumsted, 2010).

A second opition with equally troubling success rates is also associated with the Act 47 Legislation. Municipalities may apply for near distress status and thereby receive financial assistance from the Department of Community and Economic Development through an "Early Intervention Program, to hire paid consultants to work with the local government to thwart movement to bankruptcy and take action for gain a better financial situation. At the present time nearly fifty municipalities have taken advantage of this assistance with limited success to achieve financial stability (Bitting, 2010). The third alternative thus far persued by many local governments has been to seek "operational supplements", that is usually a form of one time revenue source that may assist the city in money to defray expenditures for an undetermined amount of time. The Pennsylavnia Economy League defined these sources as, "those items which are either classified as revenue or from other souces of funds and are qunique in thatthey are:

- of a one-time nature and/or
- an ongoing funding stream but are not directly related to meeting expenditures of normal operations and/or
- derived from the sale of an asset and/or
- derived from the incurring of a liability (Pennsylvania Economy League, 2009)

It is with this third alternative, opearation supplements that this study is most concerned. Generally this term has been described as a "privatization". Privatization may take many forms. It has often been defined in general terms as a "contracting out, outsourcing, competitive sourcing, or public-private partnerships.

It is really an umbrella term referring to a range of policy choices involving some shift of responsibility from government to the private sector…" (Leonard, 2010)

For the purpose of this paper however, the narrower reference of privatization as…,"the selling [of] government-owned property to private corporations and other entities…" (Dugan, 2010). Privatization of municipal assets has b4ecome an ever more popular solution to local government bugetary distress. Because of the yearly budget deficits and dwindling single operation supplementals, local governing bodies are investigating sale of assets to private business. The money garnered from such a sale often is used to cover current deficits caused bycurrent economic conditions, tax revenue decline, and rising pension payments (Dugan, 2010). It is hoped that money from such reserve funds and its intgerest will cover future financial problems for an indefinite amount of time.

The assets sold in recent years have covered a wide awssortment. Cities have sold parking facilities, parking metered areas, roads, airports and even waste water and water systems (Dugan, 2010). U.S.A. Today reporter Judy Keen focused primarily on these type of sales in an April, 2010 article entitled *Tight Budgets and Falling Revenues Are Prompting Cities Across the U.S.A. to Consider Selling Municipal Water and Sewage Systems to Private Companies* (Keen, 2010).

Of the four major water corporations pursuing the the purchase of water systems at the current time, two have become quite aggressive not only in Pennsylvania, but also in a number of other states across the U.S. Aqua American and American Water Works both operate in many states across the country. Aqua American Corporation is found in fourteen states, while American Water Works Corporation is found in thirty-five states (The Wall Street Transcript, 2009). At the present time, Aqua American Corp. is in talks with approximately fourty municipal systems, and American Water Work Corp. is discussing possible purchases with seventy-five municipalities (Keen, 2010).

Certainly under such difficult financial times it is natural for municipalities to seek means of raising funds to maintain local services and establish a positive fiscal stability. The sale of assets long possessed and of substantial value not only to members of the community but outdside business ventures and corporations are worth pursuing. Some municipal assets may garner literally millions of dollars in a sale. These millions invested wisely and utilized in a fiscally responsible manner by local governments may offer governments a fiscal benefit and viability unreachable in any other manner. A basic questions to ask on such a matter returns to our commnity leaders and their ability to develop a fiscally responsible manner of handling such an money account. Many governments on all levels have thus far proven an inability to act fiscally responsible.There are important questions to investigate regarding the money obtained from such asset sales. Is privatization worth while? Should such assets as water systems be considered for sale, taking them out of the hands of local governemnts and the customers they serve? As mentioned previously, assets include all types of key municipal facilities: parking facilities and meters, zoos, airports, roads, waste water and water systems, along with many other government controlled facilities. In many cases, the privatization of some services can be offered more efficiently, provide better maintenance of the asset, and offer savings to customers due to the competitive market of private business (Dugan, 2010).

