TAX-EXEMPT BOND ISSUE SHOULD NOT BE RAISED HERE

The section 3(f) of the bill as now before you would abolish the traditional tax exemption of any local revenue bonds secured by revenues of a project which is aided under the Act.

We quite understand that the Federal Government does not want new legislation to result indirectly in tax-exempt Federal borrowing, which has long been contrary to Federal policy.

The present bill goes further and abolishes the tax exemption for the local borrowing which has been a keystone of local financing.

We feel this is an unfortunate introduction of a controversial policy proposal regarding tax exemption of municipal bonds generally which the Congress has thus far never accepted.

We would point out that 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.

The municipal bond market is a highly specialized financial market. It operates in a very small margin of profit. It has characteristics that make it difficult to compete with Federal and corporate bonds, and, as compared with Federal bonds, it has few attractions.

As of the first of this year, State and local bonds are paying about 4.3 percent. This compares to 5.2 percent for the long-term Federal bonds, and around 6.5 percent for corporate bonds.

If the income tax immunity is abolished, the municipal bond market would no longer exist. I mention these without any intention of entering the issue of taxable versus nontaxable securities. This is a much broader public policy question, and I do not propose to get into it at this time.

I would simply suggest that, as a matter of general policy, this would appear to be an introduction of a very important change into one area of the municipal market which would operate to the disservice if the water pollution control program.

I think that if the municipal bonds locally issued for the local share and for the State share can be continued to be taxexempt, that a great deal of this problem would be avoided.

LEGAL LIMITATIONS ON INTEREST RATES

I might just add that the four Delaware Basin States have legal limitations of 5 percent or 6 percent. Our own limitation is 6 percent.

I believe that without the tax exemption all of these would be exceeded in the market as it now stands, and that is before the heavy entry of investment.

PREFINANCING CUTOFF

My next point is that page 2, line 3, section (c) would terminate the present financing authorization set up in the 1966 law. We think this is unwise and unnecessary, in that States, which have shown the initiative that was encouraged by this financing, should not now be penalized and retention of the present financing should continue. I do not feel that these are mutually exclusive.