

H.R. 15907 provides for such a mechanism.

The bill provides that the Federal Government, in addition to continuing the basic grant program, can contract with State and local agencies for the Federal share of construction costs and pay over a period of the public bodies principal and interest payments amounting to the Federal share of the bonds sold by public agencies to finance sewage plant construction.

The bill also provides for a Federal guarantee of bonds covering the State or local share of the treatment facilities.

In view of demands on Federal revenues at this time, a debt service approach is a creative way for the Federal Government to more quickly meet its commitment to clean waters before pollution overwhelms us.

BILL'S VALUE ERODED BY CERTAIN PROVISIONS

The potential value of this legislation, however, is eroded unnecessarily and unwisely, in my opinion, by certain provisions. These provisions could severely penalize a State such as New York, which has underway a program to solve the problem as quickly as possible.

I would like to focus on four major provisions which I feel can cause serious concern:

First, the requirement that, under debt service contracts, the interest on the State and municipal bonds be subject to Federal taxation.

Second, the requirement that there be "user charges" for a project to be eligible for the Federal debt service program.

Third, the limitation under the debt service program of 10 percent per State.

Fourth, the elimination of the prefinancing provision so that it would not apply to either the existing program or the new debt service mechanism.

Now if I could take these up in detail.

TAXABLE STATUS OF BONDS

1. The taxable status of State and local bonds. Under the proposed new debt service program, interest from the bonds issued by local or State agencies to finance the construction of sewage treatment plants would be taxable.

This in my opinion is neither necessary nor desirable.

One of the arguments apparently advanced in favor of taxing municipal sewer facility bonds seems to relate to the present municipal bond market. Additional tax-exempt bonds, according to this argument, would worsen market conditions and further increase interest rates.

Problems which may exist in connection with the total municipal bond market, however, are much more closely related to the general state of the economy than to the question of the tax exemption for such bonds.

In this connection, I would like to submit for the record data from the U.S. Securities and Exchange Commission and the U.S. Department of Commerce on proceeds from new securities and average yields since 1960.

(The information referred to follows:)