the issue date of the bonds to provide that facility, the facility is described in section 142(a) only if the expenditure meets the requirements of §1.150–2 (relating to reimbursement allocations). For purposes of this paragraph (b), if the proceeds of an issue are used to pay principal of or interest on an obligation other than a State or local bond (for example, temporary construction financing of the conduit borrower), that issue is not a refunding issue, and, thus, §1.150–2(g) does not apply.

(c) Limitation on use of facilities by substantial users—(1) In general. If the original use of a facility begins before the issue date of the bonds to provide the facility, the facility is not described in section 142(a) if any person that was a substantial user of the facility at any time during the 5-year period before the issue date or any related person to that user receives (directly or indirectly) 5 percent or more of the proceeds of the issue for the user’s interest in the facility and is a substantial user of the facility at any time during the 5-year period after the issue date, unless—

(i) An official intent for the facility is adopted under §1.150–2 within 60 days after the date on which acquisition, construction, or reconstruction of that facility commenced; and

(ii) For an acquisition, no person that is a substantial user or related person after the acquisition date was also a substantial user more than 60 days before the date on which the official intent was adopted.

(2) Definitions. For purposes of paragraph (c)(1) of this section, substantial user has the meaning used in section 147(a)(1), related person has the meaning used in section 144(a)(3), and a user that is a governmental unit within the meaning of §1.103–1 is disregarded.

(d) Effective date—(1) In general. This section applies to bonds sold on or after July 8, 1997. See §1.103–8(a)(5) for rules applicable to bonds sold before that date.

(2) Elective retroactive application. An issuer may apply this section to any bond sold before July 8, 1997.

[T.D. 8718, 62 FR 25506, May 9, 1997]
(vi) Functionally related and subordinate to property described in this paragraph (b)(1), such as sewage disinfection property.

(2) Special rules and exceptions—(i) Exception to BOD limit. A facility treating wastewater with an average daily raw wastewater concentration of BOD exceeding the BOD limit will not fail to qualify as a sewage facility described in paragraph (b)(1) of this section to the extent that the failure to satisfy the BOD limit results from the implementation of a federal, state, or local water conservation program (for example, a program designed to promote water use efficiency that results in BOD concentrations beyond the BOD limit).

(ii) Anti-abuse rule for BOD limit. A facility does not satisfy the BOD limit if there is any intentional manipulation of the BOD level to circumvent the BOD limit (for example, increasing the volume of water in the wastewater before the influent enters the facility with the intention of reducing the BOD level).

(iii) Authority of Commissioner. In appropriate cases upon application to the Commissioner, the Commissioner may determine that facilities employing technologically advanced or innovative treatment processes qualify as sewage facilities if it is demonstrated that these facilities perform functions that are consistent with the definition of sewage facilities described in paragraph (b)(1) of this section.

(3) Other applicable definitions—(i) Advanced or tertiary treatment means the treatment of wastewater after secondary treatment. Advanced or tertiary treatment ranges from biological treatment extensions to physical-chemical separation techniques such as denitrification, ammonia stripping, carbon adsorption, and chemical precipitation.

(ii) Nonconventional pollutants are any pollutants that are not listed in 40 CFR 401.15, 401.16, or appendix A to part 423.

(iii) Preliminary treatment means treatment that removes large extraneous matter from incoming wastewater and renders the incoming wastewater more amenable to subsequent treatment and handling.

(iv) Pretreatment means a process that preconditions wastewater to neutralize or remove toxic, priority, or nonconventional pollutants that could adversely affect sewers or inhibit a preliminary, primary, secondary, advanced, or tertiary treatment operation.

(v) Primary treatment means treatment that removes material that floats or will settle, usually by screens or settling tanks.

(vi) Priority pollutants are those pollutants listed in appendix A to 40 CFR part 423.

(vii) Secondary treatment means the stage in sewage treatment in which a bacterial process (or an equivalent process) consumes the organic parts of wastes, usually by trickling filters or an activated sludge process.

