Mr. HUGHES. Mr. Cramer, we are, of course, aware of the opposition. We tried to work with and did work with the city, county, and State organizations in the process of drafting the legislation.

The problem from the Bureau of the Budget standpoint and from the Treasury Department, is the association of a Federal guarantee with the tax-exempt local security.

We are earnestly seeking a solution to this problem that will meet the needs of the program as we see it, the financing needs of the Federal Government, as well as accommodating to traditional concepts of State and local financing.

There are some possible outs or compromises in this area. We would like to explore alternatives with the committee.

But in terms of absolutes, the association of a Federal guarantee with a tax-exempt local bond is a fundamental problem.

Mr. CRAMER. If that is taken out, do I then understand the bill will be acceptable to the administration?

Mr. HUGHES. If the legislation provided for the guarantee of tax-exempt local securities, you are correct, the legislation would not be acceptable.

Mr. CRAMER. It is a pretty rough problem, which places burden on this committee, to try to come up with a solution under those circumstances.

Mr. HUGHES. We recognize that, Mr. Cramer. I think there are some possible alternatives here and we would like to explore them. They are necessarily some more complex than the arrangements in the bill itself, but we would like to pursue them.

COST OF THE CONTRACT APPROACH

Mr. CRAMER. I have one other question. Testimony we have had to date would seem to be pretty well concurred in that, number one, the present authorization limits set out in the bill, $2.275 billion does not include interest of $2.5 billion approximately. That limitation, however, is not a fixed limitation. It is a guideline which you indicate you might accept or at present are accepting the Federal subsidy for interest paid by the States, and the makeup, their tax cost, as a result of revenue on taxable bonds is $900 million.

Mr. HUGHES. Mr. Cramer, that differential is to provide for the difference in the interest rate.

Mr. CRAMER. That is right.

Mr. HUGHES. Local security.

Mr. CRAMER. So actually instead of the $7.25 billion figure, we are talking about an expenditure of $5.675 billion where there is an absolute Fededal liability, is that not correct, approximately?

Mr. HUGHES. That is correct, Mr. Cramer. The only qualification I think is the fact that under a grant program, the interest would still accrue, but would accrue in a different account, interest on the public debt.

There also would be offsetting tax savings with respect to the interest subsidy.

Mr. CRAMER. There is no guarantee written into the legislation the present grant program would continue either, is there? In other