Many proponents of privatization argue that selling public utilities lead to a benefit from economies of scale which would normally benefit customers in lower costs for the service. Privatized utilities should offer more efficient service and a stronger innovative opportunity with a business which continually looks for cost savings in a competitive market place (Herbst, 1993).In addition such sales generagte fast and significant cash for the municipality (Brock and Sedbak,2007).

In a research project investigating the privatization of public services for Shasta County, _______, by Mary B. Machado, jgeneral disadvantages are indicated along advantages such as those described above. Machado suggests that privatization leads to inabilities to undo such a contract. Once sold in particular it is vary difficult if not impossible to retrive the public service. Any attempt which might be sought to retrive the service or utility must meet value figures established by the business owning the asset (Machado). Similar situations have occurred throughout the state of Illinois. In discussions this author had with members of Illinois local governments and municipal water systems, those interviewed stated that they would be highly interested in re-establishing ownership of their water systems. The Illinois Legislature has recently passed legislation to allow local municipalities to establish "first option" to re-purchase a water system.

Unfortunately, the market price of the system set by the corporation currently owning the water system often exceeds the ability of the municipality to buy back the system. Sales of water systems and other utilities include additional disadvantages that must be considered. While sales of such systems may include a benefit of innovative and cost savings measures, savings may not be passed on to the customer. Private businesses have profits to consider and stockholders to pay dividends (Keen, 2010).When one focuses primarily on water resources, the picture of benefits and liabilities that offer a mixed message of proper courses to take. Many have suggested that while municipalities may see the advantage of receiving significant pots of money to assist or alleviate their overall financial distress, those that act in such a way, "are mortgaging their future by ceding control of a vial asset…and rates often bring… (Keen, 2010)

In a report by Edwin S. Rubenstein, for the American Water Works Inc., he suggests that there six important reasons why private industries believe they possess a greater ability to exercise effective control and distribution over water systems than municipal departments and local authorities:

1. Water utilities are the mot capital intensive of public utilities. They require up to three times more capital to generate a dollar of revenue than electric utilities.
2. The water industry faces enormous capital investment requirements. Much capital infrastructure of the wter industry is at or beyone its useful service live.
3. Government water utilities will find it increasingly attractive to privatize. Industrial water giants see several looming problems that may force municipal or authority sale of water companies: rising rates needs, or deteriorating water quality; or costly legal battles with the Environmental Protection Agency over structural and quality standards.
4. Investor owned water utilities are roughly a third more efficient than their public counterparts. Often economies of scale and on-site expertise may offer more efficient management of water systems.
5. Despite efficiency, investor-owned water utilities often charge higher rates than public utilities. Public utilities pay no taxes,, are sometimes subsidized by local tqax revenue, and have access to tax exempt debt (a subsidy from all federal tax payers – i.e., ARRA stimulus funds under the recent stimulus legislation.
6. Water is "underpriced" in the U.S. Available subsidies to public entities do not reflect the true cost of water distribution rates to customers (claims of inefficiency, overstaffing, and pagtronnage).
7. U.S. water will always require some regulation due to its local monopoly type qualities. The nature of the resource requires local plants and disgtribuiton centers rather than state and interstate infrastructure and disgtribution centers (Rubenstein, 2010).

In opposition to these views, an extensive list of disadvantages have been put forth by several groups such as Food and WaterWatch.org out of New York to refute industrial arguments. In several of its articles and fact sheets on protecting local water ownership and control, Food and WaterWatch suggested the following reasons for maintaining local control:

1. Local control provides lower rates, often up to four times less than rates charged by private corporations.
2. It allows for local customers and voters to control actions taken by the municipal departments and/or local authorities.
3. Locan money and investments stay local. Customers in Pennsylvania are not forced to pay for improvements in other regions of the country.
4. It allows local agencies to erve the poor in a more effetive yet compassionate manner. "In Pennsylvania, thousands of people unable to pay their bill, lost their water in 2005 thanks to a new industry backed law making it easier for companies to terminate services (FoodandWaterWatch.org, 2006)
5. Local control provides better concern for the environment. Local companies work diligently to conserve precious resources while the profit motive of private industry may push such companies to sell this resource beyond safe yields.
6. There is more accountability to the customer. Municipal departments or local authorities may be more responsive to problems or repairs than a large corporation.
7. There is more transparancy in decision-making actions to be taken by a municipal department or local authority.
8. Public owned utilities can apply for low interest loans and tax free bonds to aid in repairs and improvments to water systems.