(viii) Sewage sludge is defined in 40 CFR 122.2 and includes septage.

(ix) Toxic pollutants are those pollutants listed in 40 CFR 401.15.

(c) Other property not included in the definition of a sewage facility. Property other than property described in paragraph (b)(1) of this section is not a sewage facility. Thus, for example, property is not a sewage facility, or functionally related and subordinate property, if the property is used for pretreatment of wastewater (whether or not this treatment is necessary to perform preliminary, primary, secondary, advanced, or tertiary treatment), or the related collection, storage, use, processing, or final disposal of the wastewater. In addition, property used to treat, process, or use wastewater subsequent to the time the wastewater can be discharged into navigable waters, as defined in 33 U.S.C. 1362, is not a sewage facility.

(d) Allocation of costs. In the case of property that has both a use described in paragraph (b)(1) of this section (a sewage treatment function) and a use other than sewage treatment, only the portion of the cost of the property allocable to the sewage treatment function is taken into account as an expenditure to provide sewage facilities. The portion of the cost of property allocable to the sewage treatment function and any other
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§ 1.142(f)(4)–1

Manner of making election to terminate tax-exempt bond financing.

(a) Overview. Section 142(f)(4) permits a person engaged in the local furnishing of electric energy or gas (a local furnisher) that uses facilities financed with exempt facility bonds under section 142(a)(8) and that expands its service area in a manner inconsistent with the requirements of sections 142(a)(8) and (f) to make an election to ensure that those bonds will continue to be treated as exempt facility bonds. The election must meet the requirements of paragraphs (b) and (c) of this section.

(b) Time for making election.—(1) In general. An election under section 142(f)(4)(B) must be filed with the Internal Revenue Service on or before 90 days after the date of the service area expansion that causes bonds to cease to meet the requirements of sections 142(a)(8) and (f).

(2) Date of service area expansion. For the purposes of this section, the date of the service area expansion is the first date on which the local furnisher is authorized to collect revenue for the provision of service in the expanded area.

(c) Manner of making election. An election under section 142(f)(4)(B) must be captioned “ELECTION TO TERMINATE TAX-EXEMPT BOND FINANCING”, must be signed under penalties of perjury by a person who has authority to sign on behalf of the local furnisher, and must contain the following information—

1. The name of the local furnisher;
2. The tax identification number of the local furnisher;
3. The complete address of the local furnisher;
4. The date of the service area expansion;
5. Identification of each bond issue subject to the election, including the complete name of each issue, the tax identification number of each issuer, the report number of the information return filed under section 149(e) for each issue, the issue date of each issue, the CUSIP number (if any) of the bond with the latest maturity of each issue, the issue price of each issue, the adjusted issue price of each issue as of the date of the election, the earliest date on which the bonds of each issue may be redeemed, and the principal amount of bonds of each issue to be redeemed on the earliest redemption date;
6. A statement that the local furnisher making the election agrees to the conditions stated in section 142(f)(4)(B); and
7. A statement that each issuer of the bonds subject to the election has received written notice of the election.

(d) Effect on section 150(b). Except as provided in paragraph (e) of this section, if a local furnisher files an election within the period specified in paragraph (b) of this section, section 150(b) does not apply to bonds identified in the election during and after that period.

(e) Effect of failure to meet agreements. If a local furnisher fails to meet any of the conditions stated in an election pursuant to paragraph (c)(6) of this section, the election is invalid.

(f) Corresponding provisions of the Internal Revenue Code of 1954. Section 103(b)(4)(E) of the Internal Revenue Code of 1954 set forth corresponding requirements for the exclusion from gross income of the interest on bonds issued for facilities for the local furnishing of electric energy or gas. For the purposes of this section any reference to sections 142(a)(8) and (f) of the Internal Revenue Code of 1986 includes a reference to the corresponding portion of section 103(b)(4)(E) of the Internal Revenue Code of 1954.