Resolution 22-04
Sponsors: WPPI Energy; Florida Municipal Electric Association; Northern California Power Agency

In Support of Tax-Exempt Municipal Bond Financing

More than 2,000 public power utilities nationwide own and operate an enormous network of infrastructure used to reliably provide electric power to more than 49 million Americans. This includes generating plants powered by natural gas, coal, nuclear, hydropower, wind, solar, and geothermal energy with a combined electric power generating capacity of 124 gigawatts; bulk power transmission lines stretching across thousands of miles; and approximately 8,000 distribution substations and other distribution equipment sufficient to provide power to nearly 18 million homes and 4 million businesses in every state (except Hawaii), American Samoa, Guam, Puerto Rico, and the Virgin Islands.

In addition to powering homes and businesses, this generation, transmission, and distribution equipment keeps streets lit; subways running; police and fire stations in service; hospitals operating; and schools, libraries, town halls, and community centers open. Ongoing and new investments by public power utilities will respond to changing economic and demographic landscapes and ensure continued safe and reliable operations. They will also help finance the changes needed to transition to lower emitting generation and increased electrification of the transportation and other sectors.

While some of these long-term capital investments have been, and will be, paid up front, most are financed over time with tax-exempt municipal bonds. A municipal bond is a type of debt instrument issued by nearly 42,000 state or local governments or governmental entities, including public power utilities. Interest paid to municipal bondholders is exempt from federal taxation, just as interest paid to Treasury bondholders is exempt from state and local tax. Because interest is exempt from tax, bondholders accept a lower interest rate than they would for taxable debt, reducing financing costs for state and local governments and the communities they serve.

In the last decade, more than $2.3 trillion of new infrastructure investments in more than 67,000 capital projects by state and local governments and governmental entities were financed with municipal bonds. This includes an estimated $56 billion of new investments for more than 800 public power utility projects. Municipal bonds are an efficient financing tool for long-lived energy infrastructure investments: the cost of new investments is repaid over time by the customers who benefit. Financing these projects with tax-exempt debt saved these state and local entities – and so state and local residents – billions of dollars a year in interest expenses.

Recent analysis suggests that in the next decade municipal bonds will finance another $3 trillion in new infrastructure investments by state and local governments and governmental entities, including public power utilities.

Also, despite the longstanding precedent of reciprocal immunity, proposals in Washington, D.C. to tax municipal bonds – either directly or through some form of surtax – are perennial and will certainly crop up in the future. The reasoning behind such proposals varies, but the effect would be the same – an increase in the cost of financing critical infrastructure investments. This increased cost will, in turn, come out of the pockets of residents and businesses, or reduce resources available for other investments.

NOW, THEREFORE, BE IT RESOLVED: That the American Public Power Association (APPA) strongly supports the continued use of tax-exempt municipal bonds to finance electric power system infrastructure investments necessary to safely, reliably, and affordably provide power to more than 49 million Americans served by public power utilities; and

BE IT FURTHER RESOLVED: That APPA believes that laws and regulations should not interfere with public power utility use of tax-exempt municipal bonds to make critical investments; and

BE IT FURTHER RESOLVED: That APPA specifically opposes any effort to impose a tax of any sort on the interest paid on municipal bonds because it would increase costs to consumers and make critical investments more difficult.

Adopted at the Legislative & Resolutions Committee Meeting
March 1, 2022
Sunsets in March 2030