



March 3, 2008

The Honorable Eric Solomon
Assistant Secretary for Tax Policy
U.S. Department Policy
1500 Pennsylvania Avenue
Room 3120
Washington D.C. 20220

Dear Secretary Solomon:

The Securities Industry and Financial Markets Association¹ writes today regarding Treasury's 2007 – 2008 Priority Guidance Plan, and appreciates the review of and proposed regulations on arbitrage restrictions under Internal Revenue Code Section 148. Specifically, we write in support of a proposal submitted by the Municipal Advisory Council of Texas (MACT)² to remove the limitation in Section 1.148-11(d) (1)(vi) on the amount of bonds guaranteed by the Texas Permanent School Fund (PSF).

The PSF bond guarantee program has provided credit enhancement to Texas school districts for the past 24 years. Through lower interest rates and lower financing costs, school districts across the State of Texas have been able to efficiently meet their infrastructure needs. As of November 2007, the PSF guaranteed more than 2,500 bonds worth more than \$45 billion. As the program has grown to its current day success, and without history of default, it has almost exceeded the guarantee capacity established by IRS regulations. The current capacity ceiling is the lower of two and one-half times cost or market value of the PSF. Texas law allows the guarantee capacity to be five times the cost value of the PSF.

In order for State and local government officials to responsibly meet the needs of their respective taxpayers, SIFMA supports increasing the availability of financial tools at their disposal. To that end, providing relief to the PSF and other State public school trust funds by removing the guarantee capacity limit would permit them to continue providing credit enhancement during the current credit crisis. Bond guarantee programs supported by perpetual trust funds in Nevada, Texas, and Wyoming afford "AAA"

¹ The Association, or "SIFMA," brings together the shared interests of more than 650 securities firms, banks and asset managers. SIFMA's mission is to promote policies and practices that work to expand and perfect markets, foster the development of new products and services and create efficiencies for member firms, while preserving and enhancing the public's trust and confidence in the markets and the industry. SIFMA works to represent its members' interests locally and globally. It has offices in New York, Washington D.C., and London and its associated firm, the Asia Securities Industry and Financial Markets Association, is based in Hong Kong.

² Letter dated January 17, 2008

ratings to bonds issued by local school districts, and are a stabilizing presence in the tax-exempt bond market.

SIFMA supports the work of the PSF, and encourages your strong consideration of their request for continued opportunity to provide credit enhancement for school districts across their state. Should you have any questions, kindly contact either Jill Hershey at 202.962.7327 or via email jhershey@sifma.org or Leslie Norwood on 212.313.1130 or via email at lnorwood@sifma.org.

Sincerely,

A handwritten signature in black ink that reads "Jill Hershey". The signature is written in a cursive, flowing style.

Jill E. Hershey
Managing Director

cc: Karen Gilbreath-Sowell, Deputy Assistant Secretary for Tax Policy
Michael Desmond, Tax Legislative Counsel
John Cross, Associate Tax Legislative Counsel