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Philadelphia 2010 Water Bonds' Tax-Exemption Under IRS Scrutiny.

Philadelphia water and wastewater revenue bonds sold in 2010 are being audited by the Internal Revenue Service to verify they meet tax-exempt requirements, the city said in a filing.

The city received a notice from the agency around Oct. 8 that the \$396 million issue is being examined because of "concern that the debt issuance may fail one or more provisions" of the code regarding tax-free securities, according to a posting on the Municipal Securities Rulemaking Board's website.

Proceeds from the debt went toward refinancing 2003 securities and funding a \$48.8 million payment to terminate a swap agreement, bond documents show.

Philadelphia reviewed the IRS matter and will provide the information requested, Treasurer Nancy Winkler said by telephone.

"We don't see anything that should cause a problem," she said. "We have not identified anything that would lead us to believe that the bonds fail to meet the applicable requirements."

Winkler said the city has undergone five audits on debt issues in the past four years without any action taken.

Ubon Mendie, an IRS spokesman in Washington, declined to comment on the Philadelphia case.

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By Romy Varghese Oct 27, 2014 7:56 AM PT

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