NREA NEBRASKA RURAL ELECTRIC ASSOCIATION Fast Facts NREA NEBRASKA RURAL ELECTRIC ASSOCIATION

Tax-Exempt Municipal Bonds

For the past 200 years tax exempt municipal bonds have been used by public power districts and other government entities as a means to finance roads, bridges, sewers, hospitals, libraries, power plants, electric utility infrastructure, and numerous other capital intensive public infrastructure projects. Nearly three quarters of the infrastructure investment in the U.S. is financed by state and local government bonds. Since the creation of the federal income tax in 1913, the interest earned on these bonds has been exempt from federal income taxes in the same way federal bonds, bills and notes are exempt from state and local taxes.

With federal policy makers looking for new sources of revenue to reduce the national deficit or to fund a reduction in income tax rates, the tax exemption for municipal bonds has received greater attention. While eliminating the tax-exempt status of this financing tool would increase federal revenues, it would remove a key incentive for bond holders to purchase these bonds. With a decrease in demand, bond issuers would be forced to increase interest rates, thereby increasing the costs to local government entities. For not-for-profit public power districts, this increase in capital cost would be passed on directly to ratepayers.

- Tax exempt financing allows public power districts to affordably finance the long-term investments in generation, distribution, and transmission necessary to provide environmentally safe, reliable and affordable electric power.

- Eliminating or capping the income tax exemption for interest from municipal bonds will force issuers to increase interest rates on these bonds to remain competitive. This will result in higher borrowing costs that will limit investment in critical infrastructure and ultimately increase electric rates.

- Eliminating the tax exemption on the interest from these bonds would increase federal tax revenues from these bonds, however, these costs would be shifted to the states and local government entities issuing these bonds.

NREA Position: As not-for-profit, consumer-owned electric utilities, any increases in the cost of capital ultimately will be passed on to consumers. The NREA supports the current federal tax exclusion for interest on municipal bonds and opposes any efforts to remove or alter the tax-exempt status of these bonds.