

basically to the approach which is taken with HUD's Housing Assistance Administration, whereby the bonds of the local entity are guaranteed by the Federal Government over and above the maximum local issues which can be marketed at reasonable interest rates. We cannot agree, however, that the measures proposed in Section 2 and especially the provisions of Section (f) (3), whereby the tax exemption status of a local issue affected by Federal grant under this law is removed, will be helpful in achieving the purpose of the bill. Such action will, we believe, confuse the financial picture at the local level and result in some increase in the interest rates even on other tax-exempt issues.

This provision of the Act also will have the net result of reducing the amount of grant available to the local utility, inasmuch as it will have to pay higher interest rates on the balance of the issue not always entirely offset by the interest rebate provided for under Section (f) (1) (B). The use of a rebate based on the average interest rate of outstanding marketable obligations of the United States will not take into consideration the variations in credit ratings among local entities. A city with Class AA bonds will receive the same interest rate as a city with Class B bond so the Class AA city will be penalized and the Class B city will receive a better interest rate than it deserves. The restriction in this paragraph will not allow a reduction greater than one-fourth—that is $1\frac{1}{2}$ points in the case of a 6-percent bond—which could impose an added penalty on a local entity with adequate financial resources.

When the cost of administration of what must be an extremely complex funding and refunding operation by the Federal Government in payment of these interest rebates is taken into consideration, it is difficult for us to see how either the Federal Government or the local entity will profit. In fact, the confusion and uncertainty that will result from the application of this type of rule will, we are sure, tend to be a deterrent to the program as a whole and become unduly expensive to the local entity.

Many utilities will undoubtedly be tempted to defer action as the possibility of complications in other financial arrangements are faced, and will seek assurance that future tax-exempt financing will not be adversely affected or, if it is, that some relief from this requirement can be obtained. We feel it will be better under these conditions to accept a somewhat smaller grant in connection with Government-guaranteed tax-exempt bonds and preserve our present financial status.

Cordially,

HENRY J. GRAESER, *President.*

FINANCING AND RATES

A STATEMENT ADOPTED BY THE BOARD OF DIRECTORS ON JAN. 25, 1965

AWWA believes that the interests of the public and of individual customers of water supply systems serving the public can be served best by self-sustained, utility-type enterprises, adequately financed, and with rates to the public and customers based on sound engineering and economic principles designed to avoid discrimination between classes of, or individual, customers.

IDEAL STANDARDS

To this end, AWWA establishes, as an ideal toward which each water supply utility should strive, the standards set out in the paragraphs that follow:

1. Each water supply utility serving the public should deliver water meeting, as a minimum, the USPHS Drinking Water Standards, adequate in quantity for all sanitation and other domestic use, safe and desirable for industrial and commercial use, and adequate for fire protection service.

Its services should be on an uninterrupted basis with a minimum of fluctuations in pressure.

In addition to meeting USPHS standards, the water furnished should be as free of objectional taste and odor, color, turbidity, and staining elements, and as noncorrosive and practicable under the local conditions.

2. Such a water supply utility should receive sufficient gross revenue from those using the service to enable it to pay all operating and maintenance expenses, all fixed charges on capital investment, employ and compensate trained and competent personnel for operating and maintenance functions, and have sufficient funds to develop and perpetuate its system in accordance with sound technical and economic principles.