9. Public utilities allow more public involvement and control by local voters and customers. Elected officials either serve on utility boards or appoint those who do. Voters will feel a closer involvement therefore in such a system than if a private corporation is making the decisions.
10. Local officials should be more interested in the concerns of the local public than corporate shareholders and a board of directors (FoodandWaterWatch, 2010)

In addition to all the above, some opponents would duld argue that water unlike many other local assets is in a unique category. Many local residents of a municipality may decide on their own whether the cost of parking charged in a privatized parking lot is fair or too expensive. Residents may utilize a local airport or not. Citizens of a town have the freedom to decide whether to patronize a zoo or not. Waste water services and water systems are essential to human life and therefore considered by many to be a basic human right (State Environmental Resource Center, 2004). Taking such an asset and sellling it to a private corporation, national or internatiional cannot serve the customers who rely on this resource in its most effective manner.

The case study concerning the attempted sale of the water authority in the Greater Hazleton Area provides an opportunity to view many of the issues previously indicated in this paper. On the morning of December 27, 2009, Mayor Lou Barletta of Hazleton telephoned the five members of the Hazleton City Authority, Water Division, that he would be announcing the proposed sale of the water division oin the near future. He had been in private talks with two of the water corporation giants, American Water Works, Inc., and Aqua American Corporation, about potential sale of the "water company" for an estimated sixty to seventy million dollars. After repayment of of autority bond indebtedness and other expenses, he estimated approximately thirty million dollars in remaining funds that would be used in a two part plan but connected plan. The first part of the plan called for the city to team with exXco, a solar plant developer to construct a five megawatt solar power plant that would provide some of the electricity the city consummed year along with electricity assistance to the local school district and nearby municipality of Hazle Township (City of Hazleton Website, 2009).

The city expected the five megawatt plant to generate enough electricity to power seven hundred-twenty-five average American homes for an entire year. As an electricity generator, the city would receive the operating benefits which are the difference between what it will cost to generate the power versus for what it can be sold. Because Pennsylvania has specific targets for energy production from renewable sources, the city would also sell a commodity called "solar renewable energy credits, or "S-REC's" to an electricity provider which would generate revenue for Hazleton of approximately one million, six hundred thousand dollars (City of Hazleton Website, 2009). Because of a thirty-seven to forty-five percent increase in Pennsylvania Power Light electricity rates passed on the residential, commercial, industrial and municipal groups in January of 2010, the amount of revenue that may have been suspected from such a solar plan would be difficult to estimate.The second component of the mayor's plan consisted of taking the approximately thirty million dollars left from the sale of the authority and fill in its budgetary shortfall and past year's debts. The remainder would be placed in a reserve fund presumably to provide interest only money for future years budget increases. Barletta stated:

> By selling the water authority to a private company, the city of Hazleton will receive tens of millions of dollars – enough to stabilize our current budget cirsis and, when properly invested, generate millions of dollars in interest revenue for decades,…The interest payments the city will receive will fill a growing tax revenue gap until some of our projects such as economic development surrounding the Church Street Station intermodal center and the amphitheater begin generating taxes (City of Hazleton Website, 2009).

The elements of the roposal combined portray a well thought out and fiscally conscious plan. Unfortunately, the cost of the electricity rates rose by approximately forty-five percent in the local area, a much higher rate than previously expected. Pennsylvania Power Light has also petitioned the Public Utilities Commission seeking a five point three percent in distribution rates during 2010. The city may not realize the monethar benefit of such a solar farm. Because potential obstacles with electric rates, solar farm capabilities in the Greater Hazleton Area and continuing negotiations with enXco, this portion of the city proposal has been placed on the sideline. In addition, the Water Division of the local municipal authority has proposed leveraging land holdings along with other assets to work with the city on its own to construct a solar farm or wind farm to achieve the same goal of energy savings within house (Andras, 2010). The key element of the planned sale was the obtaining of approximately thirty million dollars to fill in budgetary gaps for years to come.

