

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; that is, \$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.

(2) *Federal revenue 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.

We would propose that a national fund be created by the Federal Government and that moneys 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.

A city or county that by its volition—or as the result of a court order—desiring to build a sewerage treatment 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