

endorses the legislation generally and its intent. This legislation seeks to break loose the necessary construction projects for pollution control purposes delayed because of inadequacy of Federal financing. We are encouraged by this effort. We believe that with certain modifications it can provide a way to do the job without disrupting the financial commitments of the Federal Government, of the States and of the localities.

We have estimated that the overall clean-up job in the Delaware River Basin has a capital cost of around \$500 million. About \$300 million of this total is for municipal sewage treatment. Of this latter amount, the Federal Government would contribute 55 percent, or \$165 million. So you see, we have a substantial interest in anything that will break up the financial log jam that now confronts this program.

Because this legislation is so important, it is essential that it be as good as possible. Proposed clauses which could operate to confuse or delay the massive clean-up effort that lies ahead should be identified and corrected. With this in mind, I would like to suggest certain points referenced to H.R. 15907 which I feel may operate to the disadvantage of all parties if the Congress does not undertake corrective measures or clarification at this time.

The bill would provide three forms of financial support for local projects:

- (1) Annual payments for local debt service on bonds issued to finance the Federal share;
- (2) Federal guarantees of local debt service on any obligations issued to finance a project, including the local share; and
- (3) Thirdly, an annual Federal subsidy to assure that the local borrowing cost on the *non-Federal* share will retain a favorable differential of one percentage point or one-fourth of the net effective interest rate, whichever is less, as compared with Federal borrowing cost.

This third form of aid is apparently provided to offset the provisions of section (f) (3) of the bill which would abolish the traditional tax exemption of any local revenue bonds secured by revenues of a project which is aided under the act. It is quite understandable that the Federal Government should not want the new legislation to result indirectly in tax-exempt Federal borrowing which has long been contrary to Federal policy.

TAX EXEMPT BOND ISSUE SHOULD NOT BE RAISED HERE

Unfortunately, the bill goes further and would abolish the tax exemption of local borrowing for the *local* share which has long been a keystone of local financing. This is an unfortunate introduction of a controversial policy proposal of the Treasury regarding the tax exemption of municipal bonds generally, which the Congress has thus far never accepted.

The provision of the bill for a debt service subsidy to maintain a differential in favor of local borrowing is unlikely to be adequate to offset higher interest rates. Most importantly, it will not avoid embroiling the whole clean waters program in the issue of taxable and tax-exempt municipal bonds. It may well be asked why this particular program should be burdened with that issue when no other municipal financing, with or without Federal aid, has the same or any comparable disadvantage.

The municipal bond market provides highly specialized financial support for all kinds of State and local public benefits, plus improvements. It operates on the smallest of profit and has characteristics that make it difficult to compete with Federal and corporate bonds. As compared with Federal bonds, it has few attractions other than the income tax immunity that appeals to enterprising investors. As of the first of this year, State and local bonds were paying interest of about 4.31 percent. This compares to 5.18 percent for long-term Federal bonds and around 6.45 percent for corporate bonds. If the income tax immunity is abolished, many fiscal analysts believe that the municipal bond market, as we know it, would no longer exist.

I mention these considerations without any intention of entering the issue of taxable versus tax-exempt securities. The point is that this is much too complicated a matter of public policy to introduce through the back door of a program intended to assist and stimulate solutions of the water pollution problem. Other urgent and expanding public programs, such as housing and education, will have an impact on the municipal bond market. The issue of tax exemption is equally relevant to these other programs and for the same reasons.