The development of the Church Street Intermodal cannot complete construction of a four level garage until 2014 due to a four point eight million dollar gaming revenue grant paid out over the next four years (2011 – 2014) (Swift, 2010). The second area of economic development in the mayor's plans consists of an amphitheater, shops, and buildings to be located at a mine reclamation site known as Cranberry Creek. The site if currently seeking Department of Environmental permission to use various forms of fill material including but not limited to fly ash, river dredge material from the Philadelphia area, and additional materials to be named. It is unclear when the permitting provcess will be completed and whether permission will be granted for such fill material. At a March 2010 set of hearings, approximately seven hundred-twelve comments were offered by those present and by written statements to DEP committee members. Strong opposition came from numerous residents within the Hazle Township municipality. These residents fear contamination from the fill materials over years as the fill breaks down (Cranberry Creek LLC, 2010). State Representative Todd Eachus of the Pennsylvania 116th Legislative District and currently Democratic Majority Leader of the General Assembly has been an outspoken critic of the ash fly material being used in the land fill. He spoke in oppositon to recent Department of Environmental Protection permit approvals in April 2010 (Jackson, 2010)

The most recent permit and hearings submitted to fill the two hundred-seventy-seven acre series of mine pits for reclamation occurred on August 31, 2010. These hearings pertained to the Department of Environemt Protection granting a permit to use fly ash as fill in these pits. In the best case senario of permitting being granted and the land land reclamation project running into little or no other obstacles, the project will not be completed and ready for site construction for approximately ten years (Jackson, Pits Remain in Amphitheater Plan, 2010).

The purpose behind such a lengthy discussion and explanation of an intermodal project and land reclamation project is that they represent important components to this case study. These two investments are viewed by the city administration and city council as providing funds to the city coffers rather than utilizing revenue from the thirty million dollar reserve fund created by the sale of the water authority. Neither project will be completed in the near future and both are speculative in the amount each might provide the city as a tax revenue source. Financial reporters along with research groups have been critical of municiplaities taking on too speculative a project as future revenue sources (Pennsylvania Economy League, 2009). Harrisburg, Pennsylvania's investment in a costly incinerator (Levanthal, 2010) and Coatesville, Pennsylvania's city Redevelopment Authority's loss of seven million dollars in land speculation (Davis, 2009) are two of many sssumed promises of increased revenue for city budgets, only to lead both municiplaities into deeper debt.

The example of Coatesville, Pennsylvania water company has been pointed to as a success story in the privatization of municipal assets. Terry Maenza spokesperson for Pennsylvania American Water Company said, "the city of coatesville is a great exmple of how the sale of a municipal watere system to a private company can be beneficial" (Mocarsky, 2010). She stated that:

> Funds from the sale, which exceeded $39.5 million after the debt was paid, were placed in a reserve fund. The city was given $10,000 credit for future water usage and $10,000 credit for a sewage treatment. In addition rates for water and sewage were frozen for three years and Pennsylvania American was to contribute annually to the city's economic development fund (Mocarsky, 2010).

Since 2001 when Coatesville received the funds, the municipal government has had to withdraw money from the reserve funds. Aftere recently covering the lost funds due to the Redevelopment Authority speculative endeavors and covering budgetary hsortfalls, the reservefund will retain a balance of approximately thirteen million dollars (Davis, 2009). At the same time residents of Coatesville previously served by the water and sewage departments are facing drastic increases in both rates. Three months ago Pennsylvania American Water was granted a thirty percent increase in water and waste water treatment rates. Currently Pennsylvania American Water is filing a request to the Pennsylvania Public Utilities Commission for a two hundred twenty-nine percent sewer rate increase for customers of its Coatesville waste water system (Metz, 2010).The argument for and against selling a public asset in this paper and in today's financial market raises multiple questions about the correctness and economic viability in the final decision. The decision to sell public assets even water system has taken on greater acceptability as demonstated in recent Aqua American and American Water Works Inc., purchases. To those who favor such sales, the economic benefit to municipal budgets takes priority. To those who oppose such sales, the rate payers will be harmed either economically or in quality of product and possibly in both over the long term.

