ing needs in thousands of areas. However, the suggested procedure would preclude many counties from proceeding to deal with other problems within the community. They would be lacking in the necessary debt authority for other public purpose projects. One could say that the option is still with the county and if they did not desire to assign such a high priority to water pollution control, they need not do so. However, by virtue of the fact that some local governments will be able to receive straight grants, ($225 million requested for fiscal 1969), such communities won't be confronted with such a problem, while others will.

Perhaps the most vexing problem is the overall effect upon the tax exempt feature of our bonds. It is our contention the exemption is a constitutional one and not statutorily granted. Consequently, the question is raised as to whether local governments can waive the constitutional right of the holder of a state and local government bond to receive the interest from the bond, exempt from Federal taxation. If we accept an affirmative answer to that question, then we could find ourselves disavowing our position as to the constitutional exemption!

There are other problems connected with the proposal which we understand will be brought out in other testimony. We do not wish to appear to be entirely negative and would now like to turn to what we propose as alternatives.

We believe there are two approaches that this Committee should consider in order to meet local government's serious difficulties with the present legislation. Either approach, would, we think, remove the grave difficulties we have with the bill.

The first approach would provide that the Secretary's contract authority would be limited to the federal financial share of the project.

The present bill, for example, provides that if a water pollution control facility is to cost $1,000,000, and the Federal grant is to be 30%, the entire $1,000,000 is secured by the sale of federally-guaranteed taxable bonds issued by the state or local government. The Federal Government will pay the principal and interest on $300,000 plus the subsidy to the local government to compensate for the higher interest rates necessary because the issue is not tax exempt.

Our proposal would require state or local governments to issue only $300,000 in federally-guaranteed, taxable bonds, the entire amount of principal and interest to be paid by the Federal Government. In effect the state or local government would be a conduit for the Federal Government. However, for bookkeeping purposes, the bonded indebtedness would be that of the state and local government.

Under this proposal, the state or local government would be free to raise its own share of the project cost, i.e. $700,000, any way they choose, most likely, of course, by issuing their regular tax exempt bonds. There would be no need for the Federal Government to subsidize the interest rates of the local government share. The principal, and the lower interest rates on tax exempt bonds in the amount of $700,000 would be the obligations of the local government. The full faith and credit of the local government would guarantee this portion of the bond.

We believe this proposal would accomplish everything the Administration has advocated. It would guarantee an increased effort by both federal and local government in the vital area of water pollution control, it would not add to the national debt, and the Federal Government would not be guaranteeing tax exempt bonds.

Our second alternative proposal is made with the realization of this nation's serious fiscal problems, but with the fervent hope that soon it would be possible for Congress to consider it.

REVENUE BOND FINANCING

We would propose that a national fund be created by the Federal Government and that monies for this fund be obtained by the issuance of a new type of Treasury obligation that might be called a Federal Revenue Bond. These bonds would be secured by the revenue from two sources. The first, and initially by far the largest, source would be the annual congressional appropriation from Congress. The second revenue source would be the annual principal and interest payments by cities, counties, and states into the fund.

BORROWING BY CONTRACT

A city or county that by its own volition (or as the result of a court order) desiring to build a sewerage treatment plant would then be able to borrow the