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CC:PA:LPD:PR (REG–106977–18)
Room 5203
Internal Revenue Service
P.O. Box 7604
Ben Franklin Station
Washington, DC 20044

Subject: Comments to Proposed Rules, 26 CFR Part 1, REG –106977-18

On behalf of the Council of Infrastructure Finance Authorities (CIFA), thank you for the opportunity to comment on the proposed rule to clarify the scope of the investment-type property definition covered by arbitrage restrictions.

CIFA is a national not-for-profit organization that represents the interests of state government agencies and financing authorities who are responsible for managing the Clean Water and Drinking Water State Revolving Funds (SRFs). These state-federal partnerships provide communities with low-cost financing for water infrastructure that protects public health and the environment. Over the last three decades, the programs, combined, have facilitated an investment of $165.7 billion in water, wastewater, recycled water, stormwater and green infrastructure with a federal investment of $63.2 billion. On average, 16.5 jobs are created for every $1 million in spending through these programs.

CIFA supports the proposed rule clarification. Further, CIFA is supportive of any clarifications and amendments to exempt the SRFs from the arbitrage rebate rules altogether since required arbitrage rebate payments directly reduce the benefit of the annual federal investment into the SRFs. Since all of the federal and state match investments into the SRFs must remain in funds in perpetuity and since SRFs are restricted to water infrastructure projects that serve a public purpose, the federal government can be assured that SRF program income retained by the SRFs would be deployed for critical infrastructure needs.

To increase investment in critical water infrastructure, 28 states currently issue municipal tax-exempt bonds, leveraging program assets which include annual federal capitalization grants, state matching funds, and loan repayments. The federal arbitrage rebate regulations restrict the ability of SRFs to retain excess income and reinvest these monies into the SRFs. The Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA) further requires that SRFs must spend 30% of bond proceeds by the first anniversary of a bond issue and 95% of the bond proceeds by the third anniversary of a bond issue or redeem bonds early which can translate to expensive call provisions. For all practical purposes, these restrictions reduce funds available for investment in
critical infrastructure by limiting program investment return and imposing expensive calculation and reporting requirements.

Thank you for your commitment to clarifying rules and considering amendments which would increase funding opportunities for critical public infrastructure that may limit investment in critical public infrastructure. CIFA looks forward to working with the Internal Revenue Service to further clarify rules to reflect the unique and valuable role of SRFs in financing America’s water infrastructure.

Sincerely,

Jeff Freeman
Director, Minnesota Public Facilities Authority
President, Council of Infrastructure Financing Authorities