Jerry Cross, Executive Director of the Pennsylvania Economy League Central Division put for the these ideas concerning privatization. He suggested that "you will see this more often as municipalities struggle to finance their operations under the borken system municipalities have to operate under….The league generally frowns on selling off assets to avoid a budget deficit. But the sale would make sense if it provided a continuous revenue stream to a municipality (Mocarsky, 2010).The advantages and disadvantages along with the cases studies presented in this study return us to the question at the beginning of this paper, are the sale of assets by municipal governments appropriate and are there assets that should not be considered for sale. Is a water resource that a local governmenrt owns too valueable and such a basic human right that it should not be put on the market to a private company who may misuse or economically abuse this resource? There are two methods by which we may approach the answer of this question.

First, one may wish to investigate the case for selling such an asset on strong economic criteria. Is the water asset being managed in a cost efficient manner and if not can it be repaired through effective political and economic actions by those in charge. Large water systems as found in Detroit, Michigan have benefited from privatization. In an examination of Detroit system a great deal of inefficiency was discovered and a cost savings to rate payers could be realized though such a sale.

Detroit served approximatgely four point two million customers in one hundred twenty-two municipalities through a systgem of fifteen pumping stations, and three thousand four hundred miles of transition and distribution mains (Brown, 2000).There is little question that a centralized source of water distribution is an efficient and effective way for people to obtain this life sustaining resource. It need not however, be a full-time job for the city of Detroit.Contracting out this city's water supply operations, even selling them to a private utility provider could result in lower water bill rates and improved, more efficient services that save the city much-needed dollars (Brown, 2000).Investigation of the system indicated a water system that had become ineficient, mismanaged, and ladden with atronnage positions. The result appeared most dramatically in the ratio of employees per million gallon production rate. While Detroit utilized three point five employees per one million gallons, cities such as Chicago were much more efficient at two employees per one million gallons provided (Brown, 2000). Though contracting out of the system, it became much more efficiently managed and actually saved approximately forty-seven point two million dollars annually maintaing water rates and fees without increases.

Sale of the Detroit system would earn the city an estimated one point seven-seven billion dollars to two point two-eight-five billion dollars. The size of the sale would limit potential buyers to America's Eart Tech and a few European companies who are major participants in the American water systems today (Brown, 2000). A reported problem with the Detroit system that was reported but not dealt with adequatelyh in the study was the need for approximately one billion dollars of investment in the water system need to reapir and update the aged infrasgtructure overall. These figures would most certainly affect the water rates determined by any water management company or new owner (Brown, 2000).

The size of the water system as well as its rfelated assets must all be considered. Small water systems just as large ones may be quite expensive to maintain. Wikth state and federal level of government issuing more mandate legislation today with or without grant money, these systems may become more difficult to manage. Once lost to a sale; however, often the control of the asset is gone for good. Small systems should look to contracting with water corporations for guidance or management assistance without having to relinquish the ownership of such assets. Regionalization of numerous public services such as water and other utilities has been suggested by Secretary Cornelius of Department of Community and Economic Development. It suggestion has unfortunately met with little acceptance thus far (Bumsted, 2010).Where regionalization may not work or gain acceptance, rate payers should be given a voice in potential sale proposals. Ultimately these voters will be required to pay more out of pocket. Referendum questions would at least allow those who will pay to decide if the money should come from increased taxes in the municipal budget or see water rates increase over time.

Another component of this first method to consider is the reform needed by the State of Pennsylvania itself regarding the improvement of legislation and guidance for municipalaities dealing with fiscal delemmas. Most local governments do not desire using Act 47 or even the early intervention programs. In a report prepared by the Center for the Study of Economics, four basic recommendations are put forth in revising Act 47 and assisting distressed municipalities.

