

control the amount which the Secretary could commit to a specific project. Presumably, the contract would specify a fixed percentage of the debt service to be paid each year during the term of the contract. Presumably, also, the same percentage of project cost now available as a grant would apply to the Federal payment of interest and principal costs on the bonds issued for a project. These points must be made certain, for if the bond issue requires voter approval, the exact amount of Federal participation must be known in advances of the actual vote.

TAXABLE BONDS

The proposal stipulates that bonds issued by a municipality under the new program must be taxable. The issue of the tax exempt status of municipal bonds is of vital concern to cities, and it must be considered independent of other issues. The National League of Cities and the U.S. Conference of Mayors are strongly opposed to any encroachment on the tax-exempt status of municipal bonds used for public purposes. The issue should not be raised as part of this program which is primarily aimed at controlling water pollution.

Further, making municipal bonds taxable would substantially raise the rate of interest. Corporate bonds with ratings similar to revenue bonds of a city now command net interest rates of $6\frac{1}{2}$ to 7 percent. The city's revenue bonds of like quality command a rate of $4\frac{3}{4}$ to 5 percent. A Federal guarantee might lower this rate, but with the increasing Federal debt and annual deficit, there is some question that prevailing rates would be under the 6 percent statutory maximums of State laws and city charters.

INTEREST RATE SUBSIDY

The proposed legislation would allow the Department of Interior to underwrite a margin of difference between a tax exempt and a taxable security. This poses a real problem, as there are no tax-exempt securities of this type. The margin of difference to be paid to local Governments would be determined through negotiation with the Secretary of the Interior with no market test of the rates and no means to appeal the rates determined by the Secretary. The differences between the rate determined by the Secretary and the rate believed correct by the municipality might appear very small, but small differences in interest rates can make tremendous differences in the cost of large bond issues.

LEGAL PROBLEMS

This program has been put forth as one of limited duration, scheduled to expire when the present fiscal difficulties are ended and annual appropriation of the full amount authorized under the act is again possible. According to the pending measure, it will be a 3-year program, but it will take a significant part of these 3 years to revise State statutes and municipal charters to change interest rate limits and other bonding restrictions which may prevent many cities from participating in the program. A survey of the laws of the various States governing issuance of bonds show that many States have statutory interest rate limits at or near 6 percent and that in some States, issuance of the type of taxable, Federal participation bonds contemplated in the bill before you is of doubtful legality.