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STATEMENT BY THE HONORABLE CHARLS E. WALKER  
UNDER SECRETARY OF THE TREASURY  
BEFORE  
THE SUBCOMMITTEE ON AIR AND WATER POLLUTION OF  
THE SENATE PUBLIC WORKS COMMITTEE ON S. 1015  
TUESDAY, MARCH 23, 1971, AT 10:00 A. M.

Mr. Chairman:

I am pleased to be here today to express the Administration's strong support of S. 1015, a bill to establish an Environmental Financing Authority to assist in the financing of waste treatment facilities. It is especially gratifying that 38 members of the Senate -- including 10 members of this subcommittee -- have joined to introduce this legislation.

Simply stated, the Environmental Financing Authority, or EFA, would make a significant contribution to our program for a better environment by greatly facilitating the efforts of State and local governments to construct waste treatment facilities. This EFA would do by purchasing municipal waste treatment bonds which could not otherwise be sold on reasonable terms. To finance these purchases EFA would issue its own securities in the market.

EFA could not purchase any obligations unless the Administrator of the Environmental Protection Agency (1) has certified that the borrower is unable to obtain on reasonable terms sufficient credit to finance its actual needs; (2) has approved the project as eligible for a waste treatment construction grant under the Federal Water Pollution Control Act; and (3) has agreed to guarantee timely payment of principal and interest on the obligations.

To avoid unnecessarily interfering with the market, the bill provides an important safeguard: the interest rate at which EFA would lend would be set by the Secretary of the Treasury only after considering the current market yields on comparable Treasury or EFA securities outstanding in the private market as well as the market yields on municipal bonds. EFA would also be authorized to charge fees to cover its administrative costs and provide for reasonable contingency reserves.

In his February message -- "Program for a Better Environment" -- President Nixon presented a \$12 billion proposal for the construction of municipal waste treatment facilities -- \$6 billion in Federal grants over the next 3 years, and the remaining \$6 billion to be financed by State and local governments. The President pointed out, however, that:

Some municipalities need help in overcoming the difficulties they face in selling bonds on reasonable terms to finance their share of construction costs.

The availability of funds to finance a community's pollution control facilities should depend not on its credit rating or the vagaries of the municipal bond market, but on its waste disposal needs.

In order to assure that no municipality in this country is denied the opportunity to sell its waste treatment plant construction bonds, the President proposed the creation of EFA.

Concerned people may well differ on the scope of the problem and the size of the funds necessary to deal with it. But there is no question that the time has come for the establishment of EFA if we mean business in fighting waste pollution.

Most municipal waste treatment bonds should be readily saleable in the private market on reasonable terms. EFA will be concerned only with the one out of perhaps four or five bond issues that is not readily marketable.

Let me illustrate this specifically with an example of how EFA would operate. Let's say that tax-exempt waste treatment bonds of medium quality or better are selling in the current market at interest rates ranging from 5 to 6 percent, and that 80 percent of the bond issues can be marketed within this range. Under such circumstances, EFA might stand ready to lend at a 6 percent interest rate, so as to provide a reasonable rate for the remaining 20 percent of the bonds issued. Thus EFA would have the effect of setting a ceiling on the interest rate which state and local governments are required to pay.

At the same time, we do not want to get locked into an inflexible ceiling rate in the bill, a rate that might get out of line with the current market. If the rate is too low, for example, EFA would be pressured to purchase many bonds which could have been readily placed in the private market. Accordingly, the bill gives us sufficient flexibility to assure that the EFA lending rate can be adjusted from time to time with changes in overall market rates.

Under present market conditions EFA might be paying about 7 percent on its own long-term taxable borrowings and purchasing tax-exempt municipal waste treatment obligations at about 6 percent. Under the bill, the 1 percentage point difference between EFA's borrowing and lending rates would be made up by an annual payment from the Secretary of the Treasury to EFA. It is our belief that this payment would not involve a net cost, however, since it would be offset by the additional revenues which the Treasury would receive because of the substitution of taxable for non-taxable obligations.

Besides this advantage of being a simple and costless operation, EFA could contribute significantly to the success of the whole waste treatment facility program. With EFA standing ready to assure a market, no essential project need be canceled or delayed because the state or local government is unable to market its bond issue on reasonable terms.

Now I know that many questions were raised about EFA when it was first proposed by the Administration last year, and the Treasury provided this committee with specific answers to these questions. I have attempted in this brief statement only to clarify the major issues.

I am happy to note, Mr. Chairman, that the EFA proposal was strongly endorsed last year by the distinguished Advisory Commission on Intergovernmental Relations. I believe that the Commission is well qualified to provide a

truly intergovernmental view on such matters, since it includes in its membership a number of governors, mayors, county officials, and members of State legislative bodies as well as representatives of the Congress, the Executive branch, and the private sector. The Chairman of this Committee has long been a member of the Commission.

I respectfully request that this Committee consider carefully the Commission's statement on EFA which deals directly with the questions raised in last year's hearings. We would be happy to make copies of the statement available to this committee.

Mr. Chairman, I know that this Committee has gone over this ground before and that you have other witnesses scheduled this morning. I will end my prepared statement at this point, but I will be happy to respond to any questions which you or other committee members may have.

We strongly urge that this Committee act promptly and favorably on S. 1015 so that we can get on with the job of cleaning up our environment -- a task too long delayed.

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