While not every community may benefit or utilize each of these proposals, they are offered for consideration. (Center for the Study of Economics, 2009). The Center for Study of Economics suggests a change in the tax structure with a two-tiered value tax on developed vs. underdeveloped propety. Seocnd, gthe center would encourage frequent re-evalutions to update records and tax situations within the respective communities. Third, it calls for innovative restructuring of the real property tax including but not limited to an (AXI) assessment exemption for improvements as properties are repaired and developed. Last, it calls for a reduction in the amount of tax exempt property overall Many services and organizations locate within the city or borough because of the proxmity to clients or customers. While not obligated to pay tax, negotiations with such organizations may help to produce payments in liew of taxes (PILOT), thus assisting the city in its financial difficulties. (Center for the Study of Economics, 2009).

If the asset is important enough to the community and many desire to act to protect the asset from sale, it must be utilized in the promoting of the community in all ways possible. It may be utilized in promoting new businesses, job, and/or housing development. All of these facets are relatively when acting to protect water assets. A scond method of reviewing the desireability of selling or retaining a public asset has been put forth by James Haltman in his article, *Private Water Supply Firms and Municipal Authorities: A Comparative Analysis in Pennsyvania*. Haltman initially reviews the need for creating authorities to manage water systems because of rising costs. He recognizes the involvement of private companies in the water business as either management consultants or purchasers and operators of water systems. In an attempt to determine when a water system should be sold or retained by the community, he offers a set of variables to be considered and applied statistically in the decision-making process (Haltman, 1979).

Consideration in Haltman's analysis include both use of dependent and indpendent variables. The dependent variable is average operational costs or fixed costs along with independent variable factors: (output, terraine of service area, population density of service area, degree of plant utilization, customer mix; and, original water quality) (Haltman, 1979). When reviewing the above criteria regarding desireability of a system for purchase by a private corporation, the Hazleton water system does not fare well or appealing as a purchase. The authority produces approximately six to seven million gallons of water per day while having a capacity to handle a maximum of twelve million gallons per day. The service area consists of mountainous area in Northeast Pennsylvania, making it difficult and costly to maintain an adequate water supply. The means by which the water system obtains water is through a delicate fracking system through the rock formations of the area that must be diligently monitored to guard industrial, highway, and other disturbances which could alter this supplier of water to wells throughout the area (Rettew, 2009). While over fifty to sixty percent of customers live within three local municipalities of Hazleton, West Hazleton, and Hazle Township, the remainder reside throughout 11 other municipalities which sprawl over 254 square miles of service area. The customer mix is continues to be one of the system drawbacks as well. The system has few industrial users. It relies most extensively on the fifteen thousand residential customers to maintain the system and pay the rates (Cahalan, 2010).

The work of the Water Authority members down through the years hs been diligent in maintaining a high quality water from its well and surface resevoirs. A water filitration plant is utilized in the system to maintain the high quality of the water and maiantainn its purity. From the observation of the local manager and board members, it would appear this resource as it exists at present, does not meet Haltman's criteria for sale. Protection of such a delicate system should stay in the hands of local officials who may be best at maintaining the various components. When water departments or authorities are run as efficient and low cost operations to customers, there is little benefit in sale to the rate payers it serves. The munilcipal government may result in a temporary plug to its financial lek, but when the money runs out, the financial difficulty which caused the problem may not have been repaired. Without the asset, the city or authority has no leverage to float bonds to pay for improvements. While it lacks the asset to financially continue, rate payers in the meantime will witness an ever increasing pricetag on a resource we cannot live without. Not all assets owned or operated by a municipality are equal. There are assets that do not possess the importance that water and sewasge hold over its rate payers. They are truly monopolistic in their existence because of the nature of municipality throughout states today. There may eventually be reasons why any one local government will review the above considerations and sell its water resources. Because of the basic human right to water by all human beings, the operation of water and waste water system should be held in the public sector at any and all costs.

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