May 23, 2016

Internal Revenue Service
P.O. Box 7604
Ben Franklin Station
Washington, D.C. 20044
Attention: CC:PA:LPD:PR

RE: REG-129067-15, Proposed Rulemaking – Definition of Political Subdivision

The organizations listed above, representing state and local governments, would like to take the opportunity to respond to the proposed political subdivision regulations (Proposed Regulations) regarding the definition of political subdivision for tax-exempt bond qualification purposes. We are concerned about the potentially significant impact that the Proposed Regulations could have on the public benefit provided by political subdivisions. As a result, we strongly urge that the Proposed Regulations be withdrawn.

We recognize political subdivisions as an essential element in the public service delivery network. Each special district is created and organized to provide a specific public purpose. Together, special districts, agencies, authorities and other governmental entities in the U.S. provide a vast range of purposes to citizens such as public transportation, airports, economic development, corrections, hospitals and nursing homes, highways, housing, roads, schools, water sewer, parking and ports. To help fulfill their purpose, they have the ability to issue tax-exempt debt.

Importantly, the determination of a subdivision’s governmental purpose is made during the consideration of State legislation that authorizes the creation of the political subdivision. The political subdivision that does not serve the purpose of the authorizing legislation is operating ostensibly against the law of that State, a governing matter of the state, not the United States Treasury.

The Proposed Regulation sets forth a new, three-part federal test to define political subdivisions in order for these entities to issue tax-exempt debt. Every entity would have to meet all three tests to be a political subdivision. If an entity fails even one test, it would not be considered a political subdivision under the Proposed Regulation. The entity must: (1) have right to exercise a substantial amount of at least one of three sovereign powers (the power of eminent domain, power of taxation and the police power); (2) serve a governmental purpose; and (3) be controlled by a state or local government. As a whole, tests (2) and (3) under the detailed requirements proposed in the Proposed Regulations challenge the authority of the State to decide governmental purpose and governmental control.

The Proposed Regulations risk not just the ability to issue future tax-exempt bonds that would consequently weaken our country’s aging infrastructure, but by changing the definition requirements, the
PRs also impact outstanding bonds long after they were issued by political subdivisions. Political subdivisions may be subject to remedial action that may be costly to the community it serves.

While the Proposed Regulations make clear that the intent of the rule is to adopt safeguards to prevent potential abuses, the application of the Proposed Regulations would have an overreaching effect for all political subdivisions that are well established, formed within State law and presently providing significant public benefit.

Accordingly, we strongly recommend that the Proposed Regulations be withdrawn due to the far-reaching scope and potential impact to political subdivisions across the United States. If the Internal Revenue Service (IRS) and the U.S. Treasury are concerned with new development districts as political subdivisions or perceived abuses within current districts as they relate to tax-exempt bond issuances, the IRS should more carefully develop parameters to combat these real areas of concern rather than completely disrupt states rights to create these entities, and create roadblocks that would hinder the ability for the political subdivisions to effectively, efficiently and economically serve communities.

We would be happy to further discuss our concerns with you at your convenience. Thank you for the opportunity to comment on the Proposed Regulations.

Sincerely,

National League of Cities, Carolyn Coleman, 202-626-3023
National Association of Counties, Michael Belarmino, 202-942-4254
U.S. Conference of Mayors, Larry Jones, 202-861-6709
International City/County Management Association, Elizabeth Kellar, 202-682-6100
National Conference of State Legislatures, Jeff Hurley, 202-624-7753
Government Finance Officers Association, Emily Swenson Brock, 202-393-8467
National Association of State Auditors, Comptrollers and Treasurers, Cornelia Chebinou, 202-624-5451
Council of Infrastructure Financing Authorities, Rick Farrell, 202-547-1866
International Municipal Lawyers Association, Chuck Thompson, 202-742-1016