

expectations for Federal aid, the program may lose its momentum and be delayed or set back for some time to come.

H.R. 15906 seeks to alleviate these contingencies but while doing so creates just as serious a problem by attacking the long-standing precedent of tax immunity which State and local bonds have traditionally enjoyed.

Many reasons have been set forth as justification for the provision of taxable bonds. One position has been that tax exemption costs more to the Federal Government than communities gain in lower interest costs. This posture was questioned seriously by Mr. Simon. Another argument espoused has been that the impact of this program would place great strain on the tax-exempt bond market.

However, I believe this point needs further elucidation. In examining the ability of the affected units of governments generally to finance capital outlays, and more particularly to attain the water quality standards established by the Federal program, it is necessary to consider the projected supply of borrowings and the availability of investable funds from institutional sources to meet these demands.

The estimates prepared for the Joint Economic Committee of required net additions to the volume of municipal obligations and the supply of net new investable funds for the period 1966-75 appear in the JEC Study, State and Local Public Facility Financing, Vol. 2, p. 21.

The figures indicate that funds available for investment in municipal bonds will be more than sufficient to meet the required borrowings by State and local governments after 1968.

Relating this analysis to water pollution abatement, the Federal Water Pollution Control Administration (FWPCA) estimated the cost of attaining the objectives set forth by the Water Quality Act at \$14.9 billion for the period 1969-73, or an approximate annual average of \$3.0 billion before any Federal grants.

This compares with the Joint Economic Committee's estimate of average capital outlays for approximately the same period of \$2.0 billion, or an average annual difference of \$1.0 billion. While no one could emphatically deny the increase volume might not have some effect on the bond market, the results should be minimal.

The Clean Waters Restoration Act authorizes \$3.5 billion in grants, roughly \$306 million of which have been appropriated leaving an amount still authorized to be appropriated of approximately \$3.1 billion. If this balance of Federal grant money were raised on a level basis for the 1969-73 period through the sale of tax-exempt bonds, it would amount to only \$600 million a year, or 3.2 percent of the JEC estimate of the average tax-exempt bond market for the period.

This is an amount which I believe this group would agree will have no measurable degree of impact on the bond market.

This bill is also weak with regard to another important consideration. Most pollution abatement projects include the needed sewer systems and other attendant facilities which will not be eligible for the Federal guarantee.

What this means is that many communities will have to incur the expense of two bond issues for the same project. Since the FWPCA currently provides no grants for sewer systems, perhaps they should consider a guarantee of this portion of a project to alleviate the expense and confusion of two separate bond issues.

Additionally, many local governments will encounter constitutional or statutory rate limitations or, as exists in some States, be restricted from issuing revenue bonds. The use of revenue bonds is indicated by the compulsory requirements of user-fees.

Also the provision that the interest subsidy shall not exceed an amount which would reduce by one-fourth the net effective interest rate is restrictive in that it does not assure local government that the increased interest costs of taxable bonds will be fully offset by the Federal subsidy.

It is also unclear as to the reasoning for tying the interest subsidy to the Government bond market. In the first place, the Government is limited to a four and one-fourth percent interest ceiling and has not issued bonds for five years. It would seem much more reasonable to tie the subsidy to a municipal bond market indicator such as the "Bond Buyer Weekly Municipal Averages."

We also question the program's availability to population sizes of only 125,000 or larger. FWPCA figures show that cities of less than 25,000 and which represented 20 percent of the U.S. population in 1960 will account for 52 percent of 1969-73 capital outlays for sewer systems and waste treatment facilities. As the