

total amount needed for the plant from this fund. In exchange, the city or county would enter into a contract with the fund agreeing to pay back the principal and interest on the amount they borrowed. This is based on the assumption that the Federal Government would continue to put up a portion of the money as its part of the national obligation to clean up streams. In effect, we are substituting direct annual appropriations for a new type of revenue bond financing.

ADVANTAGES OF THE PLAN

1. From the point of view of the Treasury, this type of bond financing should be preferable to the present arrangement. Bonds sold by the Federal Government to provide funds for the program *would be taxable* by the Federal Government. This would, of course, also include the portion of the funds repayable by the city or county.

2. This plan would also remove a very great strain on local government financing in the municipal bond market. As you know, our cities, counties, and states are going increasingly to the municipal bond market for schools, airports, and a host of public purposes. This proposal would tend to remove a very significant portion of these demands from the municipal bond market which is already greatly strained.

3. From the point of view of localities, we feel that in many places this would be a giant step forward because it would apparently bypass state and local restrictions in most places which require a referendum and which are prohibited in many cases because such communities are at or near their constitutional and statutory debt limits.

I have appreciated the opportunity of presenting our views and I will be pleased to try and answer any questions you might have.

THE "WATER QUALITY IMPROVEMENT ACT OF 1968"

Mr. BASFORD. We feel that our association's concern for and commitment to an effective nationwide water pollution control effort is very evident. It is therefore particularly difficult for us to question any approach which would provide us with additional financial assistance to combat water pollution.

However, it is not possible to us to endorse the financial proposal contained in H.R. 15907. The heart of the issue is that such action could establish a principle and a precedent which would jeopardize the tax-exempt feature of State and local government bonds. If these bonds could retain their tax-exempt feature, it would be most likely that we could endorse the proposal.

PURPOSE OF PROPOSAL APPRECIATED

We appreciate the well-intentioned motivation for this proposal and we certainly do not see it as an effort on the part of any of the authors to jeopardize or attack the exemption. Rather we see it as an attempt, through new financial arrangements to meet what is indeed a very severe crisis. However, we are compelled to spell out our reservations. In effect what the proposal is doing is requiring the local governments to assume not only their share of the bonded indebtedness for water pollution control facilities, but that of the Federal Government as well. If counties had the same ability to raise their debt limitation as does the Federal Government, one aspect of the problem would not be so difficult. Unfortunately, not only must counties get approval from the State to raise often unrealistically debt limits, but sometimes a State constitutional amendment is required.

Since we must operate under this restricted financial limitation, we are faced with the problem of assigning priorities to the many press-