



Tax-Exempt Financing

July 2018

Key Messages:

- The continued availability of tax-exempt municipal bonds is critical to NWPPA's municipal members' ability to maintain electric reliability and affordability.
- NWPPA members urge Congress to restore municipal utilities' ability to refinance or repay municipal bonds through advance refunding, which was eliminated in the tax reform bill.

Background:

Municipal utilities rely heavily on tax exempt bonds for funding and maintaining infrastructure projects. These bonds play a critical role in delivering safe, reliable, and affordable electricity to our communities. Municipal bonding authority is a fiscally sound financing mechanism for state and local governments, including municipal utilities, to finance the infrastructure necessary to provide essential public services. Interest paid on municipal bonds is generally exempt from federal income tax (just as interest paid on Treasury bonds is exempt from state and local tax). This exclusion dates to the 1800s and was incorporated into the modern income tax when it was created in 1913.

In 2017, Congress preserved the tax exemption for municipal bond interest when it passed the Tax Cuts and Jobs Act. However, the tax reform law removed local governments' ability to advance refund bonds. Advance refunding allowed issuers to refinance outstanding bonds at lower interest rates, saving local governments money and freeing up financial assets for other purposes. The elimination of the ability to advance refund municipal bonds may also impact the local government's ability to repay bonds early.

Reps. Randy Hultgren (R-IL) and Dutch Ruppersberger (D-MD), co-chairs of the bipartisan Municipal Finance Caucus, have introduced legislation (H.R. 5003) to restore advance refunding for municipal bond issuers. Congress may consider tax-related legislation in the "lame duck" session this November and December, and NWPPA would like to see this bill or a similar provision included to restore the federal tax exemption for advance refunding municipal bonds.